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Our File: EB20160201

Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2016-0201 – Non-RPP Class B Global Adjustment Recovery – SEC Comments

We are counsel to the School Energy Coalition (“SEC”). These are SEC’s brief comments on the *Staff Research Paper: Examination of Alternative Price Designs for the Recovery of Global Adjustment Costs from Class B Customers in Ontario* (the “Research Paper”).

General Comments

The Research Paper is an attempt to put forward and examine a number of different approaches to the recovery of Global Adjustment (“GA”) costs from non-RPP Class B customers. These customers currently pay GA costs based on a flat volumetric charge, which the Research Paper views as “markedly weaker incentive to proactively manage their energy consumption relative to RPP customers and Class A customers alike”.¹ The Research Paper uses modelling and theory to estimate the impact of avoided system energy, and capacity costs, and customer benefits, to measure the overall economic welfare of a number of different pricing prototypes.

SEC agrees that current flat pricing approach to recovery of the GA is not ideal, because the price signals it sends do not reflect the underlying costs. The current pricing approach to GA is not based on cost causality. Flat pricing assumes that the portion of the overall commodity costs that are recovered through the GA should be the same no matter the time of day. This simply is not the case. For example, a significant portion of GA costs reflect the need for secure capacity through contract. Capacity is built for peak demand, and the costs of securing that capacity should be paid by those who use the system at peak.

While most of the pricing prototypes that are assessed in the Research Paper appear to reflect different ways of attempting to reflect cost causality (for example, TOU, demand-shape, and supply shape pricing), the evaluation methodology is not which best achieves cost causality, but instead they are evaluated on broader economic efficiency grounds.

¹ *Staff Research Paper: Examination of Alternative Price Designs for the Recovery of Global Adjustment Costs From Class B Customers in Ontario* (EB-2016-0201), February 28 2019 [“Research Paper”]

SEC recognizes that the Board is moving beyond cost causality for TOU rates in its RPP pilots. But the non-RPP Class B customers' current approach to pricing of GA costs does not even reflect the short-term system cost causality of GA costs built into the RPP TOU rate design.²

In the end it may not be possible to determine the best way to reflect cost causality for GA cost, and so, economic efficiency may have to be used to evaluate design. But at this early stage, there is no attempt to assess the pricing prototypes using that lens. It is important to at least try to develop a strict cost causality approach, if for no other reason than to ensure that any shift away from cost causality is principled and disciplined.

Included in the calculation of economic efficiency is not just avoided energy and capacity costs, but as well, change in consumer benefits. The consumer benefit is to reflect the value derived by consumers from using electricity based on a given demand and given time period.

While SEC agrees with the Research Paper that, while including consumer benefit is a departure from prior literature, an economic efficient pricing design that only includes a calculation of avoided cost, would be one that *always* limits growth.³ The problem is that unlike avoided costs which come from IESO forecasts, the customer benefit estimate is based *entirely* on economic theory.⁴ In SEC's view this only reinforces its doubt that overall economic efficiency is what should drive the rate design as opposed to cost causality.

Alignment with Incremental Capacity Auction.

As the sector moves away from contracts to a more market-based system with the IESO's development of an incremental capacity auction as part of its Market Renewal Initiative, the Board should consider aligning GA recovery with how capacity payments will be recovered from ratepayers. Currently, the IESO proposes to recover capacity auction payments from market participants, including distributions, by way of their contribution to peak demand.⁵ The Board will have to determine how it will flow those costs down to end use customers, but one assumes it will be on a similar basis. Whatever it chooses, it makes little sense to allocate capacity payments from incremental generation using one approach, and legacy capacity contained within the GA using a different approach. If capacity should be based on peak, that principle should apply to all capacity.

Comments on Modelling Inputs

SEC commends the Board for providing its early research to parties to review and comment. This is a helpful development. But, at this stage of the consultation, we have a limited ability to provide substantive comments on various GA pricing prototypes, since the modelling is preliminary and on customer data from those who would not be impacted by the proposals. There are also significant changes that are currently underway within the sector that will impact customers' ability to respond to price signals. It may be prudent to wait until the outcomes of the ongoing consultations and initiatives are known, so that the most accurate information can be modelled.

