

ONTARIO ENERGY ASSOCIATION

# DESIGN OF AN OPTIONAL ENHANCED TIME-OF-USE (TOU) RATE: EB-2022-0074

March 3, 2022

To shape our energy future for a stronger Ontario.



# ABOUT

The Ontario Energy Association (OEA) is the credible and trusted voice of the energy sector. We earn our reputation by being an integral and influential part of energy policy development and decision making in Ontario. We represent Ontario's energy leaders that span the full diversity of the energy industry.

OEA takes a grassroots approach to policy development by combining thorough evidence based research with executive interviews and member polling. This unique approach ensures our policies are not only grounded in rigorous research, but represent the views of the majority of our members. This sound policy foundation allows us to advocate directly with government decision makers to tackle issues of strategic importance to our members.

**Together, we are working to build a stronger energy future for Ontario.**

The recommendations contained in OEA papers represent the advice of the OEA as an organization. They are not meant to represent the positions or opinions of individual OEA members, OEA Board members, or their organizations. The OEA has a broad range of members, and there may not always be a 100 percent consensus on all positions and recommendations. Accordingly, the positions and opinions of individual members and their organizations may not be reflected in this document.

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## INTRODUCTION

On November 16, 2021, the Minister of Energy issued a letter asking the Ontario Energy Board (OEB) to report back and advise on the design(s) of an optional enhanced Time-of-Use (TOU) rate to further incent demand-shifting away from peak periods to lower-demand periods.

The Minister's letter stated:

“Over the coming years, electrification of emissions-intensive sectors is expected to provide opportunities to reduce province-wide emissions. This trend will also put pressure on the electricity grid. There is an opportunity to consider new rate designs that could anticipate increased electrification and support the decarbonization of the economy, such as by shifting electricity loads to lower-demand overnight periods when Ontario has more electricity available and electricity is generated largely from non-emitting sources. Shifting loads to overnight periods may also have the added benefit of increasing efficiency in Ontario's electricity grid.”

On January 24, 2022, the OEB issued a letter inviting interested parties to a stakeholder meeting on February 17, 2022, to seek input on the design of an optional enhanced TOU price plan. The OEB's February 17 presentation requested feedback from stakeholders on the proposed price design, supporting data and related cost recovery through eight questions included in the presentation.

The OEA welcomes this opportunity to participate in the OEB's consultations on the design of an optional enhanced TOU rate. An increase in the electrification of the economy in response to decarbonization initiatives is a significant issue, and policy and regulatory actions that are taken related to these issues will have a profound impact on Ontario's energy system, utilities, market participants and consumers.

The OEA appreciates and is extremely supportive of the OEB's and Minister's efforts to advance this issue. Our submissions will focus on key considerations necessary to successfully design and implement electricity rates to foster electrification in a sustainable way.

## SUBMISSIONS

### Align with OEB and Provincial Energy Sector Objectives

In developing enhanced TOU options, the OEB should be guided by the Minister's November 16, 2021, letter, but also by the Minister's November 15, 2021, Mandate letter to the OEB which included:

“The OEB should continue to prioritize its work facilitating and enabling innovation and adoption of new technologies where it makes sense for customers [...] Developing policies that support the adoption of non-wires and non-pipeline

alternatives to traditional forms of capital investment, where cost-effective, will be essential in maintaining an effective regulatory environment amidst the increasing adoption of Distributed Energy Resources.”

“Increased adoption of electric vehicles (EVs) is expected to impact Ontario’s electricity system in the coming years and the OEB must take steps to facilitate their efficient integration into the provincial electricity system, including providing guidance to Local Distribution Companies (LDCs) on system investments to prepare for EV adoption.”

The OEA believes that, taken together, the Minister’s letters point to a broader policy objective and direction, going beyond developing a single enhanced TOU option.

The OEA is of the view that through his progressive direction and mandate, the Minister has provided the OEB with ample discretion to take a forward-looking and holistic view on rate design and grid infrastructure investments required to facilitate a rational and sustainable electrification of the broader economy. This view is elaborated upon below.

### Broader Electrification

Given that the Minister’s November 16, 2021, letter indicated that “There is an opportunity to consider new rate designs that could anticipate increased electrification and support the decarbonization of the economy...” the OEA believes the enhanced TOU rate design should also take into consideration the impact of rate design on other forms of electrification (e.g., heating and cooling; storage).

For example, in June 2018, the California Public Utilities Commission (CPUC) held a [Forum to review and evaluate electric rate designs](#) with regards to the state’s zero-emission vehicle goals. The CPUC noted the following with [respect to rate design](#):

- Technology-specific rates are generally disfavored
- Should not be creating rates that are designed to solely benefit EVs
- Setting rates should reflect the cost impact of EVs on the grid (which depends on the time of charging)

The OEA believes that this initiative would benefit from the OEB clearly setting out the principles it intends to follow with respect to rate design and increased electrification as well as its expectations regarding the average revenue to be recovered by the rate design option(s), bill impacts, and expected shift in peak demand under different enrollment assumptions.

Currently, the OEB’s description and methodologies regarding price setting and cost recovery and analysis of the enhance TOU option are not sufficient to evaluate the costs, benefits, and risks of the proposed rate (e.g., bill impacts, cost causality and recovery, persistence of savings, uptake, incentives to increase electrification, etc.).

## Consideration on Total System Costs & Benefits

Approaching electrification from a broader perspective will require further analysis into enhanced rate designs beyond the commodity price of electricity and the associated supply costs. The costs (and benefits) of increased electrification from decarbonization will go beyond system supply costs, affecting the electricity system at different levels. For example, there will be local grid constraint implications to distribution systems through changes in both coincident and non-coincident demand that the use of a uniform enhanced TOU option alone cannot address adequately.

