



PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DEFENSE DE L'INTERET PUBLIC

ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7

Tel: (613) 562-4002. Fax: (613) 562-0007. e-mail: piac@piac.ca. <http://www.piac.ca>

Michael Buonaguro
Counsel for VECC
(416) 767-1666

January 10, 2011

VIA MAIL AND EMAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
26th Floor
2300 Yonge Street
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Consultation on Regulated Price Plan Time-of-Use Pricing
Board File Number: EB-2010-0364
Vulnerable Energy Consumers Coalition Comments

As Counsel to the Vulnerable Energy Consumers Coalition (VECC), I am writing, per the Board's Letter of December 6th to provide VECC's comments with respect to the above consultation. The comments below are provided in two parts where the first part deals with the Brattle Group's Report and the second part with the specific issues raised in Appendix A of the Board's Letter.

1. Brattle Group Report – Assessing Ontario's Regulated Price Plan

Introduction

In its Introduction (page 1) the Report states that "by providing customers with more accurate price signals, TOU pricing can lead to lower electricity bills". Also, during the stakeholder consultation session Brattle Group stated that "under non-TOU rates customers who don't consume much during the peak periods pay more than their fair share of costs" (Slide 2). VECC notes that implicit in these statements is the assumption that the TOU rates will reflect cost differences between the TOU periods. If this is not case, then the rates will not be promoting the "fairness" principle raised by the Brattle Group. Furthermore, if the TOU rates overstate the system costs savings to be achieved for load shifting then any load shifting due to such TOU rates will increase the net burden of cost to be

recovered from other customers which would also be unfair. Furthermore, since consumers typically need to make investments in either equipment or lifestyle changes in order to affect load shifting, if the TOU differentials overstate the benefits then the cost of the investments made to achieve load shifting are likely to exceed the associated benefits, resulting in a loss in economic efficiency.

Also, VECC notes that while fairness and efficiency are generally accepted ratemaking objectives, there are other objectives that are usually taken into account. Some of these are noted in Appendix D of the Report where the Rate Evaluation Scorecard is presented.

Benchmarking the TOU Rate Against Industry Best Practices

The Report notes that the use of 3 periods is consistent with the TOU rates currently offered in many other jurisdictions. In VECC's view the number of daily time of use periods used should be based first on how a utility's costs vary. If this analysis suggests a certain number of periods should be employed then it is appropriate to look at practices elsewhere in order to determine whether that number of periods is "workable" from a customer and administrative perspective. The Report's conclusion (page 3) that the use of three periods is consistent with the hourly shape of system load and energy costs in the province is the most compelling reason for continuing with the current practice.

The Report suggests (page 3) that the current TOU rate design most significantly deviates from best practices in its peak to off-peak price ratio as the average ratio elsewhere is 4 to 1. VECC believes that it is inappropriate to judge the reasonableness of TOU price differentials in Ontario based on practices elsewhere. Every electric system has its own load characteristics and cost profile which presumably factored into the design of its TOU rates. To design Ontario's TOU rate differential based on practices elsewhere would be to ignore the load and cost profile for Ontario with the result that the TOU rates would not achieve the fairness and efficiency objectives that the Brattle claims as the main reasons for implementing them.

The Report also states that "the (price) ratio is often higher for the TOU rates that are most effective in encouraging load shifting". In VECC's view, this point is obvious and consistent with economic principles. However, load shifting in itself is not the objective of TOU rates. Rather, the objective of TOU rates (as noted by the Brattle Group) is to achieve a fair sharing of costs and to promote more efficient electric system. VECC also notes that these objectives are aligned with the statutory objectives of the OEB to protect the interest of consumers with respect to price and to promote economic efficiency. This suggests that the price differentials should reflect costs. Price differentials that exceed costs are likely to result in more load shifting but such shifting will be not only be uneconomic but also unfairly burden those customers who are unable to shift.

Establishing Rate Alternatives

In this section the Brattle Group purports to put forward a number of options for increasing the price ratio while still basing rate design on system costs. However, in VECC's view many of suggestions are inconsistent with how Ontario's system costs are incurred.

