

Regulated Price Plan Proposal

Workshop and Consultation

Ontario Energy Board, West Hearing Room

December 14, 2004
1:00 p.m. – 4:30 p.m.

Notes from Workshop



Bill Rupert, the Board's Managing Director - Strategic Planning and Policy Development, began the Workshop with opening remarks and explained that the Workshop was intended to be an opportunity for interested parties to seek clarification on the Board's Proposal for a *Regulated Price Plan for Electricity Consumers* (the "RPP Proposal"). Mr. Rupert then introduced Russell Chute and Chris Cincar as the core members of Board staff that advised the Board in developing the RPP Proposal.

A presentation by Russell Chute summarizing the RPP Proposal followed. Copies of this presentation were distributed to Workshop participants and accompanies these Workshop Notes on the Board's web site. Following the presentation, the floor was opened up to questions.

These Workshop Notes have been prepared by Board staff in question and answer format to highlight key issues or concepts that were raised by Workshop participants. They are intended to provide clarification in relation to certain elements of the Board's December 7th RPP Proposal.

The answers provided in this document largely reflect staff comments made at the Workshop. In some cases, however, the answers have been modified from those provided on December 14th based on subsequent fact finding and further consideration of the issues raised by participants.

The RPP Proposal was issued as a consultation document. Accordingly, the Board's views on any of the elements of the RPP Proposal may well evolve over time, particularly in light of input received from interested parties during the Workshop and in written responses to the RPP Proposal.

Q. Will RPP-eligible consumers also have the option of being charged on a spot price pass through basis?

- A. We expect that the spot price pass through will not be an option for most RPP-eligible consumers unless such a plan is offered by retailers. RPP-eligible consumers will likely have two options — remain on the RPP or switch to a retailer. Large RPP-eligible consumers with interval meters may be permitted to select the spot price pass through option, however, this is a matter that will need to be considered by the Board. This will also depend on which consumers are ultimately eligible for the RPP which will be determined by the Government.
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Q. In calculating the RPP supply costs for consumers with retailers using retailer-consolidated billing, there will be costs avoided by LDCs. Will these avoided costs be reflected in the RPP price?

- A. No. The RPP price is only intended to include direct generation supply costs. The only additional cost that is intended to be included is the Ontario Power Authority's carrying costs associated with any RPP variance account balances. This is consistent with the current standard supply service (SSS) regime whereby the SSS Administration charge is not included in the SSS electricity charge.
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Q. The proposed conventional meter RPP includes a two-tier pricing structure. Some larger consumers contend that the two-tier structure that has been in place since April 1, 2004 results in a subsidy to lower-volume consumers. Will the Board consider an alternative pricing structure for larger RPP-eligible consumers that reduces or eliminates such cross-subsidies?

- A. Any simple two-tier pricing structure that is applied to all eligible consumers undoubtedly results in some degree of cross-subsidization. As it notes in the RPP Proposal, there is cross-subsidization associated with every approach except the spot price pass through. The issue is determining whether the amount of any cross-subsidization is material enough to warrant the added complexity of different pricing structures for different customer classes. As noted on page 17 of the Board Proposal, the fact that different consumers might pay different average prices under the conventional meter RPP is not necessarily indicative that there are serious inequities. The Board will carefully consider any analyses contained in written responses to the Proposal that cast light on the significance of cross-subsidization. Any such analyses should go beyond simply comparing the volume of energy consumed; when power is being used by each customer class would also need to be taken into account in order to fully assess whether serious inequities exist.
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Q. Section 2.1 of the RPP Proposal proposes “mandatory application of a smart meter RPP for any eligible consumers that have smart meters in place, as of May 1, 2005, and who elect to remain within the RPP”. Will LDCs need to notify each such consumer and tell them they need to elect the RPP?

A. The RPP Proposal did not intend to suggest that a “formal” election will be required by eligible consumers to be on the RPP. In other words, RPP is the default option.

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Q. What is the Board’s position on equal billing?

A. No decisions have been made by the Board on equal billing within the context of the RPP.

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Q. Special rates currently exist for certain customers such as Rural Rate Assistance. Is it only focused on wires?

A. Yes. As per Government regulation, Rural Rate Assistance is only applicable to distribution charges. It has no impact on the RPP price since it is not commodity related.

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Q. Some large industrial consumers have been charged a below market price for a portion of their consumption pursuant to a regulation under the *Electricity Act, 1998*. Would these arrangements affect the price under the RPP?

A. No. Those special prices are charged by Ontario Power Generation (OPG) pursuant to bilateral arrangements. These bilateral deals do not affect the IESO’s calculation of the Hourly Ontario Energy Price (HOEP) and, therefore, would not affect the RPP prices.

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Q. How will retailers that provide retailer-consolidated billing be notified of changes to the RPP price?

A. Changes in the RPP price will be publicly announced and information will be made available on the Board's web site.

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Q. Consumers with existing retail contracts that were entered into before December 9, 2002 have been charged the low volume consumer price (currently 4.7 and 5.5 cents per kWh). If such consumers choose to renew their retail contracts when they expire, will they be obligated to settle any RPP variance that exists at that time?