The OEA recognises that more comprehensive rate design initiatives may not be feasible in the short-term for the purposes of the OEB's April 1, 2022 report to the Minister; however, other rate designs enhancements that fully reflect associated principles, such as cost causation, cost recovery, consumer benefits and affordability, will be necessary to facilitate increased electrification efficiently and fairly (i.e., through customer-specific and/or demand charges). The consideration and analysis of these broader rate design changes should begin as soon as possible following the implementation of this new rate.

## Ability of RPP Eligible Customers to Participate

From what the OEB has presented to date, the proposed enhanced option seems focused on an enhanced commodity price for residential customers that provides an incentive for existing EV owners with home chargers to shift charging to off-peak hours. It is not clear what impact the proposed rate will have on other RPP eligible-customers and what the implications of the impact will have on uptake, cost recovery, bill impacts, and risks.

The OEA believes that an assessment on the suitability of enhanced TOU options should assess the option(s) across the spectrum of RPP-eligible customers:

- a. Low-volume consumers (consumers who annually use less than 150,000 kilowatt hours of electricity).
- b. A consumer who has a demand of 50 kilowatts or less.
- c. A consumer who annually uses at least 150,000 but not more than 250,000 kilowatt hours of electricity.
- d. A consumer who has an account with a distributor, if the account relates to,
  - i. a dwelling,
  - ii. a property as defined in the Condominium Act, 1998,
  - iii. a residential complex as defined in the Residential Tenancies Act, 2006, or
  - iv. a property that includes one or more dwellings and that is owned or leased by a co-operative as defined in the Co-operative Corporations Act.
- e. A consumer who has an account with a distributor if the consumer,

- i. carries on a business that is a farming business for the purposes of the Farm Registration and Farm Organizations Funding Act, 1993, and
- ii. holds a valid registration number assigned under that Act or the consumer's obligation to file a farming business registration form was waived pursuant to an order made under subsection 22 (6) of that Act.

A broader assessment is necessary because there are likely to be significant differences in the ability of the different RPP customers above (e.g., detached residential v. multi-residential building; residential v. the many different types of small volume customers) to access, benefit and/or participate in any enhanced option(s).

Directly engaging with these different customer groups to gain an understanding of their views of different pricing options (in terms of both their understanding of the option(s) and their ability and willingness to participate) will be a necessary part of this analysis. Engaging with customers now will better equip the OEB to educate customers about the final rate option(s) during the implementation period of the new TOU option(s).

It is likely that the assessment will point to the need for additional options in the longer-term. For example, in California, utilities offer [separate EV TOU rates for commercial and residential customers](#). This is also the case in Illinois: [Residential](#) and [Businesses](#).

Last, experience has shown that many customers find electricity rates confusing. If an enhanced TOU option is offered, it will be important to ensure that customers are educated on the rationale for having two separate TOU choices and a tiered rate option.

### Setting Customer Expectations

The OEA believes it is critical to the success of any new TOU option(s) that customer expectations regarding electricity bill cost savings be set clearly and realistically. For example, the [RPP Pilot Meta-Analysis Final Report](#) found that the average monthly bill saving for participants in the Overnight Pilot was approximately \$5/month. However, the pilot also resulted in under-recovery of costs (15%) from participants. These circumstances point to customers opting into the OEB's new proposed design achieving modest savings compared to the current TOU structure.

Therefore, the OEA recommends that the OEB be clear with customers regarding potential energy savings, as well as the broader and longer-term climate benefits of the industry's decarbonization goals, as the new rate design(s) will reflect. The OEB should emphasize to consumers that significant fuel cost savings will result from switching from an internal combustion engine vehicle to an electric vehicle. For example, the [Minister of Transportation](#) has stated that "Charging electric vehicles costs less than purchasing gasoline and diesel for internal combustion engines. The average driver can save between \$1,500-\$2,500 per year on fuel and maintenance costs."

The OEB could similarly stress the environmental benefits of electric vehicles and electrification more broadly, as well. For example, the [Ministry of Transportation](#) states that "Drivers could reduce their vehicle's greenhouse gas emissions by 60-90% by driving



battery electric vehicles or plug-in hybrid electric vehicles and using Ontario’s low-carbon electricity to power their vehicles.”

### Next Steps

Given that the Minister has set a goal of having the new TOU option(s) available by April 2023 the OEA recommends that, as the OEB focuses upon finalizing the rate design(s) and quickly moving towards implementation, that the need to effectively engage and educate consumers on the objectives and opportunities of the rate design changes be top of mind. Similarly, ensuring that electric utilities have sufficient time to adequately prepare their billing systems and develop the associated business and customer support processes will be instrumental towards ensuring a smooth launch of the new rate TOU rate option(s) and a positive customer experience.

Other implementation issues such as the extent of shifting in peak demand, risk of under-recovery of costs and allocation of costs among the different RPP plans, are likely to be of less magnitude and therefore of lesser urgency at the present time, since the current rate of broad electrification through EVs is relatively low. For example, for the first three quarters of 2021, [Statistics Canada](#) reported that 2.7% of new vehicles registered in Ontario were battery electric vehicles (BEV) or plug-in hybrid electric vehicles (PHEV).

That said, the OEB should ensure that there is a plan for ongoing monitoring of the various RPP options and their impacts on consumer behaviour, the system, and cost recovery, so that designs changes can be made in a timely manner, if needed, so that program objectives continue to be met.

In closing, the OEA and our members fully support the efforts of the OEB and provincial government to design electricity rate options and pursue infrastructure investments necessary to support Ontario’s decarbonization goals, benefitting Ontario energy consumers and the environment.

The OEA looks forward to working together with the OEB and provincial government in implementing this vision.

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