<u>**Program Outline: Customer-Specific Distribution Support**</u>

Proposal:

- Cap the amount an LDC can bill consumers for distribution service at a to-be-determined reasonable cost, with distribution costs that exceed this cap covered by support from the fiscal plan.
    - This indicative example uses $42.26 as the base cap amount. This represents a Toronto Hydro customer's distribution cost at 1000kWh/month (2016 rates). The appropriate cap could be refined through further analysis of the spread of consumption patterns.
    - Under this proposal, Rural or Remote Rate Protection (RRRP) remains on the rate base to address the specific low density-driven costs of Hydro One R2 and other eligible customers.

Mechanics:

<u>Previous Proposal – "LDC-eligible"</u>

- RRRP can be considered as an "LDC eligible" program. LDCs that meet density criteria as prescribed by Regulation can offer support to all customers in the eligible class.
    - As of January 1, 2017, Hydro One offers $60.50/month to all R2 customers, regardless of their actual distribution charge as determined by their personal consumption.
- Extending RRRP to LDCs with the next highest distribution rates creates challenges. In addition to perceived inequities or arbitrariness (as LDC eligibility would not be determined by density or any factor beyond high cost), such a program may not capture all targeted consumers:
    - A low-volume consumer of an LDC with a typical distribution charge above the cap would receive a benefit despite having a relatively low distribution bill.
        - Ex: InnPower's (serving Innisfil) distribution charges at 1000kWh are $3.19 <u>above</u> the proposed cap level. An InnPower customer consuming 600kWh would have a distribution bill of $38.41 ($3.85 below the cap) but would still be eligible for the $3.19 benefit, reducing their distribution bill to $35.22
    - A high-volume customer of an LDC with a typical distribution charge <u>below</u> the cap would not receive a benefit despite having a relatively high distribution bill.
        - Ex: Westario Power's distribution charges at 1000kWh are $6.57 below the proposed cap level. A Westario Power customer consuming 3000kWh would have a distribution bill of $72.49 ($30.23 above the cap level) and would not be eligible for any benefit.

Revised Proposal – "Customer-Specific"

- Creating a "customer-specific" program could address this consequence. Tax-based support could be provided to any customer across Ontario whose distribution charges appear above this cap.
  - Instead of some LDCs providing support to all their customers, all LDCs would provide support to some of their customers.
  - This program would affect the example customers above as follows:
    - The InnPower customer at 600kWh would receive no benefit. Distribution charges would remain at $38.41.
    - The Westario Power customer at 3000kWh would receive a benefit of $30.23, reducing their distribution charge from $72.49 to $42.26.

Considerations:

- LDCs would track credit variances in a variance account and settle amounts with the IESO, which receives taxpayer funding from ENERGY/MoF in the same manner as the 8% rebate happens today.
- Fiscal projections are unavailable at this time due to difficulty in projecting the number of customers within each LDC that would exceed the cap. Fiscal projections will have a degree of uncertainty as consumer behaviour is difficult to predict and will ultimately determine costs. More analysis is required.
- New legislation would be required to establish this program. Legal and regulatory risks (particularly with regards to the Ontario Energy Board's role in setting rates and incenting efficiencies) require further analysis.
- This program structure could be temporary until the completion of the OEB-mandated move to completely fixed costs, scheduled for 2019 (2020-2022 for Hydro One), as there would no longer be distribution cost variance between customers of the same LDC.
  - A review period could be built into program design that could result in the program moving back an "LDC eligible" structure, which would improve fiscal cost projections.

Background – Distribution Rate Structure:

- Electricity distributors apply to the OEB to determine which costs they can pass on to their customers through rates. The OEB reviews each rate application independently in a public process and approves the rates each distributor can charge.
- LDC rates are split into two portions: a fixed amount per month (often referred to as the Service Charge) and a variable amount (the Distribution Volumetric Charge). Many LDC costs relate to maintaining distribution system infrastructure regardless of the level of use, and thus the fixed credit provides LDCs with some cost certainty.

- The ratio between fixed and variable charges can vary based on the OEB's assessment of the nature of LDC costs.
    - Ex: Both Bluewater Power (serving Sarnia) and Canadian Niagara Power (CNP) have average distribution charges (750kWh) of ~$33/month. However CNP's fixed charge is $4 higher than Bluewater Power's.
    - Consumers with below average consumption would pay more as a CNP customer than they would as a Bluewater Power customer. Vice Versa for consumers above the average.
- The OEB has determined to move LDCs to fully fixed charges for residential consumers in greater recognition of the fixed nature of distribution costs. As LDCs provide conservation programs, moving to fixed rates eliminates the inverse incentive for LDCs to reduce their own revenue stream.
    - The OEB is phasing in this transition to 2019 (2020-2022 for Hydro One). This is done to prevent a substantial single-year increase in distribution costs to low volume consumers.