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BY EMAIL and RESS

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Ontario Energy Board
2300 Yonge Street
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Toronto, Ontario
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Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2010-0364 – RPP Time-of-Use Pricing

We are counsel for the School Energy Coalition (SEC). These are SEC's comments on the Brattle Group's Report ("Report") and presentation, and the discussion at the December 21st Stakeholder Meeting.

This submission is divided into two sections. First, we consider the general approach to TOU system changes proposed, and then certain specific issues with the Report.

General Approach

1. ***Purpose of Revising TOU Prices.*** In our submission, the first and most critical step in the process of reviewing the TOU prices is to determine the goal of the exercise. Currently the TOU prices are set on the basis of determining the relative cost of power for different time periods. The prices are set on, essentially, a cost causality basis for those particular time periods. The ratio of peak to off-peak prices is a result of the calculations, rather than a goal per se.

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2. The Report approaches the exercise by targeting a higher price between the peak and off-peak prices both to incent preferred behavior and to reflect price differentials in other jurisdictions. Thus a higher price differential is a goal.
3. Another problem arises because with some of the alternatives proposed, the Report appears to us to recommend that the price differential be achieved regardless of the cost causality. That is, the goal of having a sufficient price differential to produce certain behaviour supplants the goal of setting prices based on costs.
4. Thus, where the Report proposes that certain costs be assumed to arise only in the summer (wind and solar), when it is clear that is not actually the case, that is a breakdown in the cost causality basis for TOU rates.
5. This is not, in our view appropriate. If prices are set for electricity without reference to costs, then the wrong (as in economically inefficient) price signals are being sent, and inefficient behaviour is being incented.
6. A problem with the Report's method of achieving a higher price differential is that it is not as transparent or rigorous as it should be. If underlying aim is to raise the price differential, it would be preferable to do just that, decide on that differential and then set prices and period definitions to achieve it.
7. ***Preferred Approach.*** In our submission the differential between peak and off-peak prices for the electricity commodity is driven by two factors: the definition of the peak period, and the cost allocation methodology.
8. Although there is clearly judgment associated with the cost allocation methodology, it is essentially about getting the right costs in the right places. Therefore, it is our submission that the costs allocated to any given peak or off-peak period should not be influenced by the resulting price differential. The costs should be allocated based on where or when they are incurred, and the price impact should be irrelevant.
9. The choice of the peak period, on the other hand, is all about judgment, and there is no rigorous way to do it. The peak period could be as long as half of the hours of the week or year (or even more, in theory), or as short as an hour a day or a week.
10. The importance of this distinction is that the peak period does not have homogenous costs. Within any given peak period, some times involve higher cost electricity than other times. Thus, if a shorter peak period is chosen, based on the higher cost time frames, the cost differential between peak and off-peak will be increased.
11. Our conclusion from this is that the Board could select a target price differential, then produce rates that reflect that price differential by adjusting the peak period definition. This would achieve the new goal of increasing the price differential, while at the same time maintaining the existing goal of cost causality.

12. Subject to our comments below on setting the price differential, it is therefore submitted that, the appropriate approach is to get the cost allocation right, then select a peak period definition that is sufficiently narrow that the desired price differential is the natural result.
13. ***Setting the Price Differential.*** The difficulty that arises is that the Report, and this entire discussion, assume that there is some basis on which the price differential should be set.
14. The price differential is, after all, not the ultimate goal, only an intermediate goal to achieve other ends. Those other ends could be specific consumer behaviour, but even that is in turn an intermediate goal. The real goal, in our view, is to reduce the overall cost of electricity by reducing the need for expensive on-peak generation. The behaviour that is being incited through pricing, therefore, is reduction of generation when it is more expensive, typically at peak times.
15. Given that ultimate goal, the direct way of determining the price differential is to establish, through empirical data, the price differential necessary to cause a material shift in use. That is a price elasticity analysis based on real world data, but as we note below, reliable data of this type does not exist.
16. The indirect way of determining the price differential is to look to other jurisdictions, and identify the price differentials in those jurisdictions that have successfully altered consumption patterns and load shapes. The problem with this is that, while the Report has information on the price differentials in other jurisdictions, it is not clear from the Report that there is any correlation between higher price differentials and changes in consumption patterns. Thus, on the current data, this basis for changing the price differential also does not seem to be available to the board.
17. An even more indirect way is a sort of “revealed preference” approach, in which the higher price differentials in other jurisdictions are seen as a collective decision by regulators and legislators that a higher price differential is a more effective behavioural incentive. This is not data, per se, but an indicator of direction only.
18. In our view, if the Board believes that further steps are necessary now to increase the price differential, an increase based on the fact that the average of other jurisdictions is 4:1 vs. the 1.9:1 currently used in Ontario, may be appropriate. In keeping with our comments above, if the Board selects, say, a 3:1 ratio, then the appropriate method of getting there is to adjust the peak period definition, narrowing the applicable time until the required ratio is achieved.
19. However, in our view it would be more appropriate to defer any change at this time, until there is reliable data on what behavioural changes are already being driven by the current TOU price differential, and what incremental changes can be expected for any given change in the differential.

