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Ontario Energy Board
2300 Yonge Street, 27th floor
P.O. Box 2319
Toronto, ON M4P 1E4

Re: Design of an Optional Enhanced TOU Rate (EB-2022-0074)

To whom it may concern:

For more than a century, the Ontario Chamber of Commerce (OCC) has been the independent, non-partisan, and indispensable partner of Ontario business. The OCC's mission is to support economic growth in Ontario by defending business priorities at Queen's Park on behalf of its network's diverse 60,000 members. Our membership comprises energy stakeholders of various kinds – from generators and distributors to consumers of all sizes.

On February 17, 2022, the Ontario Energy Board (OEB) held a stakeholder session to discuss their findings and progress on the Ministry of Energy's directive to assess the design(s) of an optional enhanced Time-Of-Use (TOU) rate to further incent demand-shifting away from peak periods.

The OEB tested and evaluated 10 different price plans,[1] and has chosen to focus on an optional "Ultra-low Overnight Price" rate. This design builds on the current TOU rate by making a cheaper (e.g. 2-3 cents/kWh) overnight period from 11p.m. to 7a.m. year-round, while also creating a more expensive (e.g. 20-30 cents/kWh) peak period from 4p.m. to 9p.m. on weekdays. In this way, customers have a stronger motivation to shift their loads away from the peak and into the evening than what currently exists. The OCC appreciates that maintaining a similar rate structure to what exists now minimizes complexity and makes it easier for customers to switch to the new rate.

A focus of stakeholder discussions was OEB's cost recovery methodology framework to apply to these rate plans. The Overnight Price Pilot experienced significant under-recovery of costs from participants (15 percent). Sixty percent of the cost reductions were due to participants shifting consumption to off-peak times as desired. However, 40 percent was due to the rate setting method that reduced costs more than anticipated for some participants without resulting in behavioral changes.

This result raises concerns for the OCC about the fairness of the potential design of the proposed new optional rate. We urge the OEB to align the new rate design with the following principles:

1) The goal of a successful rate design should be to balance the savings to participants against the anticipated system benefits being sought.
2) Benefits should only accrue to participants that make behavioural changes.
3) Customers who do not choose to participate should not experience increased rates as a result of the rate design.

[1] Guidehouse, Prepared for OEB, Regulated Price Plan Pilot Meta-Analysis, 2020.

Recommendation #1: The goal of a successful rate design should be to balance the savings to participants against the anticipated system benefits being sought.

The OEB should maintain the principle of cost fairness by reducing costs for plan participants only as much as the benefits to the system are presented. To establish the rate structure, the OEB should prepare a benefit cost analysis (BCA) that shows the savings that the OEB anticipates will arise and how the parameters of the rate design will distribute those savings to participants. The rigour and discipline warranted for a BCA is currently being developed by the OEB Framework for Energy Innovation (FEI) working group, EB-2021-0118. Findings from that activity should be considered for application to the rate design activity. The more targeted the rate design is on the behaviors that will create the savings, the more effective the program will be.

Recommendation #2: Benefits should only accrue to participants that make behavioural changes.

The design of the Enhanced TOU should target the system savings that will result from a participant actually shifting their behaviour. The design should minimize any free riders who would gain a benefit simply from applying the new rate structure to their existing usage patterns. Reducing free riders is important for two reasons:

1) The designed rate will be better able to deliver maximal value to those who actually shift behaviours and create the system savings
2) The net cost recovery of the rate design will better match the BCA and reduce cost leakage to other ratepayers.

Recommendation #3: Customers who do not choose to participate should not experience increased rates as a result of the rate design.

The OCC believes that customers who choose to remain with their current plans should not have their rates impacted by the implementation of this plan. For many businesses in Ontario, an increase in electricity costs would have a significant detrimental impact on their survival and growth.

In the case of the TOU rate design, there are many small businesses that operate during peak demand times, notably restaurants. These small businesses do not have a reasonable ability to shift their demand load. The optional plan would have higher costs in these times, so these businesses would not opt in. More importantly, as non-participants, they should not be additionally burdened with higher rates during their business operations as a result of poorly constructed rate incentives for other customers.

Conclusion

The OCC previously considered many of these same issues during the predecessor OEB consultation on Class B rate design, EB-2016-0201. The OCC had proposed several considerations that could help optimize the effectiveness and fairness of a new TOU rate program to achieve the objectives being sought by this initiative. A copy of the OCCs prior feedback is provided as

attachment 1. The OCC supports continued improvements to the electricity system. We look forward to working with the OEB on its ongoing consultations.

Sincerely,

Rocco Rossi
President and CEO
Ontario Chamber of Commerce

Attachment A – Prior Feedback to OEB on TOU Rate Design Criteria, EB-2016-0201

We acknowledge that this is not a formal consultation step and so provide the following ideas for your consideration.

The OEB's objectives in reviewing rate model options is to place the costs of the electricity system on the behaviors that drive those costs. The major driver of high costs is the serving of system peaks. We discussed with you the following principles that have informed the ideas we are sharing:

- Now is a good time to consider reform as savings may be realized in and around when Pickering retires and new capacity decisions are warranted;
- Rate payers want stable and predictable electricity rates, without having to hire energy managers;
- Rates should be fairly determined;
- Caution needs to be exercised with respect to the "winners" and losers" among non-RPP ratepayers;
- While seasonal variations may make sense, they should not vary as wildly as in the Cost Reflective model that the OEB illustrated;
- The RPP program should be reviewed with similar driving criteria (residential rate payers are the greatest cause of summer peaks and have the greatest flexibility to manage associated behaviors)

You may recall that in our discussion we suggested a variant to the TOU-based approach (your Forward Price proposal):

- This variant could integrate a tiered pricing principle within each TOU period.
- The underlying principle is that pricing of the incremental behavior will achieve the desired behavioral changes to reduce peak consumption
- By pricing only the incremental behavior would mitigate many of the bill impacts that may cause alarm among affected rate payers (like restaurants)
- Smart meters would allow LDCs to determine the custom "tiers" for each customer based on their actual consumption patterns

Upon further reflection with the OCC of what an effective structure may be given the different usage profiles of business, a tiered approach for both mid and on peak periods may be optimal as follows:

- Off peak
    - One set point using a value near to what the OEB suggested, perhaps reflecting the blended cost of nuclear and hydro (around $70/MWh)
- Mid peak
    - Tier 1 = Average of the specific rate-payer's off peak power consumption. Consumption up to this level billing set at off peak rate
    - Tier 2 = Average of the specific rate-payer's mid peak power consumption (for the season?), perhaps billed using the existing mid peak rate (e.g. no change from today) for consumption up to this level
    - Tier 3 = Any incremental power consumption above the Tier 2 level to be billed at a new higher mid-peak rate (e.g. 3x off-peak)
- On peak

- Tier 1 = same as mid peak Tier 1
- Tier 2 = Average the specific rate-payer's on peak power consumption (for the season) billed at the Tier 2 mid peak rate
    - Or existing TOU on peak rate, or somewhere in between. The issue to be managed is that the new peak period was previously an off peak period and hence will impact ratepayers differently
- Tier 3 = any incremental power consumption above the on peak average, bill at a new higher mid-peak rate (e.g. 5x off-peak or higher)

This approach:

- doesn't penalize companies for normal business behaviors,
- will have the smallest impact on the overall bill,
- does provide equally strong, if not stronger, incentives to rate payers to not contribute to system peak challenges.