April 18, 2019

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

via RESS and Courier

Dear Ms. Walli:

Re: Staff Research Paper: Examination of Alternative Price Designs for the Recovery of Global Adjustment Costs from Class B Consumers in Ontario
EB-2016-0201

On February 28, 2019, Staff at the Ontario Energy Board ("OEB") issued a Research Paper ("the Research Paper" or "the Paper") entitled, "Examination of Alternative Price Designs for the Recovery of Global Adjustment Costs from Class B Consumers in Ontario" as part of the development of the RPP Roadmap. The OEB is examining the need to redesign the RPP to better respond to policy objectives, improve system efficiency, enhance customer literacy, and to empower customers. In addition to this Paper, the OEB has also approved a number of pilot projects that seek to test alternative RPP price plans.

OEB Staff also intends to engage stakeholders to better understand perspectives and preferences relating to the pricing alternatives and their impact on demand response. OEB Staff hosted a Stakeholder Conference to discuss the RPP Roadmap on March 21, 2019, and has invited comments on the Research Paper as well.

The Coalition of Large Distributors ("CLD") is pleased to offer comments on this important policy file. The CLD consists of Alectra Utilities Corporation, Elexicon Energy Inc., Hydro One Networks Inc., Hydro Ottawa Limited, and Toronto Hydro-Electric System Limited.

A. SUMMARY OF KEY MESSAGES & RECOMMENDATIONS

Fundamentally, the CLD favours a pricing methodology that will be understood by customers and that drives fair and equitable results across the system. The Research Paper provides a good analytical framework to aid in the determination of the design and evolution of an appropriate framework for the pricing structure of Global Adjustment ("GA") costs for Class B customers. The CLD believes that next steps in this effort should include:

- Incorporation of input and directional alignment with key policy consultations currently underway (Market Renewal Project and Industrial Electricity Rate consultation);
- Taking into account any changes to commodity pricing driven by the implementation of Bill 87;
- An analysis and incorporation of input from the RPP pricing pilots currently underway;
- An expansion of the current analyses to design further scenario analyses, answer specific questions, and/or test certain assumptions.

These recommendations follow from the CLD's review of the Research Paper issued by OEB Staff and on-going developments in the electricity industry. In the sections that follow, the CLD provides its general comments as well as specific comments related to the development of alternative pricing designs.

B. COMMENTS – GENERAL

Through the RPP Roadmap the OEB would like to develop an optimal approach to the recovery of GA costs from Class B customers. As such, the Paper analytically examines a variety of generic GA pricing approaches on the basis of economic efficiency and customer cost impacts. The analysis considers three key objectives for any pricing option to achieve, including: the ability to drive peak demand reduction, drive efficient system operations, and to result in lower long-run system costs. The analytical framework considers three primary criteria on which to evaluate each of the relative pricing options:

- Revenue adequacy;
- Economic efficiency;
- Consumer bill impacts.

In this context, revenue adequacy refers to the ability to recover all electricity supply costs. For purposes of the analysis, this objective is assumed to take place such that a relative examination of economic efficiency and bill impacts can be closely examined. In other words, the analysis is set up to assume revenue adequacy for each of the alternatives considered.

Generally, the CLD is supportive of the effort to analyze and consider a new pricing structure for Class B customers, as the current system may not consistently generate fair or balanced outcomes. While Class A customers have a direct incentive to manage their demand, Class B customers are responsible for the remainder of the GA costs, and as the Roadmap points out, non-RPP Class B customers have a weaker incentive to avoid peak consumption (because they pay Hourly Ontario Electricity Prices instead of Time of Use prices). As a result, RPP customers lower the GA burden for all Class B customers, which the Roadmap refers to as the 'GA misalignment problem'. Furthermore, with respect to the Class B GA price itself, applying a single rate for the entire month of consumption is not conducive to incenting appropriate behaviours.

