



Richard P. Stephenson  
T 416.646.4325 Asst 416.646.7417  
F 416.646.4335  
E richard.stephenson@paliareroland.com  
[www.paliareroland.com](http://www.paliareroland.com)

May 14, 2007

File 15620

**VIA COURIER AND EMAIL**

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, Ontario M4P 1E4

- Chris G. Paliare
- Ian J. Roland
- Ken Rosenberg
- Linda R. Rothstein
- Richard P. Stephenson
- Nick Coleman
- Margaret L. Waddell
- Donald K. Eady
- Gordon D. Capern
- Lily I. Harmer
- Andrew Lokan
- John Monger
- Odette Soriano
- Andrew C. Lewis
- Megan E. Shortreed
- Massimo Starnino
- Karen Jones
- Robert A. Centa
- Nini Jones
- Jeffrey Larry
- Brydie C.M. Bethell
- Emily Lawrence

Dear Ms. Walli:

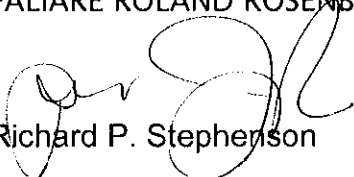
**Re: Review of Electricity Distribution Rate Design (EB-2007-0031)**

The Power Workers' Union ("PWU") represents a large portion of the employees working in Ontario's electricity industry and has the utmost interest in initiatives that impact the energy industry and the provision of on going service quality and reliability to customers. Attached please find a list of PWU employers.

The PWU is committed to participating in regulatory consultations and proceedings to contribute to the development of regulatory direction and policy that ensures on going service quality, reliability and safety at a reasonable price for Ontario customers. To this end, attached please find the PWU's comments on the March 30, 2007 Staff Discussion Paper *Rate Design for Electricity Distributors: Overview and Scoping*.

We hope you will find the PWU's comments useful.

Yours very truly,  
PALIARE ROLAND ROSENBERG ROTHSTEIN LLP

  
Richard P. Stephenson

RPS:jr

encl.

HONORARY COUNSEL  
Ian G. Scott, Q.C., O.C.  
(1934 - 2006)

**List of PWU Employers**

Atomic Energy of Canada Limited (Chalk River Laboratories)  
Barrie Hydro  
BPC District Energy Investments Limited Partnership  
Brant County Power Incorporated  
Brighton Beach Power Limited  
Bruce Power Inc.  
Corporation of the City of Dryden - Dryden Municipal Telephone  
Corporation of the County of Brant  
Electrical Safety Authority  
EPCOR Calstock Power Plant  
EPCOR Kapuskasing Power Plant  
EPCOR Nipigon Power Plant  
EPCOR Tunis Power Plant  
Erie Thames Services Corporation  
Goldman Hotels Inc. - Hockley Highlands Inn & Conference Centre  
Great Lakes Power Limited  
Grimsby Power Incorporated  
Halton Hills Hydro Inc.  
Hydro One Inc.  
Independent Electricity System Operator  
Inergi LP  
Innisfil Hydro Distribution Systems Limited  
Kenora Hydro Electric Corporation Ltd.  
Kincardine Cable TV Ltd.  
Kinectrics Inc.  
Kitchener-Wilmot Hydro Inc.  
Lake Superior Power (Brookfield Power)  
London Hydro Incorporated  
Middlesex Power Distribution Corporation  
Milton Hydro Distribution Inc.  
Mississagi Power Trust (Brookfield Power)  
New Horizon System Solutions  
Newmarket Hydro Ltd.  
Norfolk Power Distribution Inc.  
Nuclear Safety Solutions  
Ontario Power Generation Inc.  
Orangeville Hydro Limited  
PUC Services Inc.  
Sioux Lookout Hydro Inc.  
Sodexo Canada Ltd.  
TransAlta Energy Corporation - O.H.S.C. Ottawa  
Vertex Customer Management (Canada) Limited  
Whitby Hydro Energy Services Corporation

658586\_1.DOC

**Power Workers' Union Submission to the  
Ontario Energy Board**

**Rate Design for Electricity Distributors: Overview and Scoping**

**EB-2007-0031**

**1. INTRODUCTION**

The Power Workers' Union ("PWU") offers the following comments on the Ontario Energy Board's ("OEB" or the "Board") March 30, 2007 Staff Discussion Paper ("Discussion Paper") *Rate Design for Electricity Distributors: Overview and Scoping*.

