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January 9, 2011

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

Re: EB-2010-0364 – Consultation on Regulated Price Plan Time-of-Use Pricing - Comments of the London Property Management Association

I. Introduction

This letter is in response to the Board's December 6, 2010 letter related to the above noted consultation inviting written comments from all interested parties on the analysis set out in the Brattle Group's report, as well as on the issues listed in Appendix A and any other discussed at the stakeholder meeting that took place on December 21, 2010. Two paper copies have been provided to the Board and an electronic version has been filed through the Board's web portal at www.errr.oeb.gov.on.ca.

On October 18, 2010, the Board announced that it was commencing a consultation on the price setting methodology and structure of time-of-use ("TOU") prices under the Regulated Price Plan ("RPP"). This initiative was identified as part of the Board's 2010-2013 Business Plan issued in April 2010. The stated intention of the review is to ensure that the design of TOU prices is fair and meets the objective of ultimately reducing overall power system costs.

The following comments on behalf of the London Property Management Association ("LPMA") are based on a review of the Brattle Group report entitled "Assessing Ontario's Regulated Price Plan: A White Paper" dated December 8, 2010, the Brattle Group

presentation and discussions at the stakeholder meeting of December 21, 2010 and the List of Issues Identified by Board Staff attached as Appendix A to the Board's December 6, 2010 letter.

II. General Comments

The following comments are based on the information provided in the Brattle Group White Paper, and the presentation and discussions that took place at the December 21, 2010 stakeholder meeting.

1. Two Phased Approach

LPMA submits that the Board should consider dividing this consultative process into two phases. The first phase would deal with getting the cost curve right, meaning the allocation of costs would need to be determined. This phase could be initiated immediately.

The second phase would deal with TOU pricing structures that would approximate whatever cost curve that is ultimately arrived at and the review of potential alternatives to the current TOU pricing structure that may be proposed by parties in the future. LPMA submits that this phase should not begin until there is at least some consensus on the cost curve or the allocation of costs and there is sufficient data on the impact of the current TOU pricing structure (see comments below on the timing).

2. Principles for Allocation of Costs and Derivation of a Cost Curve

As noted above, LPMA recommends that the Board initiate a first phase of this process that deals with the principles to be applied to the allocation of costs to derive a generation cost curve. This phase would deal with the calculation and allocation of different types of costs (for example, capacity related costs and costs that are variable in nature). This calculation and allocation may need to be differentiated by type of generation and perhaps even by season. For example, costs related to natural gas peaking plants may be allocated only to peak periods, regardless of how those periods may be defined and regardless of season. On the other hand, costs related to wind and solar generation may

be allocated across different pricing periods which, in turn, may be different depending on season (see comments below).

LPMA believe that the key issue that needs to be determined is what principles should be applied to how the capacity related portion of costs are to be determined for each type of generation. The second part of this key issue is what principles should be applied to how the capacity related costs, and other types of costs, are then allocated to the pricing periods. This will, for the most part, define what the cost curve looks like.

Looking to the future, with the change in the supply mix currently contemplated, changes in the cost curve can be forecast. These projections may reflect a widening or narrowing of the ratio between peak and off-peak costs. They may reflecting whether three pricing periods are sufficient or whether more or less are desirable. They may provide insight into whether the current summer and winter seasonal structures are sufficient, insufficient, or not required.

When this phase is completed, or substantially completed, and when sufficient data has accumulated, the Board and other parties can move on the analyzing the impact of the current TOU pricing structure and devising alternatives that may better reflect the cost curve or the expected cost curve.

3. Allocation of Wind/Solar to the Peak Period

One of the issues raised was the allocation of costs associated with wind/solar generation to the peak period. LPMA believes it is premature to determine that wind and/or solar generation costs should be allocated to the peak period. With respect to wind, much of this generation occurs in non-peak periods. Questions related to the decomposition of the wind generation costs into capacity related costs and variable costs will need to be determined before these costs can be allocated to any of the pricing periods, regardless of how many such periods there are, or how long they may be.

