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2/16/08
Ms. Kirsten Walli
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VIA EMAIL AND COURIER
ONTARIO ENERGY BOARD

EB-2007-0672

OEB BOARD SECRETARY	
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Dear Ms. Walli:

**Re: VECC's Comments on Staff Discussion Paper
Consultation on Regulated Price Plan - Time of Use Prices: Design
and Price Setting Issues (EB-2007-0672)**

As Counsel to the Vulnerable Energy Consumers Coalition (VECC), I am writing per the Board's letter of April 17, 2008 to provide VECC's comments on the Staff Discussion Paper titled "Regulated Price Plan – Time of Use Prices: Design and Price Setting Issues. The comments provided are organized according to the questions posed by Staff in Section 7.0 of the Paper.

1. Structural Issues

1.1 General

Fundamental to any discussion of pricing structures and methodologies are the objectives the Board is seeking to achieve. In the case of Regulated Price Plan (RPP), it is useful to reflect back on original objectives of the RPP when first outlined by the Minister of Energy in 2004. The first objective set out for the plan was to ensure that residential and small business consumers pay the true cost of electricity over time, but within a stable and predictable price framework.

Furthermore, it is VECC's understanding what was meant by "true cost" was the price of electricity as established by the IESO-administered market (subject to the Global Adjustment). The second objective was that the Plan should support conservation and load shifting through the implementation of smart metering and time-of-use pricing.

Clearly there is an opportunity for conflict between the objectives of "reflecting cost"; "a stable and predictable price framework" and "encouraging conservation and load shifting". In VECC's view, primary consideration should be given to "reflecting costs". Concerns regarding predictability and stability can be addressed when considering frequency of pricing changes and the period of time over which one looks at cost when establishing pricing structures. In the case of "conservation and load shifting" the role of pricing is to signal to customers what the "costs" are of their consumption decisions. VECC does not believe that pricing structures should be artificially adjusted to encourage "more" conservation or load shifting. First, conservation and load shifting can be justified only to the extent they are economic. Second, if there are market barriers that mean customers do not respond appropriately to cost-based prices, then CDM programs are the appropriate way to address the problem.

1.2 Should the three-period TOU pricing structure be retained? If not, what alternative approach should be considered?

The Discussion Paper offers three reasons in support of retaining the current three-period TOU pricing structure:

- The RPP load exhibits a relative "peakiness" and this characteristic is likely to increase as certain MUSH sector customers become ineligible in 2009 (page 9).
- Variations in the hourly cost of supply support three-periods (page 10)
- The results of the Ontario Smart Price Pilot (OSPP) indicate support from consumers for the three-period structure (page 10).

At this point, VECC supports the continued use of a three period structure on the basis that it is supported by the hourly variation in system costs (i.e., market prices) as seen from Figure 1 in the Paper. Furthermore, the OSPP results (while limited) suggest that a three-period structure is not overly difficult to understand (OSPP Report, page 57).

VECC notes that the price variation information in the Paper relies solely on 2004 data. In order to further validate the cost justification for three-period structure, VECC would encourage Board Staff to:

- Undertake a similar analysis of other past years (e.g. 2005, 2006 and 2007).

- Look at the forecast variation in hourly prices for the next couple of years, as developed by Navigant in their regular updates for the RPP.

In the Discussion Paper (page 11) Board Staff asks for comments as to “how a two-period pricing structure might better support load shifting and conservation”. In VECC’s these two objectives may be incompatible under a two-period structure. Introduction of a two period structure would require collapsing the current three periods and reallocating the “hours” into two pricing periods. Load shifting (off the critical peak hours) would likely be best facilitated by having a relatively short peak period. However, the objective of conservation may be better achieved through a longer peak period.

1.3 Should the seasonal variation in TOU pricing be retained? If so, should it be retained in the current form or should adjustments be made (for example, to simplify by having only one peak period during the day in the winter)?

In VECC’s view there is no information that would support the elimination of the seasonal variation. Information looked at to date by Board Staff (pages 12-13) suggests that the hourly pattern of system costs continues to be different as between the two seasons. The fact that customers find the winter two-peak price profile difficult to respond (see page 12, footnote 13) does not appear to be based on the fact that the pricing structure is difficult to understand. Rather, it appears to be based on the fact that winter uses are less discretionary. This would suggest that winter response would be less regardless of the pricing structure used.

Again, VECC would encourage the Board to undertake more analysis of the historic and expected variations in hourly prices prior to making any material changes in the pricing structure.

