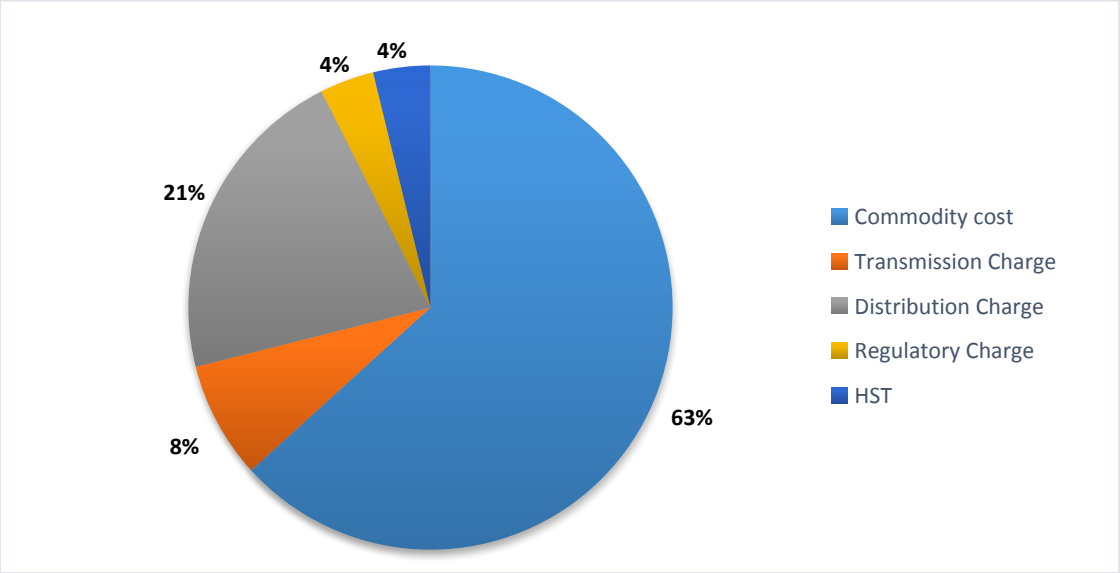
ATTENTION: PREMIER'S OFFICE

The EDA is pleased to present recommendations on potential savings in the distribution sector. Working with our members and our Board, we have identified three areas where government could make changes immediately, which would result in savings of over $290 million a year for ratepayers in the Province:

- Transferring funding responsibility of the RRRP
- Removing the Smart Metering Charge
- Regulatory Streamlining

INTRODUCTIONS

The distribution portion of the electricity bill (delivery) is approximately 20 per cent for the average residential customer bill in Ontario (assuming 750 kWh monthly consumption):



For businesses it is between 5 and 15 per cent.

The delivery charge currently includes the following:

