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Frank D'Andrea

Vice President, Reliability Standards and Chief Regulatory Officer

BY RESS

March 3, 2022

Ms. Nancy Marconi
Registrar
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Marconi,

EB-2022-0074 - Design of an Optional Enhanced Time-Of-Use (TOU) Rate – HONI Submission

On November 16, 2021, the Minister of Energy issued a letter that asked the Ontario Energy Board (“OEB”) to report back by April 1, 2022, with advice on the design(s) of an optional enhanced Time-Of-Use (TOU) rate to further incent demand-shifting away from peak periods to off-peak periods. On January 24, 2022, the OEB issued a letter inviting stakeholders to a meeting on February 17 to provide input on the design on an optional enhanced TOU price plan and invited written feedback by February 25, later extended to March 3. Hydro One is pleased to provide comments.

Hydro One is very supportive of providing customers with greater choice of rate plans that would be best for their needs, lifestyles and priorities. Our comments focus on the rate design and cost recovery elements of the proposed new TOU rate.

Please do not hesitate to contact Stephen Vetsis at Stephen.Vetsis@hydroone.com if you have any further questions regarding this matter.

Sincerely,

A handwritten signature in cursive script that reads "Frank D'Andrea".

Frank D'Andrea

HYDRO ONE COMMENTS

Design of an Optional Enhanced Time-Of-Use (TOU) Rate (EB-2022-0074)

INTRODUCTION

On November 16, 2021, the Minister of Energy issued a letter to the OEB asking them to report back by April 1, 2022, with advice on the design(s) of an optional enhanced TOU rate structure to further incent demand-shifting away from peak periods to lower-demand periods. In the letter, the Minister identifies the context for this request as the anticipated electrification of emissions-intensive sectors putting pressure on the grid, and the opportunity to consider new rate designs that can anticipate increased electrification and mitigate the impacts to the electricity grid. The Minister outlined the following goals for the new optional enhanced TOU rate:

- Incent electricity usage behavior that will benefit the electricity system under anticipated increased electrification
- Providing value for customers with consideration for overall ratepayer

The Minister's letter also refers to the work undertaken by the OEB on their Regulated Price Plan (RPP) Roadmap that was intended to review the alignment of the RPP with its objectives. A key component of the RPP Roadmap was to conduct pilots to test the customer response and impacts of various dynamic pricing plans, including a low overnight rate.

Hydro One is very supportive of this initiative to offer customers greater choice by providing an optional rate that would suit the needs, lifestyle and priorities of customers who have the ability to shift their demand to the overnight hours, including Electric Vehicles (EVs) owners. Continuing to review rate design methodologies in Ontario will become increasingly important as the anticipated electrification and proliferation of EVs continues to materialize. Hydro One appreciates the challenge facing the OEB to design a rate that achieves the objectives outlined by the Minister and provides value for customers on the rate plan while continuing to adhere to general rate-setting principles of fairly recovering system costs and minimizing cross-subsidization.

Hydro One is pleased to provide its comments on the price design and cost recovery proposed by the OEB at its February 17, 2022, stakeholder engagement session.

PRICE DESIGN

For the new optional enhanced TOU rate, the OEB has proposed creating two new pricing periods, a low overnight rate between 11 pm and 7 am every day and a higher on-peak rate between 4 pm and 9 pm on weekdays. The price ratio between these two periods is proposed to be 10:1, where the higher on-peak rate would be ten times higher than the low overnight rate. Hydro One appreciates the OEB's focus on providing strong price signals to incent demand shifting behaviour and notes that both the price ratio and

timing of pricing periods are likely to weigh heavily in customers' decision making when they consider opting into this new rate plan. Based on the OEB's proposal, the allure of the low overnight rate may be offset by the substantially higher rate for the after-work/evening on-peak period on weeknights, which could lead to limited uptake of this rate.

Hydro One suggests that the OEB consider an alternative rate design that leverages a critical peak price (CPP) or variable peak price (VPP) rate structure. These rate structures were tested as part of the RPP pilots, including Alectra's dynamic pilot, London Hydro's quick ramping CPP pilot, and Oshawa PUC's seasonal pilot with CPP. Under such a rate structure, the OEB could consider keeping the low-overnight rate but vary the high on-peak to low overnight rate ratio between a limited number of pre-set ratios (as was done in the Alectra Dynamic VPP pilot) depending on the anticipated system needs the next day, with a set number of high rate ratio days per year. A VPP pricing structure with a low overnight rate would more closely align with system needs and would make the rate more appealing to customers, thus better meeting the Minister's objectives.

During the February 17, 2022, stakeholder session, the OEB mentioned that it is working with the IESO to ensure the high on-peak period aligns with system needs. Hydro One is very supportive of this as it will be important to ensure that the rate design meets the objective of incenting demand-shifting away from peak periods.

Hydro One is aware and supportive of the province-wide approach taken under the RPP, and for the design of the optional enhanced TOU rate. However, peak demand periods are not consistent throughout the province. For example, in the Leamington area, the system peak occurs during the overnight hours. Hydro One recommends that the OEB consider the variability in peak demand across different regions of the province when it conducts its assessment of potential risks, the Ministry's objectives and the potential bill and system impacts of the proposed optional enhanced TOU rate.