A. No. The RPP variance settlement proposed by the Board will only apply to RPP consumers that switch from the RPP to a retailer. Consumers with pre-December 9, 2002 retail contracts are not RPP consumers as long as they are party to a retail contract.

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Q. Bill 100 specifies that the initial RPP prices approved by the Board will remain in effect for no less than 12 months. Will LDCs need to true-up with consumers that switch from the RPP to retailers in that first year?

A. Yes. The reference to no true-ups being permitted in the first year is restricted to changes in the RPP price charged to all RPP consumers. The "true-up" with a consumer who switches to a retailer simply represents a reconciliation for that consumer based on differences between the *forecast* RPP and the *actual* RPP costs.

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Q. What if the RPP variance account is positive or negative when the consumer switches to a retailer but is zero at the end of the RPP year?

A. The customer will pay or receive any attributable variance at the time at which the customer switches. Changes in the variance account subsequent to that date are not relevant to the calculations of the amounts owing to or from the customer at the switch date.

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Q. The Proposal notes that the variance settlement amount that applies when a consumer switches to a retailer will have two components — one for the applicable portion of the current RPP period and the other for the previous RPP period since the last price adjustment. Will LDCs need to perform two calculations to determine the variance settlement amount?

A. The Board hopes to be able to provide a single per kWh figure that covers the variance settlement for both RPP periods in order to simplify the calculation for LDCs.

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Q. The Proposal calls for a "variance account final settlement charge or credit" when a consumer enters into a retail contract and leaves the RPP. Would this charge or credit vary depending on the average electricity price paid by the consumer while covered by the RPP? For example, one RPP consumer may have paid an average price of 5.0 cents/kWh while another could have paid 5.5 cents/kWh prior to switching.

A. It is proposed that the final settlement charge or credit be calculated by multiplying the consumer's consumption during the current and prior RPP periods by an amount per kWh. The final settlement charge or credit for all consumers leaving the RPP in a particular month would be calculated using the same factor. That is, it is proposed that the final settlement charge or credit will not depend on the average price the consumer has been paying while in the RPP.

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Q. The Proposal mentions a 75 day notification to LDCs of a structural price change. Is that a public or private notification?

A. It will be a matter of public record when LDCs are notified of any type of RPP price change. It will not be a private communication.

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Q. Why is the Board requiring all LDCs to have the systems in place to accommodate a Smart Meter RPP by January 1, 2006 when the Smart Meter Implementation Plan indicates that there may not be many smart meters installed as of that date?

A. The Board will review this issue.

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Q. In terms of the proposed Smart Meter RPP, would LDCs be required to do anything in 2005?

A. The Proposal contemplates that each LDC must implement the Smart Meter RPP for all customers with interval meters as of the date that the RPP takes effect.

It is not discussed in the RPP Proposal but we want to state in the code exactly what will be required of each LDC during this transition to the Smart and Conventional Meter RPP. Therefore, we need detailed feedback from LDCs in future submissions on the issues around proration and the lead times needed for LDCs to prorate that are unable to do so now.

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Q. Will the OEB be making the electricity price forecast open for public comment?

A. The electricity price forecast, including the assumptions, inputs, etc., will be posted on the Board's web site. The Board is not planning a formal consultation process on this particular aspect of the RPP.

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Q. Will the balance of the OPA's variance account be publicly available on a regular basis?

A. This is to be determined when the OPA becomes operational.

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Q. Only 15 days notice of a price change is not enough time for LDCs to get bill inserts out to consumers. Will the OEB be providing LDCs with bill inserts?

A. Yes. In developing our strategy for the roll-out of the Regulated Price Plan, the OEB considered the challenges that LDCs face. Our plans include producing a brochure for LDCs to distribute to consumers as a bill insert, in much the same way as the *Electricity Prices are Changing* brochure that explained the two-tiered price structure when it was introduced on April 1, 2004. The brochure will outline how the Regulated Price Plan will work and will ensure consistency of message across Ontario. In addition, the brochure will be part of a number of communications measures used to inform consumers about the RPP and how it will be implemented.

It is also important to clarify that the RPP Proposal does not contemplate LDCs sending out bill inserts before each price change — only after the change in price. The Proposal only contemplates LDCs posting the price adjustment on their web sites prior to the change.

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Q. Does the Board have plans to consult consumer groups about consumer education specific to the initial RPP? And will the OEB be consulting in this respect on an ongoing basis?

A. Consumer representatives have been consulted in the development of the Regulated Price Plan. The Board is taking the views that have been presented by consumer representatives and other stakeholders into account in developing consumer information materials. The Board is committed to informing consumers about the plan. The RPP is still being developed and communications materials cannot be finalized until the plan is complete. However, the Board will make efforts to share communication materials with stakeholders as far in advance as possible, keeping in mind the tight timelines for this project.

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Q. For LDCs with a 90 day billing cycle, 75 days notification of a price structure change will not be enough?

