



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



## Rate Design for Electricity Distributors

EB-2012-0410 for low volume consumers

Stakeholder discussions

# Overview

- Review new approach to rate design a fixed charge for recovery of distribution costs
- Reasons for a new approach
- Proposals for implementing a fixed charge
- Questions for discussion

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# Timing for Policy Change

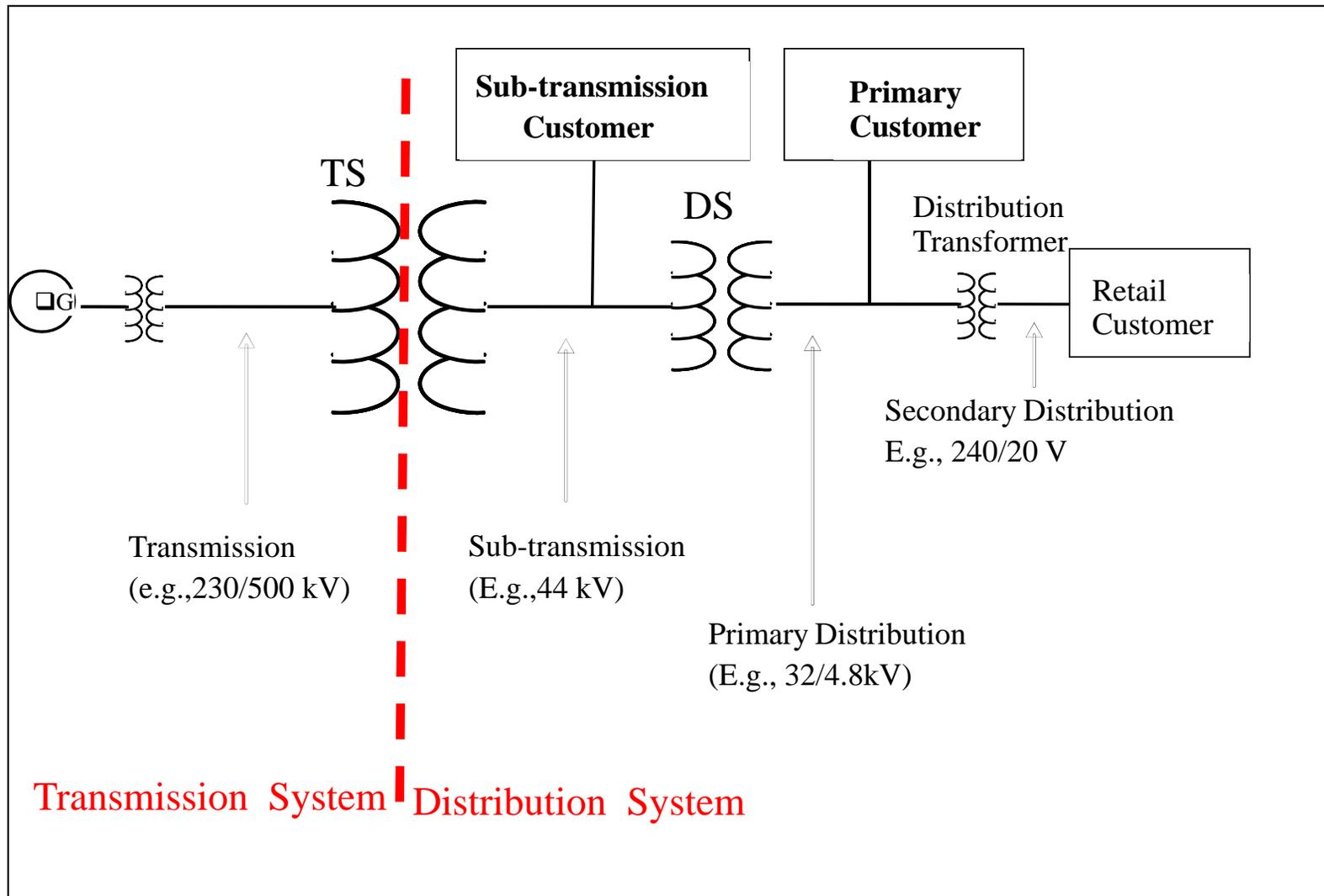
- RRFE:
  - Customer focus on value of distribution service
  - Support for 5 year capital plans
- LTEP:
  - Conservation delivery by distributors
  - Facilitate increase in micro generation through net metering



# Renewed Regulatory Framework for Electricity

- Focus on the consumer and value of the service
- Provide sustainable regulatory framework that supports achievement of outcomes
- Optimization of system use – better planning
- New regulatory framework supports a new look at rates
- Rate design principles
  - Cost causality
  - Fairness
  - Efficiency