The Ministry of Energy has posed a parallel proposal on the Environmental Registry (ERO # 019-5054), dated February 9, 2022, for an overnight rate and other barriers to EV adoption. Among other items, the Ministry is seeking feedback on how residential net metering arrangements could support EV charging to reduce electricity bills. As most net-metered customers in Ontario are shifted to Tiered rates, there could be a dynamic interaction between those customers who wish to opt-into the proposed new rate to take advantage of the low overnight charging and those customers who would instead choose to install renewable generation under a net metering agreement to offset their charging load. Hydro One also encourages the OEB to consider the potential interactions between Net Metering and the proposed new TOU rate, including the impact it would have on the uptake of the new rate.

COST RECOVERY*Rate Setting Methodology:*

The OEB has proposed leveraging a 'baseline approach' where load profile data from the Alectra Overnight RPP Pilot is used to set rates rather than adhering to the conventional practice of using the most up-to-date load profiles to set rates. The OEB indicated in its February 17, 2022 presentation that taking the baseline approach could help to mitigate any rate structural under-recovery by accounting for anticipated behaviour changes in response to the proposed new rate structure. Hydro One agrees that this approach is more likely to provide a closer approximation of load profiles under the new TOU rate proposal than the current load profiles of customers on the standard TOU.

However, Hydro One would like to raise two concerns that the OEB should consider related to the impact of COVID and the introduction of a high on-peak period on the 'baseline' load profile used to set the new rate. First, while the 2018 and 2019 load profile data from the Alectra Overnight RPP pilot is likely more aligned with anticipated customer behaviour under the proposed new TOU rate, the OEB should consider the impacts of COVID-19 and resulting work-from-home and hybrid work policies on load profiles since the pandemic began in March 2020. Hydro One understands that the OEB anticipates a return to the pre-COVID load profiles, however, this may not entirely be the case as companies announce hybrid policies (e.g. 2-days a week in the office) or new remote work policies (e.g. LinkedIn, Shopify, PwC, etc.) for the foreseeable future. While the future of work from home remains uncertain, based on announcements made to date it appears that load profiles may never fully return to the pre-COVID shapes. Hydro One suggests the OEB consider if the load profile data from Alectra's Overnight RPP pilot could be augmented with consideration of observed COVID-19 impacts on the system load profile.

Second, Alectra's Overnight RPP pilot overlaid a low off-peak rate of 2 cents/kWh between 12 am and 6 am and kept the rest of the standard TOU price periods the same. This would result in a materially different load profile than the proposed enhanced optional TOU rate that, in addition to introducing a low off-peak rate during similar hours (11 pm to 7 am), is also introducing a new high on-peak rate in the afternoon (4 pm to 9 pm), which would be expected to incent demand-shifting behaviour, especially given the proposed price ratio of 10:1 (high on-peak rate to low off-peak rate). Hydro One suggests that the OEB consider augmenting the load profile data from the Alectra Overnight RPP with the Alectra Dynamic VPP pilot as this pilot also shifted the on-peak period to 3 pm to 9 pm on weekdays so that the load profile used to set the new proposed rate is more reflective of the anticipated behavioural changes.

Hydro One acknowledges that it will be extremely difficult to accurately and fully predict the load profiles of customers that opt in to the new optional enhanced TOU rate structure, were it to be implemented. In addition to considering the augmentations outlined above, Hydro One strongly encourages the OEB to continue to refine the rate-setting methodology for all of the RPP rates, including the proposed new rate if it is approved. Through continual review, the OEB will be able to capture load profile trends under each rate and further refine the rate-setting practice to reflect those trends over time. This ongoing review will

not only capture the demand shifting behaviour that results from the rate designs but also changes in load profiles as the anticipated electrification and EV proliferation materialize.

Approach to Recover Over/Under Recovery of Rates:

The OEB has proposed to recover any under-/over-recovery resulting from the new optional enhanced TOU rate from all RPP customers, similar to the current practice for the standard TOU and Tiered rates. Hydro One is supportive of this approach as it would minimize the incremental implementation complexities and potential unintended consequences of segregating the over- or under-recovery for each rate plan under the RPP.

Hydro One also notes that taking this approach will place additional importance on the OEB's rate-setting methodology to minimize rate structural under-recovery and the OEB's ongoing monitoring of the impacts of each of the RPP rates, assuming the proposed new TOU is put in place. The OEB will also need to closely monitor the magnitude of behavioural under-recovery and thus cross-subsidization between the RPP rates. In the future, if there is significant behavioural under-recovery, Hydro One would strongly encourage the OEB to revisit the question of how to recover costs across the three RPP rate plans to ensure fairness and equity for all RPP customers.

CONCLUSION

Hydro One recognizes OEB staff for their work in developing the proposed optional enhanced TOU rate and appreciates the opportunity to provide comments to the OEB on this important consultation. We look forward to future opportunities for engagement on these issues.