

**ONTARIO ENERGY BOARD**

IN THE MATTER of the *Ontario Energy Board Act*, 1998, S.O.  
198, c.15, Schedule B, as amended;

AND IN THE MATTER OF the review by Board Staff of Rate  
Design for Recovery of Electricity Distribution Costs.

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**SUBMISSIONS ON THE STAFF PROPOSAL  
BY THE SCHOOL ENERGY COALITION**

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## **1 GENERAL COMMENTS**

### **1.1 Introduction**

- 1.1.1** These are the submissions of the School Energy Coalition on the Staff Discussion Paper dated March 31, 2008 on Rate Design for Recovery of Electricity Distribution Costs (the “Staff Paper”). In preparing these submissions, we have also reviewed the Jurisdictional Survey conducted by Elenchus Research Associates Inc. and published March 2008 (the “Survey”). We do not have any specific comments on the Survey, but used it as background material in making these comments.
- 1.1.2** This process has already included a number of submissions from parties, including SEC, and an extensive consultative process. These new submissions have been informed by intervening events and completely replace previous submissions by the School Energy Coalition.

### **1.2 Changes Driving Rate Design**

- 1.2.1** The Staff Paper includes a discussion of the changes, in the LDC sector generally and in aspects of how service is provided, that either prompt or facilitate the re-thinking of Ontario distribution rate design right now. This discussion is all relatively straightforward, and we have nothing to add.

### **1.3 Principles**

- 1.3.1** The Staff Paper identifies the three main principles the Board will follow in the rate redesign process. We agree with those three principles, but have brief comments on each.
- 1.3.2** **Full Cost Recovery.** It is important, we believe, to emphasize, that the Full Cost Recovery Principle is most correctly set out on page 15 of the Staff Paper, when Board Staff says:
- “...the level and design of rates should be sufficient to provide each distributor with a reasonable opportunity to recover its revenue requirement.” [emphasis added]*
- 1.3.3** We have included this quote and emphasis because we have seen, over the last couple of years, a continuing tendency on the part of a few distributors to seek firmer and firmer guarantees that they will actually recover each year the revenue they feel they need to operate. As we have stated in a different context, the Board has the mandate to oversee a transformation of the electricity distribution sector to a private sector model, which entails the acceptance by utility management of risk.
- 1.3.4** The reason this is important is that the primary question being answered in the rate

design is not about the total revenue requirement, it is about who pays it. The tension is mainly between customer groups, not between LDC and all of its customers.

1.3.5 Some distributors would argue that revenue stability and predictability are goals of rate design, and we see some of this thinking expressed in the Staff Paper. We believe that revenue stability and predictability, while characteristics an LDC and its ratepayers might desire, should not actually be goals in themselves. We believe that cost causality (see below) is the real goal.

1.3.6 To the extent that the Board succeeds in improving the tightness of that link (rates and bills are most closely tied to the costs the customer causes), that by its very nature improves the stability and predictability of the utilities' revenues. In the theoretical perfect world, with every customer bill driven 100% by the costs they cause, the utilities' costs and revenues will be an exact match. While this is not realistic, we agree with Board Staff that changing billing determinants allows the Board to tighten up the connections between costs and revenues. That should be the goal.

1.3.7 **Fairness.** There is little doubt that the Fairness principle is fully accepted by all parties. However, there are two aspects of this principle that, we believe, should be clarified at the outset.

1.3.8 First, we must recognize that cost causality as it is practised by virtually every regulator of electricity distribution is really a stylized version of the concept, in which customers do not actually pay for the costs that they cause. This is, in the Ontario context, because:

- (a) Classical rate design uses customer classes as an initial starting point, so customers are grouped with other customers in classes that have less than perfect homogeneity.
- (b) No matter what billing determinants are used, they will not track exactly the variations in costs caused by customers within a class, ie. they are approximations only.
- (c) The division of Ontario's geography into the franchise areas of individual LDCs happened in an evolutionary manner, and so geographically driven costs are not necessarily divided appropriately between customers who are physically neighbours but are served by different distributors.