# Delivery Infrastructure

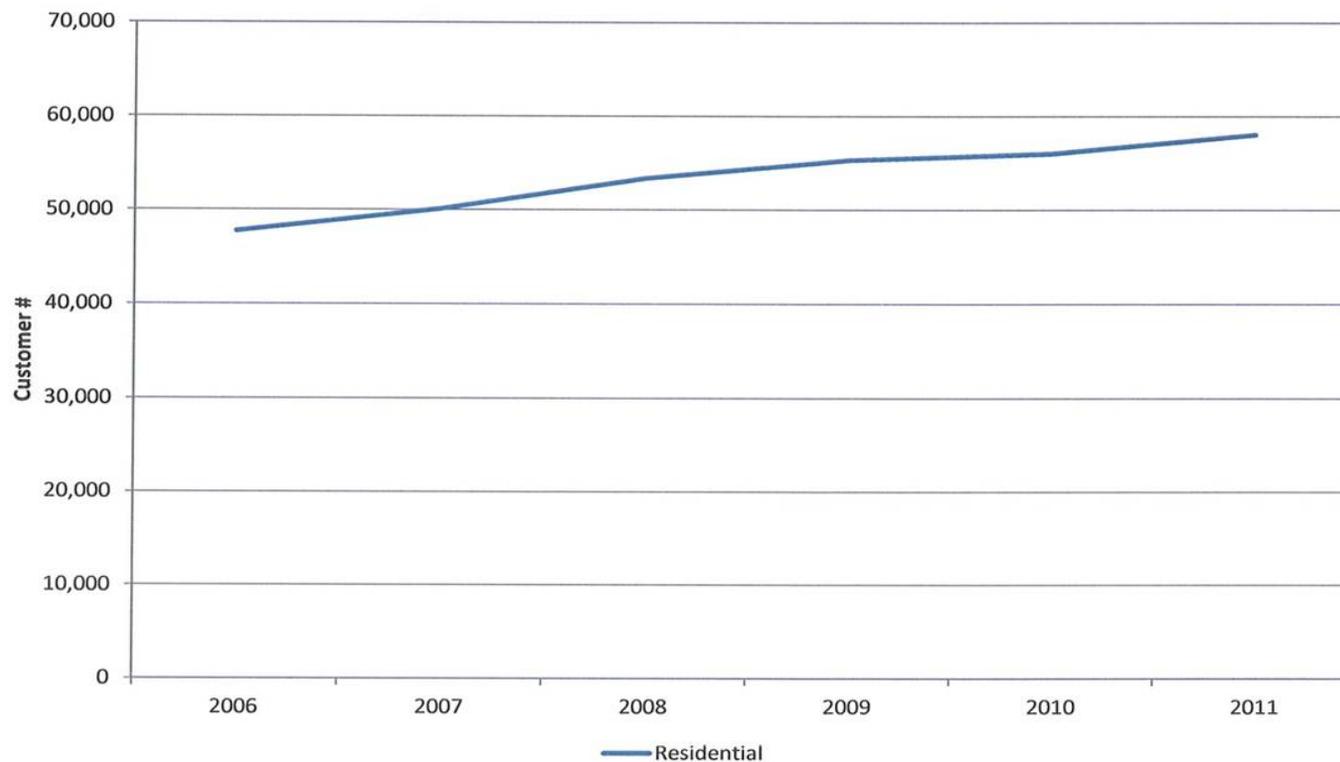


# Distribution Cost Drivers

- Customer numbers
  - Individual cost of assets close to customers: meters; connection; secondary system.
  - Operation costs: billing; metering; customer care.
- Capacity
  - Cumulative effect on assets closer to transmission: distribution substations; sub-transmission and primary systems.
- Throughput
  - Wear and tear on assets.



