Ontario Energy Board
Commission de l'énergie de l'Ontario

Rate Design Working Group

A New Distribution Rate Design for Residential Electricity Customers (EB-2012-0410)

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Agenda

- Background: OEB Policy
- Scope of the Working Group
- Filing Module: Initial Draft for Discussion
- Considerations/Feedback
  - Ensuring Revenue Neutrality
- Effects of new rate design on:
  - Rate Riders
  - LRAMVA calculation
- Exceptions and Mitigation
- Considerations regarding different rate setting methods – Annual IR, Custom
- Other Issues/Considerations
- Next Steps

Background

- Board Policy: A New Distribution Rate Design for Residential Electricity Customers (EB-2012-0410) was issued on April 2, 2015.
- Board determined that:
  - All distributors would transition to a fully fixed charge for the residential class.
  - Transition over 4 year period (2016-2019).
  - Fixed monthly charge to be increased in equal increments each year.
    - Amount of increase is distributor specific.
  - Uniform approach to be adopted.
    - Exceptions where there are mitigation concerns (e.g. > $4 increase in fixed charge)
  - Implementation issues to be considered by working group.

Summary of OEB's Findings

- Under new policy, electricity distributors will structure residential rates so that all the costs for distribution service are collected through a fixed monthly charge. This change will achieve three main objectives:
  - It will enable residential customers to leverage new technologies, manage costs through conservation, and better understand the value of providing distribution service.
  - It is a fairer way to recover the costs of providing distribution service.
  - It will provide greater revenue stability for distributors, which will position them for technological change in the sector, remove any disincentive to promote conservation, and help with their investment planning.
- Other advantages may include reduced need to forecast energy usage for rate-setting purposes for residential classes.

Scope of Working Group

- Phase 1:
  - Provide recommendations to ensure the filing requirements and rate models reflect the new rate design policy.
  - Developing recommendations for how revenue neutrality can be ensured during the transition.
  - Examine the implications for distributors applying for certain provisions under the Price Cap IR and Annual IR Index rate setting methods. In particular:
    - Should rate riders for the Incremental Capital Module or for other variable costs be changed to follow the new rate design?
    - How will the calculation of amounts in the LRAM and LRAM Variance Account be affected by the rate design change?
  - Changes to cost of capital, WCA, etc. out of scope of issues to be considered.
  - Deliverable: Recommendations from the working group, which will inform OEB's decision on appropriate amendments to filing requirements and rate models.

Scope of Working Group

- Phase 2:
  - The OEB will consult with the working group and other stakeholders on:
    - Whether distributors that have installed in-suite metering should have a multi-unit residential rate (if they do not already).
    - Effective customer education is an important part of this policy change. OEB staff, working group and other stakeholders will work with the working group and other stakeholders to provide recommendations on how the OEB's activities can be coordinated with those of distributors and others.

- First batch of working group meetings will focus on Phase 1 issues only.

Initial Method For Discussion

1. Start with current base rates and include any adjustments for R/C ratio changes.
   - R/C adjustment model does not alter fixed/variable split.
2. Calculate the fixed/variable split of base rates in step 1.
   i. Use billing determinants from last CoS to calculate fixed and variable revenues.
   ii. Divide each by total revenue.
3. Calculate necessary step change due to the rate design policy
   - Step change (%) = [100% - current fixed (%)]/remaining transition years.
4. Calculate new fixed/variable split
   i. New fixed % = current fixed % + step change (%)
   ii. New variable % = 100% - New fixed %
5. Derive new base rates using new fixed/variable split.
   1. MSC = [Total Revenue x New Fixed %]/[# customers * 12]
   2. DVR = [Total Revenue x New Variable %]/[billed kWh]
6. Scale new base rates by stretch factor.

Initial Method For Discussion

- Based on Sheet “24. Rev2Cost_GDPIPI” from current IRM Rate Generator Model
- Should require no additional inputs.
  - Residential COS billing determinants in shared tax savings calculation.
  - Using current rates as starting point avoids the requirement to input R/C ratio changes back to last CoS application, where applicable.
- Using remaining years of transition to calculate step change can be a simple way to implement rate mitigation.

Sample Filing Module

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Incentive Regulation Model for 2016 Filers

If applicable, please enter any adjustments related to the revenue to cost ratio model into columns C and E. The Price Escalator and Stretch Factor have been set at the 2015 values and will be updated by Board staff at a later date.

