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Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli,

**RE: EB-2016-0201 – Comments of London Property Management Association on Staff Research Paper: Examination of Alternative Price Designs for the Recovery of Global Adjustment Costs from Class B Consumers in Ontario**

## **A. INTRODUCTION**

The following are the comments of the London Property Management Association (“LPMA”) with respect to the OEB Staff Research Paper: Examination of Alternative Price Designs for the Recovery of Global Adjustment Costs from Class B Consumers in Ontario (“Research Paper”) dated February 28, 2019, including the information provided during the March 21, 2019 technical meeting for stakeholders.

The Research Paper is an economic analysis of the potential impact of a number of alternative price designs for the recovery of the Global Adjustment (“GA”) costs from Class B consumers in Ontario.

## **B. COMMENTS**

LPMA considers the Research Paper to be only the first attempt at estimating the potential impact of a number of pricing prototypes for the recovery of the GA. In particular, the Research Paper is a purely theoretical analysis, based on a number of simplifying assumptions that are not likely to prevail in the real world.

LPMA is not critical of this theoretical approach. It is a necessary first step in determining an appropriate pricing mechanism for the recovery of the GA. It is the view of LPMA that the economic analysis should be updated at some point in the future based on actual observed results from pilot pricing projects that extend beyond residential customers.

There are a number of key assumptions made in the Research Paper. Among these is the assumption that Class B consumers are fully informed about the pricing plan they are responding to, are aware of the electricity price in any given hour and that they will respond to those prices as a typical electricity consumer. In the real world, a large percentage of Class B consumers will not be fully informed about the pricing plan they are subject to and will not be aware of the electricity price in any given hour. It is also unclear what the response to those prices would be for a typical electricity consumer.

While electricity costs may make up a large proportion of operational costs for some consumers, this will not be true for all consumers. It is also highly likely that even in the face of dramatic increases in peak demand prices, some consumers will not be able to respond to these prices. This difference in response is likely linked to the sectors that the consumers are in. Some commercial and industrial operations will be able to adapt to a different pricing plan, while others will not be able to do so, or their ability to do so will be limited.

Another assumption made in the Research Paper is the own-price and substitution elasticities used in the estimation of the change in peak demand based on the percent change in the average price for the various pricing prototypes. While the Research Paper uses conservative values for these elasticities, there is a wide range of estimates for these elasticities for residential and small commercial customers, as shown in Figures 3 and 4 in the paper.

LPMA does not believe that one estimate of either the own-price or the substitution elasticity is necessarily appropriate for all residential and small commercial customers. Residential customers may have a different reaction to price changes than do small commercial customers. All small commercial customers are not likely to have the same reaction to price changes. There may be significant differences in elasticities by sector or industry.

LPMA also notes that the Ontario Energy Board (“OEB”) is currently in the process of reviewing rate design for commercial and industrial customers (EB-2015-0043). In particular, the OEB is reviewing the GS<50 kW class with a potential splitting of the class into a GS<10 kW class and GS 10-50 class. In this latter class, the distribution charge is proposed to move from a charge per kWh to a charge per kW.

Similar to the review in this consultation, the objective is to reduce peak demand. LPMA is concerned with the cumulative impact of this change and any pricing prototype that may emerge from this process. There is a limit to what many small commercial customers can do to reduce their peak demand. If the rate design changes results in some changes by these customers, the impact of any pricing prototypes for recovering the global adjustment cost is likely to be reduced. LPMA believes that the impact of distribution rate design changes should be factored into the economic analysis.

LPMA notes that the results from a number of pilot pricing projects are expected by the end of this year. However, those projects appear to be residential only projects. LPMA

believes that there should also be pilot projects associated with commercial and industrial customers. As noted earlier, there is no reason to believe that commercial and/or industrial customers will react in the same way and to the same magnitude as residential customers to pricing signals.

LPMA also notes that the data shown in part C of the Research Paper is several years old. Given the availability of smart meter data for many years, LPMA believes that better information should be available and incorporated into the economic analysis. This data should not only be available by rate class, but also by commercial and industrial sectors. This disaggregation is important, in the view of LPMA, because not all sectors have the same ability to shift or reduce their peak demand.

There are other sources of economic value or economic loss that could be considered in evaluating the various pricing prototypes. The economic impact of reduced electricity costs in the long run could mean economic activity and growth could be positively impacted. Similarly, the potential for economic loss should be considered.

As shown in Figure 2 in the Research Paper, the potential increase in the annual costs relative to the status quo under the various pricing options can be significant. For the TOU – 4-1 option, the annual increase could be 45% for customers who cannot respond to the price plan, and to 40% for those who can. For the Demand Exp 6 price option, the increase is around 15% for both demand response and no response. For some customers this may result in reduced activity/production or even closure. This would result in a drag on economic activity in the province.

LPMA believes that there are other pricing prototypes that should be examined. Two examples are provided here.

The first would be a TOU approach but with the addition of a fourth time period which would be a super peak period where the super peak to off peak ratio could be higher than 4 to 1.

The second would be the consideration of more frequent TOU seasonal rate changes. Rather than the current summer and winter TOU periods, the number of periods could be expanded to include spring and fall TOU periods, for a total of four seasons, or the inclusion of a shoulder or transitional season (i.e. spring and fall combined) for a total of three seasons.

This expansion to three or four TOU seasonal periods could then be combined with the TOU 2-1, TOU 4-1 and super peak prototypes. Given the seasonal variation in use and in peak demand, the economic analysis may be significantly different than using the current TOU seasons.

In summary, LPMA believes that while the Research Paper is a good first step in the economic analysis of pricing prototypes, it should be updated when more information is available from the pilot projects so that the real-world reaction of consumers can be more

accurately reflected in the analysis. At this point, LPMA does not know if the impact would increase or decrease the economic efficiency results over the forecast period. LPMA also does not know if the real world-based assumptions would change the relative impacts on the pricing prototypes included in the Research Paper.

Yours very truly,

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