

January 10, 2011

BY COURIER (2 COPIES) AND EMAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto, Ontario M4P 1E4
Fax: (416) 440-7656
Email: boardsec@oeb.gov.on.ca

Dear Ms. Walli:

**Re: Pollution Probe – Written Comments
EB-2010-0364 – Regulated Price Plan Time-of-Use Pricing Consultation**

Pursuant to the Board's letter dated December 6, 2010, Pollution Probe provides the following written comments for this consultation.

Summary

Pollution Probe strongly supports increasing the differential between peak and off-peak electricity rates. Pollution Probe also supports a further differential or other financial incentives to reduce demand during the critical peaks on the hottest summer days. As part of increasing the differentials, transmission and distribution rates should also become subject to similar time-of-use rates. As part of these considerations, Pollution Probe also submits that the Board needs to recognize and examine differences arising from the fact that northern Ontario experiences its system peak in the winter (instead of the summer for southern Ontario).

Detailed reasons for these positions are provided below.

Why Increase the Differential and Have Further Critical Peak Differential/Incentives

Pollution Probe submits that implementing higher peak prices and lower off-peak prices will lead to lower overall electricity rates and bills for the vast majority of electricity consumers. This is because there will be a significantly reduced need for high-cost peaking generation, transmission, and distribution capacity since the amount of electricity needed at peak will be substantially reduced. As a result, the high cost of these peaking facilities are avoided and not passed on to consumers through electricity rates and bills.

Implementing higher peak prices and lower off-peak prices will also make the rates more reflective of the actual cost. For example, as noted by the Environmental Commissioner of Ontario, the cost of meeting Ontario's electricity needs during the top 88 hours of system demand in a year would be \$1.19 to \$1.64 per kWh.¹ In comparison, the marginal cost of electricity supply during off-peak hours is at most 2 to 3 cents per kWh. Increasing the price differential would thus better reflect the realities of this cost disparity.

For context, it is important to understand the different MW requirements during Ontario's summer electricity demand spikes, highs and lows. For instance, Ontario's demand for electricity spikes between noon and 5 p.m. on only five to ten very hot summer days each year (i.e. when air conditioners are running at full cooling capacity across the province). As noted by the Environmental Commissioner of Ontario, the difference between the single highest hour of demand and the 40th highest hour of demand in 2009 was 2,270 MW.² Further, the Environmental Commissioner of Ontario notes that the difference between peak demand during the day and the trough in demand at night during a typical summer day is enormous (i.e. approximately 8,000 MW).³

Pollution Probe submits that there is thus a need for greater price incentives to reduce the spikes in summer electricity demand and to shift more of our peak period consumption to off-peak periods instead. Ideally, this could be achieved by implementing critical peak pricing between noon and 5 p.m. on the hottest summer days. Alternatively, customers that reduce their loads between noon and 5 p.m. on those hottest summer days could be given supplement financial incentives for doing so. Pollution Probe recommends that the Board Staff Discussion Paper should also examine both of these options.

Why Transmission and Distribution Rates Should Also Be Differentiated

Pollution Probe also notes that while transmission and distribution costs are also higher during peak periods, Ontario only currently has time-of-using pricing with respect to electricity generation costs for small volume customers (i.e. not for corresponding transmission and distribution costs). Therefore, as part of increasing the differential between peak and off-peak electricity rates, Pollution Probe submits that transmission and distribution costs should also be subject to time-of-use pricing.

Pollution Probe notes that the incentives and differentials between peak and off-peak distribution rates could be further augmented by lowering the LDCs' fixed monthly distribution charges and recovering that revenue through higher volumetric distribution charges per kWh specifically during peak periods. For example, Toronto Hydro's current fixed residential customer charge is four times greater the minimum level required by the Board (i.e. current charge of \$18.25 per

¹ Environmental Commissioner of Ontario, *Re-thinking Energy Conservation in Ontario – Results: Annual Energy Conservation Progress Report – 2009 (Volume Two)*, November 2010, at pg. 35. Available online at http://eco.on.ca/eng/uploads/eng_pdfs/2010/final%20CDMv2.pdf.

² i.e. 24,380 MW – 22,110 MW. See *ibid*, at pg. 29.

³ *Ibid*, at pg. 30.

month vs. minimum required level (i.e. avoided cost) of \$4.55 per month).⁴ There are thus opportunities to provide consumers with greater incentives and rewards to save energy during peak periods by lowering the fixed monthly customer charges and then raising peak period volumetric charges so that there is no revenue loss to the distributor.

Need to Account for Northern Ontario's Winter System Peak

While Ontario's peak demand occurs on hot summer afternoons on a province-wide basis, it is important to remember that northern Ontario actually experiences its peak electricity demand during the winter instead. Pollution Probe thus submits that the Board Staff's Discussion Paper should include corresponding considerations and examinations that account for this difference. For example, the Discussion Paper should: a) provide a break-out of the summer and winter peak demands for southern and northern Ontario respectively; and b) examine the benefits and costs of establishing separate and distinct time-of-use pricing regimes for southern and northern Ontario respectively.

Pollution Probe notes that separate and distinct time-of-use pricing regimes need not entail a shifting of costs between northern and southern electricity ratepayers. Specifically, both the northern and southern time-of-use pricing regimes could be based on the same province-wide average annual cost of electricity.

Conclusion

In short, Pollution Probe strongly supports further differentials between peak and off-peak electricity rates in accordance with the various positions noted above. We trust these comments are of assistance to the Board, and please do not hesitate to contact the undersigned if you wish to discuss this matter further.

Yours truly,



Basil Alexander

BA/ba

⁴ EB-2010-0142, Exhibit L1, Tab 2, Schedule 1, pg. 25. See also EB-2007-0667, *Application of Cost Allocation for Electricity Distributors: Report of the Board*, November 28, 2007 at pg. 12.