



EB-2006-0303

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c. 15, Schedule B;

AND IN THE MATTER OF a proposal by Veridian
Connections Inc. to implement a Time-of-Use Pricing Pilot
Project under section 3.9.1 of the Standard Supply Service
Code.

BEFORE: Pamela Nowina
Presiding Member and Vice Chair

Paul Vlahos
Member

DECISION

On July 28, 2006, the Ontario Energy Board (the "Board") amended the Standard Supply Service Code (the "SSS Code") to allow electricity distributors, as part of a pilot project, to charge time-of-use ("TOU") prices for consumers on the Regulated Price Plan (the "RPP") with eligible time-of-use meters. This SSS Code amendment requires prior Board approval before any such new pilot project can be implemented after April 1, 2005 ("the first term commencement date").

On November 21, 2006, Veridian Connections Inc. ("Veridian") submitted a request for approval to implement a pilot project involving TOU electricity prices and eligible TOU meters in relation to medium-sized business consumers with peak demand of more than 200 kW (the "proposed pilot project"). Since the proposed pilot project is being implemented after the first term commencement date, it requires Board approval. This matter has been assigned Board File No. EB-2006-0303.

The Board has proceeded without a hearing in this matter in accordance with section 1.3.3 of the SSS Code. The Board has completed its review of the proposed pilot project and

has decided to approve it subject to certain conditions.

The Board identified several factors that the Board would take into account when deciding whether to approve a TOU pilot project. These factors were identified in the Board's Notice of Proposal to Amend a Code (July 12, 2006), the Board's Notice to Amend a Code (July 28, 2006), and the Board's letter of August 14, 2006 on this subject. The proposed pilot project is approved for the reasons set out below.

Veridian's existing billing system is already capable of charging TOU prices and will therefore not require incremental material costs to be incurred in order to proceed with the proposed pilot project.

The proposed pilot project is complementary in nature to the Board's TOU pricing pilot project as well as Newmarket Hydro's and Oakville Hydro's Board-approved TOU pricing pilot projects. Since the proposed pilot project will involve the testing of RPP TOU prices within the context of business consumers, and since the other three pilot projects in Ontario currently involve testing TOU prices within the context of residential consumers, the proposed pilot project is complementary in nature to the other TOU commodity pricing projects operating in Ontario.

The proposal contemplates that Navigant Consulting will be retained to undertake a quantitative analysis of the price and demand responsiveness of participating customers in a manner that is consistent with the analysis Navigant Consulting is undertaking for Newmarket Hydro's pilot. The proposal also includes a commitment to share the results of the proposed pilot project with the Board. Lastly, Veridian has stated that it will allow customers to opt out of participating in the proposed pilot project.

While the Board recognizes that it is currently contemplated that the consumers to be involved in the proposed pilot project will become ineligible for Regulated Price Plan ("RPP") pricing relatively soon after the pilot project is proposed to end, the Board is of the view that there are a number of potential benefits associated with the proposed pilot project including the following:

- The potential to assist in providing a transitional path for these consumers to the spot market pass through pricing they will be exposed to when they leave the RPP in 2008;
- The proposed pilot could also inform the communication efforts of the Board, the

Independent Electricity System Operator (the “IESO”), and other electricity distributors to all designated consumers who are expected to be ineligible for RPP prices after April 1, 2008;

- Veridian will gain experience in providing TOU bills to its customers on a limited scale, in anticipation of broader implementation in the future. This is particularly important as Veridian notes that it has been approached by other distributors that currently lack TOU billing capability and could share its experiences with those distributors to inform them as they develop their own capability in the near future;
- The proposed pilot would allow for a direct comparison of the price elasticity of *business* consumers with that of *residential* consumers in Newmarket (since Navigant Consulting will be undertaking similar analysis for both pilots) as well as residential consumers in Ottawa and Oakville, both of which have Board-approved pilots. Price elasticity of demand measures the responsiveness of different consumers to changes in price. The results of the Veridian pilot could also be extrapolated to similar consumers of other distributors; and
- Veridian also notes it intends to provide support to: 1) increase participating customers’ price-responsiveness; and 2) facilitate customers’ participation in demand response and dispatchable load programs of the Ontario Power Authority (OPA) and the IESO. Increasing the price and demand responsiveness of this consumer group is important to mitigate any supply constraints that could arise in Veridian’s territory during the summer of 2007, depending on weather and local system conditions.

In addition to the potential benefits discussed above, the proposed pilot project also has the potential to benefit the Board on broader matters related to the Board’s responsibility for setting RPP prices including:

- Increasing the accuracy of the Board’s RPP price forecast, which is used for establishing both tiered and TOU prices, for the period after designated customers are expected to become ineligible for the RPP in 2008, based on a more accurate estimate of the “residual” RPP load shape; and
- As noted in the proposal, one possible outcome of the pilot is to assess the potential for any critical peak rebate (“CPR”) for RPP consumers to be partially or fully funded through a wholesale market demand response program of the IESO and/or OPA. Such an outcome would better inform the Board as to whether CPR should be implemented broadly in the future to complement the current RPP TOU price design. This would build on the knowledge the Board expects to gain from the Board’s Ontario Smart Price Pilot which is currently testing the effectiveness of a

CPR pricing mechanism.

It is also proposed that this pilot project will be funded entirely from Veridian's third-tranche conservation and demand management ("CDM") funding. Accordingly, there are numerous potential benefits associated with this pilot as described above and no incremental costs beyond the funds already approved by the Board as part of Veridian's third-tranche CDM funding.

In its request, Veridian indicated that pilot project customers would be provided with the option of remaining on RPP TOU prices until such time as they leave the RPP. The Board reminds Veridian that, in the absence of a Board-approved pilot project, a distributor cannot charge TOU prices prior to the "mandatory TOU date" unless it has made the election and given the notice referred to in section 3.5.1 of the SSS Code. Were that to be the case, Veridian would thereafter be required to charge TOU prices to each RPP consumer that has an eligible time-of-use meter in accordance with section 3.5.2 of the SSS Code.

The Board finds that the proposed pilot project is in the public interest and approves it. Veridian shall comply with the following.

1. Firstly, customers must be informed of their right to opt out of the proposed pilot project.
2. Secondly, Veridian is required to consult Board staff before the independent analysis by Navigant Consulting referenced above is carried out in order to ensure consistency with the analytical approach being used by the Board for the Ontario Smart Price Pilot project. Since certain costs will be incurred in order to implement the proposed pilot project, it is important that the benefits realized from the proposed pilot project be maximized. If Veridian's proposed pilot project evaluation is not consistent with the analytical approach being used for the Board's pilot project, it would reduce the benefits of the proposed pilot project.
3. Thirdly, Veridian's results from the proposed pilot project must be shared with the Board.
4. Lastly, if there are any material changes to the proposed pilot project, Veridian must inform the Board of those material changes before such changes are to be implemented.

DATED at Toronto, December 13, 2006

Original signed

Pamela Nowina
Presiding Member and Vice Chair

Original signed

Paul Vlahos
Member