May 23, 2008
Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St., Suite 2700
Toronto, ON, M4P 1E4

[Filed via RESS]

Re: Staff Discussion Paper – Regulated Price Plan – Time-of-Use Prices: Design and Price Setting Issues
Board File No. EB-2007-0672

Dear Ms. Walli,

The Coalition of Large Distributors ("CLD"), being Enersource Hydro Mississauga, Horizon Utilities Corporation, Hydro Ottawa Limited, PowerStream Inc., Toronto Hydro-Electric System Limited and Veridian Connections Inc. is pleased to provide comments on the OEB staff discussion paper on Time-of-Use design and price setting issues.

Three paper copies of this filing are provided in addition to an electronic filing through the Board's web portal.

Should you require additional information please contact the undersigned.

Yours truly,

[Original signed on behalf of the CLD]

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Coalition of Large Distributors

Comments on

April 17, 2008
OEB Staff Discussion Paper

Regulated Price Plan – Time-of-Use Prices:
Design and Price Setting Issues

EB-2007-0672

May 22, 2008

The Coalition of Large Distributors ("CLD"), being Enersource Hydro Mississauga, Horizon Utilities Corporation, Hydro Ottawa Limited, PowerStream Inc., Toronto Hydro-Electric System Limited and Veridian Connections is pleased to provide comments on the OEB staff discussion paper on Time-of-Use design and price setting issues.

The implementation of Time of Use ("TOU") is of particular interest to the CLD as it has direct implications on our customers, Customer Information Systems and staff. Before addressing the specific questions of Board Staff, the CLD has some general comments on TOU pricing.

The CLD supports the use of TOU commodity pricing to send price signals to customers; TOU commodity pricing better reflects the true cost of electricity supply and encourages desirable economic behaviour. Of course, the most correct price signals are reflected in the true Hourly Ontario Electricity Price ("HOEP"), and are not reflected in either the current RPP prices or the proposed TOU prices because of Ontario's hybrid market; and the variance account is cleared by adding an historic amount to projected future prices. However, the CLD recognizes the need to protect customers who are unable to quickly respond to significant but temporary price changes in the HOEP, and TOU pricing is one of the tools available.

In developing an appropriate TOU pricing scheme, there are many variables in play over the next several years which have the potential to significantly impact the effectiveness of TOU pricing. These include the installation and implementation of smart meters, the development and integration of processes with the Smart Metering Entity's MDM/R, the evolution of OPA power procurement contracts, and the changing mix of supply due to government legislation (i.e., coal plant phase-out) and consumer demand (i.e., green energy). The CLD believes that in the face of this environment, the OEB should move forward cautiously in its current development of TOU pricing. The CLD submits that in the context of such variables, some of which continue to be developed, frequent modifications to the TOU commodity pricing methodology will potentially bring about billing risks for both distributors and the Smart Meter Entity. The CLD acknowledges that the future is always uncertain; however, the number of significant changes possible in the near-term suggests a robust TOU structure which is easily adaptable to such changes over the longer term.

The development of an appropriate TOU pricing scheme hinges on some key factors.

First, and most importantly, customers need to understand the pricing methodology and personal impacts of shifting or not shifting consumption. TOU rates need to send the proper price signal to customers and be designed such that customers know the appropriate time of day that prices will change and are able to adjust their lifestyle, and therefore their consumption patterns, accordingly.

Second, the implementation of TOU rates will impact LDC customer information systems. Sufficient notice of implementation of TOU rates is required to provide for the appropriate programming changes and testing. These changes may be further complicated by the number of times the TOU prices may change in a year and possible changes to the hours of day for the price periods including critical peak pricing.

Third, it is anticipated that customer call volumes will increase with the introduction of TOU rates and as such, LDC staff require a clear understanding of the principles behind TOU rates and the block time periods in order to provide customers with appropriate and timely responses to their questions.

The CLD has formulated its responses on the specific questions in keeping with the Staff Discussion Paper, Section 7.0, Questions to Guide Stakeholder Input.

1. Structural Issues

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

Response:

The CLD supports retaining the three-period TOU pricing structure for billing electricity as this more accurately reflects the HOEP patterns and provides customers with Mid-peak period prices available to shift On-peak load with potentially fewer changes to their lifestyle. The disadvantage of a two-period TOU is a limitation on the hours of a day in which customers may shift load, for example late at night, or an On-peak period that is too short and may not capture the winter peaks that occur later in the evening. In addition, projecting the price of electricity over a longer On-peak period may result in a lower On-peak price which would not send the proper price signal when actual prices are at their highest.