1.3.9 So, when the Staff Paper says, as it does at page 31:

*"A cost allocation study provides the best available indicator of the costs that are caused by each class of customer. Hence, when the revenue recovered from each customer class is approximately equal to the costs of the class (ie. revenue to cost ratio equals 1.0), the revenue responsibility for each class is considered to be fair.*

*The cost allocation study also provides the best available indicator of how to recover a distributor's revenue requirement to ensure that the relative cost responsibility among customers within a class is fair."*

With all respect, that is simply incorrect, because it begs the question of whether the class itself is a fair division of customers. If it is not fair, then neither the allocation of costs to the class, nor the cost responsibility within the class, will be fair, because of lack of homogeneity within the class.

- 1.3.10** The necessary implication of this is that customers are always cross-subsidizing others, and in turn being cross-subsidized by still others. In our view, the essence of rate design is the decisions about what level of divergence from cost causality, on a per customer basis, is acceptable in the interests of having a simple, understandable, and administratively manageable set of distribution rates. At the one extreme, you can have one big rate class, everyone in it, and a single billing determinant for everyone. At that extreme, the relationship between an individual customer's costs and their rates is tenuous at best. At the other extreme, you can have many classes and sub-classes, and complex billing determinants designed to be very precise about tracking rates to costs. At that extreme, at least in theory rates are tightly tracked to individual customer costs, but at a price in terms of simplicity and efficiency.
- 1.3.11** In our view, the Board should be more willing to move in the direction of the second extreme than the first, because with better data due to smart meters, and with technology allowing rates to be somewhat more complex with little incremental cost, it is possible to deliver a higher level of individual cost causality than in the past. Our suggestions with respect to density, for example, seek to improve this tracking without unnecessarily complicating the rate structures. Tightening this connection is fairer to the customers, and protects the LDCs by ensuring changes in costs and changes in revenues move at the same times, and in the same amounts.
- 1.3.12** Second, the School Energy Coalition believes that fairness and cost causality are very closely linked, and any attempts to build in exceptions to cost causality should be strongly resisted unless there are compelling reasons.
- 1.3.13** A case in point in the suggestion, often made, that because cost allocation is as much an art as a science, cost allocation results are not precise, and therefore 1.0 revenue to cost ratios are not a real goal.
- 1.3.14** We believe the Board should reject this proposition. It is true, of course, that cost allocation is not perfect, but the evidence the Board has before it on the allocation of costs between classes, and the connections between those costs and customer characteristics (billing determinants, in other words), is the best evidence currently available. The solution to imprecise data is not to throw the data out and make decisions with no empirical basis. (How would you do that anyway? one might ask.) The solution to imprecise data is to get better data. In the meantime, the best empirical

basis for making cost allocation and rate design decisions is the data currently collected by the Board. The Board should use it, and should not depart from classic cost allocation principles because the data could be better. It is what it is.

- 1.3.15** There may be a few instances where other factors creep into the analysis and dislodge the cost causality principle, however gently. For example, if the costs allocated to a class would produce rates of, say, \$1000 a month, but the customers at that price will not take the service (they will use a competing fuel, or generate their own electricity, or whatever), the utility has to decide whether it is in the best interests of the ratepayers as a whole to recover only part of their costs from that class. In this example, if the marginal cost of serving each customer in the class is \$300 a month, and there is substantial customer base if the rates for the class are \$700 a month, it is a prudent business judgment to price distribution for that class at \$700 a month, since it will feed \$400 per month per customer to the utility's net margin, thus reducing rates for all other customers. The fact that the RTC for the class is 0.70 is irrelevant, because if the discount price is not offered there is no class at all.
- 1.3.16** *Efficiency.* We agree with the distributors and many other parties that distribution rate design should send price signals relating to the efficiency of the distribution system, not the efficient use of the commodity.
- 1.3.17** We have two reasons for this. First, there is no evidence that the additional price signal from the distribution component of the bill will add anything to the signal already there from commodity pricing. We believe that it is unlikely that any customer will undergo any change in their behaviour as a result of, for example, time or use distribution pricing, that they would not undergo just from time of use commodity prices alone.
- 1.3.18** Second, time of use rates clearly breach the cost causality principle, because it appears clear from all of the evidence currently before the Board that very little of the costs of an LDC are driven by a customer's energy consumption.
- 1.3.19** It is submitted that the Board should not reject, in whole or in part, the principle of cost causality without clear evidence that to do so would deliver a public interest benefit. The environmentalists argue that if the Board does X (time of use distribution rates), Y will follow (changes in customer behaviour reducing energy consumption at peak periods). When there is evidence that proposition is true, the Board would of course have to consider it, and perhaps see if there is a billing determinant or other rate structure choice that can use some form of time of use, while at the same time acting as a reasonable proxy for distribution cost drivers. Until there is evidence of this, though, we think it is an unproductive exercise, and should be rejected.