The first suggestion is to allocate wind and solar costs to the peak period. The Report suggests that this could be justified based on the idea that these two resource types are most likely to be generating electricity at high output levels during peak hours. VECC does not believe that such justification exists. For solar a case could be made to allocate the costs only to the daylight hours. However, this involves not only the peak period hours but also hours in the mid-peak and even the off-peak (i.e., weekend daylight hours). In the case of wind generation, the peak summer hours are likely to occur on hot days with minimal wind and wind generation is also likely to occur in the off-peak and mid-periods.

Given the increasing significance of both wind and solar generation, it may be useful for the Board to review the current uniform hourly allocation of these costs. However, the allocation should reflect the usage of the generation and is unlikely to be 100% related to the peak period as suggested by Brattle.

Brattle Group also suggests shortening the "peak" and "mid-peak" periods. However, if the current periods are viewed as reasonably reflecting the system load and cost profile than such a change would run counter to the fundamental fairness and efficiency objectives that the TOU rates are trying to achieve. Indeed, the increased load shifting from such a change will likely result in an inefficient use of the system and an unfair apportionment of costs amongst consumers.

Brattle Group also suggested considering a summer only peak period with off-peak rates applying for the winter months. However, information filed during the recent Hydro One Networks' Transmission Rate Application proceeding (EB-2010-0002) indicated that there are years when the winter months also contribute to highest system load hours. As result, any move to eliminate the winter peak period would need careful study.

The Report notes that there are different approaches to setting the peak/mid-peak/off-peak prices so as to maintain revenue neutrality – some of which may result in a stronger price ratio. VECC notes that the original RPP design was predicated on the view the cost ratio was 3:1. However, as the Report notes the current ratio is 1.9:1 (page 3). In VECC's view this is an area that warrants further investigation.

The Report suggests that consideration could be given to eliminating the mid-peak period and creating just a peak and off-peak period. This suggestion

appears to run counter to the Brattle Group's conclusion that Ontario's system load and cost profiles support the use of three TOU periods. Furthermore, the elimination of the mid-peak period (and the transfer of the associated costs to the peak/off-peak) is likely to reduce the overall peak to off-peak price ratio.

Finally, the Report suggests (page 6) attempting to segregate the capacity value of payments made to generators through the Global Adjustment and assigning these costs to the peak period. In the discussion the Report appears to equate fixed payments with capacity payments. However, this is not necessarily the case. The structure of how generators are paid (i.e., fixed versus variable) does not necessarily match the value of the resource to the Ontario system (i.e., capacity versus energy). While such an approach has merit from a cost causality perspective it is not easy to implement as it requires establishing the value of dependable capacity to the Ontario system and recognizing that all MWs of generation are not equal when it comes to their contribution to dependable capacity (e.g., a MW of installed gas-fired generation likely provides more dependable capacity than a MW of installed wind or solar). Substantially more analysis will be required if the Board wishes to pursue such an approach.

Simulating Customer Response to the Rate Alternatives

This section references the results of a number of TOU pilots undertaken in Ontario. What is of note to VECC is the wide range of results obtained in terms of not only the degree to load shifting that is likely to occur (e.g., -0.4% to -3.7%) but also the expected impact on total energy use (e.g., +1.1% to -6.0%). In VECC's view this suggests a need for caution and more study before making significant changes predicated on the perceived benefits of TOU rates.

Simulating Bill Impacts for the Rate Alternatives

The bill impacts presented are as one would expect. Prior to load shifting some customers benefit from TOU rates while others pay more – based on their current consumption profile. Figure 9 also suggests that more customers will see a benefit after load shifting. However, in VECC's view, there are two important points to be remembered when viewing this Figure. The first is that any load shift comes at a cost (albeit in dollar terms or a change in life style) and these costs are not captured in the curves. The second is that the curves assume that the load shifting gives rise to an equivalent reduction in system costs. If system costs do not decline by an equivalent (or greater) amount then the overall rate levels (and bills) for all customers will increase.