The CLD supports the OEB's commitment to working with the government and the Independent Electricity System Operator ("IESO") on this important initiative. Specifically, the discussion and

reference to the development of a single schedule market, the day-ahead market, and the incremental capacity auction aspects of the IESO's Market Renewal Project are well founded. While much work remains to be done on those initiatives, it is clear that the reformulation of Class B GA pricing structures must reflect and align with the electricity market and pricing structures.

C. COMMENTS – SPECIFIC

The RPP Roadmap and the pricing alternatives considered by Staff in the Research Paper seek to provide customers with a pricing structure and plan that they understand. Ideally, the pricing structure would enable incentives that drive consumer behaviour in ways that maximize efficiency benefits for the electricity system as a whole, thereby reducing costs for everyone.

Staff establishes and describes the pricing prototypes examined in the Paper as follows:

- Status Quo pricing ("SQ") – a simplified version of the class B pricing in place in 2018, used as a baseline against which all other pricing profiles are compared for the purposes of estimating demand response impact.

- Flat pricing ("Flat") – the least dynamic prototype, charging consumers the same price in all hours so as to recover all market and GA costs over the cost recovery period.

- Expanded time-of-use pricing ("TOU") – a natural extension of the existing status quo RPP time-of-use pricing structure but applied to all class B consumers.

- Demand-shaped pricing (Demand) – market costs (i.e. those costs that are paid to generators through the real-time energy market which defines the Hourly Ontario Electricity Price ("HOEP")) are recovered through HOEP; GA costs are recovered in a fashion that is directly correlated with total Ontario demand in each hour.

- Supply-shaped pricing (Supply) – market costs are recovered through HOEP; GA costs of different generators are recovered in the hours in which those generators produce electricity.

- High N pricing ("HiN") – market costs are recovered through HOEP; some fraction (here 50%) of GA costs are recovered based on the consumption of class B consumers during the highest demand hours within each cost recovery period.[1]

As above, the evaluation of each of the pricing models is done according to the estimated impacts on long term economic efficiency and consumer bill impacts. Economic efficiency is measured as the avoided cost of energy and capacity due to estimated changes in demand induced by each

[1] Staff Research Paper: Examination of Alternative Price Designs for the Recovery of Global Adjustment Costs from Class B Consumers in Ontario, EB-2016-0201, Ontario Energy Board Staff, February 28, 2019, p.2.

of the alternatives. Bill impacts, on the other hand, are determined by the direct benefit or cost to consumers in respect of the anticipated change in demand.

In conducting its research, Staff finds that the demand-shaped prototype generates the highest value in terms of economic efficiency vis-a-vis consumer benefits. In addition, Staff also draws the following conclusions from its analyses:

1. Need to balance system savings with consumer benefit – extreme pricing scenarios increase economic benefits by leading to deferred infrastructure needs, but also reduce consumer benefits by reducing consumption even where it would have value.

2. Correlating GA prices with demand yields positive economic efficiency results – Correlating GA costs with demand produces greater benefits relative to the current pricing structure.

3. Basing GA prices on the hourly quantity and GA cost of each resource is not efficient – Basing GA costs on the supply resources used results in inferior results relative to other prototypes studied.

4. Reductions in consumer benefit can swamp more than offset system savings for Class A-like GA allocation – Allocating Class B costs consistent with the way Class A costs are currently determined results in significant reductions to consumer benefit.

5. Reallocation of GA designs can reduce costs for consumers able to respond to better price signals, but greater information regarding consumer acceptance is required – The ability for customers to respond to differing price signals appears to be the main driver in generating customer savings, however, more work remains to be done to study this impact.

The CLD takes no issue with the findings and conclusions drawn in the Research Paper. At a high level, the conclusions appear reasonable and make intuitive sense. Regarding the specific pricing alternatives considered, the CLD offers several comments.

First, some of the alternatives should be dismissed out of hand and not considered in further analysis. The HiN model, for example, is too complex, and would likely fail to promote customer understanding, and therefore customer action. As Staff points out, the prototypes that require real time information would make it more difficult for consumers to know what the price of electricity would be, and therefore, they would not be able to adapt their usage accordingly. The adverse impact to customers that do not or cannot adapt is significant. The results of OEB staff's own analysis show that the HiN – 200 option results in a significant net negative total welfare. The CLD submits that this alternative in particular should be rejected.