The PWU's intent in making this submission is to provide input to the OEB that will enhance the Board's review of the rate design for electricity distribution and ensure that the risks to the on going service quality, reliability and safety of Ontario's electricity distribution systems are properly considered in the rate design review.

The PWU has been a key participant in Ontario's energy policy discussions for over 60 years. The PWU represents a large portion of the employees working in Ontario's electricity industry. Our submission stems from our energy policy statement:

**Reliable, secure, safe and reasonably priced electricity supply and service, supported by a financially viable industry, and a skilled labour force, is essential for the continued prosperity and social welfare of the people of Ontario. In minimizing environmental impact, due consideration must be given to economic impacts, and the efficiency and sustainability of all energy sources and existing assets. A stable environment and predictable and fair regulatory framework will promote investment in technical innovation that results in efficiency gains.**

Our comments are also made in consideration of the Board's legislated objectives:

- 1. To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service.*

2. *To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry.*

In meeting the Board's objective with regard to obtaining stakeholder input on the Discussion Paper, the PWU is providing input at the initial stage of this process that will "enable Board staff better understand which areas might be a priority for distributors or consumers" and "assist Board staff in refining the scope of the project".

## 2. GENERAL COMMENTS

In the PWU's view Board staff has done a commendable job in putting together a comprehensive Discussion Paper that provides a good basis for initiating the review of rate design for the electricity distributors.

The PWU's preliminary thoughts on the questions posed in Board staff's Discussion Paper are provided below.

## 3. PRINCIPLES OF RATE-MAKING

***Are there any principles, beyond the generally accepted, traditional principles of rate-making listed above, that the Board should consider in designing distribution rates? What is the new principle's importance relative to the others?***

The eight principles set out in the Discussion Paper as described by James C. Bonbright are:

1. Practical – "Rates should be simple to understand, accepted by the public (or uncontroversial) and feasible to implement".
2. Clear – "Rates should have no ambiguity in their application".
3. Effective – "Rates should recover the revenue requirement".
4. Stable for the utility – "The utility should be able to recover its revenue each year without excessive profits or losses".
5. Stable for the customers – "Rates should be predictable enough for customers to make investment decisions".

6. Fair – “To avoid cross subsidies, rates should follow the principles of cost causality; namely, that those who cause the costs should pay them”.
7. Promote efficient use of resources – “Rates should discourage wasteful use of the system”.
8. Avoid undue discrimination – “Actions taken to fulfill the other principles must not cause undue discrimination against or in favour of classes of customers”.

The PWU believes that there needs to be an additional rate principle that explicitly addresses incentive for LDC’s to make on going system investments. While possibly implicit in principle number 3, the PWU is of the opinion that on going investment in the system is of fundamental significance and needs to be recognized explicitly as a separate principle. If a rate design does not provide incentive for on going prudent investment in the distribution system, on going service quality, reliability and safety will be compromised. Customers expect the distribution rates that they pay to provide them with on going service quality, reliability and safety. Therefore, as a principle, rates should not create disincentives to on going system investment.

Given the Board’s legislated objective 1, the PWU submits that a rate principle that explicitly addresses incentives for on going system investment to protect consumer interest with regard to on going service quality and reliability is of equal importance as protecting consumers with respect to price.

#### 4. RATE CLASSIFICATION

***What is the most appropriate basis for determining the service classifications for Ontario distribution customers?***

Assuming that the Discussion Paper’s description of the current customer classes as “based on the end user of the electricity” fits with the determination of in-service characteristics by “predominant use”, the PWU’s position believes the current basis is the most appropriate basis for determining service classifications for Ontario distribution customers.

With regard to a rate classification based on demand, amperage or voltage level, while large customers (e.g. General Service > 50 kW and Large Use) can be expected to be sophisticated in their understanding of their distribution service needs, smaller customers (e.g. Residential and General Service < 50 kW) are not necessarily so. A new customer will know whether it is contracting distribution services for a home (i.e. Residential Service) or a business (i.e. General Service) but may

find determining the appropriate demand or amperage levels complicated. This can lead to error in classification with the customer paying for service that is significantly larger than required. Alternatively, the new customer might need to cope with an inadequate service level or pay for an upgrade.