## 2 CUSTOMER CLASSIFICATIONS

### 2.1 Principles

2.1.1 We have commented in detail on the principles relevant for this process in the previous section. The Staff Paper in turn discusses the more specific principles relating to customer classifications. We have nothing further to add to this.

### 2.2 Energy-Driven Costs?

2.2.1 Board Staff has correctly pointed out that different classes need to be created based on differences in particular types of cost. They note [page 22] differences in customer-related costs and demand or capacity related costs, but do not discuss specific differences in energy-related costs.

2.2.2 It appears to be generally accepted that very few costs of an LDC are driven by a customer's energy consumption. The main one that we see is the working capital component for commodity payments (COP). This can be a relatively sizeable amount, and is really a cost of the commodity, not the distribution service. Pursuant to the Board's Report dated September 29, 2006 in EB-2005-0317, it appears that this is currently being allocated to customer classes based on energy, and is being charged in distribution rates.

2.2.3 It is not clear to us from the Staff Paper how a demand or capacity billing determinant would pick up this cost, either directly or as a proxy. It would be useful if Board Staff provided a specific analysis of this component of rates, including a calculation of materiality, and a discussion of how it tracks the various rate design possibilities in the Staff Paper.

### 2.3 Volume Divisions

2.3.1 In the Staff Paper, Board Staff correctly points out that, if the billing determinants for residential and general service customers are the same (demand or capacity), then it may no longer be necessary to have separate classes or different rate designs for those customer groups.

2.3.2 In principle, we agree that this distinction is probably no longer necessary. However, we do caution the Board about two things.

2.3.3 First, the Staff Paper has based its mapping of customers from old to new classes on the Milton Hydro data. We believe it is important to see if that mapping result is replicable in different types of LDCs. Milton Hydro has a relatively young distribution infrastructure, and before assuming that it is representative of all LDCs, we think that a

more urban, a more rural, a lower growth, and perhaps other LDC “types” should be tested to see how customers map.

- 2.3.4 Second, it is not readily apparent to us that the monthly customer charge in the low volume class [as shown on page 28 of the Staff Paper] should be the same for a residential customer with 5.1 peak KW, and a small business customer with 28.6 peak KW (or more). Similarly, we think that the peak KW range for Secondary 3 phase is wide enough to suggest, at least intuitively, that a single monthly customer charge will not be appropriate. Of course, the greater the percentage of costs recovered through the fixed charge, the greater the magnitude of this potential problem.
- 2.3.5 Board Staff have, at pages 53-54 of the Staff Paper, done some rough modelling of the effects of moving to a smaller number of classes with similar billing determinants, but they have not provided their assumptions (fixed and variable charges before and after, for example) so it is impossible to determine the basis on which the models were constructed. The School Energy Coalition requests that the Board provide the backup data behind these models, so that stakeholders can review the analysis and consider issues such as fixed charge levels consistent with our comments above.

## **2.4 Density Driven Classes**

- 2.4.1 Aside from the divisions of classes based on volumes, we believe that the Board should consider creating customer classifications based on density. In our view, this is an important cost driver whose exclusion from the rate design process would result in urban customers explicitly subsidizing rural customers. While the Staff Paper [fn. On page 20] appears to propose that this is an appropriate subsidy, we disagree with that implication. As we have recently seen in the Hydro One harmonization process, this can be specifically unfair to identifiable groups, of which schools are one example.
- 2.4.2 It appears to be accepted by distributors, intervenors, and other stakeholders, and by Board Staff, that density is a material cost driver for distribution service. In fact, the Board has recently seen, in the PEG Report “Benchmarking the Costs of Ontario Power Distributors” that customer density is a key variable needed to fairly compare LDCs. With the evidence available to the Board, there can be little doubt that it costs significantly less to serve customers in higher density areas than in lower density areas.
- 2.4.3 In our submission, once the Board identifies a material cost driver, the Fairness Principle dictates that, through rate classes, rate structure, or billing determinants, that cost driver should be reflected in rates and therefore in the bills paid by customers for the service. That is the essence of cost causality. There should be only rare occasions where a material cost driver is not part of the structure of rate design.
- 2.4.4 Here, it is not disputed, we think, that the density cost driver can be captured in a number of ways, of which the simplest may be the method used by Hydro One, ie. separate customer classes for rural and urban customers. While there are issues with



where the line should be drawn, and what the best metric might be, those are matters endemic to all rate design analysis. They are eminently solvable problems.

