

May 23rd, 2008

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St
Toronto, ON.

Dear Ms Walli

Re: Regulated TOU prices – EB-2007-062

Please accept this as Direct Energy's (DE) response to the Ontario Energy Board (OEB) Staff Discussion Paper on Regulated Price Plan – TOU Prices: Design and Price Setting Issues. The OEB paper outlines a number of issues for consideration given the expected large scale deployment of smart meters and supporting infrastructure. The issues outlined by OEB staff are of considerable importance to this discussion. DE believes that the OEB should also consider the following fundamental questions in addition to those outlined in the paper:

- Would regulated TOU pricing be necessary if consumers were exposed to the true cost of electricity generation?
- Is regulation required to deliver a TOU product given the existence of a competitive retail market in Ontario?

Smart metering and the associated implementation of TOU pricing is a key part of the Ontario government's overall conservation strategy. The general principle is that TOU pricing provides consumers with a financial incentive to shift consumption from peak periods by charging higher prices in the peak than in the off-peak. This type of pricing structure is facilitated by a meter which is capable of capturing small intervals of consumption data throughout the day. Furthermore this information can be relayed at close to real time to consumers so that they can understand how their changes in consumption patterns are impacting their overall electricity bill.

Some of the issues OEB staff have identified include the convergence between peak and mid-peak pricing, the recovery period of variance accounts and the allocation of those funds, the need for critical peak pricing and the methodology that should be used for recovery of supply costs. The need to address these issues may diminish if the RPP methodology allowed for a more accurate reflection of the true costs of generation and therefore exposed consumers to those rates more effectively. As OEB staff outline in the paper on page 17:

"...market prices in a hybrid market are unlikely to display the range and volatility of prices in a pure market, leading to price convergence. Converging prices reduce the incentive for consumers to shift their demand..."

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DE commends OEB staff for highlighting the fundamental barrier to conservation in the Ontario market. The price of electricity should be a reflection of the true costs of generating the power but in a hybrid market with revenue caps and an RPP methodology that does not accurately capture the full cost of generating power at a particular point in time, the prices charged to consumers do not reflect those costs. Questions therefore around how to recover supply costs and the allocation of variance accounts would be easier to address if customers were exposed to supply costs more directly, with limited averaging across time periods.

The current TOU pricing methodology may in our view be inadequate to generate the sort of meaningful conservation required to meet the Government of Ontario's conservation goals because it continues to shelter consumers from the real cost of power. By being revenue neutral to the standard two-tier RPP, which has failed to generate any conservation, the TOU RPP will be unlikely to incent behavioural change. Discussions therefore, around the number of TOU periods, or the price differentials within the current methodology are hampered because average prices would need to rise overall in line with the costs of generation, to motivate change.

This is supported by the results from the Ontario Smart Price Pilot (OSPP) outlined in Appendix A of the discussion paper. Those consumers exposed to critical peak pricing of \$0.30 per kWh showed statistically significant shifts in consumption away from on-peak periods for all days in the pilot. The results for the TOU pricing participants who were being charged between \$0.105 and \$0.097 were not significant. Without adequate price signals the significant investment in smart meter technology will unlikely to realise its projected benefits.

DE also respectfully suggests that the OEB should consider whether it is necessary for TOU pricing to be offered on a regulated basis when a competitive retail market exists in Ontario. Retailers are in the best position to bring tailored pricing to consumers and would be capable of providing such a service to consumers if metering and data collection were available on an equal and open basis. To facilitate innovation in this area the OEB should ensure that Retailers are able to access historical TOU data under the same terms and conditions as LDCs. The same access conditions should be extended to ongoing billing data. DE is of the view that this data belongs to the consumer and any Retailer chosen by a consumer should therefore have equal access to that data as the LDC.

A further component of equal and timely access to data is the need for standard data transactions. The number of LDCs in Ontario makes the standardisation of data transactions imperative if Retailers are to provide TOU pricing and assist the government in attaining its conservation goals. Flexibility in billing arrangements with LDCs is also required to ensure that consumers get the full benefit from the smart meter investment. Most TOU trials that have been conducted highlighted the need for easy access to consumption data by consumers. This included the option for frequent billing to ensure the cost or saving associated with certain consumption patterns is known. DE therefore supports the requirement for monthly billing and suggests that equal billing should be at the option of the customer and available to all customers regardless of whether they remain on the regulated rate or sign a contract with a Retailer.

DE appreciates the opportunity to provide comment on the OEB staff discussion paper on TOU prices. It is our view that the fundamental goal of TOU pricing – conservation – is unlikely to be achieved until consumers see prices that are more in line with the true costs of generation. TOU pricing can be an effective conservation tool, and has been in jurisdictions where residential pricing more closely reflects wholesale market price signals of supply scarcity. However unless Ontario moves to a pricing regime that captures all appropriate costs to supply residential load, significant conservation will not be achieved, regardless of how TOU prices are structured. DE

also encourages the OEB to continue to foster a retail market that engages the private sector's capacity for innovation.

Please do not hesitate to contact me if you have any further questions or concerns.

Yours sincerely

A handwritten signature in black ink, reading "Chantelle Bramley". The signature is written in a cursive, flowing style.

Chantelle Bramley
Senior Director
Government and Regulatory Affairs
Direct Energy Marketing Limited