A rate classification based on demand, amperage or voltage level for most customers therefore, would not meet the rate principle that calls for rates to be practical: rates should be simple to understand, accepted by the public (or uncontroversial) and feasible to implement. In addition, when a customer mistakenly contracts for an inappropriate distribution service level, there is considerable potential for unreasonable within rate class cross-subsidization and conflict with the rate principle that requires rates to be fair.

Having a fundamental level of service determined and provided for by the utility based on the customer's end user classification precludes the need for the customer to determine its distribution service level in contracting for electricity distribution services. In addition, there is flexibility with this basis for rate class determination with the option of obtaining a service upgrade at cost.

***Should sub-classifications be maintained? If so, what is the most appropriate method to allocate diversity benefits?***

Presumably the current sub-classifications were created by the regulator of the day, the former Ontario Hydro, recognized that the load profiles of the sub-groups were significantly different from the load profile of the remaining customers in their rate classifications. As the PWU understands it, Ontario Hydro developed the distributors' rates using the average Municipal Electricity Utility Cost Allocation Model developed in the 1980's. Formation of new rate classifications would have required construction of a new rate model based on updated load information. The formation of sub-classes by Ontario Hydro to address the differences in load profile of the sub-groups therefore, would have been a default rather than a preferred option to establishing new rate classes until such time when the model would have been reviewed. Given the up to date LDC specific cost allocation information that the LDCs have prepared for the purpose of the Board's information filings it would seem that the Board has an ideal opportunity to establish the existing sub-classes as rate classes on the basis of each LDC's specific cost allocation information filings and to correct any existing cross-subsidization related to the sub-classes. Should manipulation of the cost allocations filings be required to establish the new classes, the manipulations presumably would not require nearly the same LDC effort that was required in putting the cost allocation informational filings together in the first place.

Where there is a proper basis for establishing the existing sub-classes as new rate classes, the Board should be prepared to deal with any resulting rate impacts. Rate impact should not be the reason for not correcting existing cross-subsidization and can be addressed through the phasing-in of the rate adjustment.

## 5. RATE DESIGN

### ***What are the principles that should inform the decision on fixed and/or variable rates?***

The PWU agrees with the facts pointed out in the paragraph preceding the above question on page 23 of the Discussion Paper:

*Distributors point out that relatively few of their operating costs are truly variable on a year over year basis, and that variable rates increase their business risk. Variable rates also make distributors more adverse to conservation efforts, since all other things being equal, any actions taken reduced their revenue. The regulator may introduce mechanisms such as the LRAM to address this. The higher the fixed portion of the rate, the more stable the revenue and the lower the need for an LRAM.*

As noted in the May 18 1999 OEB Distribution Rates Task Force Report (page 18, paragraph 4) "... once a system is built and a service is connected there is a level of sunk costs that should be recovered regardless of the customer's energy usage". This is the premise that the PWU supports in reviewing the electricity distribution rate design.

The PWU believes that the principle that requires rates to be effective and the PWU's principle that requires rates to provide incentive for system investment should inform the decision on fixed and/or variable rates.

If the rates are not effective in recovering the utility's revenue requirement the distributor's financial viability will be negatively impacted and it will not be able to maintain the system in order to ensure on going service quality, reliability and safety. The distributor therefore will not be able to carry out its fundamental responsibility at the performance level expected by their customers.

Similarly, if the rates do not provide incentive for system investment, on going service quality, reliability and safety would be compromised and customers would not receive the service performance that they expect and pay for in their rates.

In addition to commenting on the question posed in this section, we would note that the rate design options listed in the Discussion Paper includes the option of a fixed monthly service rate to recover customer-related costs and a variable rate to collect the remaining allocated revenue requirement. The Discussion Paper then notes that the informational cost allocation filings demonstrate that customer-related costs in the first option can be defined and calculated in three different ways: avoided (i.e. incremental) customer costs; directly related customer costs; or a minimum system approach with peak load carrying capacity. This design for a fixed monthly service charge appears to differ from the current rate design in that the current variable rate is designed to recover the Incremental Distribution Cost ("IDC") while the fixed monthly service charge collects the remaining allocated revenue requirement. In the section on initial unbundled rates, the November 3, 2000 version of the Electricity Distribution Handbook (Page 4-14, Paragraph 3) states that:

*... The distribution volumetric kWh rate is designed to recover the IDC set at \$0.0062/kWh.*

It would appear therefore that the current rates were intended to provide more revenue certainty for the LDCs than the two-part rate design listed as an option in the Discussion Paper.