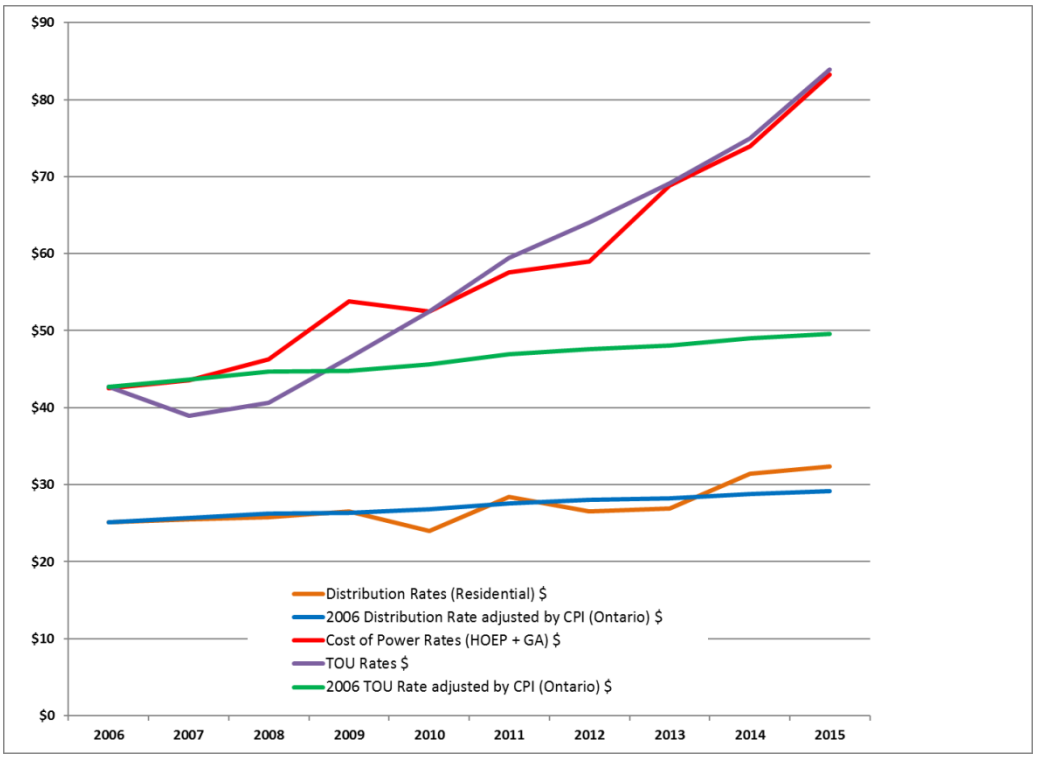
- Customer Service Charge – A fixed monthly charge intended to allow the LDC to recover its costs associated with such activities as billing, customer service and account maintenance and general LDC operations.
- Distribution Charge – A variable kWh change intended to allow the LDC to recover the cost of building and maintaining its low voltage distribution system, including wires, poles and transformer stations.
- Transmission Charge – A provincial variable kWh charge intended to allow the LDC to recover the charges it pays towards the O&M of the high voltage transmission system.
- Smart Meter Entity Charge – A provincial fixed charge for the IESO to recover the cost of developing and implementing the provincial Meter Data Management Repository (MDM/R) and its information technology to collect and process data from smart meters.

- Line Loss Adjustment – The LDC adjusts customer's consumption to account for line losses, using an adjustment factor that is OEB approved. This is a relatively recent addition to the delivery charge.

Before detailing potential savings in the distribution sector, it is important to note that over the last 10 years, the distribution component of the bill has increased marginally, or for some LDCs remained static. In contrast, other charges, namely generation, have increased significantly. While investments were necessary to meet growing provincial demand, generation remains the largest part of the electricity bill.

In contrast to generation, distribution costs for almost all LDCs (excluding Hydro One) have largely stayed in line with CPI. Below is an illustrative example from one of our medium-sized members:

TOU Rates vs. CPI Adjusted Rates for 2006-2015 (Medium-Sized LDC):



This clearly illustrates that distribution costs are not the primary cause of increased electricity rates. Nonetheless, LDCs recognize that we are all in this together and everyone can play a role in finding ways to reduce electricity costs for customers.

For review and consideration, the following is a list of potential savings that have been developed and approved by our Board. We believe that these options, if implemented, would results in actual, meaningful savings for customers in Ontario.

1. REMOTE OR RURAL RATE PROTECTION (RRRP)

In the Throne Speech, the Government increased the amount eligible rural ratepayers would receive through the Remote or Rural Rate Protection (RRRP) program. The total amount of rate protection available for eligible consumers each year would increase from a maximum of $127 million to a maximum of $237 million.

According to the Ontario Energy Board's (OEB) 2016 rate order on RRRP, all customers, including those who are RRRP eligible, are charged $0.0013 per KWh on their monthly consumption. The RRRP is recovered through the Wholesale Market Service Charge which is paid by all customers. The collected funds are transferred to the IESO who transfers it directly to Hydro One and other LDCs whose customers are eligible for this rate protection. The credit appears directly on those eligible customers' bills.

The Ministry of Energy indicates that there are approximately 330,000 customers who receive RRRP assistance (primarily Hydro One customers). According to the OEB, in 2016, total RRRP to be paid will be $175.5 million. As mentioned in 2016, the monthly RRRP charge for each customer is $0.0013 per kilowatt-hour based on an IESO demand forecast of 135.7 TWh.

Assuming the average Ontario household uses 750 Kwh/month, the monthly contribution per household towards the RRRP is $0.975 ($11.70 annually). The Ministry of Energy confirmed that the average monthly bill will increase about $0.60/month when the RRRP is enhanced, which represents approximately a 61.5% increase. Therefore, the average monthly RRRP charge for each customer in 2017 would be $0.0021 based on a similar demand forecast.