Similarly, solar generation is not limited to the peak period. In the summer, under the current TOU pricing, some solar generation occurs in the mid-peak periods and even in the off-peak period. In the winter, it could be argued that most of the solar generation actually takes place in the mid-peak period from 11 a.m. to 5 p.m., with smaller amounts generated in the peak periods from 7 a.m. to 11 a.m. and from 5 p.m. to 9 p.m. Again, issues related to the capacity and variable costs will need to be addressed.

4. Shorter Peak Periods

One of the concepts discussed in the Brattle Group report and discussed in the stakeholder meeting was that of a shorter peak period. Most of the discussion of this reduction centered around the summer peak, reducing it from 6 hours to 4 or 5 hours. However, a reduction in the length of the dual peaks in the winter period from 4 hours each to a lower period are also possible. In fact, as noted below, the provincial government has already mandated a reduction in the even winter peak period from 4 hours to 2.

The appeal of a shorter peak period or periods is clear. Customers may be more inclined or have a greater ability to reduce or shift consumption out of a shorter peak period than out of a longer peak period. While conceptually appealing, LPMA notes that this is an untested hypothesis at this time. This is one area that the Board may want to do a pilot study to assess this potential TOU structure change so as to objectively measure the impact. However this may lead to a deviation between the TOU prices charged and the costs incurred in the various price periods. As noted above, LPMA does not believe that this deviation from cost causality would be appropriate.

5. Time and Data Needed

LPMA submits that the Board should not consider significant changes to the TOU pricing structure at this time. The Board has no comprehensive, long-term, province-wide data upon which it can evaluate the impact of the current TOU pricing structure. This information is needed in order to compare the impacts, if any, to changes in the TOU structure that may be contemplated by the Board.

The Board does not know at this point in time if the current TOU structure is achieving its goal, or to what extent the goal is being achieved. Customers cannot be expected to change their consumption patterns overnight (no pun intended). Moreover, any changes made by customers as they react to TOU pricing may not persist beyond an initial reaction to the TOU price shocks. LPMA believes that only after several years (three years minimum) will the Board and other parties be able to analyze and evaluate the impact of TOU rates across the province.

6. Provincial Government Mandated Impacts

LPMA is also concerned with the adverse impact that the provincial government is having on customers and consumption in the long-term.

By announcing that the off-peak rates will start at 7 p.m. rather than 9 p.m. effective May 1, 2011, the government is giving the impression that rates will decline from the on-peak prices to the off-peak prices. However, as the Board knows, this is only true for the winter TOU price periods. In the summer, the time change is from the mid-peak to the off-peak period. Moreover, the government has failed to clarify that this change will result in an increase in rates for each of the pricing periods relative to what they would have been in the absence of the change in the time for the start of the off-peak period. The same total cost needs to be recovered. Continued application of the 1:2:3 price ratio with more consumption at the lowest price and less consumption at the mid-peak price. For all customers under the RPP TOU rates in aggregate, there are no savings.
The impact of this change mandated by the provincial government will ultimately result in increasing the overall power system costs since the cost of power generated between 7 p.m. and 9 p.m. is more expensive than power generated in the current off-peak period. The government has artificially eliminated the incentive to delay consumption to a lower cost period.

The 10% reduction in electricity bills announced by the government also sends the wrong signals to customers. Why should they conserve or shift demand when they are getting a

significant cost reduction to do nothing? While overall costs are still expected to increase annually over at least the next five years based on government projections, the lower cost to customers will mute their incentive to conserve and/or shift consumption.

In summary, recent government actions do not appear to support an objective of reducing overall power system costs.

III. List of Issues Identified by Board Staff

The following comments are provided on the specific issues identified by Board Staff in this consultation. As noted above in the General Comments, LPMA believes that is premature to make any changes to the price setting methodology and structure of TOU prices under the RPP.

1. Structural Issues

a) Are the current three price periods still appropriate given changes in Ontario's electricity demand profile and supply mix? What are the advantages/disadvantages of fewer price periods? Are there significant system cost issues associated with changing the number of price periods?

LPMA submits that the current three price periods are still appropriate. To date, LPMA believes that there have not been any significant changes in either Ontario's electricity demand profile or supply mix to suggest that the current three price periods are no longer appropriate. As noted in the General Comments above, LPMA believes that the Board and all stakeholders need much more data that will be accumulated over time of the impact of the current TOU rates. The majority of RPP customers across the province still do not have TOU rates. Where they do currently exist, TOU rates have been in place for a relatively short period of time. It is not clear whether customers subject to these TOU rates under the current structure understand their impact. Neither is it clear at this point in time what the impact on these customers has been with respect to reducing and/or shifting consumption.

