CME Feedback on EB-2022-0079, Non-RPP Class B Pricing Pilot Program

August 25, 2022

The Canadian Manufacturers and Exporters (CME) is pleased to provide feedback to the OEB's non-RPP Class B Dynamic Pricing Pilot Program.

On July 28, 2022, the Ontario Energy Board (OEB) held a stakeholder session to discuss their proposed approach on the Ministry of Energy's approved development of a non-RPP Class B Dynamic Pricing Pilot Program.[1] The OEB has been evaluating pricing options for Class B consumers for several years for which the CME have previously provided recommendations. The OEB has concluded that a pricing model that modifies the Global Adjustment (GA) recovery in a manner that is directly correlated with hourly Ontario electricity demand yields the greatest net positive economic efficiency results.

The OEB is seeking input on the design of the Non-RPP Class B Pilot Program to date, and the specific pilot projects that could be implemented. The OEB has specifically asked for stakeholder feedback on several matters including the following: objectives/perspectives to be considered; pilot program design and risks to implementation, including guidance the OEB should provide and evaluation criteria to be considered; timeline risks; and pricing plan priorities.

Pilot Program Objectives

The OEB has appropriately summarized stakeholder concerns about the development of non-RPP pricing programs for Class B consumers, reflecting the CME inputs for predictable and consistent electricity costs, the shifting of costs among consumers, and the need for simplicity so consumers don't need to respond to dynamic pricing.[2]

However, the objectives for the pilot program are stated to evaluate how price plans: support the efficient electricity system operation; provide non-RPP consumers opportunities to reduce their bills; and support the IESO in evaluating price plan implications on transmission, demand, CDM/DER, and wholesale market efficiency. The CME support the importance of seeking methods to reduce non-RPP Class B ratepayer costs as this group of consumers has borne the greatest cost impact over the last 10 years. The OEB has asked for feedback on these objectives.

While the OEB also identifies the objective for pilot proponents to inform the ability of consumers to manage costs and the measures they may take to do so, from a consumer perspective there are several critical objectives not addressed in the webinar materials – the price plans should:

- Be designed to motivate Class B consumers to shift their energy usage away from *system peaks;*
- Provide flexible options to support consumer choice and the nature of their businesses, such as the competitiveness imperatives of manufacturers;[3]
- Reduce the total electricity system unit cost (e.g. $/MWh) borne by non-RPP Class B rate payers;
- Minimize cost shifting between groups of non-RPP Class B rate payers where that cost shifting is not reflective of the principle of cost causality;

[1] Ministry of Energy Mandate Letter to the OEB, Nov 2021

[2] CME email(s) to Justin Malecki, Feb 2021;

[3] CME submission to the OEB, June 13, 2019, emphasized that rate designs should contribute to the competitiveness of the manufacturing sector

- Evaluate how Class B rate programs may enable cost effective behind the meter (BTM) energy management solutions (e.g. HVAC and EV charging); BTM distributed energy generation and storage solutions (e.g. roof top solar and batteries); and the role of aggregators in optimizing outcomes; and,
- Evaluate the relative benefits of OEB rate-based versus IESO market-based pricing approaches.

These additional objectives should be reflected in the guidance that the OEB provides to proponents as they design their programs and in the criteria that the OEB uses to evaluate proponent proposals.

Pilot Design and Implementation Risks

The OEB has laid out an implementation process whereby they will release a call for proposals with application guidelines. They will then rely on proponents to propose pilot options for implementation. The OEB has asked for feedback on the implementation risks that can be anticipated, the guidelines that should be provided, and the evaluation criteria that should be used to select pilot programs for funding.

The OEB is seeking to find a balance in the selected piloted programs for testing of their identified preferred pricing plans and other potentially unique proponent-designed pricing plans.

- While the webinar materials state that the evaluation criteria may include pilot objectives, coverage of sectors, and assessment of consumer and system impacts, there is limited information provided in the materials regarding what guidelines and evaluation criteria may be considered. The lack of detail under consideration is potentially the greatest risk to the pilot program implementation, particularly in the evaluation of unique proponent proposals.
- Absent clear guidelines for pilot program success and clear evaluation criteria for the proposals to be submitted, there is significant risk that potential proposals could lead to high program costs without achieving critical objectives. The webinar materials conveyed a sense that the pilot program process was progressing before sufficient due diligence had been completed to adequately communicate the detailed requirements for the program (note that there are further comments below regarding the benefit of shorter overall timelines).

The OEB should reduce the risks to achieving successful pilot program outcomes by undertaking its own due diligence to clarify success criteria and desired attributes for meeting the pilot objectives, such as: likely pricing plan implementation and cost implications; the enablement of aggregator roles; and, the interplay between the IESO market pricing and OEB rate programs; etc. For example, the OEB would benefit from having an internal view of the potential cost-effective approaches and the "should cost/benefit" of them that can be used to evaluate pilot proposals.

The OEB should provide guidance on how to present the anticipated cost/benefits of proponent proposals that demonstrate how, for all Class B non-RPP rate payers, the total rate payer benefits of the pricing plans will exceed the total costs.

- The OEB's Framework for Energy Innovation Working Group (FEIWG) Benefits-Cost Assessment (BCA) framework under development[4] should be leveraged for this program.

[4] OEB FEIWG BCA Final Report, June 2022.