Similarly, the Research Paper finds that effectively communicating prices to consumers should be fundamental to the Class B pricing framework. The CLD agrees, and believes this element should be required in any models that are advanced and selected for further analysis.

Another fundamental observation introduced in the Research Paper that the CLD agrees with is that inefficiencies in the pricing structure may induce greater defection from the grid. This outcome would exacerbate inefficiency from a grid perspective in that more costs would be borne by fewer customers. A key principle in the design and examination of pricing alternatives should be the pursuit of fair outcomes where cross subsidization of costs are minimized.

In addition to the items raised above, there are several other critical questions the CLD suggests should be examined in the next phase of analyses. Specifically:

- The Paper assumes that all Class B consumers are fully informed about the pricing plan they are responding to and that they are aware of the electricity price in any given hour and will respond to those prices. How would the results change if differing levels of customer participation are assumed? For example, if 50% of customers respond according to the presumed elasticity of demand or if 90% of customers responds?

- The ComED study that was relied upon to derive an own-price elasticity of -0.075 was a study of residential consumers' responses to real-time price variations. Is the elasticity of demand for residential customers an appropriate proxy for all Class B consumers?

- If the change in demand is assumed to be materially less than that projected in the current analysis, would this fundamentally change any of the resulting conclusions? Based on Staff's analysis, it appears that the bulk of the economic efficiency benefits derive from deferred generation or capacity costs resulting from the reduced demand. If demand is not reduced as projected, then the benefits would not be produced as projected.

- What study has been done to estimate the future GA costs in the aggregate? How would this forecast change as a result of fundamental electricity market redesign and superior pricing mechanisms contemplated in the IESO's MRP? Does this have any bearing on the choice of pricing alternatives going forward?

- The current system of settlements with the IESO involves first establishing Class A load and using this along with total load to assign the quantity of load relevant to Class B. A question then arises as to how any of these new pricing dynamics may require changes to the settlements process with the IESO.

- How does the Board envision rolling out any change to the pricing structure of the GA for Class B customers?

On the latter question, the CLD favours a well-planned roll out given that other initiatives are currently underway such as Market Renewal Project and the Industrial Electricity Rate consultation which will have an impact on customer bills.

Changes are also currently being stakeholdered for commercial and industrial distribution rate design and it is unclear how the timing of this initiative may overlap with final implementation of other commodity and GA pricing initiatives. If multiple changes from a variety of initiatives occur over too short a timeframe, there is a significant risk of customer confusion, creating insufficient opportunity for affected customers to understand, plan and respond to new price signals and/or billing determinants for effective and timely management of bill impacts.

Another important input into the design of reformulated Class B pricing structures, as acknowledged by Board Staff, is the outcome from the RPP pilots that are currently underway. The pricing pilots will provide real world evidence of consumer adaptation to different pricing structures and their effectiveness. In addition, the outcomes of the IESO's Market Renewal Project discussed above as well as the Government's current Industrial Electricity Rates consultation may also inform the direction of future changes to the preferred pricing structure.

The CLD favours a methodology that will be understood by customers and that drives fair and equitable results across the system. As indicated in the discussion above, the CLD believes the research Paper provides a good analytical framework to launch additional input into the design and evolution for the pricing structure of GA costs for Class B customers. In conjunction with continued analyses, input from the RPP Pilots, input and coordination with other policy consultations, and consultations with stakeholders and customers, the Board will be in a position to make informed choices going forward.

D. CONCLUSION

The CLD appreciates the opportunity to provide comments on the Research Paper, and respectfully requests that any subsequent assessment of alternative GA pricing options take into consideration the comments set forth herein.

If you have any questions with respect to the above, please contact the undersigned.

Sincerely,

Original signed by Indy J. Butany-DeSouza

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