

FIXING DISTRIBUTION RATES

RATE REDESIGN BACKGROUNDER

On April 2, 2015, the Ontario Energy Board (OEB) issued a new rate design policy that will change the way local distributors bill their residential customers. Distribution charges, currently a blend of fixed and variable (per kilowatt-hour) rates will be an entirely fixed monthly service charge by 2019. Fair billing, grid innovation and enabling customer uptake of new technologies are among the OEB's objectives for this change. Customers will also benefit with a better understanding of the service they receive and the right bill signals will assist them with conservation decisions.

Bill Impacts

- Most customers, close to 60%, won't see a significant change in the price of their bill
- About 20% will see a **decrease** of more than \$5 per month
- Roughly the same number will see their bills **rise** more than \$5 monthly.
- These changes are revenue neutral for utilities, meaning the distributor will not be collecting additional, or less, revenue.
- Residential customers who use a lot of electricity and those that use very little, will see the most change.
- Customers who have cost-intensive electric heat, many of whom are low income, stand to gain from this change.

Table 1: Example of customer bill impacts by electricity use:

Monthly Residential Consumption(kWh)	600	800	1500
(1) \$/month	\$3.17	-\$0.067	-\$11.40
(2) \$/month	\$2.41	-\$0.008	-\$8.47

(1) Difference in fully fixed distribution charge and current distribution charge assuming **no implementation strategy**, in \$/month

(2) Difference in fully fixed distribution charge and current distribution charge under the OEB's approved **four year implementation strategy**, in \$/month

All numbers are averaged across all distributors and demonstrate what a typical customer at each of the given consumption levels could potentially pay per month. For the first row, a 600kWh/month customer on average will see a \$3.17 increase in their electricity bill and a 1500kWh/month customer will see on average an \$11.40 reduction on their bill.

Fairness

The introduction of fully fixed distribution charges will lead to greater fairness for residential customers who share a distribution system.

Currently, the Delivery line on the bill includes, among other things, fixed and variable charges for distribution services paid to your local electric utility.

Depending on where a customer lives, distribution costs make up 20-30% of the total bill and the money is used to pay for the cost of poles, wires, transformer stations, trucks and customer services systems. These are assets with a fixed cost to purchase, install and maintain. Therefore, the cost of the distribution system is largely not affected by the amount of power flowing through it. All the customers on a given street regardless of the quantity of electricity they consume need that equipment equally to receive electricity service.

Up until now, customers who use more power have been paying a much larger share of the costs to maintain the system and conversely, customers who use less have been paying too little. A fixed monthly service charge ensures that all customers pay an equal share of fixed equipment costs.

Conservation First Remains a Priority

Conservation First continues to be a cornerstone of the government's energy policy and that message is strongly and accurately delivered through the price signals on the Electricity line item on the bill.

It is the Electricity line that makes up approximately 50% of the residential customer bill and signals customers on the cost of power production. This is the line that collects charges for the electricity commodity which varies with market forces like supply and demand. Here customers are more appropriately charged a variable rate.

Customers can focus their conservation efforts on this portion of their bill. Shifting use with the time-of-use structure to cheaper time periods will give customers greater and more meaningful control over their costs.

Conversely, distributors must maintain their systems. With or without conservation, customers still use and depend on a reliable grid and must ultimately pay for the service.

Since conservation targets are set and mandated, distributors will continue to promote and deliver conservation programs to help their customers manage electricity costs. And, through revenue stability they will be freed up to ready their grids for new and renewable technologies to be added into their territories.

Removing Obstacles to Innovation

With this policy, the OEB is enabling innovations like small scale renewables, customer self-generation and energy storage. Currently, in some communities these installations are held up because they put distribution revenues, and therefore the local grid, at-risk.

As the price of small scale renewable generation drops, more customers will be able to generate all the power they need and sell some back onto the grid. In this scenario, variable bill charges will erode distributor revenues leaving them underfunded and unable to properly service their equipment.

A fixed rate gives financial stability to local utilities for the proper design, build and management of their equipment and ensures that the customer who is self-generating and depends equally on a reliable local electricity system, is sharing the cost of the service.

Benefits Summary

Benefits to Consumers:

- The rate change will focus conservation on the most appropriate portion of the bill, the Electricity line and customers will continue to receive strong conservation signals.
- Residential customers will be able to leverage new technologies emerging in the market.
- Most customers will not see a significant change in their bill. A phased-in implementation schedule over 4 years will smooth rate impacts.
- Customers who have cost-intensive electric heat, many of whom are low-income, stand to gain from this change.
- For now, the bill will look the same but will more accurately reflect the true cost of power delivery and production.
- This will not change how much money a distributor collects, only how they collect it.

Benefits to Utilities:

- Distributors will be able to ready their grids for smart grid and green energy initiatives in a way that sustains their financial stability.
- They will have the financial stability to plan their short- and longer-term budgets and manage a reliable distribution system.
- This change is revenue neutral for local distributors and leads to simpler rates.