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May 23, 2008

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th Floor
Toronto, ON
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Dear Ms. Walli:

Re: EB-2007-0672 – LPMA Comments on Staff Discussion Paper on Regulated Price Plan – Time-of-Use Prices: Design and Price Setting Issues

These are the comments made on behalf of the London Property Management Association ("LPMA") on the Staff Discussion Paper on the Regulated Price Plan – Time-of-Use Prices: Design and Price Setting Issues dated April 17, 2008.

The comments provided are based on the questions provided by Staff in Section 7.0 of the Discussion Paper.

1. Structural Issues

i) Should the three-period TOU pricing structure be retained? If not, what alternative approach should be considered and why?

Based on the information provided by Board Staff that the current three period structure does not appear to be too complex from a customer perspective, LPMA believes that the current three-period TOU structure should be retained for now. It may be useful to revisit the approach and to consider other alternatives after the Board and ratepayers have more experience with this structure (i.e. when most customers have been subject to it for a period of time). At this time however, it would be premature to make changes to a pricing structure that has not created any significant problems or issues.

ii) Should the seasonal variation in TOU pricing be retained? If so, should it be retained in its current form or should adjustments be made (for example, to simplify by having only one On-peak period during the day in the winter)?

LPMA believes that the seasonal variance in TOU pricing should be retained. This is because there is a significant difference between the seasonal use profiles that should be reflected in a seasonal variation in the TOU pricing.

LPMA further believes that the current form of seasonal TOU pricing should be retained. The TOU pricing structure should reflect the market. Simplifying the current form by having only one on-peak period during the day in the winter does not make sense if the objective of TOU pricing is to match prices with costs. LPMA believes that the overriding objective of TOU pricing should be to match prices with costs.

Again, as noted above, in the future after the Board and customers have gained experience with the seasonal variance in TOU pricing, the Board may want to revisit this issue. This may ultimately eliminate the need for seasonal variation, or increase the need for more seasons or impact on the number of periods needed within each season. Again, as noted earlier, LPMA believes it is premature to make changes to the seasonal variation in TOU pricing at this time.

iii) Should critical peak pricing be implemented as part of the RPP TOU prices? If yes, when should this be done? Should CPP or CPR be used? Should the program be mandatory or voluntary for consumers?

LPMA does not believe that critical peak pricing should be implemented at this time. Customers will need time to adapt to the three period seasonal variation TOU pricing. Adding another layer of complexity over and above this could result in customer confusion. Again, LPMA sees no reason at this time to implement critical peak pricing at this time, but the Board should revisit this issue after the electricity market has more experience with TOU pricing.

2. Price-setting Methodology

i) Should the Board retain a price setting methodology that focuses on the recovery of supply costs on a "segmented" basis? Alternatively, should the Board set prices to recover total supply costs only, while under- and over-recovering in individual TOU price segments?

LPMA believes that the underlying objective of TOU pricing is that customers should pay commodity prices that reflect the cost of the generation used to supply them. Since this cost of generation varies by time of day, the pricing should also vary by time of day and recover the costs in each period. In other words, prices should be cost based.

If the Board set prices to recovery the total supply costs, while allowing under and over recovery in individual TOU price segments it would be supporting cross-subsidization between customers. Customers that can shift a significant portion of their consumption to the off peak period would be subsidized by those that can not.

While such a subsidy may encourage more load shifting and/or conservation, LPMA believes that this should accomplished directly through CDM programs and not indirectly through artificial commodity prices. Once again, the actual costs of generation should be paid by those who use the generation in the three time periods.

ii) Should multi-period cost of supply recovery be examined to provide more flexibility in setting prices? Should a reduction in the cost recovery period to six months be considered for consistency with the frequency of price changes?

The Board may want to consider changing prices every three months rather than every six months. This would allow for the revisions to forecasts and reduce the amount that would accumulate in the variance accounts over the six month period to a three month period.