Specific Issues

20. ***Lack of Data.*** It became clear from both the presentation and the Report that there is a lack of reliable data on the effect or potential effect of existing or changed TOU pricing in Ontario at this time.
21. The pilot project data that was used as the basis of the models is problematic both because of its limited scope, and because the individual customer participants were selected on an “opt-in” basis. It appears to be generally accepted that this is not a robust sample.
22. The United States data that was used to build the models on customer responses to changes in the TOU mechanism, while they were opt-out, were still voluntary. This is better than opt-in, but still not reliable in the Ontario context.
23. We note that, in response to questions during their presentation about the applicability of the US data, Brattle Group representatives stated that the current Ontario TOU is similarly an opt-out, since residential TOU consumers have the ability to move off the RPP and into a contract from an energy retailer. In our view, while this is technically correct, the ease in the US of opting out of a new system and returning to a pricing system with a distributor you already have a relationship with, is not really comparable to entering into a new arrangement with an outside retailer in a retailing market that is not yet mature. At the present time, at least for residential customers, we do not consider the Ontario market to be opt-out in the normal sense.
24. Due to both the lack of Ontario data and the lack of similar data from other sources, it is hard to reach any definite conclusions on the effect any changes would have here. With only one Ontario TOU pilot project including non-residential RPP users, there is an even greater lack of data at currently on how TOU pricing has affected non-residential RPP customers, especially the 50 to 999kw rate class.
25. An additional problem with the use of comparative data from other jurisdictions is that for consumers, it is the total bill impact which will affect their behavior. TOU only applies to the commodity portion of their bill, and without data on the percentage of this portion of the bill for other TOU systems, it is hard to come to a conclusion on what price ratio at any given moment in time is needed to incent consumption changes. As an example of this concern, if a utility used for comparison to Ontario has a higher on-peak to off-peak price ratio but the portion of the bill that is made up of variable generation cost is smaller, then the larger price ratio could very well have a smaller effect on a consumer’s decision to shift consumption. Consumers look at the overall bill impact when making decisions on their energy use, so it is important the data used to decide if an increase in the price ratio is needed take into account all components of the bill.



26. All of these factors lead to SEC's view that while it is likely that in principle the possible rate design changes to TOU outlined in the Report would directionally have the general effects that the models predict, that conclusion is entirely non-empirical. This is especially true in a province that, due to its size and differing climates, has electricity load patterns that vary geographically. It is reasonable to expect that, if the Report's predictions end up being true in some places in the province, they will be wildly incorrect in other places in the province.
27. Further, this situation will change in the near future. With the vast majority of TOU pricing for consumers coming online by the end of the year, the Board will have more detailed data to analyze. In our view it would be better for the Board to re-examine the issues raised in this Consultation at that time when a more complete picture of Ontario TOU usage is available. Only then can a proper and more detailed examination of the RPP-TOU system be undertaken.
28. ***Administrative Cost Impact.*** Any change to the TOU rate design will have a cost effect on all customer classes. Neither the Report nor the presentation addressed the potential system costs such as CIS system changes, billing, information to customers and business process changes that would have to be undertaken if there is a switch from the current TOU rate design.
29. With respect to RPP customers, any potential positive impacts because of rate design changes to TOU will thus be mitigated and negative impacts will be exacerbated. The amounts at this point are unknown, and SEC believes that an examination into the cost impacts should be undertaken to provide the Board and interested parties with a more complete picture about the impact of any change to TOU rate design before a decision is made.

All of which is respectfully submitted.

Yours Truly,

JAY SHEPHERD P.C.

Originally signed by

Mark Rubenstein

cc: Wayne McNally, SEC (email)
Interested parties (email)