Using the Ministry of Energy figures and adding an approximate $0.60 increase, in 2017 the monthly RRRP charge will be $1.58 (or $18.96 annually).

The cost per household with these changes can be summarized as:

	Current RRRP	Increased RRRP	Difference:
Cost per customer	$0.975/month ($11.70/year)	$1.58/month ($18.96/year)	Over 60 % increase

To be clear, we are not advocating that the RRRP be eliminated as a program. Rather, we are recommending that the government change the funding mechanism to take pressure off the ratepayer and to transfer the RRRP funding to the tax base, through which the government funds other social policy initiatives.

In fact, there is already a similar energy program focused on assisting residents in Northern Ontario, specifically the Northern Ontario Energy Credit (NOEC) which helps Northern Ontario residents with the higher energy costs they face living in the north. The credit is part of the Ontario Trillium Benefit, and is provided through the tax base.

The government should have a consistent approach to providing electricity relief for customers who face unique challenges. The government should deliver RRRP through the tax base, consistent with the delivery of NOEC, which would result in savings for the average ratepayer of approximately **$1.58 per month** or **up to $237 million in total annual savings for all ratepayers in the Province (as per maximum cap in regulation).**

Furthermore, it is our recommendation that government re-examine the program to ensure it is performing effectively in helping those who truly are in need of rate assistance and to focus on the root causes that are resulting in those customers in the Province struggling with their electricity bills. By doing this the government will not only provide better assistance for those in need but as well as help with rate mitigation for all customers.

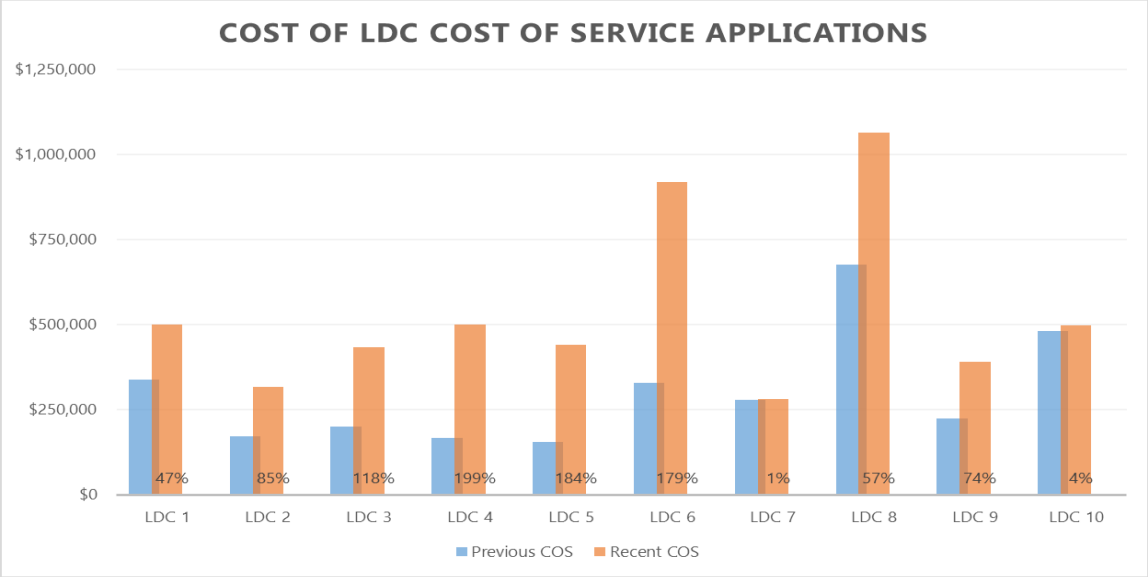
2. REGULATORY STREAMLINING

Over the last 10 years, LDCs have accommodated significant increases in regulatory requirements. LDCs have also had to set aside business priorities to work on dozens of CIS changes as a result of government or regulatory policy (e.g. OCEB, DRC, Monthly bills, EV).

While there have been attempts to streamline the regulatory process, most recently through the Renewed Regulatory Framework for Electricity, LDCs have not seen evidence of a more efficient process. Instead, LDCs have seen significant increases in the cost and resources associated with rate applications, specifically the Cost of Service (COS) application process.

