



By Electronic Filing and By E-mail

May 30, 2008

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street  
27<sup>th</sup> floor  
Toronto ON M4P 1E4

Dear Ms Walli

**Rate Design for Recovery of Electricity Distribution Costs**

**Board File No.:** EB-2007-0031  
**Our File No.:** 339583-000005

This letter contains the comments of our client, Canadian Manufacturers & Exporters (“CME”), on the Board Staff Discussion Paper entitled Rate Design for Recovery of Electricity Distribution Costs dated March 31, 2008.

**I. Overview**

Approximately 85% of CME’s 1,200 Ontario-based member companies are small to medium sized business enterprises (“SMEs”) with up to 500 employees.

At page 18 of the Discussion Paper, Board Staff recognizes that “it may be appropriate to undertake studies or implement and test multiple options before committing to a single approach”. CME goes further and suggests that definitive conclusions with respect to a new rate design for electricity distributors should not be made before the Board has gathered and reviewed information based on surveys of a representative sample of customers in each customer class conducted by the electricity distributors which serve them. Direct evidence of this nature from affected customers should be regarded as an essential prerequisite. CME urges the Board to commission surveys of this nature as it did in the Time-of-Use (“TOU”) pricing framework consultative.

CME has not surveyed its members to obtain their input on the various options presented in Board Staff’s Discussion Paper. It does not have the resources to conduct such surveys. The comments contained in this letter are based on a conceptual consideration of the various issues raised in the Discussion Paper conducted by CME Staff and its legal advisor. This concept-based commentary is provided below.

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## II. Rate Design Principles

Conceptually, CME accepts as reasonable the Rate Design principles articulated by Board Staff in Section 3 of its Discussion Paper. In particular, CME accepts that full cost recovery, fairness, and efficiency are the guiding principles to apply. CME also recognizes that there are diverging views on the efficiency considerations that are to be given greater weight when designing rates for electricity distributors. Overall, CME relies on these guiding principles to support its general view that everyone should pay their fair share of the real costs of power.

## III. Customer Classifications

CME accepts that the level of sophistication in metering has changed and highly modern measuring devices will be in use by smaller volume customers by the end of 2010. This situation justifies a consideration of “what a rate design would look like if the Board was starting with a blank page” as mentioned at page 14 of the Discussion Paper.

CME is conceptually comfortable with adopting differences in voltage at which customers take distribution service as a basis for distinguishing between customer classes. CME questions whether the labels Board Staff uses for the voltage-related customer classes described in the Discussion Paper adequately transmit to the average customers the message that the distinctions between customer classes are voltage-related. In this context, CME invites consultative participants to consider whether the voltage-related customer classes Board Staff is proposing would be better understood if the labels Board Staff uses were revised as follows:

- The **Single Phase Secondary Class** is described as “**Low Voltage Distribution Customers**”;
- The **Three Phase Secondary Class** is described as “**Medium Voltage Distribution Customers**”;
- The **Primary Class** is described as “**Intermediate/High Voltage Distribution Customers**”;
- The **Sub-transmission Class** is described as “**High Voltage Distribution Customers**”;
- The **Embedded Distributors** remains the same;
- The **Load Displacement Generation** remains the same;
- The **Unmetered Scattered Load** is described as “**Unmetered Multi-Load Distribution Customers - Street/Sentinel Lighting, and Cable Facilities**”;
- The **Metered Scattered Load** is described as “**Aggregate Multi-Load Distribution Loads**”.



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The issue is whether the customer classification descriptions used by Board Staff adequately convey the message that the new classifications are voltage-related. The factual basis upon which distinctions are made between customer classes will be clearer and more comprehensible if the basis for distinguishing between classes is reflected in the way the classes are identified.

CME urges consultative participants to consider whether other labels more appropriately transmit that distinctions between customer classes are voltage related.

#### **IV. Rate Design Issues**

Matters with respect to the role of Cost Allocation, Fixed/Variable Split, Revenue Stability and Billing Determinant Options are discussed in this section of the Discussion Paper.