LPMA submits that the main advantage of fewer price periods is that it would be easier for customers to understand. Understanding is the first step needed to convince customers to change their consumption patterns. Fewer price periods are also more likely to result in customers shifting consumption, although this is also somewhat dependent on the length of the price periods. Short peak price periods may allow for more shifting of demand to non-peak periods. However, as noted in the General Comments above, this is an untested hypothesis.

The disadvantage of fewer price periods is that the step function that represents TOU pricing will deviate more from the actual energy cost curve. The more price periods, the better the approximation to the cost curve. In other words, depending on the shape of the cost curve, more price periods are likely to better mirror the cost curve than will less price periods.

LPMA is unable to comment on whether or not there would be significant system cost issues associated with changing the number of price periods. However, there could be a significant cost in terms of customer acceptance if the Board were to change the TOU pricing structure, only to change it again at some point in time. Customers value and expect not only stable prices, but also stable pricing structures. In addition to causing increased confusion among customers, there would also likely be ridicule and resentment coming out of a change in the pricing structure after customers become familiar with an existing structure. This is one of the reasons that LPMA recommends no changes to the current TOU pricing structure at this time. The Board will have one, and only one, opportunity to change the pricing structure if it sees benefits in doing so. If the Board tries to "experiment" with different pricing structures, customers will disengage and the Board will have lost its ability to influence the overall power system costs.

b) Is the current seasonal structure appropriate on a go forward basis? Does the change in Ontario's peak demand and the supply mix affect the seasonal nature of TOU? Are there significant system cost issues associated with changing the approach to seasonality?

Until a methodology to allocate costs to different time periods is put in place, there is no way to determine whether the current seasonal structure is appropriate on a go forward basis. Once representative cost curves can be determined based on the principles used to allocate costs, then the Board will need to look at the need for a seasonal structure. It may well be that the current summer/winter seasons may be appropriate. However, it may also be appropriate that there be spring/fall seasons in addition to the summer and winter. If the summer peak costs are driven by air conditioning demand and the winter peak costs are driven by heating demand, then there may well be periods in the spring and fall when both of these drivers are not significant. This would be reflected in the cost curves for those seasons.

Again, LPMA is unable to comment on whether or not there would be significant system cost issues associated with changing the approach to seasonality. However, as noted above, LPMA believes that this is an issue that the Board and the industry in general have one opportunity, and one opportunity only, to change. Any seasonal structure ultimately implemented (or continued) needs to be easy for customers to understand. In this regard, LPMA notes that the current summer pricing structure with a peak surrounded by a mid-peak is, for the most part, understood by most customers as they realize that demand is highest in the middle of the day on hot days. However, the same cannot be said for the winter pricing structure. The two peak periods are not easily understood by customers. They do not understand why the peak and mid-peak periods are reversed from that in the summer. In addition, they are suspicious of a pricing system that can go from peak prices to off-peak prices at the stroke of 9 p.m. and go then go from the lowest rates to the highest at 7 a.m.

c) Given that the Ontario electricity system is summer peaking, would it make sense to adopt a structure which specifically addresses the summer peak. i.e., a summer only super peak or critical peak pricing that operated during predetermined peak hours? What type of costs would be associated with implementing such a system?

The Board needs to determine whether it will continue to promote the recovery of actual energy costs. It then needs to determine how these costs will be determined. Once that it

done, it can then determine whether there needs to be a separate pricing structure in the winter (or spring or fall) to recover those costs in a manner different from the summer peak.

It may make sense to adopt a simplified pricing structure that only addresses the summer peak. A simplified approach would be easier for customers to understand. If it was operational for predetermined peak hours it would be easier for customers to adjust to. To be successful, peak pricing must be understood by customers and those customers must be able to make adjustments to their consumption patterns. The easier this is for customers to do, the more successful the pricing structure will be.

TOU pricing structures should adhere, if at all possible, to the KISS principle. While some believe KISS stands for "Keep It Simple, Stupid!", LPMA believes a better description is "Keep It Simple and Straightforward". Simplicity should be a key goal in the design of the TOU pricing structure.