- 2.4.5 But Board Staff appear to have rejected density-driven classes for a different reason. From the Staff Paper, it appears they believe there is a policy reason for urban customers to subsidize rural customers. With respect, we disagree with that conclusion, for three reasons.
- 2.4.6 ***Social Policy Issue.*** If there is any policy reason for such a subsidy, that policy would be a social policy, not a regulatory policy. That is, the reason would not have anything to do with the efficient functioning of the electricity sector. It would have to do with the most efficient social matrix within Ontario society.
- 2.4.7 Allowing benefits to flow from urban dwellers to rural dweller in our society could well be a very good social policy, and it is in fact one that governments often engage. However, the key here is that it is governments that make those decisions. This Board does not have a mandate to engage in social policy. While in light of recent court decisions it certainly has the jurisdiction to consider social policy in its regulatory activities, that is generally not the Board's role, and it has wisely stayed out of social engineering when parties have urged it upon you.
- 2.4.8 We therefore believe that, if it is appropriate for urban dwellers to subsidize the distribution rates of rural dwellers, other than for reasons of sectoral efficiency, we believe that social policy decision should be made by the government, at which point the Board would follow it.
- 2.4.9 ***Customer Sub-Group Unfairness.*** It now appears clear that some customer sub-groups, of which schools are one, are disproportionately affected by such a policy. Any sub-group that is more likely to be located in a higher density area – schools, hospitals, small businesses, etc. – will, if there is no density distinction, be asked to pay more than their fair share of LDC costs so that some other customers, usually residential and large industrial, can pay less.
- 2.4.10 It might be argued, for example, that if residential customers are randomly urban or rural, having some subsidize others is not unreasonable. It is the normal randomness/lack of homogeneity that is to be expected in the composition of any rate class. But, if the class structure includes a systematic bias against a major identifiable customer sub-group, that is a symptom of a fundamental design flaw. Just to give an example, if all general service customers (residential and otherwise) were included in a general service class, with a fixed charge of \$100 a month, residential customers would justifiably complain that they were subsidizing non-residential. We believe that the current subsidy by urban general service customers of rural general service customers is equally unacceptable.
- 2.4.11 ***Evolution of Distribution Sector.*** The problem is exacerbated in Ontario because of

how the distribution sector has developed. With many munis to being with, and then consolidation that was based on individual business and political decisions (by the munis, and by the politicians running their municipal shareholders) rather than on the basis of any sound policy strategy, the geographical boundaries of utility franchises do not follow logical patterns.

- 2.4.12** The result of this evolution is that some LDCs are all urban (e.g. Toronto, Ottawa, London, Enersource), some are all rural, and some are mixed. In the case of the former two categories, urban/rural cross-subsidization cannot occur to any significant extent, because the same distributor does not have both types of customers. But, in the case of the mixed utilities (there are many), their urban customers will pay more so that their rural customers can catch a break.
- 2.4.13** We believe that it is inherently unfair for schools in Belleville or in Orangeville to have much lower distribution bills than schools in Ancaster, or other towns lumped together with rural areas, despite the fact that they have a very similar actual cost of service. If the costs they cause for their respective utilities are similar, in our view their bills should be reasonably close, too, allowing for differences in the efficiencies and policies of individual LDCs. It is unreasonable, in our view, to ask some of those customers, who by an accident of evolution of the sector are in the franchise area of a utility with rural customers, to subsidize those rural customers, while most other urban LDC customers (in Toronto, Ottawa, etc.) are not asked to subsidize rural customers.
- 2.4.14** We want to make clear that it would be a legitimate government policy decision for urban ratepayers to subsidize rural ratepayers. In fact, Rural Rate Assistance goes partway there. But if that subsidization is a social policy decision, it still remains for the Board to implement it in a fair manner. Having some urban customers paying extra, but not others, and for no reason other than historical anomaly, is not consistent with fairness.
- 2.4.15** We therefore recommend that the Board adopt density-based rate classifications. Customers in the cities and towns should have their own separate costs pool, and so would generally pay lower rates, while rural customers would pay the higher rates that their costs justify. The Hydro One structure (although not necessarily their density definition) may be a good starting point to design classes with this in mind.