Cost of Regulatory Requirements

We canvassed members to provide figures on how the cost of their most recent COS application compared to the previous one. The below chart illustrates the experience of 10 LDCs, ranging in size from small to large:



Most LDCs have seen a substantial increase in the amount of money spent to prepare, participate, and conclude this regulatory process. According to our members it is expected that this trend will continue.

The increased costs are for such items as reports from consultants, legal fees, intervenor costs, surveys, increased customer engagement, etc. Consultant costs include expert advice as well as preparation of Distribution System Planning (DSP) and lead lag studies. In addition, LDCs have had to hire additional staff to meet new OEB requirements such as enhanced community engagement.

In one of the cases illustrated, the OEB required an oral hearing for the previous COS application but not the most recent application and yet their regulatory costs were still higher. Apparently the settlement agreement took longer because the OEB's staff and intervenors argued and debated at length over the regulatory interpretation of the words "confidential" versus "privileged".

However, there are ways to reduce the regulatory burden for our LDC members without compromising customer service and will result in reduced costs for the ratepayer.

Reducing Regulatory Burden

The following are recommendations in which the regulatory burden for LDCs can be reduced:

- OEB scrutinizes all aspects of the costs of delivery, but does not consider the increasing costs of preparing and defending regulatory submissions (e.g. intervenor costs). OEB should be directed to review those costs closely.
- No paper copies of regulatory filings; OEB should adopt the government's digital strategy.
- OEB should review regulations with a view to modernization.
- The filing guidelines need to be revisited and simplified in order to make the Applications customer friendly (customers cannot follow the details and length of Applications).
- Government should take into consideration the cost and impact of CIS updates when determining time frames for the implementation of government policy.
- OEB directions and decisions and issuance of guidelines and bulletins should provide a cost/benefit analysis to explain the benefit to customers and distributors.
- Year over year, new requirements have been placed on LDCs increasing costs to consumers. The government should expand the Ministry of Economic Development, Trade, and Employment's Burden Reduction Strategy to consider the regulatory requirements placed on distributors and recommend a strategy to streamline such requirements.

Based on our estimates of member regulatory costs associated with COS applications, the average ratepayer is paying almost $1.20/month. If the government were to direct the OEB to streamline the process by incorporating the suggestions identified above, to reduce regulatory costs by a third, it could result in a savings for the average ratepayer of approximately **$0.40 per month** or **in total $34.2 million in annual savings for all ratepayers.**

3. SMART METERING CHARGE

Currently each Residential and General Service <50kW customer pays approximately $0.80 per month in what is called a "Smart Metering Charge" on their electricity bill which funds the expenses to date and ongoing maintenance of the MDM/R. In discussion with the IESO, it is our understanding that they are seeking ways to explore expanding the MDM/R beyond its original functionalities. The recent OEB decision granting a 5-year extension of its license speaks to finding ways to "unlock further value" in the MDM/R. Our members are adamant that unlocking further value of LDC customer data can be done

more efficiently, effectively, and most importantly less costly to the ratepayer if that responsibility were transferred to LDCs.

The information presented below is based on LDC experience and current Green Button infrastructure.

- The MDM/R is unnecessarily complex for billing purposes requiring synchronization back to a LDC's CIS and requires duplication/ transmission of daily residential customer's interval data to a central repository.
- Currently LDCs undertake C&I customer billing without the MDM/R and that experience could be leveraged for residential customers as well.
- LDCs have either an in-house Operational Data Store (ODS) system or rely on a 3rd party ODS provider (such as Savage Data Systems, Utilismart) for operational purposes and that could now be extended for residential billing without a requirement for the MDM/R.
- The Green Button open standard exchange platform (multi-vendor) can provide province wide reporting, data aggregation, analytics, scaling for near real time data, and supporting both residential and C&I customers as an alternative to expanding the MDM/R.

Based on member analysis there could be a potential savings of **$0.57 per month** ($24 million in total annual savings) for the average residential and general service (<50kW) customer by enabling LDCs across Ontario to perform the same (and additional) functions as the MDM/R but at a lower cost (approximately $0.23 per month) either on their own or in collaboration with other LDCs. The LDC sector is willing to work with government to ensure its policy objectives are still achieved with this transfer of responsibility.