Natural gas customers that continue to buy system gas from the utilities are accustomed to quarterly changes in the price of their gas. These changes can be significant. In the absence of quarterly changes, the variances that accumulate in the PGVA accounts can grow significantly. This was, in fact, one of the consequences that the Board considered when it determined that a quarterly gas price adjustment should become the standard. Some parties believe that prices should be adjusted even more frequently (i.e. monthly) to minimize even further the variance between the actual and forecast costs that accumulate in the variance accounts.

However, LPMA does not believe that a reduction in the cost recovery period to six months should be considered for consistency with the frequency of price changes. A customers' energy use (both electricity and natural gas) can be significantly influenced by the time of year. On the gas side the Board has recognized this and the recovery of past variances is done over a moving 12 month forward basis.

On the electricity side, a six month recovery period could result in subsidization of rates from one season to another. Consider the following example. In the summer the actual on peak cost of generation is significantly higher than that forecast because of warmer than normal weather. If this shortfall is projected to be recovered over the on peak winter period, the rates would be higher than if the shortfall were to be recovered over the winter and the following summer period. The net result is that electric space heating customers pay higher prices because of air conditioning customers. The opposite can also occur. Air conditioning customers could pay higher prices because of a colder than normal winter that drove up the price of electricity for space heating customers.

Even more extreme examples can result when a customer uses most or all of their electricity during a year in one season and next to nothing in another. This can be the case, for example, in food processing and greenhouses.

iii) Should the 1:2:3 ratio for TOU prices be reconsidered? If so, how should the ratio be adjusted?

LPMA does not believe that there is any need for an artificial ratio to be used in setting TOU prices. The TOU prices should reflect the forecast cost of generation for each period (including the recovery/rebate of past variance account amounts associated with each individual time period).

iv) Should the Board consider the 1:2:3 ratio as a variable, adjusting it to respond to policy priorities and/or cost recovery issues?

As noted above, LPMA does not believe there is any reason for a ratio to be used. The prices should be based on the forecast of costs for each of the three periods, including the recovery/rebate of past amounts that are in the appropriate variance accounts.

<u>3. Variance Account Issues</u>

i) Should the recovery period for VA balances be changed?

LPMA believes that the VA balances should be recovered over a 12 month period. LPMA is concerned with the staff view of changing the recovery period to enhance the effectiveness of TOU prices. In the view of the LPM, prices should not be manipulated. They should simply recover the associated costs.

ii) Should the current practice of a uniform charge (or credit) per kWh for variance account recovery/return be modified? If not, should the VA balance charges or credits be pro-rated like the stochastic adjustment?

LPMA supports the VA recovery in a TOU price regime by allocating the VA clearing charges to the segmented TOU prices according to when the VA balances are generated. This approach is a causal allocation. The staff paper indicates that this approach is most likely to result in a narrowing of the TOU price range. LPMA does not understand how this conclusion has been reached. However, if it is true, LPMA does not see this as a problem. If actual costs do in fact converge, then the prices to recover these costs should also converge. If costs diverge, then prices should diverge. Any attempt to create an artificial difference in prices should be avoided. Cost causality should be the main driver of prices.

iii) Should the VA balance clearing amount be allocated differently depending on whether it is a credit or a debit?

No. There is no evidence or suggestion that a different allocation is needed or required. Nor is there any evidence or suggestion that it would be appropriate.

iv) Is the $160 million trigger appropriate in the context of a TOU RPP pricing regime that could result in TOU price adjustments larger than 0.2 cents per kilowatt-hour? Should the allocation methodology provide maximum flexibility to address price ratio issues or should it rely on a rules-based methodology for certainty reasons?

LPMA does not believe that a trigger amount should be used at all. The Board has had experience with triggers in adjusting the natural gas PGVA balances. The Board ultimately abandoned this approach in favour of the mechanistic approach that adjusts rates on a quarterly basis, regardless of the magnitude of the change. This may result in more price adjustments, including large price adjustments. However, this reflects the market for natural gas prices. A similar approach on the electricity side should ensure that the prices that customers see on their bills reflect the market prices.

As noted above, LPMA believes the price ratio approach should be abandoned by the Board. A mechanistic approach similar to the methodology used in the QRAM process by the gas distributors should be used.

v) Despite the possibility of additional settlement costs, should the Board consider a two-variance account system (including two adjustment trigger amounts) to address the cross subsidy issues during a transition period when TOU pricing becomes more prevalent?