### **3 OVERALL RATE DESIGN ISSUES**

#### **3.1 Cost Allocation**

*3.1.1* We have commented earlier that, in our view, weaknesses in cost allocation methodologies and data do not mean it should be ignored, and non-empirical cost allocation and rate design decisions made. The Board should use the best information available to it, however flawed.

#### **3.2 Fixed-Variable Split**

*3.2.1* Much of the Staff Paper is concerned with, at a higher level, the extent to which costs should be recovered in a fixed charge rather than a variable charge. In general, we agree with Board Staff and with many LDCs that, if the classes are set up with sufficient homogeneity, an increase in the fixed charge component is probably warranted.

*3.2.2* We have two additional comments on this point. First, it is clear that, the greater the divergence from homogeneity within a class, the more likely a high fixed charge is to generate large intra-class subsidies. Since the fixed charge treats everyone in the class as identical (no variable cost drivers at all), any actual differences, even if based on a since variable, are unreflected in that charge. If it were 100% fixed charge, for example, it means that 100% of customer characteristics differences are unreflected in rates.

*3.2.3* In our view, a smaller number of classes, however elegantly designed, necessarily implies a reduction in class homogeneity, and there should be a concomitant reduction in the percentage of revenue from fixed charges. This is not an optimal result, but it is the only reasonable result if a small number of classes is preferred

*3.2.4* Second, SEC does not agree that all or almost all distributor costs are fixed rather than variable. In fact, as Board Staff correctly notes, almost all distributor costs are variable in the long run, and almost all are fixed in the short run.

- 3.2.5 This, however, does not lead to the conclusion that a very high fixed charge is warranted. A marginal KW of demand has a very low incremental impact on costs, but there is no escaping the fact that, combined with other marginal KW, it has a very substantial incremental impact on costs eventually. Conceptually, the addition of a single marginal KW implies a small amount of immediate cost, but at the same time also a substantial amount of eventual cost. (It is like quantum mechanics. You can't measure the mass of an electron, but you know it's there, just like that "eventual" cost is there, albeit in the beginning as a potential cost pressure rather than an actual out of pocket expense.)
- 3.2.6 Our conclusion, therefore, is that some relatively significant component of rates must be collected in variable charges, in order to reflect the long term variability of distributor spending. While increasing the fixed percentage to, say, 60% or 70% of class costs may be justified, it is submitted that a first step would be to move from a 50% or lower standard, first to minimum 50% of class costs, then progressively to 70% over a single five year IRM cycle.
- 3.2.7 However, we wish to raise a note of caution here. Shifting the percentage of distributor costs recovered through the fixed charges will impact high growth utilities quite differently than utilities with more static customer numbers. We believe it is essential for Board Staff to model different sets of high-fixed rates over a period of assumed IRM years, for different types of LDCs, to identify the winners and losers. This should be published for comment, and stakeholders should have an opportunity to debate whether the actual results are consistent with good policy and with the IRM framework as approved.
- 3.2.8 We note that, assuming an increase in recovery percentage through fixed charges is implemented, that should reduce LDC risk and thus put downward pressure on the cost of capital.

### **3.3 Revenue Stability**

- 3.3.1 We have noted earlier in these submissions that revenue stability should not be an end in itself. If the Board improves the connection between changes in costs and changes in rates, that will naturally improve stability of revenue from the point of view of the LDCs. In our view, that is the only way to improve revenue stability in a manner that is fair to all ratepayers.
- 3.3.2 We note the suggestion, at page 39 of the Staff Paper, that some form of demand-based fixed charge with a year end true-up could be used. In our view, that is nothing more than RSAM lite, and has the same problems of lack of distributor accountability, and undermining of the new distributor business paradigm, that should lead the Board to reject the RSAM proposal itself.