While the CLD recognizes that changing TOU rate periods back and forth to reflect the seasonal peaks in HOEP may result in an increase in customer confusion and therefore an increase in customer calls to LDC call centres, at this time there is insufficient evidence to support an annual TOU rate. The HOEP price peaks are weather sensitive and vary from summer to winter periods. In order to have three TOU periods and avoid the switching back and forth for seasonal variations, the On-peak period would have to be significantly longer, say from 7:00am to 8:00pm, in order to include the winter peaks. In the paragraph above, the CLD has argued against a two-period rate structure for this very reason.

The CLD recognizes that a goal of TOU pricing is an efficient pricing system where consumers respond to price signals when demand reductions are most needed to increase system reliability and reduce costs. Therefore the CLD acknowledges that seasonal TOU time changes would send the proper price signals to customers and encourage customers to shift consumption and take advantage of the lower prices during the Mid-peak periods. For the same reason, the CLD believes that the seasonal variations should not be adjusted such that the differences between the summer and winter pricing structures are reduced. The CLD notes that TOU pricing is not, in and of itself, an objective but rather, that TOU pricing *has* an objective, as expressed above,

Regardless of the TOU pricing methodology adopted, the CLD submits that customer education will become very important before and during the introduction of TOU pricing and as such, clear and consistent messages must be delivered to all RPP customers across the province.

The CLD believes that it is premature to introduce critical peak pricing at the same time as RPP TOU prices. The electricity market requires customer acceptance and understanding of TOU prices and the time periods related to the pricing in order to achieve the desired results of load shifting. Only when customers are charged for energy consumption on TOU rates and alter their lifestyles accordingly, will they truly understand their load pattern during the On-peak period and then be able to adjust for a critical peak period. In addition, the CLD agrees with OEB staff comments that further development, deployment and testing of additional meter data communications infrastructure are required. Attempting to introduce critical peak pricing before customer acceptance and proper testing may result in the entire TOU rate structure being delayed.

When critical peak pricing is introduced it should be mandatory for all LDCs. Anything other than mandatory implementation will again lead to customer confusion in particular as they move from one LDC without critical peak pricing to another LDC with critical peak pricing.

Also, critical peak pricing is much preferred over critical peak rebates as being easier to implement, less confusing to customers and as requiring less CIS programming to determine customer qualification, customer base load, actual load reduction and rebate calculations.

2. Price-setting Methodology

- 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?
- 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?
- Should the 1:2:3 ratio for TOU prices be reconsidered? If so, how should the ratio be adjusted?
- Should the Board consider the 1:2:3 ratio as a variable, adjusting it to respond to policy priorities and/or cost recovery issues?

Response:

The CLD proposes that the price setting methodology should focus on the recovery of total supply costs only, thereby avoiding the convergence of the mid- and on-peak prices. An intention of TOU rates is to encourage or incent customers to change consumption patterns at times of potential tight supply thereby alleviating the necessity to import or bring on line high price supply. Price setting on a segmented basis will reduce much of the incentive to shift load.

A reduction in the cost recovery period to six months, coinciding with the seasonal TOU price changes may better reflect the cost of supply forecasted for the seasonal periods. However, the CLD notes, as did OEB staff, that while multi-period cost of supply recovery would smooth out potentially unacceptable increases in prices, this would require legislative changes.

The CLD supports the 1:2:3 pricing ratio as a means of preventing price convergence and to provide the required incentive to customers to shift consumption patterns. The TOU pricing should be adjusted, as required, so as to maintain the same proportions and recover the “total” supply costs.

Changing the price ratios from one RPP period to the next in response to policies or cost recovery concerns has the potential to send the wrong messages to customers; for example, when the price differential is minimal, then the understanding may be that during that particular period conservation or load shifting is not necessary, while in another RPP period it is essential. The CLD would submit that such a message will only confuse customers as they try to establish consistent living patterns that may conflict with variable pricing ratios.

3. Variance Account Issues

- Should the recovery period for VA balances be changed?
- 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?
- Should the VA balance clearing amount be allocated differently depending on whether it is a credit or debit?
- 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?
- 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?

Response:

A more frequent recovery period of the Variance Account ("VA") may have the result of removing any smoothing effects of summer and winter variances that may occur over a twelve month period. For example, if the variance account is significant during the summer months then the VA charge on electricity prices is paid for by customers during the winter periods when supply prices tend to be lower and the VA balance would be correspondingly reduced. The CLD recommends that the VA recovery period remain at twelve months.