## **6. Billing Determinants**

### ***Should the billing determinants be consistent for all customer classifications?***

The billing determinants should not be made consistent between customer classes for the sole purpose of consistency. What needs to be consistent is the application of the principles that should inform the decision on billing determinant for each rate class. In the PWU's view, these rate principles would be the drivers that ensure effectiveness in recovering revenue requirement and the PWU's recommended principle that ensures incentive for system investment.

### ***What are the most appropriate billing determinants for each customer classification?***

Given that there are few distribution costs that are "truly variable", the number of customers (or number of accounts) is the most appropriate billing determinant, especially for the Residential class and General Service < 50 kW where rates provide for the basic service that meets the needs of most of these customers, and where customers pay outside of rates for upgrades that they require beyond the basic service standard. Even in a multi-part rate structure the most important billing determinant is number of customers for all rate classes. To this extent the most appropriate billing determinant for



the rate component that recovers the predominant portion of the revenue requirement for a class should be number of customers (or number of accounts).

For General Service customers > 50 kW and Large Use customers there can be significant differences in demand between customers in a class. For these classes then, along with number of customers, demand (or kVA) established through contract, is an appropriate billing demand.

Number of customers (or number of accounts) as a billing determinant, is consistent with the rate principle that requires Effectiveness and addresses the PWU's recommended rate principle that requires investment incentives.

## **7. Cost Model for Generation**

### ***Should the Board pursue an analysis of use-of-system rates for distributed generation to investigate rates and determinants?***

The PWU submits that it is essential that the Board pursue an analysis of use-of-system rates for distributed generation to investigate rates and determinants. The cost of serving distributed generators should be identified so that appropriate distribution rates can be developed for distributed generators. Given that the cost of electricity is collected on a province-wide basis, it is appropriate that the distributed generators cover their distribution costs through appropriate rates. Having the customers of an LDC that has distributed generation pay for the distributed generator's distribution costs would constitute a subsidy of the cost of electricity for the remaining customers in the province. It would also not be consistent with the principle of fairness which requires avoidance of cross subsidies by following the principle of cost causality.

In keeping with the principle of fairness and avoiding cross subsidies, the PWU supports the review of the cost of providing standby distribution service and agrees with the Discussion Paper's premise that with "some additional analysis, the results of the cost allocation studies could be used as a starting point to review the cost of providing standby distribution service to a load customer with LDG [Load Displacement Generation] and potentially form the basis on which to design a standby rate". We also agree that there are savings and costs related to LDG service that may not have been identified in the cost allocation study that would need to be taken into account in designing the standby rates.

## **8. Consistency of the Rate Design**

### ***How important is consistency of the rate design model across the province?***

Consistency of rate design across the province is desirable from the customer's perspective in that it makes comparison of rates between service areas easier for customers that are factoring in the cost of electricity distribution when making decisions on locating or relocating premises.

A common rate design model was the intent in the introduction of current rates design. However, addressing rate impact resulted in substantial differences between the LDCs in the proportions of revenue recovered through the rate components (i.e. residential fixed service charge versus the kWh variable rate). Therefore, while the residential variable rate was designed to be at the IDC level of \$0.0062/kWh, some LDCs ended up with substantially higher variable rates than intended by rate design. The differences in the rate impact between the LDCs of moving from the pre-unbundled declining block rate structure to the post-unbundled two-part rate structure (fixed monthly charge plus variable rate) was in part related to the differences in the LDCs rate differentials between the two rate blocks. Further there was the general rate impact related to the revenue increase associated with the move to a market based rate of return ("MBRR") from rate of return levels that varied from 0% to levels close to the Board's approved rate of return levels.

If the outcome of this rate design review is a decision to implement the original rate design intended for the current rates, moving the rates towards the original design should be less onerous than it was at the time of unbundling because the phase-in of the MBRR has been completed. In this case, the Board should consider updating the average IDC for use as a default value to the LDC's specific IDC value.

In implementing consistency in distribution rate design model across the province, the Board will need to be cognizant of the rate impact of doing so. Having made the decision to move to a consistent rate design model, the Board should then follow through with the phasing in of the model so that the distribution rates do not once again end up appearing arbitrary and absent of a basis in rate design.