Costs associated with implementing such a system are likely to be similar to the costs of changing between summer and winter structures. There will always be a need to remind customers of the change between the summer and winter pricing structures and the change in the hours associated with the peak and mid-peak periods. However, there will likely always be a need to remind customers of the summer peaking or super peak or critical peak pricing going into each summer season.

2. Price Setting Methodology

a) The Board has established in the RPP Manual target ratios of 1:2:3, are these targets still appropriate?

LPMA submits that this cannot be determined at this time. In all likelihood, the simple ratios of 1:2:3 are not appropriate, or may not be appropriate in the future. This is because the ratios are artificial. Instead of setting ratios, the Board should set the prices based on the cost curve that needs to be developed. The ratios will fall out of the cost

curve and the number of pricing periods. Moreover, it is likely that the cost curves will change over time, reflecting a different supply mix. In other words, the ratios are likely to change over time. Indeed, this is the goal of the whole TOU pricing structure review. If successful, the peak period costs will be reduced relative to mid-peak and off-peak costs. This will result in a reduction of the peak period price to the mid and off-peak prices.

b) Should the Board increase its focus on the price ratios when setting prices or continue emphasizing RPP supply cost recovery as the primary objective? To achieve the target ratios, should the Board focus on one price, i.e., increase peak prices or decrease off-peak prices?

LPMA believes that the Board should focus on setting prices that reflect costs. This would ensure that the design of TOU prices is fair to all customers.

TOU prices are designed to give customers an incentive to shift their electricity use from on-peak periods when the price of electricity is the highest to off-peak period or mid-peak periods when electricity is relatively cheaper.

The Brattle Group presentation at the December 21, 2010 stakeholder meeting (slide 2) indicated that under non-TOU rates, customers who do not consume much during peak periods pay more than their fair share of costs while those who consume much during peak periods pay less than their fair share. LPMA agrees with this assessment. In essence, the group of high consuming peak customers is being subsidized by the group of low consuming peak customers.

LPMA also agrees with the statement that by reflecting the time-variation in costs, TOU rates eliminate an important unfairness in rate design. TOU rates that reflect the variation in costs helps to ensure that all customers pay a more appropriate rate for energy based on when they consume it.

LPMA believes that the Board should take into consideration the potential impact of an increased focus on setting price ratios rather than reflecting costs when setting prices. If the price ratios were to be the focus going forward, changes in the supply mix could result in prices that vary from the costs if price ratios are the primary focus. This could result in a peak price that is higher than the average cost over the peak period. This would result in customers who consume much during peak periods paying more than their fair share of the costs, thereby subsidizing customers that consume more in the off and mid-peak periods. Similarly, an off-peak period rate that is lower than the actual cost would mean that customers who consume much in off-peak periods are actually being subsidized by customers who consume much in the peak and mid-peak periods. In other words, a focus on ratios rather than costs could result in the replacement of one subsidy with another.

LPMA also notes that in slide 2 of the Brattle Group presentation, it is stated that by lowering rates during the off-peak period and raising them during the peak period, TOU rates provide customers an opportunity to reduce their monthly bills by curtailing consumption during peak periods and/or shifting it to off-peak periods. LPMA submits that this is true, but assuming that customers will be required to pay the actual cost of power, it is also true that if peak rates are artificially high (higher than cost) or artificially low (lower than cost) then these differences will need to made up by adjustments away from cost of the other period prices.

Of course, the Board could set a very high peak period price and a very low off-peak period price such that the overpayment on one hand offsets the underpayment on the other. However, such a mechanism could not be considered to provide TOU prices that are fair. Again, one set of customers would be subsidized by another.

As noted above, LPMA does not believe that the Board should set target ratios. Rather the period prices should track the costs. If the Board does focus on ratios rather than costs, it is submitted that it should not focus on one price. In other words, it should not simply increase the peak price or decrease the off-peak price. To do so would mean that

the mid-peak price (assuming the three periods currently used would remain) would need to be adjusted to ensure that total energy costs are recovered. Increasing the peak price would necessarily result in a decrease in the mid-peak price if the off-peak price is not adjusted. Similarly, decreasing the off-peak price while maintaining the peak price would result in an increase in the mid-peak price. In terms of the target ratios, the 1:2:3 would be become 1:Y:X. The X could be determined by adjusting the peak and/or off-peak price, and then Y would fall out of the need for the prices to recover the costs.

c) What are the advantages or disadvantages of differentiating the recovery of the variance account such that the variance account balances could be used to either enhance price ratios or buffer consumer bill impacts through accelerated or decelerated recovery?