Conceptually, CME is comfortable with a Demand/Commodity rate structure in the newly metered world for all customer classes, which is on the horizon. As the Discussion Paper notes, the challenge is to find the appropriate balance between fixed and variable charges in order to achieve the public interest objectives to which the Board ascribes priority.

CME acknowledges that the adoption of a Demand/Commodity rate structure for new rate classes will raise an issue with respect to the appropriate demand charge to demand-related cost ratio to be adopted to guide the rate design. As noted in the Discussion Paper, there are many options available for designing the demand charge component of such a rate structure and that the extent to which the demand charge covers the demand-related costs allocated to each customer classes is an issue upon which views diverge.

CME suggests that when considering the appropriate Demand/Commodity rate end-state for each customer class, it should be remembered that there is a TOU pricing framework now in place and the Board is currently considering ways of strengthening that framework to achieve its objectives. In addition, before implementing a Demand/Commodity pricing structure for all customer classes, its negative impacts on customers within the customer classes must be considered. In this context, major changes which have negative impacts on any customers should be introduced gradually.

CME also recognizes that distributors require revenue stability, as described in the Discussion Paper. Similarly, it is important to recognize that ratepayers require stability in the prices they pay for electricity distribution. Volatile and retroactive rate changes do not provide ratepayers with the rate stability they require. Consumers are, after all, looking for a reliable supply of energy at predictable prices.

#### **V. Rate Design for Voltage-Based Customer Classes**

CME addresses this matter under the customer classification descriptions, which it believes communicate to customers that the distinctions between customer classes are related to the voltage at which they take distribution service.

**a) *Low Voltage Distribution Customers (Single Phase Secondary Class)***

CME has no conceptual objection to the adoption of a Demand/Commodity rate structure for Low Voltage Distribution Customers.

The end-state design of the demand charge and transitional measures pertaining to its introduction will need to take account of the TOU pricing framework currently in place, as well as the need to gradually implement any adverse rate impacts associated with its introduction. There should be no determination of the extent to which the demand charge is to be partially or fully cost-based before the results of the surveys of affected customers are considered.

**b) *Medium Voltage Distribution Customers (Three Phase Secondary Class)***

A Demand/Commodity rate structure is conceptually acceptable for the reasons already described, subject to the *caveat* that demand charge design parameters should not be finalized before the results of the surveys of a sample of affected customers have been considered and adverse rate impacts are taken into account to determine the appropriate transitional measures.

**c) *Intermediate/High Voltage Distribution Customers (Primary Class)***

See the comments in section a) and b) above.

**d) *High Voltage Distribution Customers (Sub-transmission Class)***

See the comments in section a) and b) above.

**e) *Embedded Distributors***

The determination of the appropriateness of a separate customer classification for Embedded Distributors should be governed by considerations of cost causality. Distributors and their customers who obtain distribution service from another distributor should pay all of the costs, which they impose upon the distribution system.

**f) *Load Displacement Generation***

The Board's design of rates for this class of customers should be compatible with the guiding principles of cost causality, fairness and efficiency.

**g) *Unmetered Multi-Load Distribution Customers - Street/Sentinel Lighting, and Cable Facilities (Unmetered Scattered Load)***

See the comments in section f) above.

**h) *Aggregate Multi-Load Distribution Loads (Metered Scattered Load)***

See the comments in section f) above.



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## VI. Revenue Recovery of Distribution System of Losses

Conceptually, CME has no particular preference for any of the options considered by Board Staff. CME suggests the adoption of the simplest and most practical option which the Board regards as the most compatible with the guiding principles of cost causality, fairness and efficiency.

## VII. Next Steps

CME urges Board Staff to consider whether consultative participants should be provided with an opportunity to supplement their comments in order to respond to submissions made by others. CME reiterates that definitive Rate Design policy directives should not be finalized before the results of the surveys conducted by LDCs of a reasonable sample of all affected customers have been considered.

Please contact the undersigned if you require any further information in connection with the content of this letter.

Yours very truly

Borden Ladner Gervais LLP

A handwritten signature in black ink, reading 'Nadia Effendi', is written over the typed name. The signature is fluid and cursive.

Nadia Effendi

/NE

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