1.4 Should critical peak pricing be implemented as part of the RPP TOU? If yes, when should this be done? Should CPP or CPR be used? Should the program be mandatory or voluntary for consumers?

VECC does not support the implementation of critical peak pricing at this time. In VECC’s view the full implementation of time-of-use pricing will trigger sufficient implementation issues (from both the customers’ and the distributors’ perspectives) without further complicating the issue with critical peak pricing. For example, VECC would suggest that the 74% preference rate for TOU pricing seen in the OSPP is to some extent a function of the fact those consumers participating did so voluntarily. The mandatory introduction of TOU pricing is likely to have a far lower “preference rate” and require considerable consumer education.

There are segments of the Residential class (such as those with lower income or in individually metered rental accommodation) that will find it difficult to respond

to TOU as a result of having either fewer discretionary uses of electricity, fewer available options and fewer available resources to respond. There will be a need for programs to facilitate such consumers benefiting from TOU pricing if it is to garner wide acceptance and deliver wide spread conservation/load shifting savings.

VECC sees critical pricing as a “future step”, once consumers are familiar with TOU pricing and are more accepting of the underlying objectives. Furthermore, in VECC’s view, the introduction of critical peak pricing needs be coordinated with an aggressive introduction of technologies aimed at helping customers monitor and control their peak use – more so than with simple TOU pricing.

2 Price-Setting Methodology

2.1 Should the Board retain a price setting methodology that focuses on the recovery of supply cost on a “segmented” basis? Alternatively, should the Board set prices to recover total supply cost only, while under- over-recovering on individual TOU price segments?

The Staff Discussion Paper suggests a couple of reasons why consideration should be given to relaxing the principle of recovering supply costs within each TOU segment in order to maintain desired price differentials between periods (or alternatively adjusting the definition of the TOU segments so that the “average price” for each segment yields the desired price differential):

- The first reason (page 17) appears to be based on a concern that the IESO-administered market prices are not a reflection of “pure market prices” which would be more volatile and result in greater TOU segment differentials. It is not clear to VECC that this is indeed the case. In VECC’s view, before one was to reach this conclusion, far more analysis and investigation would be required.

Furthermore, even if there was some justification to the premise, VECC would have significant concerns about the introduction of a different “cost paradigm” for RPP. The intent of the RPP is to better reflect costs charged to the local distributors serving the affected customers – which is based on the IESO administered market price. Second, all non-RPP customers are currently paying for electricity based on the IESO-administered market prices. To depart for this would set a different cost standard for RPP customers. Finally, adoption of an alternative approach would introduce a both a lack of transparency and arbitrariness into the price setting process.

- The second reason (page 18) appears to be that a material price differential needs to be maintained between the TOU periods in order to encourage load shifting. In VECC’s view this is totally the wrong

perspective. Load shifting is only appropriate if there exists a difference in cost between periods and the extent to which load shifting occurs should reflect any actual cost differentials. VECC also notes that to the extent prices differ from costs by period this will simply aggravate any variances that will occur due to load forecast error.

Similarly, VECC does not believe the “periods” should be readjusted simply to maintain a “target price differential” as suggested on page 17. The period definition should reflect cost differentials. Otherwise, load shifting between periods will not necessarily create the savings suggested by the price differentials that customers are responding to.

However, in VECC’s view, it is important the TOU period price differential exhibit some degree of stability. This is important in order to meet the objective of a “stable and predictable” pricing framework as well as to encourage load shifting and conservation. Unless there is some reasonable confidence regarding future price differentials consumers’ actions regarding load shifting are likely to be limited to short-term behavioural responses. This can be achieved by looking at the expected differential over the next 3-5 years¹.

2.2 Should multi-period cost of supply recovery be examined to provide more flexibility in setting prices? Should a reduction in the cost recovery period to six months be considered for consistency with the frequency of price changes?

VECC does not support the reduction of the cost recovery period (or forecast period) to six months. In VECC’s view the current 12 month period is consistent with the objective of a stable and predicable pricing framework. Furthermore, it is not immediately clear to VECC that shortening the period would reduce the price convergence among the TOU price segments.

2.3 Should the 1:2:3 ratio for TOU periods be reconsidered? If so, how should the ratio be adjusted?

2.4 Should the Board consider the 1:2:3 ratio as a variable, adjusting it to respond to policy priorities and/or cost recovery issues?

As indicated in the preceding responses, it is VECC’s view that the price ratio differentials across periods should reflect cost and not some arbitrary view of what will induce load shifting.