4. OTHER POTENTIAL FURTHER SAVINGS

In addition to the potential identified savings above, there are two other opportunities that Government could take advantage of which would result in further savings for the electricity ratepayer.

<u>Expanding Conservation</u>

Scope of Conservation:

There is more and more demand on LDCs to be innovative in their daily operations, including designing and delivering conservation programs. However, based on the current definition of conservation as defined by the Minister of Energy's 2014 Directive to the IESO/OPA, many of these innovative programs are not being pursued to such a degree where all customers could benefit. Such programs may be measures that an LDC can implement within their own systems to benefit the grid while reducing consumption or initiatives that allow customers to generate and store their own electricity, thus taking pressure off the grid.

Programs such as conservation voltage reduction (CVR) and line loss reductions at the distribution level can not only reduce peak demand pressures off of the grid, but also increase grid reliability and efficiency and improve power quality for the customer. A measure like CVR has proven to save 4-6% of energy usage and could potentially reduce energy consumption in the province to levels equivalent to the LDCs' annual conservation targets under the Conservation First Framework. Measures at the

distribution level can also defer capital investments by LDCs and by the province. Therefore, we strongly recommend that the Minister of Energy provide direction to revise the definition of conservation to include programs and measures at the distribution level which would result in additional savings for the ratepayer.

Residential Conservation Programs:

Conservation has contributed to the overall reduction of the consumer's average electricity usage. Since late 2009, the OEB has defined the typical residential customer as a household that consumed 800 kWh of electricity per month. Prior to that, the OEB standard was 1,000 kWh per month. A recent review indicates that average residential consumption has declined significantly since the standard was last established. As a result, the OEB recently determined that the standard used should now be 750 kWh per month.

By expanding residential conservation programs, Ontario could aim to further reduce the typical residential household consumption to 700 kWh/month (7% reduction on their electricity consumption) and this could potentially save customers significantly on their monthly bills. These types of savings are measurable and can tangibly contribute to mitigating residential electricity bills. LDC's have the resources, structure, and experience to implement something on this scale. IESO and the OEB would need to work closely with LDCs to implement additional conservation programs.

<u>Elimination of all Electricity Retailers</u>

Much has been done to curtail customers signing on with electricity retailers. We encourage the government to continue on the path towards total elimination of all electricity retailers which are adding unnecessary additional costs to those customers trapped in those contracts. Our Power to Deliver Paper (2012) had highlighted the costs associated with retailer contracts, with customers paying as much as 35 to 65 percent more than customers who are with the LDCs.

We acknowledge that since the review of the 2010 Energy Consumer Protection Act by the OEB in 2013-14, various changes have been implemented to make retailer contracts more transparent and to allow customers to cancel contracts more easily. LDCs have anecdotally informed us that there has been lower uptake of retailer contracts and many customers are now returning to standard supply for electricity costs. While we see this as a move in the positive direction, our policy remains that electricity retailers should be completely eliminated from the electricity market to maximize the amount of savings the industry and the province would see.

Business groups have told us that a significant amount of small businesses continue to be under retailer contracts. We estimate the potential annual savings of phasing out these remaining retailer contracts to be up to $80 million. Therefore, we recommend that the government move to disallow further retailer contracts and phase out existing retailer contracts. Electricity retailer contracts should only be allowed for large commercial and industrial consumers where the value proposition can be clearly demonstrated.

CONCLUSION & SUMMARY

We appreciate the opportunity to present potential options for consideration by Government to find further savings for Ontario electricity ratepayers. The identified options above will provide meaningful, actual savings to the average ratepayer and provide benefits to the electricity system.

Managing electricity costs for consumers is a role we all must play and it is our belief that the options presented will help mitigate higher electricity rates for Ontario's customers.

In summary, we have identified over $290 million in annual savings for Ontario ratepayers that could be implemented immediately without compromising reliability or customer service:

	Monthly Savings for the average customer	Annual Savings for all ratepayers
Transferring funding responsibility of the RRRP to the tax base	$1.58	$237 million
Removing the Smart Metering Charge	$0.57	$34.2 million
Regulatory Streamlining	$0.40	$24 million
TOTAL	**$2.55**	**$295.2 million**