Price Escalator	**1.60%**	**Choose Stretch Factor Group**	**III**	Residential Class Last COS Billing Determinants	
Productivity Factor	**0.00%**	**Associated Stretch Factor Value**	**0.30%**	Customers	280,901
Price Cap Index	**1.30%**	**Rate Design Transition Years Left**	4	Billed kWh	2,282,535,398

Rate Class	**Current MFC**	**MFC Adjustment from R/C Model**	**Current Volumetric Charge**	**DVR Adjustment from R/C Model**	**Price Cap Index to be Applied to**	**Proposed MFC**	**Proposed Volumetric**
RESIDENTIAL	9.67		0.0234		1.30%	13.81	0.0178
STREET LIGHTING					1.30%	0.00	0.0000
STANDBY POWER					1.30%	0.00	0.0000

Rate Design Transition	**Current Base Rates**		**Revenue @ current F/V split**		**Current F/V Split**		**Decoupling MSC Step**		**New F/V Split**		**Adjusted Base Rates**		**Revenue @ new F/V split**	
RESIDENTIAL	**MSC ($)**	**DVR ($/kWh)**	**Fixed ($)**	**Variable ($)**	**Fixed (%)**	**Variable (%)**	**%/year**	**$/month/year**	**Fixed (%)**	**Variable (%)**	**MSC($)**	**DVR ($/kWh)**	**Fixed ($)**	**Variable ($)**
	9.67	0.0234	32,595,752.04	53,411,328.31	37.9%	62.1%	15.5%	$ 3.96	53.4%	46.6%	$ 13.63	0.0176	$ 45,948,584.12	$ 40,058,496.23
Total Revenue			$ 86,007,080.35										$ 86,007,080.35	

Checks	
MSC Step < $4	$ 3.96
Reconcilitation	$ -

Considerations

- Are there any flaws to this method?
- Does this address the requirements of the report?
- Alternative proposals?
- Are there any considerations that we have missed?

- Revenue neutrality
  - What are the appropriate billing determinants?
  - E.g. Last COS or most recent actuals?
- How do we address significant changes to billing determinants?
  - E.g. Loss of significant load/customers since last rebasing.

Beyond Base Rates: ICM & other charges

- Report says: “Should rate riders for the Incremental Capital Module or for other variable costs be changed to follow the new rate design?”
- Does not specify “other” variable costs.
- Propose to focus on distribution-specific charges.
  - Pass through charges (RTSR, Group 1 DVAs) not considered

List of Distributor-specific Variable Charges

- Shared Tax Savings
- Incremental Capital Module (ICM)
  - Advanced Capital Module (ACM)
- Depreciation/capitalization policy changes (disposition of accounts 1575 and 1576)
- Z-Factor
- Foregone revenue rate rider
- LRAMVA

- Other charges?

ICM and other variable costs

- Things to consider:
  - Should temporary charges be treated the same way as underlying costs.
    - E.g. Foregone revenue rate rider vs. ICM
  - Should move to fixed charges apply to a fully variable ICM charge, if it was designed that way initially?
    - Considerations should include number of years remaining before rebasing, average consumption levels in residential class, mitigation considerations.

Impact on LRAMVA calculation

- Hypothesis: Change to rate design does not require alteration to method of calculating LRAMVA amount.
  - Expect that total values of LRAMVA claims will decrease as the variable charge is reduced for change in rate design.
- Agree or disagree?

Exceptions and Mitigation

- Report says the Board will consider exceptions to four-year implementation if:
  - Fixed charge must rise by more than $4 in any one year
  - If there are other rate changes which together with the policy change could result in unusually large bill impacts.
    - How should combined bill impacts be evaluated?
    - Convention of assessing impact on typical customer - is the standard 800 kWh customer sufficient?
    - Impact of rate design change should be very close to neutral at average consumption levels.
- What evidence should be provided in support of exceptions?

Impact of Rate Setting Method on Proposal

- Initial draft based on Price Cap IR filing module
- Are there any unique considerations for different rate setting methods?
  - Annual IR Index
  - Cost of service
  - Custom IR
  - R/C Ratio changes

- Is there are standard approach that can be taken with Custom IR applications?

Other Issues

- Have we missed anything?
- Accounting for distributors with per 30 day charges.

Next Steps

- Meeting summary and updated draft filing module to be circulated.
- Feedback on filing module by mid-May
- Staff to circulate draft recommendations for feedback and/or discussion
- Next meeting: target end of May?
  - Further discussion of phase 2 details and expected timing