## **9. Rate Harmonization**

### ***Is one single rate order (or a few regional rate orders) to be used by all distributors a desirable outcome?***

Pooling of rates creates significant complexities in addressing the annual adjustments to the revenue requirement for numerous LDCs whose revenue adjustment timelines are out of phase. In addition, as the Discussion Paper indicates “the collection and true-up of funds would be much more complex than what the Electricity System Operator accomplishes for the transmission companies”.

While there are minimum service quality and reliability standards in place for the LDCs, their service quality, reliability and safety performance are not necessarily at similar levels. Assuming there is a cost impact related to the differences in service performance between the LDCs then, there will be cross-subsidization related to these cost differentials. Pressure on the LDCs to reduce these cost differentials under a single rate order scenario (or a few regional rate orders), could lead to the decline of service performance to the minimum guideline levels. The Board’s existing service quality and reliability are not benchmark standards, but rather are the minimum acceptable levels. A province-wide decline of service quality and reliability to the minimum acceptable performance levels would be inconsistent with the Board’s legislated responsibility of protecting the interest of the consumers with respect to reliability and quality of service. Nor is it consistent with the protection of the interest of the consumers with regard to system safety.

In the PWU’s opinion therefore, a single rate order, or a few regional rate orders, to be used by all distributors is not a desirable outcome. The use of a single rate order, or a few regional rate orders, may be a disincentive to system investments and in addition may result in unreasonable cross subsidies between service territories and would not be consistent with the principle that requires rates to be fair.

The Discussion Paper points out that rates based on individual utility revenue requirement can result in large differentials between the rates charged by LDCs in close geographic proximity. Differences in service standards/performance and asset condition should not be overlooked by the Board in considering the differences between rates/bills charged by LDCs in close proximity.

## **10. “Designer power”**

### ***Should distributors offer various levels of service?***

The PWU believes that beyond a minimum fundamental standard of service provided by all LDCs in distribution rates that covers all the LDCs responsibilities set out in legislation and regulation (e.g.

Distribution System Code) there can be varying levels of distribution service that relate to local LDC policy. The varying levels of service that result from differences in individual LDCs' policy presumably provides the level of service that meets the needs and expectations of a LDC's customers, and therefore is appropriate for the LDC.

***Should distributors be able to buy (offer credit for) services from customers?***

With regard to the question of whether a distributor ought to be able to buy (offer credit for) services from customers (e.g. voltage support or counter flow from distributed generation that might reduce capacity constraints from distributed generators), the PWU believes that this issue should be reviewed on a whole system basis before discussions in a review on distribution rate design.

## **11. Marginal Cost**

***Should the Board investigate a rate design model based on long run marginal costs?***

The rate design for the current residential variable rate is in part based on the average IDC. Therefore, the use of long run marginal costs in the rate design model is not a new approach for the LDCs. However, the IDC of \$0.0062 kWh, not only is an average value for the distributors, it is also an old value that goes back to the 1980's. As suggested earlier in our comments, if this review results in keeping the current rate design then, in addition to giving the distributors the option of developing their own IDC, the Board might consider developing an average IDC that could be used as a default value.

## **12. Locational Pricing**

***Should the Board investigate locational rates for any customers connected to the distribution system?***

The PWU agrees with the Discussion Paper's concern of complexity and tariff stability related to locational rates. Another concern is the rate impact of moving to locational rates, which can be expected to be significant. There is also the issue of fairness related to existing customers not having taken into account the cost of electricity in making decisions on location under postage stamp rates.

### 13. Impact of Simplified Bill

***Given the simplified bill, can a conservation and/or demand management effect be achieved through the distribution rate design?***

Given the simplified bill that has distribution rates grouped with transmission charges and appears as a single line item, it is not possible to achieve conservation and/or demand management ("CDM") effect through the distribution rate design.

The Discussion Paper notes that Ontario Hydro had bulk time of use rates that were largely based on generation costs and was intended to affect capacity on the system. The Discussion Paper also points out that commodity is now priced separately from distribution. The Discussion Paper goes on to state that therefore rate commodity classifications do not need to be the same as the distribution classifications. Extending this premise to the question on achieving a CDM effect through the distribution rate design, the answer may be that it is not appropriate to use distribution rate design to achieve commodity CDM objectives.