# Average Number of Residential Customers - Ontario



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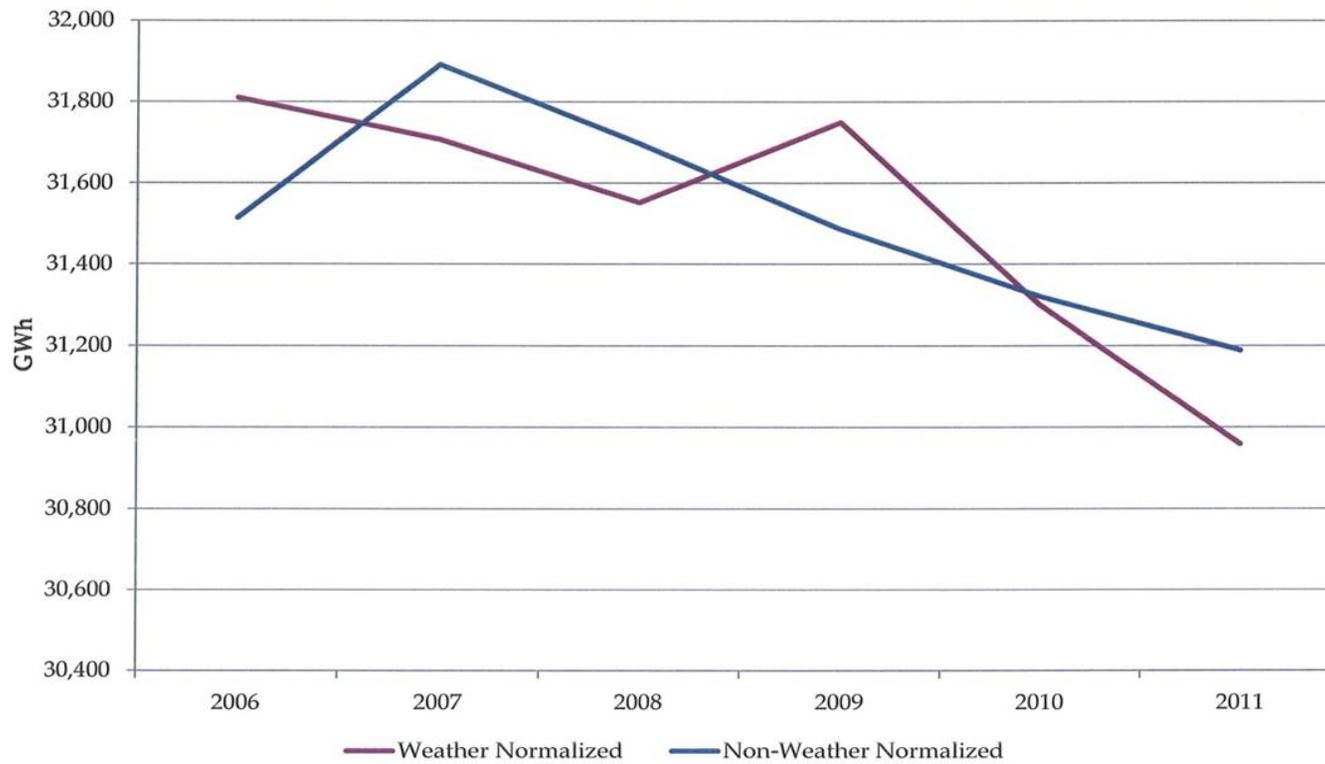
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# Residential Usage – Weather-Normalized versus Actual – All Ontario



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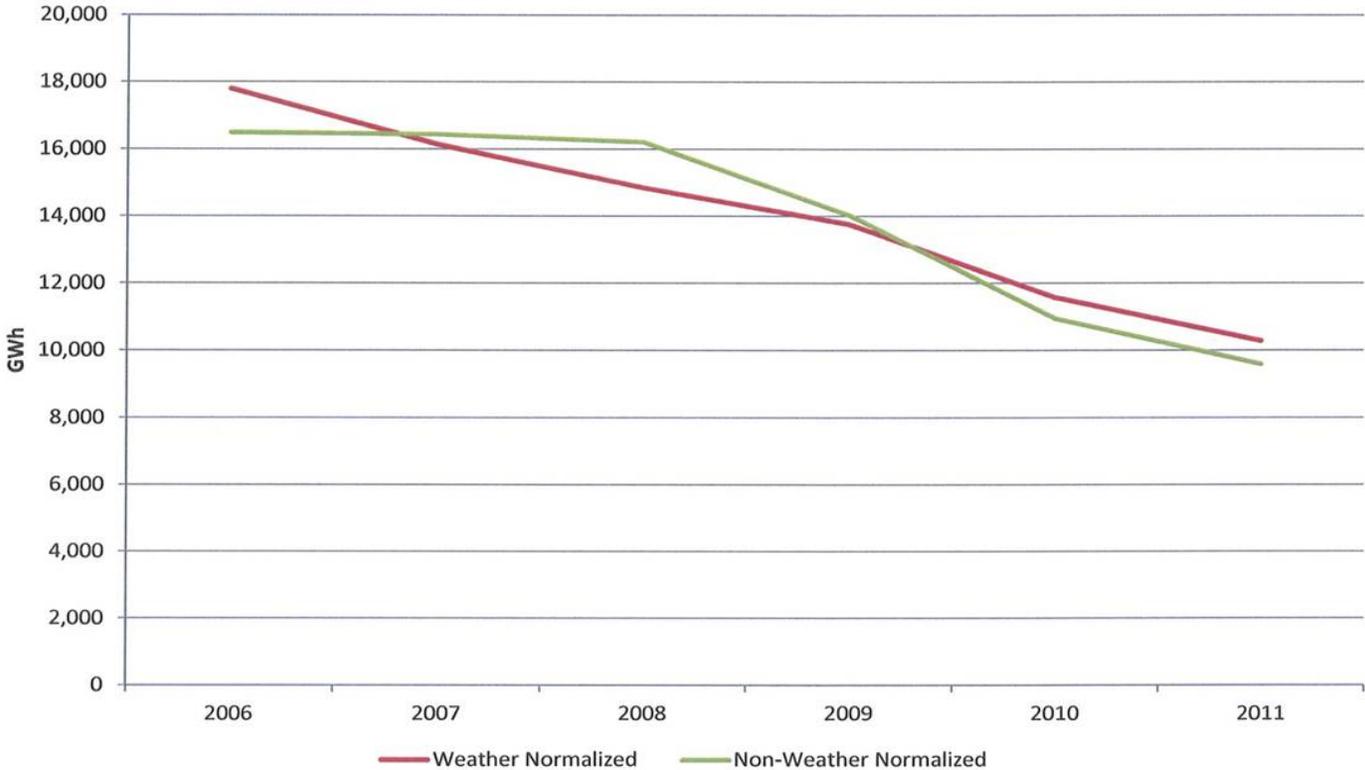
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# GS<50KW – Weather-Normalized versus Actual – All Ontario



