

May 23, 2008

Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Via Board's web portal and by courier

Dear Board Secretary:

**Re: Board File No. EB-2007-0672
Consultation on Time-of-Use Pricing Framework**

The Electricity Distributors Association (EDA) is the voice of Ontario's local distribution companies (LDCs).

The EDA is providing the attached submission in response to the April 17, 2008 Ontario Energy Board Staff Discussion Paper on Regulated Price Plan – Time-of-Use Prices: Design and Price Setting Issues (EB-2007-0672). The EDA would like to participate in any further consultations on TOU pricing.

Yours truly,

“original signed”

Richard Zebrowski
Vice President, Policy and Corporate Affairs

Attach.

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EDA Comments on April 17, 2008 Ontario Energy Board Staff Discussion Paper on Regulated Price Plan – Time-of-Use Prices: Design and Price Setting Issues (EB-2007-0672)

The EDA has held consultations with its members on the OEB Staff Discussion Paper on the Regulated Price Plan and Time-of-Use Prices: Design and Price Setting Issues. The Discussion Paper poses comments and questions which are repeated below (in *italics*) with the EDA responses following.

TOU Pricing: 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?*

Three-Period Pricing

Board staff's initial view is that the three-period design should be retained. The hourly variations in the cost of RPP supply referred to in section 2.1.1 continue to support this structure and, based on the results of the OSPP, the structure does not appear to be so complex from a customer perspective as to require change. However, Board staff would be assisted by comments from stakeholders on whether and how a two-period pricing structure might better support load shifting and conservation.

The EDA agrees with Board staff's initial view and supports continuation of the three-period design as it sends a price signal to shift load off the high cost on-peak periods into mid-peak periods and better tracks the variation of commodity costs within a typical weekday. A two-period design would create less opportunity for customers to shift load. Over time customers will develop approaches to respond to the on-peak prices and will shift load to mid-peak periods.

Seasonal Variations

Board staff's initial view is that seasonal variations may remain appropriate, but that there is merit in revisiting the issue. Board staff would be assisted by comments from stakeholders on whether seasonal variations should be retained and, if so, whether the seasonal variations

should be retained in their current form or whether they should be adjusted such that the differences between summer and winter pricing structures are reduced.

Although pilots show customers to-date may not have demonstrated an ability to take advantage of the two daily on-peak winter periods, these double on-peak periods in winter reflect costs and we expect that eventually customers will have further options for responding to the double on-peak periods in winter. The different price periods between summer and winter will eventually be understood by customers. These differences between seasons will continue to be relevant for some time and we should assist customers in understanding these differences in load patterns.

Critical Peak Pricing

Board staff's initial view is that critical peak pricing options – whether CPP or CPR – should be developed, and mandated for all consumers, only after consumers have greater experience with TOU pricing. Alternatively, consideration could be given to providing for critical peak pricing to be offered initially at the discretion of the distributor rather than being mandated for all consumers. Board staff would be assisted by input from stakeholders in relation to critical peak pricing generally, and to the manner and timing of implementation.

The EDA agrees that greater experience with TOU pricing is needed before CPP or CPR is mandated. Some distributors would be interested in providing CPP or CPR on a voluntary basis for the customers that can take advantage of these short notice price signals.

We believe the focus should initially be on sending consistent messages to customers on the times when on-peak occurs. Once customers have a good understanding and have developed approaches to respond to on-peaks, then consideration could be given to offering CPP or CPR.

TOU Pricing: Determining the Prices

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?

Supply Cost Recovery

Board staff suggests that the threshold question for revising the TOU price setting methodology to reduce price convergence among the TOU pricing periods is whether the hours for each price period should be adjusted or whether the principle of supply cost recovery within each TOU pricing period should be relaxed.

If hours are to be adjusted, should they be adjusted to restore the 1:2:3 ratio in the original design?

If the principle of supply cost recovery within each TOU pricing period is to be relaxed, then Board staff notes that the following additional issues arise:

- *Should the Board focus on maintaining the 1:2:3 ratio and, as a result, recover supply costs across more than one TOU period if needed?*
- *Should the Mid-peak price be adjusted, perhaps closer to the midpoint between the Off-peak and On-peak prices? For example, by basing the Mid-peak price on the “average” RPP price?*
- *Should the range of Off-peak to On-peak prices be “stretched”, perhaps by including forecasts or estimates of segmented uplift costs in the price setting process?*
- *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?*
- *Assuming that a price ratio methodology is retained by the Board, should the Board consider price ratios as a variable, changing from one RPP period to the next to reflect changes in policy priorities and/or cost recovery concerns?*
- *Should the Board adopt an “avoided incremental cost of supply” methodology for On-peak prices and then adjust Mid-peak and Off-peak prices to recover total supply costs, regardless of the resulting price ratios?*

As noted in the EDA’s answers above, the EDA believes the focus should initially be on sending consistent messages to customers on the times when on-peak and mid-peak occurs. These on-peak and mid-peak periods reflect the variation of commodity costs and consistency is required to educate customers. The load patterns are fairly consistent and the times for on-peak and mid-peak are relevant for the long term. Generation that operates during the on-peak periods is more costly for society and price signals should be sent to encourage less use at these times.