The Path Forward

VECC agrees that the "path forward" must reflect the Board's priorities. Page 14 of the Report lists a number of suggested "priorities". In VECC's view the only one that is not truly a priority is "improving the price ratio". As noted earlier,

increasing the price ratio should not, in itself, be considered an objective or priority. Rather the objective should be viewed as setting the ratio so as to more fairly reflect cost and encourage efficient use of the system and load shifting.

With this restatement, VECC suggests that all of the “priorities” listed are important and must be taken into account when considering the TOU rate design.

Finally, with respect to improving customer response and perception, in VECC’s view this goes beyond simple customer education. There must be programs in place to help customers shift load and also programs to assist customers who cannot shift load manage their electricity bills.

2. Appendix A – List of Issues Identified by Board Staff

Structural Issues

Any determination as to whether or not the current three price periods are “still appropriate” requires analysis of system load and cost data (both historic and projected). VECC notes this question was part of the assessment undertaken by the Brattle Group and their conclusion was that the use of three periods is “reasonable given the hourly shape of system load and energy prices in the province”. Given resource and timing constraints VECC has not undertaken any independent analysis of this issue and has no basis on which to either confirm or refute this conclusion.

The second structural issue posed by Board Staff is whether the change in Ontario’s peak demand and supply mix affect the seasonal nature of TOU. As noted earlier, recent system experience continues to support the view that winter as well as summer hours can contribute to the system peak days. In terms of supply mix, in VECC’s view it is pre-mature at this point to determine what impact the pending increase in renewable generation (primarily solar and wind) will have on the system and seasonal costs.

VECC has already addressed, in its comments regarding the Brattle Group Report, the question of a summer only peak. The issue statement also raises the question of whether there should be critical peak pricing that operates during pre-determined hours. In VECC’s view a variation on this would be to restrict the summer and winter peak periods to the truly peak months (e.g. exclude the spring and fall months when loads and costs are typically lower). In VECC’s view, consideration should be given to investigating such an approach.

Pricing Methodology

VECC notes that the RPP Manual target ratios were set based on the cost differences initially anticipated between the various periods. Any assessment of their continued appropriateness should also focus on what the expected cost differentials will be between the various periods.

As discussed above in the comments on the Brattle Group Report, it is VECC’s view that the setting of the price ratios should focus on emphasizing the proper allocation and recovery of costs by TOU period. It is only by following such an approach that the fairness and efficiency objectives the Brattle Group associates with TOU pricing and that underpin the OEB’s mandate can be achieved. The Board should not focus on increasing the price ratio simply to achieve some arbitrary “target ratio” or degree of load shifting.

In VECC’s view there are two separate issues being raised regarding the variance account balances. The first is how the recovery should be allocated

across years. In this context, VECC agrees that the recovery period (i.e., number of months/years) should be established with a view to stabilizing year over year bill changes. The second issue is how the amounts to be recovered in a given year should be allocated to TOU periods.

In this regard, it is VECC's view that the recovery should be done in a manner that does not distort the anticipated cost differentials between the TOU periods and therefore does not distort the price signals customers are receiving as to the economic value of load shifting. Having said this, VECC acknowledges the issue requires further analysis to determine the extent to which the focus needs to be on the percentage price differential between periods; the absolute price differential and/or the level of the peak period price. These issues are all tied up in the "pricing methodology issue" as defined by the Brattle Group.

VECC generally agrees with the current Board approach to assigning GA costs to price periods based on which part of the load curve the GA-eligible contracts serve. As noted by the Brattle Group (page 6) and discussed above it may be possible to refine this allocation in order to attribute the capacity value of each contract to the peak period. However, to do so properly would require further analysis as the Brattle Group has readily acknowledged that their assumption that 25% of the cost was for capacity was simply a working assumption adopted to illustrate the approach.

Consistent with the preceding comments, it is VECC's view that the GA assignment should not be used to arbitrarily or artificially enhance the TOU price ratios regardless of "cost causality". To do so would result in rates that were unfair, resulting in an inefficient use of the province's electrical system and inconsistent with the Board's statutory mandate.

Thank you for the opportunity to comment and if there are any questions please contact either Bill Harper (416-348-0193) or myself (416-767-1666).

Yours truly,

Michael Buonaguro
Counsel for VECC