² *Report of the Board: RPP Roadmap* (EB-2014-0319), November 16 2015, p.6

³ Research Paper, p.10

⁴ Research Paper, p.2

⁵ Independent Electricity System Operator, *Incremental Capacity Auction High-Level Design*, p.225

Modelling of Demand Does Not Use Data From Types of Customers Impacted

The calculation of the benefits is based on energy and capacity reductions that are caused by reducing overall use and peak demand use. In deriving customers' demand response, OEB Staff estimated the elasticities of demand by using various studies that have been undertaken in the United States and Canada. SEC has an overarching concern regarding the studies used to determine the elasticities of demand. All the studies referenced in the report appear to be based on the impact on pricing changes for residential and commercial customers. Those customers have different load profiles and demand response capabilities from those that make up many of the non-RPP Class B customers. As the report itself notes in footnote 7, the comparability between those types of customer groups is only based on "limited evidence from the literature".⁶

Further, within non-RPP Class B customer groups, there is likely a significant variation in price sensitivity that warrants further investigation. An industrial customer likely has a greater ability to shift demand from high to low peak demand periods (higher elasticity of demand), where many commercial and institutional customers, including schools, are much more limited (lower elasticity of demand).

SEC submits the Board needs to collect information through either a review of other jurisdictions or, even better, pilot projects in Ontario, to determine how different customer types who make up the non-RPP Class B customers actually respond to price signals. It is not sufficient to use residential and commercial customer information as a shortcut.

Even if the Board considers using residential demand response data to extrapolate impacts to non-RPP Class B customers, then it should await the outcome of the various pilot projects that are currently underway. SEC notes that the Interim Report from Alectra Utilities on its RPP pilots shows that, for the only non-opt in pricing plan (doubling the TOU differentials), it resulted in zero impact on demand.⁷ These results may end up being an outlier, or signal a deeper issue that may or may not be relevant to other customer types.

Sector Changes and Consultations Need To be Considered

SEC is also concerned that there are a number of interrelated consultations and program changes that are either announced or on-going, some of which may impact the ability of non-RPP Class B customers' ability to respond to different pricing models. These other influences will need to be incorporated in any modelling.

First, the future of Ontario conservation programs is uncertain. The Ontario government has dramatically scaled back the current Conservation First Framework, which will end in 2020, and it is likely to reduce the size of electricity conservation programs in the next framework.⁸ This may make customers more sensitive to price signals (since the programs messages are more muted), or less sensitive to price signals (since without incentives fewer measures will be economic).

⁶ Research Paper, p.14

⁷ *Alectra Utilities Regulated Price Plan Pilot – Interim Report*, March 29 2019, p.26

⁸ See Ministerial Directive to the IESO under subsection 25.32(5) and (11) of the Electricity Act, 1998, Order-in-Council 380/2019, dated March 20 2019; Ministerial Directive to the IESO under subsection 25.32(5) of the Electricity Act, 1998, Order-in-Council 379/2019, dated March 20 2019



Second, the Ontario government has launched a consultation regarding industrial pricing. The outcome of the consultation, and any potential new or revised program, may increase or decrease the GA costs allocated to GA customers, or may even get rid of the distinction.⁹ Overall costs that need to be collected from non-RPP Class B customers will impact the size of any price signals, and customers' willingness to shift demand.

Third, the Board is in the midst of a consultation on Commercial/Industrial Rate Design, which includes a proposal for a Capacity Reserve Charge for load displacement generation ("LDG").¹⁰ In addition, the Board has also announced a consultation on Distributed Energy Resources ("DER").¹¹ The outcome of these two consultations will impact the economics and relative viability of LDG and other DERs such as storage, which are significant ways non-RPP Class B customers are able to reduce their peak demand and respond to any proposed change to the way GA costs are collected. SEC submits that, until there is greater clarity on the outcome of these consultations and initiatives, there is significant doubt whether one can accurately model customer responses to changing pricing models.

Until better information is included in the modeling, and an analysis of how different customer types within the non-RPP Class B category will respond to changes in how the GA is recovered from customers, it is very hard to estimate the impact of the varying pricing models, and more specifically for schools. This information is required to properly assess the pricing prototypes evaluated in the Research Paper.

Yours very truly,
Shepherd Rubenstein P.C.

Original signed by

Mark Rubenstein

cc: Wayne McNally, SEC (by email)
Interested Parties (by email)

⁹ <https://www.ontario.ca/page/consultation-industrial-electricity-prices>

¹⁰ EB-2015-0043

¹¹ EB-2018-0288