### 3.4 Billing Determinants

- 3.4.1 A key aspect of the Staff Paper is the discussion of billing determinants for various classes, and the types of appropriate billing determinants generally. The central issues in choosing the right metric for rates appear to us to be similar to the three overall rate design principles outlined in the Staff Paper, ie.
- (a) Connection of the determinant to cost causality.
  - (b) Effect of the determinant on customer behaviour.
  - (c) Availability of data and/or ease of measurement.
- 3.4.2 The Staff Paper discusses at some length the various options for billing determinants, and convincingly makes the case, in our view, that a demand or capacity based rate structure makes more sense than a rate structure based on energy, whether aggregate or differentiated by time of use. Demand and capacity metrics are clearly a better fit to costs, and with smart meters there is no barrier to their use based on availability of data or ease of measurement.
- 3.4.3 School Energy Coalition generally believes that a demand charge based on non-coincident peak each month has the best combination of cost causality and ease of administration.
- 3.4.4 In addition, at least for some classes of customers that actively manage their electricity use (some school boards being a good example), it allows them to choose to reduce their demands on the system and get a concomitant reduction in their bill. If co-incident peak is used, its unpredictability will prevent active managers from being able to connect demand management and bill reduction, and thus will cause customer decision-makers to see a less advantageous cost-benefit ratio for demand management equipment and programs. In our view, a general reduction in 12-NCP for customers like school boards will inevitably reduce the LDC's peak loading, and thus have the desired cost reduction effect. One might even find that residential customers buy small load-limiters on a retail basis if there is a substantial saving from clipping peak demand.
- 3.4.5 Board Staff raises a similar issue, with a similar conclusion, at page 48 of the Staff Paper.
- 3.4.6 In short, we believe that the customer's non-coincident monthly peak demand in most cases achieves the desired cost causality result, while still providing appropriate price signals for those customers willing to manage their peak use.

### **3.5 Pooled Rates**

- 3.5.1 The Staff Paper raises the enticing question, at page 8, of whether rates could be pooled between distributors in a contiguous geographic area. This harks back to a proposal in our earlier submissions that the Board consider postage stamp distribution rates for the entire province.
- 3.5.2 Unfortunately, the Staff Paper does not discuss this concept in any detail. We urge the Board to develop pooling ideas further, and publish a supplementary paper from Board Staff outlining options in that area.

## 4 SECONDARY CLASSES

### 4.1 Class Divisions

- 4.1.1 Board Staff has floated the idea that the existing general service classes be jettisoned in favour of two general service classes, based on whether the connection is single phase or three phase.
- 4.1.2 This would appear to us to be a reasonable approach, subject to one important caveat. It is not clear to us that the connection to the customer is determined in conjunction with the customer, or it is simply a unilateral decision of the LDC at the time of connection. We believe that if the connection level is going to be a key rate differentiator, then the rules for when a customer is connected at one level or another must be set out, along with any options the customer has to choose their own preference. We think all stakeholders would be assisted if the policies of distributors were reviewed, to determine whether there is currently consistency between them, and to assess whether like customers are being and have been connected at like levels throughout each distributor's area, and throughout the province.
- 4.1.3 We also note that we have, separately in these submissions, proposed that each general service class be divided into at least two classes (and perhaps more) based on customer density. For many LDCs, this would mean no change, because their franchise area does not have substantially varying density. For those where there are variations, this would removed the subsidy of lower density customers by higher density customers, ie. rural by urban.

### 4.2 Fixed Charges

- 4.2.1 We have discussed fixed charges generally, elsewhere in these submissions, and have nothing to add on their level.
- 4.2.2 However, we do have one other suggestion. One step in the direction of consistency between LDCs, and perhaps an interim step to pooled rates, could be the establishment of standardized fixed charges across the province for given classes. That is, each customer in a given class, across the province, would pay the same fixed monthly charge, reflective of a predetermined percentage of the class revenue recovery for a typical LDC. Then, any variation in rates for that class between LDCs would be made up in the variable charge.