The CLD does not see any value in varying the allocation method for a VA debit or credit, and as stated above, maintaining the 1:2:3 price ratio, thereby preventing price convergence, is the important factor.

The CLD agrees that the VA should have a trigger point in order to determine when the VA balance is trending too far from the forecast balance such that the appropriate price adjustment may take place to better manage the VA balance. What that trigger point should be is difficult to establish now, but beginning with the $160 million level and evaluating the actual VA balance variance from forecast may be an appropriate starting point. The trigger amount that is established should not result in multiple price adjustments in a given period as this will create customer confusion.

The process for determining the price adjustment needs to reflect the 1:2:3 pricing ratio in order to avoid price convergence and send the wrong signal to customers for shifting load. The VA price adjustment would therefore need to be weighted based on this pricing ratio.

The CLD submits that the additional complexities and expense that would occur in maintaining two VA balances as a means of reducing the cross subsidization are not warranted for the short period that there may be an overlap of RPP pricing plans. While it is true that the TOU RPP is aimed at encouraging customers to make changes to their consumption patterns the OEB must also take into consideration that other conservation measures are also underway to encourage all customers to make changes to their consumption patterns. Conservation measures themselves currently create cross subsidization within today's two-tier RPP VA as it is not possible to determine which customers contribute to the VA balance (by being On-peak for example) and those who do not contribute to the VA balance because they have already shifted consumption to Off-peak by taking advantage of conservation programs available to them. The clearing of the VA is paid for by all RPP customers today.

The CLD submits that it is reasonable to maintain one VA account and dispose of the balance across all RPP customers but maintain the existing methodology for the two tier RPP and also ensure that the RPP TOU pricing ratio of 1:2:3 is maintained.

4. Billing Issues

- Should all distributors be required to bill TOU customers on a monthly basis? Why or why not?
- If yes, what are the implications for investments in billing and meter data infrastructure?
- If yes, should monthly billing be phased in? Over what time period should this phase-in occur?
- How could equal billing be retained while preserving the TOU incentives for load switching and/or load reduction?

Response:

While the CLD recognizes that participants in the OEB’s Ontario Smart Price Pilot (“OSPP”) indicated that monthly bills with daily consumption data was useful information, the CLD believes that the additional costs associated with the increase in printing, paper, envelopes and postage, in addition to CIS changes and customer call centre changes, may exceed the benefits.

In addition, if the implementation of TOU rates is to promote energy conservation as the driver then the CLD would also submit that due consideration needs to be given to conservation of the environment and the impacts of monthly billing on the increase in waste and natural resources.

While e-billing or paperless billing is always an option, the CLD would submit that those customers with access to this technology also have the sophistication to access the LDC’s web site and obtain daily information on their consumption patterns. Furthermore, a monthly bill is not sent to the customer until after the market price of electricity is final and as such the customer would receive a monthly bill 15 days into the following month and therefore the benefit of having historical information from the previous month is minimal.

For the reasons stated above, the CLD submits that mandatory monthly billing should not be imposed “carte blanche” but rather that LDCs need to complete their own analysis to justify monthly billing in response to customer needs within their respective service territories.

Equal billing or an equal payment plan ("EPP") is a payment option made available to customers as a means of budgeting electricity bill payments. In addition, many customers utilizing the EPP option, such as seniors, do so out of necessity as they may be on fixed incomes. Others are in lower income brackets and would find it difficult to budget and pay an electricity bill that varies with each billing. The CLD believes that EPP can be fully compatible with the objectives of TOU pricing by providing sufficient information on the bill itself that shows customers the impacts of their consumption and costs in each of the three TOU periods. Regular reconciliation of EPP balances and adjusting the monthly EPP amount will also provide the proper pricing signals to customers. For example, an increase in the monthly payment amount may signal to a customer that there has been higher consumption during On-peak periods while a reduction in the monthly payment amount may be an indication that consumption has been shifted to Mid-peak or Off-peak periods.

5. Longer Term Issues

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

Response:

The CLD recognizes that there may be customers who cannot shift their consumption to Mid-peak or Off-peak periods for various reasons such as medical situations. These customers will pay higher electricity bills as a result of their particular circumstances and special consideration may be required; however, it would be best if this were done outside of the TOU pricing structure.

In the context of determining the methodology of RPP pricing, the CLD suggests that OEB staff recognize that RPP customers switching to retailers may impact the pricing forecasting as well as the treatment of variance accounts.