LPMA believes variances should be tracked separately. This would not mean a two-variance account system as proposed by staff, but a four variance account system: one account for the customers that are not on TOU, and one account for each of the three TOU periods.

4. Billing Issues

i) Should all distributors be required to bill TOU customers on a monthly basis? Why or why not?

It would be preferable if all TOU customers were billed on a monthly basis. This would provide customers with timely information on their consumption that would enable them to try and adjust their consumption for the next month in order to reduce their costs.

However, LPMA believes that a cost benefit analysis of moving to monthly billing from bimonthly billing should be undertaken before any changes are made. If the cost is significant, then any savings that the customer might enjoy could be eliminated or severely reduced.

LPMA recommends that distributors continue to bill as they do now until such time as a comprehensive analysis of changing the billing frequency can be undertaken. In the meantime, however, distributors should be providing their customers with online access to their TOU consumption data.

ii) If yes, what are the implications for investments in billing and meter day infrastructure?

As noted above, an analysis of the impact on costs to customers should be undertaken before any changes are made.

iii) If yes, should monthly billing be phased in? Over what time period should this phase-in occur?

Again, as noted above, nothing should be done until a complete analysis is done. This analysis would include the need for a phase in period if it was found that moving to a monthly billing cycle was appropriate.

iv) How could equal billing be retained while preserving the TOU incentives for load switching and/or load reduction?

LPMA does not see a direct link between equal billing and TOU incentives for load switching and/or load reduction. The staff question appears to assume that equal billing blunts or eliminates these incentives. LPMA disagrees. Equal billing is used by customers to even out their cash flow to avoid large bills in some months. Customers will still have the incentive to reduce their overall costs through load switching and/or load reduction.

5. Longer Term Issues

i) Board staff would welcome any comments on alternative methodologies for setting TOE prices to address the issue of price convergence.

LPMA does not believe that price convergence is something to be avoided. If costs converge, then prices should converge.

Summary Comments

LPMA believes, in general, that the current TOU pricing regime should remain in place for the immediate future. The type of changes addressed in the staff discussion paper is premature at this point in time. Customers need a period of stability in order to adjust to TOU pricing. This is especially true for customers who may have little ability in the short run to significantly change their consumption patterns. These customers may be faced with significant increases in costs that can only be mitigated over a longer period of time.

Rather than change the TOU pricing from 3 periods to 2 or adjusting the number of seasons, LPMA believes that the industry in general and the Board in particular, should concentrate on educating customers about TOU pricing and potential impact it could have on a customers bill.

Following the completion of the installation of smart meters across the province and a sufficient amount of time has passed to analysis the impact that TOU pricing is having on customer behaviour and/or generating costs, then the Board should revisit many of the issues provided in the staff discussion paper such as the number of periods, seasonality, critical peak pricing and the recovery of VA amounts. The Board should not attempt to fix what may or may not be broken. Adjustments should only be made when and if the Board is convinced that there is a problem to be fixed.

Throughout the staff discussion paper there is an underlying theme that TOU pricing should or could be used to enhance the reduction of peak consumption. LPMA does not agree that TOU pricing of the commodity is the appropriate place to do this. The market should determine the appropriate price levels in each of the TOU periods, in each of the TOU seasons. Any attempt to interfere with these market prices may lead to unintended and unwanted consequences.

If the Board or policy makers believe that price should be used to enhance conservation and/or load shifting then it should implement a separate charge on peak consumption and/or a rebate on off peak consumption. Revenues generated from any such surcharge could then be used to finance other CDM initiatives to help customers reduce these surcharges on their bills. This CDM tax would be similar to a carbon tax, except that it would be based on time of consumption. Such a change should be made in conjunction with changes to the fixed variable split recovery of distribution rates. For example, it would be bad policy to increased the fixed monthly charge and reduce the variable charge while at the same time increasing the charge for peak consumption (either through a CDM tax or artificial TOU pricing).

Please contact me if the Board requires any further information related to these comments.

Sincerely,

Randy Aiken

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