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BY COURIER

May 23, 2008

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON.
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Dear Ms. Walli:

EB-2007-0672 – OEB Consultation on Time-of-Use Pricing Framework – Hydro One Networks Submissions on April 17, 2008, OEB Staff Discussion Paper

Hydro One welcomes the opportunity to provide comments on Board Staff's Discussion Paper on **Regulated Price Plan – Time-of-Use Prices: Design and Price Setting Issues**, as part of Proceeding EB-2007-0672.

General Comments

Hydro One's view is that there should be no change to the current RPP-TOU design in the near term, 1 to 3 years, to allow all customers to get their smart meters and become more familiar paying time-variant prices under the current RPP-TOU regime. This will also allow Distributors and the Board to gather more time-variant pricing results. Once the customer is equipped to make informed decisions and a greater body of data is available to make pricing choices, a new RRP-TOU regime should be considered.

However, Hydro One will answer the questions asked in the RPP-TOU Discussion Paper to begin laying a foundation for when the customer and timing are appropriate for Time-Variant rates but it is of the view that there are main considerations that should be taken into account before implementing changes to the design and prices of the Regulated Price Plan – Time-of-Use Rates. The considerations fall into two general groups – objectives of the rate design and customer implications.

The Discussion Paper does not explicitly list what the objective(s) of the RPP-TOU price changes are. The possible objectives of the rate design changes could be:

1. To either promote a culture of Conservation and Load Shifting or
2. To track Cost Causality.

Each objective will drive a different decision or response to the Questions listed in the Discussion Paper.

In general, to maximize the benefits of a TOU pricing regime, it should be applicable to all customers and should be on a mandatory basis.

The customer implications of the rate design changes are:

1. Customer acceptability of rate design changes is paramount to ensure that the changes will achieve their intended objectives. If customers do not understand or accept the rate design changes, the intended objectives will not be achieved and any price signals intended to be provided to customers will be lost.
2. Rate Stability: any rate design change should provide for stable price signals to customers. Rate instability will result in customers not accepting the proposed rate design changes and any intended price signals will be lost, particularly from the perspective of trying to achieve conservation and load shifting.
3. Implementation: any rate design change proposed should be practical and economic to implement. If the rate design change imposes higher costs on the distributor to implement because of additional data requirements or changes needed to current billing systems without identified benefits then the changes will not be practical and economic to implement.
4. Similar Rates: any rate design change should result in similar customers paying similar rates. If similar customers end up paying different rates, it will just add to customer confusion, will result in higher implementation costs and will be harder to maintain and explain to customers.
5. The OEB may consider holding customer focus groups before instituting rate design change to evaluate customer response.

<u>Response to questions outlined in Section 7.0: Questions to Guide Stakeholder Input</u>

1. Structural Issues

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

Hydro One's view is that the current 3 periods are acceptable but would recommend a shorter and higher-priced On-Peak period to better promote Load Shifting. However, if customer acceptance is the goal, 2 periods would be simpler given the stated evidence of price convergence of the On-Peak and Mid-Peak periods.

b) *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)?*

Hydro One's view is that the existing Seasonal variation be retained since it reflects better Cost Causality of the seasonal load profiles. Again, the only reason to remove the Seasonal variation would be for greater simplicity for customer acceptance. Currently the RPP-TOU periods vary by season which is more confusing than a year round non-seasonal pricing pattern.

If customer acceptance is important, consideration should be given to have similar peak periods in winter and summer.

c) *Should critical peak pricing be implemented as part of the RPP TOU prices?*

If yes,
o When should this be done?
o Should CPP or CPR be used?
o Should the program be mandatory or voluntary for consumers?

Hydro One's view is that critical peak pricing should be implemented as part of the RPP TOU prices since it achieves the highest Load Shifting potential. The CPP period can be variable but it is strongly recommended that the CPP value should be pre-established to allow customer planning. Further, the implementation should not be near-term but more medium-term to allow customers to become familiar / comfortable with the TOU pricing regime. The Rebate version is not recommended due to the increased complexity involved. Finally, the program should be mandatory for all customers.

2. Price-setting Methodology

a) *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?*

Hydro One's view is that to further promote conservation and load shifting, the recovery should be in total with allowed under and over recovery in the individual TOU price periods.

b) *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?*

Hydro One's view is to maintain the 12 month period for consistency with existing practice. Any increase in the frequency of rate changes will increase a Distributor's implementation costs which will impact the customer.

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

Hydro One's view is that a higher ratio differential is needed to achieve Load Shifting. The ratio differential should be set to achieve the desired level of Load Shifting but it is premature to set now until a greater body of data is available. In the absence of this greater body of data, a literature scan indicates that EnergyAustralia employed an On-to-Off Peak price ratio of 4.9 in 2007 [EB-2007-0031: Update Report on Time of Use Pricing Pilots].

Further, the current Ontario design is predicated on 50% winners and 50% losers. The Board should be aware that a change in the ratios will change this balance.

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

Hydro One's view is no for simplicity reasons and customer acceptance concerns. However, once the TOU regime has been operating for a period of time and the customers are comfortable, this variable nature should be re-considered.

3. Variance Account Issues

a) *Should the recovery period for VA balances be changed?*

Hydro One's view is to maintain the existing 12 month period for consistency. A shorter VA balance clearing and the resultant rate changes required would increase Distributors' implementation costs. Further, a longer carrying period should be considered if the rate change implementation costs are significantly higher than the VA balance.

b) *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?*

Hydro One's view is to maintain the kWh-based recovery/return for simplicity reasons. Again, implementation cost increases will be associated with any change from the existing Variance Account regime.

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

Hydro One's view is if greater Conservation and Load Shifting is the goal, a Credit balance should be cleared against the Off-Peak TOU period while a Debit balance should be cleared against the On-Peak TOU period. This achieves the highest TOU period differentials which would promote greater Load Shifting and Conservation.

d) *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?

For stability reasons, using a rules-based methodology and maintaining the existing $160M trigger would be appropriate until some history under the new TOU regime is established and the size of the resulting Variance Account reviewed.

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

Hydro One's view is that two variance accounts with differing trigger amounts would be too complex for a transition issue until smart meters are fully rolled-out. The existing practice of a single Variance Account is recommended.

4. Billing Issues

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

Hydro One's view is that the frequency of billing is a payment issue between the customer and the distributor. Billing frequency is a function of a distributor's work flow and cash flow requirements. The information on a customer's bill is typically 45 days after the period is ended so it does not provide the necessary signals for conservation. For customers to access timely information to make informed choices for load shifting purposes, the dated information on a bill is not useful. Better and more timely information is available on the Web and or other in-house usage displays like Real Time Monitors.

b) *If yes, what are the implications for investments in billing and meter data infrastructure?*

Not Applicable since as stated above, monthly billing information is still not sufficient to make informed RPP-TOU choices.

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

Not Applicable since stated above, monthly billing information is still not sufficient to make informed RPP-TOU choices.

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

Hydro One's view is that equal billing is a payment issue between the customer and its distributor. For customers to access timely information to make informed choices for load shifting purposes, the dated information on a bill is not useful. Better and more timely information is available on the Web and or other in-house usage displays like Real Time Monitors.

5. Longer Term Issues

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

Demand or Load Curves should be considered in setting the TOU period prices instead of generation price curves alone if the generation prices are converging due to the increased mix of higher priced Natural Gas generation to Coal-Fired generation in setting the Mid-TOU period price.

Sincerely,

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Susan Frank