The Staff Paper raises the issue (page 19) as to whether the Board should adopt an “avoided incremental cost of supply” methodology for On-peak prices. In VECC’s view such an approach would represent a redefinition of the “cost of supply” and result in commodity prices for RPP customers being set on a totally

¹ Ideally one might want to look forward over a longer timeframe. However, the accuracy of any forecast is likely to decrease the further into the future one looks.

different basis than for customers whose costs are based on the hourly IESO-administered market price. VECC believes that such an approach would be inconsistent with the objectives of the RPP as originally set out by the Minister. Furthermore, there is not a defined process for updating "avoided costs", as can be seen by the OEB's TRC Guide continued reliance of values established almost three years ago².

3 Variance Account Issues

3.1 Should the recovery period for VA balances be changed?

The Staff Discussion Paper suggests (page 20) that one of the reasons a shorter recovery period may be required is because TOU pricing can lead to load shape changes and increased conservation. In VECC's view, this is all the more reason to have the prices (by TOU segment) closely reflect the cost of supply.

VECC believes the current 12 month recovery contributes to a stable and predictable pricing regime for RPP and does not support changing the recovery period at this point in time.

3.2 Should the current practice of a uniform charge (or credit) per kWh for variance account recovery/return be modified? If not, should the VA balance charges or credits be pro-rated like the stochastic adjustment?

3.3 Should the VA balance clearing amount be allocated differently depending upon whether it is a credit or a debit?

VECC does not support changing the treatment of the VA balances depending upon whether a refund/recovery is indicated so as to artificially inflate the price differentials by period. The current approach of recovering variances on a per kWh basis maintains the cost differentials by period (in absolute terms) and, in VECC's view is a transparent process that produces reasonable results.

In VECC's view, if the Board wishes to entertain an alternative then far more analysis and consideration is required than what is presented in the current Discussion Paper.

3.4 Is the \$160 million trigger appropriate in the context of a TOU RPP pricing regime that could result in TOU price adjustments larger than 0.2 cents per kilo-watt hour? Should the allocation methodology provide maximum flexibility to address price ratio issues or should it rely on a rules-based methodology for certainty purposes?

The concerns regarding the impact of the VA balanced recovery having a significant impact only arise if one changes the allocation methodology. As

² The avoided costs are based on a Study performed by Navigant Consulting dated June 2005.

discussed earlier, in VECC's view there is no sound rationale to depart from the current allocation methodology. As a result, VECC sees no reason to alter the current \$160 M trigger value for the quarterly review. If the VA balance is refunded/recovered on a fixed per kWh basis then the concerns regarding the impact of VA refund/recovery are lessened when VA balances are trued up and refunded/recovered on a semi-annual basis. There is no evidence to suggest that more frequent true-ups are required.

3.5 Despite the possibility of additional settlement costs, should the Board consider a two variance account system (including two adjustment trigger amounts) to address cross subsidy issues during a transition period when TOU pricing becomes more prevalent?

In VECC's view there are inherent cross-subsidies in the current RPP. It is questionable as to whether a two-variance account approach should be established for what will be a transitional period. More details would be required regarding the length of the transition period before a decision can be made. One factor against introducing a "two-account" approach is that it would likely result in there being less direct comparability between the TOU and Two-Tiered Prices. This could impinge upon the overall acceptability of TOU prices.

4 Billing Issues

- 4.1 Should all distributors be required to bill TOU customer on a monthly basis? Why or why not?*
- 4.2 If yes, what are the implications for investments in billing and meter data infrastructure?*
- 4.3 If yes, should monthly billing be phased in? Over what time period should this phase-in occur?*

VECC understands that there will be other mechanisms (e.g., web access to the daily information on consumption patterns) available to customers who are interested in obtaining timely information regarding their electricity usage. As a result, VECC does not see a direct linkage between the TOU billing and billing frequency.

In order to assist customer's in managing and paying their electricity bills, VECC believes all customers should have access to some form of a monthly payment plan – even if actual meter readings are not provided monthly as part of the "bill".

It is VECC's understanding that the cost of meter reading was one of the major impediments to monthly billing (based on metered consumption). With the advent of Smart Metering, it should be expected that utilities will reassess business case associated with monthly billing.

4.4 How could equal billing be retained while preserving the TOU incentives for load switching and/or load reduction?

In VECC's view it is critical that equal billing be retained as option available to customers. For customers on low or fixed incomes, this billing practice is critical to them "budgeting" their electricity payments. Load reductions through disconnections resulting from non-payment are not an acceptable form of conservation.

Thank you for the opportunity to comment and if you have any questions please contact either Bill Harper (416-348-0193) or myself (416-767-1666).

Yours truly,



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