4.2.3 This could have four benefits:

- (a) First, it presents for utilities a standard fixed component of their budget based on customer numbers, and so gives them a predictable (in a dollar sense) component of their annual budget to manage with lower risk.
- (b) Second, it “rewards” the lowest cost utilities with a higher percentage of fixed charge recovery, while the highest cost utilities get a lower percentage of fixed charge recovery.
- (c) Third, it simplifies rate structures for customers, since they would all have the same fixed charge.
- (d) Fourth, it enhances the demand management signal for customers served by high cost distributors relative to low cost distributors. In effect, where distributors are not successful in keeping their own costs down, customers are given a greater opportunity to get their bills down through their own actions.

4.2.4 While it will be readily apparent to the Board that this idea – province-wide fixed charges – is not yet fully formed, we believe that the Board should test it out in subsequent steps in this policy process.

### 4.3 Variable Charges

4.3.1 As we have noted earlier, we propose that the general service (secondary) rate classes monthly non-coincident peak demand as the primary billing determinant.

4.3.2 We note that there are still some utilities that calculate their demand charges based on kVA rather than KW, in some cases actually measuring KW but then doing a conversion. In our view, the merits of using kVA vs. KW is certainly defensible, but if it is a better approach, then all distributors should use it once metering has been standardized through widespread adoption of smart meters. We see no justification for using kVA for a single utility alone (except perhaps as a test case), and we certainly see no justification for a billing system that measures one, converts to the other, and then uses the other to set rates.



## 5 OTHER ISSUES

### 5.1 Primary Class

No submissions.

### 5.2 Sub-Transmission Class

No submissions.

### 5.3 Embedded Distributors

No submissions.

### 5.4 Load Displacement Generation

5.4.1 One issue in which we think there is a particular problem with rate structure is load displacement generation. For this use, one that increasingly institutions like schools will consider as microcogen improves its economics, billing structures that charge significant amounts for the standby power create a major barrier for implementation.

5.4.2 Microcogen is a good example of that. For some microcogen systems that might be used in a high school, say, the economics are already quite lean, with simple paybacks of more than ten years, and sometimes more than 15 years. Schools, being long-term thinkers in the energy context, could and probably still would consider microcogen. But, if the standby charges are significant, then the economics will not work for many of these projects.

5.4.3 This is, of course, a broader policy issue than just distribution rate design, and undoubtedly initiatives to encourage more LD generation including microcogen will expand in the near term. In the meantime, we believe the Board should tread carefully in assigning all possible cost categories and amounts to this rate class.

### 5.5 Unmetered Scattered Load

No submissions.

### 5.6 “Metered Scattered Load”

5.6.1 The intriguing staff idea that customers with many “branches”, such as schools, could have a single bill and a single customer charge is a good one. Intuitively, customers in that category will drive significantly lower costs for things like customer care, billing, etc.

- 5.6.2 However, it is not clear to us whether the cost allocation data currently in the Board's hands provides justification for this separate class. If there is a material component of costs that would be affected by whether a customer has one bill, or many, this would certainly be a reasonable step to fix a long-standing rate inequity for customers with multiple delivery points. We believe that Board Staff should continue to consider this issue, in particular reviewing in detail the cost allocation data and publishing the results of this analysis for comment by stakeholders.
- 5.6.3 If the data does not justify a separate rate class for this category of customers, it may still be possible to have it as part of the basic billing structure of the general service classes. That is, the fixed charge for the class could be set as a single number by "customer" (ie. generally, "connection point"), but with a discount formula for those billed on a single bill for multiple connection points.

**5.7 Treatment of Distribution Losses**

No submissions.

## **6 OTHER MATTERS**

### **6.1 Next Steps**

- 6.1.1** We agree with Board Staff that the next step in this process should be some modelling of impacts in various LDCs, to ensure that the impacts will be similar despite distributor diversity.
- 6.1.2** We have also made some specific proposals in these submissions for additional study and analysis in the future. We will not repeat them here.

### **6.2 Process and Participation**

- 6.2.1** We thank the Board for inviting us to participate in this process. We hope these submissions are useful, and we would appreciate the opportunity to continue to be actively involved in future analyses of rate design issues.

### **6.3 Costs**

- 6.3.1** The School Energy Coalition hereby requests that the Board order payment of our reasonably incurred costs in connection with our participation in this process. It is submitted that the School Energy Coalition has participated responsibly in all aspects of the process, in a manner designed to assist the Board as efficiently as possible.

All of which is respectfully submitted.



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