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# A new rate design

- Based on objectives for the sector a new approach
- Distribution revenue recovery model change to fixed monthly charge
- Implement for low volume customers initially
- Supports policy objectives of RRFE and provides customer focused solution

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# Customer Focused Rate Design

- Managing the bill – focus customer on commodity costs, conservation
- Revenue neutral
- More stability and predictability
- Customer understanding of value
  - Delivery pays for local distribution (poles and wires)
  - System built to meet connection of customers and peak requirements
  - Avoiding investments in capacity increases



# Objectives for Rate Design Implementation

- **Customer focus**
  - Value of distribution system as infrastructure
  - Peak demand
- **Long-term asset planning**
  - Support for 5 year plans
  - Cost drivers are customer numbers and peak demand
- **Public Policy**
  - Conservation
  - Supporting distributed generation through net metering
- **Barriers**
  - Current rate design linked to consumption



# Implementing the New Rate Design Approach

- The Board has set out three proposals for implementing a fixed monthly charge for distribution service
  1. A single monthly charge for the rate class
  2. Fixed monthly charge based on the size of the electrical connection
  3. Fixed monthly charge based on use during peak hours



## Single monthly charge

- Charge determined based on class revenue divided by number of customers
- Simplicity and stability for consumers
  - Single charge for rate class, easy to understand
- Support for planning
  - Connections, customer costs are most significant cost driver
- Simplicity for implementation
  - Reduced risk for distributor with only customer numbers affecting revenues
  - Adjusted by IR mechanism



# Fixed charge based on connection

- Fixed charge is based on the maximum connection current
- Customer understanding and stability
  - Provides direct relationship to expectation of service
  - Opportunity for customers to take action in terms of use of the system
  - Larger users will pay a larger share (fairness)
  - Customer can choose to join a lower group
- Supports conservation
  - Provides an incentive for customer to contain use
- Aligns with the cost drivers for distributors
  - Long term cost containment as peak capacity is cost driver (asset optimization)
  - Can encourage rational growth of system



# Fixed charge based on use during peak

- Use of peak hours, peak usage to determine customer sub-groups
- Customers understanding of costs and tools to manage bills
  - Customers have stability in charge during rate period
  - Can be designed to build on understanding of peak usage (TOU)
  - Customer has opportunity to change usage to try to get to lower group
  - Higher users pay more (fairness)
  - Low-income consumers skew to lower groups and thus likely better off
- Supports conservation and TOU objectives
  - Takes advantage of smart meter functionality
  - Provides an incentive for customer
- Aligns with the cost drivers for distributors
  - Long term cost containment as peak capacity is cost driver (asset optimization)
  - Optimize use of the system
- Potential to address boundary issue for General Service at 50kW
- Support for net metering of distributed generation



# Questions for stakeholders

- How would the different approaches affect the achievement of the Board's goals:
  - Providing stability and predictability to consumers on their bills;
  - Enhancing consumer literacy of energy rates;
  - Providing consumers with tools for managing their costs;
  - Focusing distributors on optimal use of assets and improving productivity;
  - Removing or reducing regulatory costs; and
  - Supporting public policy?
- Should distributors be allowed to choose which method they will use or should it be consistent across the province?
- What are the implementation issues that the Board should consider for each methodology regarding timing and consumer impacts?