The EDA believes the hours for each TOU pricing period should not be adjusted. As a result, the preferred approach to reduce price convergence among the TOU pricing periods and maintain an appropriate price difference between on-peak and mid-peak would be to relax the principle of supply cost recovery within each TOU pricing period.

With regards to whether the 1:2:3 ratio should be maintained, the EDA believes that further study is necessary. The EDA believes the avoided incremental cost of supply methodology for on-peak prices has merit and should be further investigated. As noted above, the generation that operates during the on-peak periods is more costly for society and price signals that reflect this

cost will be more efficient. However, the EDA believes that the approach used should result in fairly consistent price differentials. Whether a 1:2:3 ratio or another ratio should be used is not clear, but it would be beneficial for customer understanding and acceptance if the ratios were generally consistent over time. Consistency would give customers confidence that actions to reduce or shift load from on-peak and mid-peak based on the present price differentials will continue to provide benefits in the long run.

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?

Recovery Period

Board staff's initial view is that there may be merit in examining recovery of the VA balance over a different or varying period in a TOU-only or a TOU-dominant RPP system as a means of enhancing the effectiveness of TOU prices. Board staff would be assisted by stakeholder input on this issue, bearing in mind that some options may only be feasible if legislative changes are made.

As noted in the answers above, the EDA believes that the TOU price differentials should be relatively consistent, and as a result, we would support efforts to examine recovery of VA balance with a view to maintaining price differentials.

The EDA believes there is merit in using the stochastic adjustment to pro-rate the VA balance charges.

Variance Account Charges – Allocation and Triggers

Board staff seeks input from stakeholders on the appropriateness of the current VA allocation when RPP becomes predominantly TOU. In addition, staff seeks comments on the importance of

maintaining target TOU price ratios through weighted or proportional VA allocation and interim adjustments and whether, or how, inherent cross-subsidies in VA allocation should be addressed.

The EDA has some concerns regarding the expected additional settlement costs from the use of a two variance account system to address cross subsidy issues during a transition period to TOU pricing. The EDA suggests that the better approach to address the cross-subsidy is to ensure most customers have smart meters before TOU pricing is provincially mandated.

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?

Board staff would be assisted by stakeholder input on the costs and benefits of requiring either monthly billing and/or the provision of more detailed consumption data to consumers in support of TOU pricing (including any critical peak pricing options).

Board staff questions whether equal billing is fully compatible with the objectives of TOU pricing. However, staff would be assisted by stakeholder input on this issue, including proposals for measures that could be implemented to address consumer information needs while allowing equal billing and TOU pricing to co-exist.

The EDA has concerns regarding the proposal to mandate monthly billing. Distributors with bi-monthly billing would experience a doubling of mailing costs and meter reading costs. Many smart meters still require meter readers and handheld devices due to the lack of an appropriate wireless infrastructure. This is particularly a problem in more remote locations. Distributors that have bi-monthly billing believe that customers could receive updated information on their energy consumption from web presentments.

With respect to equal billing, distributors believe the offering of equal billing is a business decision that should be left to the discretion of the distributor. Equal billing is a payment arrangement that some customers prefer. The offering of an equal billing plan is based mostly on the customer mix, extent of electricity usage for space heating and the percentage of customers on fixed incomes in the distributor's area. Distributors that offer equal billing believe that customers receive relevant information on their consumption on their bills and could receive updated information on their energy consumption from web presentments. These customers want to remain on equal billing and understand that the variance between the equal payment and the actual bill is tracked and will be cleared eventually.

Longer Term Issues

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

Board staff would be assisted by stakeholder input on the issue of whether the underlying principles of RPP TOU price setting may require re-evaluation to respond to continuing price convergence. Board staff would also be assisted by stakeholder input on alternative price setting methodologies that the Board could consider in the event that price convergence continues and appears to be impairing the effectiveness of TOU prices in stimulating load shifting.

As indicated in the above responses, the EDA supports consistent price differentials to maintain the effectiveness of TOU prices in sending appropriate price signals. The OEB should have the flexibility to set RPP TOU rates that have fairly consistent differentials.