

**COMMENTS OF ENBRIDGE ELECTRIC CONNECTIONS INC. ON BOARD STAFF
DISCUSSION PAPER ON RATE DESIGN FOR RECOVERY OF ELECTRICITY
DISTRIBUTION COSTS – EB-2007-0031**

On March 31, 2008, Board Staff issued a Discussion Paper on Rate Design for Recovery of Electricity Distribution Costs (the “Paper”). Enbridge Electric Connections Inc. (“EECI”) is pleased to provide comments on some of the concepts and questions raised by Board Staff in the Paper. EECI has limited its comments to those areas in which its unique experiences can provide Board Staff and the Board additional insight.

Board Staff correctly note in the Paper, at page 49, that certain sub-metering companies currently use a customer’s daily peak demand for the purposes of billing their residential customers for delivery. EECI is one of these sub-metering companies and has been operating as a smart sub-meterer in the multi-unit residential market since 2003. From the outset, EECI has installed interval meters for its customers. Accordingly, EECI believes that its experience with this billing methodology will be helpful to the Board in assessing the various options for electricity rate design.

The electricity market was in the process of opening at around the time that EECI began operating. Electricity was priced on an hourly basis and residential and small commercial consumers were billed for the commodity on the basis of an average class profile. They had no control over the cost, other than by reducing consumption. These consumers had no means of responding to hourly price signals, absent the installation of interval meters, which were not generally available for such consumers. EECI foresaw that changes occurring in the electricity market would require interval meters. Accordingly, it selected interval meters as its standard offering.

This decision has proven to be appropriate with the Government of Ontario ultimately embracing a conservation ethic evidenced in part by its support for the smart meter initiative and the formal recognition and licencing of smart submetering companies that will assist this initiative in the multi residential sector. It is recognized that there is not only a need to reduce electricity consumption, but to also manage demand. Smart metering technology was recognized as a means of achieving both a reduction in overall consumption and peak demand.

EECI decided that it would make use of the features available with interval meter technology and charge customers, both residential and commercial, for their delivery of electricity through the use of a demand charge. Initially, EECI established charges for residential consumers that

used the customer's peak hour consumption in a billing month as the billing determinant for the variable component of the delivery charge. While using peak hourly use as a billing determinant in the commercial sector was common, EECI believes that this was one of the first occasions that this billing determinant was applied to residential consumers.

Use of a monthly peak as a billing determinant generated a relatively strong customer reaction. EECI's noted that its demand charge prompted a behavioural response by many customers who attempted to minimize their delivery costs by staggering their appliance usage. However, some customers expressed concern about the use of a monthly peak demand charge, particularly in situations where a customer would be away for extended periods of a billing month. For example, where a customer is away for most of a month, their short residency during a portion of that month would generate the monthly peak which would drive up the customer's average cost.

EECI recognized that its rate design could be modified to respond to this concern and the fact that using a monthly peak may not have sufficient incentive to drive the conservation/demand response behaviour it was designed to achieve. In a situation where a customer reaches peak early in the month, there is no incentive for that customer to avoid repeating the same behaviour which generated the peak for the balance of the month.

Prior to implementing its current rate design, EECI consulted with condominium boards of directors. As a result, EECI believe that is has developed a rate design that balances its objective of providing customers with a means of exercising a measure of control over their electricity delivery costs and, at the same time, achieving EECI's conservation/peak reduction objectives.

EECI's rate design currently uses the daily hourly peak as the billing determinant for the variable component of the delivery charge. EECI has been using this rate design for its residential customers since 2005. Its experience to date is that its customers understand how this component of their bill is calculated and how they may benefit financially by managing their peak usage. It is EECI's experience that the daily peak use billing methodology causes customers to assess demands they place on the system on a continual basis and promotes an appropriate and continuing behavioural response. EECI educates and assists customers through its Website and through bill inserts.

Accordingly, EECI believes that the use of the customer's peak hourly demand, calculated on a daily basis is the most appropriate design. The use of a daily hourly peak reflects many of the unique attributes of residential customers and the steady increase in technological offerings which assist residential customers in shifting their usage away from daily peak periods.

At page 33 of the Paper, Board Staff indicate that "it is not entirely clear how much customers respond to the variable rate price signal in order to control their bills." It is EECI's view that the response by its customers is related to the design of the demand charge and that customers of other entities would similarly respond. However, where the variable charge is based on usage, i.e., per kWh, the only response by a customer that will influence their bill is to not use electricity. If the variable charge is demand related, the customer can influence their bill by conservation and by shifting usage to reduce peak demand. EECI's experience is that many of its customers are doing precisely this.

EECI believes Board Staff have adequately addressed the issues associated with the use of a 100 percent fixed charge. EECI submits that the negative consequences of a 100 percent fixed charge outweigh any benefits in that a fixed charge would eliminate any incentive for customers to minimize demand. In addition, it is difficult to imagine using a different billing determinant for transmission costs than that used for distribution charges. To the extent that both are based on a 100 percent fixed charge, the disincentive for customers to minimize demand is amplified further. As noted by Board Staff, a fixed charge for such costs would not result in the distribution system being used efficiently.

EECI believes that using time of use as the billing determinant only makes sense where the time of use period in question matches the time of use commodity periods set out in the RPP. The primary concern with this concept is that the RPP time of use commodity charge is optional. Customers have the choice of opting for hourly pricing or a fixed price through an electricity retailer. Accordingly, there may not be a correlation between the commodity time of use period and the time of use period used to determine distribution rates. This, in EECI's view, would tend to confuse customers, with few benefits to offset the increased complexity.

EECI supports the use of peak hour demand as a billing determinant for the residential and commercial markets. EECI believes that it is important to acknowledge that where a customer fails or refuses to manage demand, using a daily peak demand charge, such behaviour will come at additional cost. This may not make such a customer happy, but the customer has the

ability to reduce costs by appropriate behavioural shifts. EECI submits that it is appropriate for these customers and those that cannot shift usage to incur costs which are more reflective of the costs to generate and deliver electricity at peak times. The fairness of a daily hourly peak demand charge is that it allows a customer to hit an uncustomarily high hourly peak on one day, perhaps unavoidably, yet not suffer the financial consequences throughout the balance of the billing period. The incentive to manage demand over the balance of the billing period would remain.

Allen Maclure, Director Administration, EECI

Address: 30 Leek Crescent
Suite 103
Richmond Hill, ON L4B 4N4

Telephone: 905.889.1501
Facsimile: 905.881.1732
E-mail: Allen.Maclure@enbridge.com