A. During the RPP working group deliberations, the LDC representatives advised Board staff that 75 days notification effectively provides LDCs with 90 days. It was explained that this is due to a lag of about 15 days between the meter read and a “live” bill going out to consumers.

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Q. Will the OEB be starting the RPP with a zero variance balance?

A. On January 1, 2005, the IESO will begin paying the Ontario Electricity Financial Corporation (OEFC) the full contract prices for the energy generated by the non-utility generators (NUGs) under contract to the OEFC. This is when the NUG costs are to be shifted to ratepayers. There could be a variance build-up between January 1st and the date the RPP goes into effect in the Spring. It is not yet clear whether any such variance will be required to be included in the initial RPP price. This will ultimately be a decision of the Government.

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Q. How will the price blending methodology work?

A. There is a brief discussion of the price blending methodology in the appendix of the RPP Proposal. A more detailed description will be provided in the RPP *Manual* which will be released for comment in early 2005.

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Q. The RPP Proposal discusses the possibility of a move to a quarterly price adjustment in the future as well as a change to monthly billing. Has the Board determined if this will happen in the near future?

A. No. The Board has not made a determination on either issue and does not expect to do so in the immediate future. Quarterly price adjustments are not expected to be practical until there has been significant market penetration of smart meters.

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Q. The Distribution System Code (DSC) currently requires electricity LDCs to use a commodity price of 4.3 cents/kWh to determine the maximum security deposits for consumers. Will the Board be amending the DSC so that the new RPP price will be used to calculate security deposits? Similar issues arise within the context of retailer prudentials and the Retail Settlement Code (RSC).

A. No decision has been made, at this time, on these issues.

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Q. Why is the OEB not going to the QRAM approach immediately following the first year of the RPP?

A. The primary reason for not going with quarterly price adjustments immediately was because the majority of electricity LDCs currently bill their customers bi-monthly and, for those consumers, quarterly adjustments would mean a price change on every bill. This would not be consistent with the objective of providing price stability.

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Q. If an RPP-eligible consumer has signed a contract with a retailer, will that consumer be able to join the RPP when the contract expires?

A. During the transition period until the RPP goes into effect, subsection 79.4(5) of the *OEB Act* has already been amended to clarify that the statutory price only does not apply for the specific term of the contract with the retailer for consumers that entered into a contract after December 9, 2002. For consumers that entered into a retail contract before December 9, 2002, when such a contract expires, the consumer will similarly have the right to switch back to default supply (e.g., RPP), renew their contract or sign a new retail contract, as per section 29 of the *Electricity Act, 1998* and the Retail Settlement Code. In addition, once the RPP takes effect, Bill 100 amends the *OEB Act* to add subsection 78(3.5) which will permit the Board to set the conditions with respect to consumers leaving the RPP. The only condition contemplated by the Board in the RPP Proposal is the variance settlement upon leaving the RPP.

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Q. The RPP Proposal discusses possible amendments to LDC licenses and rate orders. Why would this be necessary?

A. The RPP could be included in the SSS Code which would likely not require LDC *license* amendments. A new RPP code could also be created. This would result in a minor license amendment to include a reference to the RPP Code in the hierarchy of codes.

LDC *rate orders* need to be amended in order to provide LDCs with the necessary authority to charge the new RPP prices. The LDC rate orders were also previously amended prior to market opening, in 2002, so that the LDCs could begin charging SSS prices.

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Q. With respect to tiered pricing in the conventional meter plan, is the proposal that, regardless of the option selected, the status quo will be maintained for non-residential consumers? If so, why?

A. Yes. The RPP Proposal recognizes that larger consumers will be targeted for smart meters first under the Board's draft plan for smart meter deployment. Therefore, if the tier volume thresholds for these consumers were adjusted, costs would be incurred by all LDCs in the province for a short term transitional plan. Also, as noted previously, we do not yet have the necessary evidence that demonstrates a more appropriate tier threshold for this group of consumers. We would need a very solid basis to make such a change for only a couple of years.

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Q. The RPP Proposal notes that the Smart Meter RPP will not need to be implemented until January 2006 for all consumers with smart meters. Why not implement it whenever the LDC is ready which could be right away for many LDCs?

A. It was intended under the RPP Proposal that all LDCs would have the option to implement the Smart Meter RPP earlier than January 1, 2006 for consumers that have new smart meters installed during 2005, after the RPP is implemented.

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Q. If it is a price structure change that triggers 75 days notification to LDCs, why should LDCs be required to notify their customers immediately as the RPP Proposal states? It seems more appropriate to notify consumers closer to the implementation date.

A. The Board will consider specifying that consumers should be notified as soon as practicable, rather than immediately. In addition, it is important to clarify that the 75 day notification applies to price structure changes. As such, before a structural price change is implemented, the applicable RPP prices that apply to that price structure will need to be updated. This would, in turn, necessitate the 15 day notification to consumers.

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If any Workshop participants feel that their question has not been reflected above, please contact Chris Cincar at 416-440-7606 or by e-mail at chris.cincar@oeb.gov.on.ca.