LPMA does not support the manipulation of period prices so that they deviate from cost. The recovery of the amounts in the variance account should mirror the creation of the amounts in the variance accounts. In other words, the recovery of these costs should reflect cost causation.

d) Currently the Board allocates forecast Global Adjustment ("GA") costs to be recovered in the price period, which relates to the portion of the load curve that the GA-eligible contract serves. Should the Board continue this practice? If not, what other method should the Board use to recover forecast GA costs?

LPMA does not see any reason at the present time to deviate from the current practice.

e) Should the Board use the GA cost assignment to enhance the time of use price ratios regardless of "cost causality"?

No. Any manipulation of the GA cost assignment to artificially enhance the time of use price ratios cannot result in TOU prices that are fair to all customers. The only result of such a manipulation would be a Board sanctioned subsidization between customers.

IV. Recommendations

1. Split the consultation into two phases, with the first phase concentrating on the principles that should be applied to the allocation of costs to derive a cost curve. The second phase would then deal with pricing structures that would approximate the cost curve and could be evaluated versus the current TOU pricing methodology.

2. Do not make any changes to the TOU pricing structure (number of pricing periods, price ratios, seasonal structure) until the Board has several years (three or more) of comprehensive province wide data of the impact of the current TOU structure that can be analyzed.

3. Consider a number of province-wide pilot projects after this three year period to test the impact of different pricing structures on consumer behaviour. The Board will have a baseline based upon the current TOU structure against which to evaluate the impacts of more or less pricing periods, more or less seasonal structures, and different price ratios or any other changes that may be proposed.

4. Consider whether a one size fits all approach to TOU pricing is appropriate. Would it be reasonable to have a winter pricing structure similar to that currently in place, but applicable only to northern and/or rural customers and not applying it to southern/urban customers in order to simplify the TOU rates and gain greater customer acceptance? Would it be reasonable to provide customers with the option of selecting from a menu the number of pricing periods in their TOU structure? This would be analogous to customers being able to select a cell phone plan that fits their usage. Multiple plans are available and customers can pick the one that they believe is best for them.

5. In the interim (i.e. until the Board had at least three years of comprehensive province wide TOU data), investigate and review potential methodologies to determine cost curves based on current supply and demand mixes (including different numbers of seasons, etc.) and projecting the expected changes in the supply mix due to the reduction in coal and increase in natural gas, solar and wind generation.

6. Much of the customer confusion and anger related to the current (and, it is suggested, any future) TOU pricing structure is that that regardless of what a customer does to reduce or shift consumption, they believe that they are paying more than under the non-TOU pricing mechanism that they are familiar with. LPMA suggests that there is a simple way to provide customers with information to compare to what they would have paid under the current pricing structure. In addition to showing the electricity cost under TOU pricing, the bill should show what the electricity price would have been under the Tier pricing methodology. This would eliminate customers looking back at their consumption 12 months ago and seeing significant differences that may be the result of the weather, or the overall change in the cost of electricity over that period. Customers would be able to see an apples to apples comparison of what they are paying versus what they would have paid. A line item of the bill could even show the "savings" or the "added costs" as a result of the move to TOU pricing.

Some customers would see that they are saving money, perhaps as a result of changes they have made. As noted in the Brattle Group presentation at the stakeholder meeting (slide 2) studies carried in North America, Europe and Australia have found that about 75% of customers are better off with TOU rates. If this is the case in Ontario, then the majority of the customers would be provided with this information that indicates their costs have been reduced as a result of the TOU rates.

Other customers will see that they are paying more under the new pricing structure. The distributor will be able to readily identify these customers (through the increase in cost) and target these customers with enhanced CDM information on how to reduce/shift their consumption to save money.

Sincerely,

Randy Aiken

Randy Aiken
Aiken & Associates