- An appropriate BCA would assess the impacts of cost shifting. The non-RPP Class B rate payer costs have increased the most among rate payer groups with half of that cost growth resulting from the unintended consequences of rate programs such as net metering and the ICI.
- The OEB should have an internal system-level BCA developed to help size the potential benefits of various options and enable the OEB to provide the application guidance on how proponents should provide a BCA in their proposals.
- The OEB should establish the comparative criteria of what potential distributor or IESO system solutions would cost in order to set the bar for acceptable rate-based pilot costs to achieve those system benefits. For example, would distributor owned distributed storage facilities be a more cost-effective solution from a rates perspective than trying to use a rate program to incentivise smaller scale BTM storage.

The OEB should be clear that proposals will also be evaluated based on: the simplicity for consumer adoption; the anticipated long term net benefits to Class B non-RPP ratepayers if chosen for broad implementation; and how cost shifting will be minimal and appropriate.

Pilot Program Timelines

The OEB has laid out a pilot program that will complete in 2027. The OEB has indicated that it will continue its stakeholder consultation on the pilot program design until the end of 2022, and be open for applications in the summer of 2023, with programs anticipated to start by Spring 2024. The piloted programs will then run for 18 months to the fall of 2026, allowing pilot testing to span two summers, followed by a measurement and evaluation period leading to a proposed close of the program in early 2027. The OEB has asked for feedback on what may be the greatest risk posed by this timeline and what may be reasonable.

This extended pilot project timeline could be accelerated and outcomes improved.

- The OEB could shorten the upfront timeline to open up for applications sooner than the summer of 2023. One mechanism for doing so would be to implement a due diligence activity identified above in order to seek clarification of the requirements that should be specified, using third party experts if necessary. This diligence activity could potentially be completed before the end of the year with the applications opened in early 2023, potentially saving 6 months of schedule.
- The proposed 18-month field testing period will be spanning a period of substantial change to how Ontario's electricity pricing is calculated. The underpinning of two of the OEB's pricing options rely on a relationship dynamic between the GA and the Hourly Ontario Electricity Price (HOEP). When the Pickering Nuclear Generating Station retires in the course of 2025, the presence of surplus baseload will evaporate along with the significant variations in the HOEP. [5]
    - With natural gas-fired generation anticipated to become on the margin most of the time, the volatility of the HOEP will moderate, and the costs included in the GA will reduce as the HOEP price goes up and its share of total costs increases. Any pilot results that will rely on the relationship between the GA and the HOEP may become invalid by 2026. Anticipation of this dynamic must be addressed in the pilot objectives, program selection criteria, and the

[5] IESO, 2021 Annual Planning Outlook

evaluation of the results. Advancing the program so that the pilots complete before the end of 2025 may facilitate this analysis.

Pricing Plan Pilot Priorities

The OEB has put forward three candidate pricing plans that they would like to be included in pilot proposals: Hourly demand-shaped GA price; Critical Peak Pricing; and Enhanced Time of Use. They have not restricted the potential for other plans that may be proposed and have asked for feedback on what may be priority options.

The CME previously identified a Class B Non-RPP pricing plan option based on a hybrid tiered TOU approach which is included as Attachment A. This proposal was aimed at addressing several critical objectives:

- Don't penalize companies for normal business behaviors (e.g. rate shifting)
- Have the smallest impact on the overall bill (e.g. minimize total costs and the cost implications impacts of free-riders)
- Provide equally strong, if not stronger, incentives to rate payers to not contribute to system peak challenges.

An additional advantage of TOU based-plans is that they are insensitive to the accounting dynamics inherent in the calculation of the GA as the HOEP varies, and hence the results will not be impacted by the Pickering station retirement.

The CME believes that this approach combined with a potential aggregator enabled implementation may be successful in maximizing the IESO's desired electricity system capacity savings from CME members at the lowest possible cost and, as such, have the greatest potential for achieving a net benefit.

The OEB should ensure that the hybrid TOU/Tiered pricing option previously recommended by the CME is included in the selected pilots.

Conclusion

The CME has proposed several considerations that could help optimize the effectiveness of new rate program pilots to achieve the objectives being sought by this initiative. The CME supports continued improvements to the electricity system. We look forward to working with the OEB on its ongoing consultations.

Attachment A – Prior Feedback to OEB on TOU Rate Design Criteria, EB-2016-0201[6]

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 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 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

[6] Excerpts from CME email(s) to Justin Malecki, Feb 2021;

- 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.

Attachment B

About CME

Canadian Manufacturers & Exporters ("CME") is Canada's leading business network. It represents more than 10,000 leading companies nationwide and through various initiatives, touches more than 100,000 companies from coast-to-coast, engaged in manufacturing, international trade, and service-related industries. More than 85% of its members are Small to Medium sized Enterprises ("SMEs"). In Ontario, CME has about 1,400 members representing about 75% of manufactured output and about 90% of all exports.

One of CME's priorities is to improve the business climate for manufacturers. Initiatives pertaining to Energy and the Environment fall within the scope of this objective and include efforts by CME to ensure that its members enjoy continued access to a reliable and cost competitive supply of energy and electricity across Canada.

In this context, CME seeks an Ontario electricity system for its members which is reliable, affordable, cost effective and economically sustainable with electricity prices for Ontario manufacturers which are competitive with electricity prices available to manufacturers located elsewhere.

For further information on CME, please visit their website at www.cme-mec.ca.