Regulated Price Plan

A Snapshot of Default Supply Models in Other Jurisdictions

September 10, 2004

Ontario

ONTARIO ENERGY BOARD
COMMISSION DE L'ÉNERGIE DE L'ONTARIO

Overview

- CAEM review of default supply models in North America
- Common Themes: Different Approaches in the U.S.
- Conclusions

Appendix: Details on default supply in four U.S. states

Centre for the Advancement of Energy Markets (CAEM)
Default Supply Forum

- Over 50 organizations participated (regulators, marketers, academics, utilities, etc.)
- Found everyone does default supply differently
- Grouped approaches into 15 general models
- Majority selected Maryland's Standard Offer Service (SOS) as "the best" default supply model
- Also highlighted the Georgia Gas Model (but concluded not practical up-front)
- Consensus reached on only large volume consumers — exclude from default supply or limit to spot price

Common Themes: Approaches in the U.S.

- Most U.S. states mandate some form of competitive bidding for default supply
- “Fixed” price default supply limited to “small” consumers
- If default supply extended to “large” consumers, limited to “spot” price
- Final regulator approval required (regardless of process used)
- No exit fees for small volume consumers
- Price adjustments: annually to at least 3 times/yr
- Regulated utility provides default supply

Conclusions

- While Maryland and New Jersey have been successful using a competitive bidding model, those two states are part of the most competitive wholesale market in North America (PJM)
- In contrast, Ontario will have a hybrid market with a single dominant generator
- In short, we cannot look to a single state and transplant their default supply model into Ontario
- We can still learn from these other jurisdictions on particular design issues (e.g., true-up frequency, exit fees, etc.)

Appendix

Different Approaches to Default Supply in Selected U.S. Jurisdictions

Background on Centre for Advancement of Energy Markets (CAEM)

- Non-profit organization that reviews status of energy markets
- A strong advocate of competition
- Ranks states/provinces based on the “RED Index” (Retail Energy Deregulation Index)
- Recently concluded importance of default supply was underestimated in the “Red Index” (increased weighting)

Maine: Standard Offer Service (SOS)

- "Retail" competitive bidding process via RFP
- Bidders bid to supply consumers on default supply of each utility separately
- "Same" customer class (e.g., residential) receives "different" SOS price (depending on utility)
- Bidding process often failed (prices too high). Utilities had to turn to wholesale market for SOS
- SOS currently available to all customer classes
- SOS consumers receive a fixed price

Maine: SOS (Cont'd)

- Exit fee charged for leaving/returning to default supply (only applies to medium/large non-residential)
- Length of RFP terms for large consumers much shorter (6 months vs 2-3 years for residential)
- After march 2005, SOS only a "last resort" service for large consumers
- Intend to move to staggered terms for SOS RFPs
- Distribution utility provides SOS
- Commission reviews bids and selects winners

Maryland: Standard Offer Service (SOS)

- "Wholesale" competitive bidding process via RFP
- "Same" customer class receives "same" SOS price statewide (regardless of utility)
- Use a "sealed bid" format with multiple tranches of bidding
- Price "designs" (i.e., peak/off-peak, seasonal, etc.) bid in for small SOS consumers
- Staggered terms (1,2 & 3 years) blended for smoothing
- All bidding processes successful to date (no need to turn to spot market)
- No exit fee charged (to consider exit fees when switching rate for small consumers exceeds 25%)

Maryland: SOS (Cont'd)

- SOS intended for small consumers. Receive a fixed price
- SOS extended to large consumers, but limited to spot price pass through & for only 1 year
- Legislation requires <u>at least</u> 3 true-ups per year (i.e., price reset) to better reflect actual market conditions
- Price anomaly threshold (PAT) used for residential (if aggregate bids > PAT, highest bid(s) excluded until aggregate average < PAT)
- Distribution utility provides SOS
- Commission review/approval of all bid results/rewards and proposed contracts

Montana: Default Supply Service

- Initially planned to use Georgia gas model (direct assignment to retailers) and a quick transition (4 years)
- Plans quickly changed after California and Enron. Utilities now to provide default supply until 2027 (24 years)
- Different from other states (not mandated to use competitive bidding process)
- Regulator developed detailed “guidelines” for default supply provision
- Each utility submits a default supply procurement plan (to the regulator) which evaluates about 15 options/portfolios based on the “guidelines”

Montana: Default Supply (Cont'd)

- *Primary Objective (in Guidelines):* Stable and reasonably priced default supply service at the lowest long-term total cost
- Each utility portfolio strategy must be comprised of a mix of long- and medium-term contracts (only residual reliance on spot market)
- DSM treated "on par" in utility portfolio
- Default supply focused on low volume consumers
- "Same" customer class receives "different" SOS price (depending on utility)
- Guidelines used as basis for Commission's "prudence" review of utility's default supply plan and procurement actions

New Jersey: Basic Generation Services (BGS)

- "Wholesale" competitive bidding process
- "Same" customer class receives "same" SOS price statewide (regardless of utility)
- Use an "auction" format with multiple tranches of bidding
- "Reverse auction": bidders willing to remain in auction all paid lowest price bid
- Mitigates price volatility: supply periods staggered (10- & 34-months) and prices blended to smooth out price differentials between overlapping terms
- All bidding processes successful to date (no need to turn to spot market)

New Jersey: BGS (Cont'd)

- No exit fee charged
- BGS fixed price limited to small consumers (residential and small commercial)
- BGS extended to large consumers, but limited to spot price pass through
- Distribution utility provides SOS
- Annual SOS price adjustment (following each auction)
- Auction administered by regulator

Maryland’s Rationale for Choosing “Sealed Bid” (Not NJ Type “Auction”)

- From a single **Auction** price, retail prices for different customer classes and rate design characteristics (e.g., seasonal price differentials) must be derived <u>administratively</u>
- **Sealed Bid** approach allows bidders to provide seasonal, TOU and demand prices that they believe properly reflect the actual characteristics of each service type and customer class. Thus, this approach is more likely to provide a "competitive market price“.

Any Questions?

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