



Regulated Pricing Plan Working Group

MEETING NOTES - Meeting #1

**Ontario Energy Board
2300 Yonge Street, 26th Floor**

**September 30, 2004
9:30 a.m. - 4:30 p.m.**

Barrie Hydro (John Olthuis)
BOMA Greater Toronto (Mike McGee)
Consumers Council of Canada (Julie Girvan)
Cdn. Federation of Ind. Business (Bruce Fraser)
Coalition of Large LDCs (Paula Conboy)
Direct Energy (Ian Mondrow)
Electricity Distribution Association (W. Taggart)
EPCOR Utilities Inc (Leigh-Anne Palter)
IMO - Regulatory (Helen Lainis)
IMO - Settlements (Joseph Freire)
Kinetiq (Jim Steele)

Ontario Energy Savings Corp. (Gord Potter)
Ontario Federation of Agriculture (Ted Cowan)
The SPi Group Inc. (Mark Kerbel)
Vulnerable Energy Consumers Coalition (B. Harper)
Ministry of Energy (Observer - Richard Rogacki)
Ontario Power Generation (Observer - B. Reuber)
Navigant Consulting (Mitch Rothman)
Navigant Consulting (Todd Williams)
Ontario Energy Board (Chris Cincar)
Ontario Energy Board (Russell Chute)

NOTES OF MEETING

[Plan for the Day/Working Group Ground Rules](#)

Board staff kicked-off the process discussing the intent of the first meeting: to strive to come to a common understanding of the issues and objectives, the trade-offs and the tools available to the working group. It was emphasized that this was not the appropriate time to discuss potential solutions. Solutions would be examined at subsequent meetings.

Board staff also explained that 6 meetings had been planned with at least one meeting per week. It was also emphasized that there was a great deal of interest from numerous organizations in being a member of the working group and that those which were selected were chosen for a reason and, therefore, should strive to attend every meeting.

It was explained that, where a consensus does emerge from the working group discussions, the Board will welcome that result. However, if a consensus does not emerge, the working group should develop well defined options for consideration. Ultimately, the purpose of the working group is to advise Board staff which, in turn, will make recommendations to the Board based on working group input, with all final decisions being the Board's.

It was further explained that there were two observers on the working group – OPG and the Ministry – and that their role was not to express any opinions. Instead, the observers role was to provide factual information that would assist the working group when necessary.

Board staff further explained that Navigant Consulting (“Navigant”) would be chairing the meetings because they represent a neutral party in this process.

Presentation

Navigant then launched into the presentation which had been circulated to the working group members earlier in the week *[Note: These meeting notes will not attempt to reiterate the slides in the presentation. **Please refer to the presentation which has been posted along with these meeting notes on the OEB RPP web page.** The meeting notes will only discuss where there were elaborations and where concerns/questions were raised].*

A rough agenda for the other 5 meetings was provided on slide 5.

- Further Issues Discussion
- Initial Strawman Development
- Further Strawman Development
- Strawman Finalization and Initial Implementation Plans
- Implementation Plans

Objectives/Out-of-Scope Issues/Mandate

Slide 6 listed the objectives and Navigant Consulting explained that all except one of the objectives were taken from the legislation or statements by the Minister. The additional objective was “low administration costs”.

Slide 6 also discussed “out-of-scope” issues. It was explained that “customer class eligibility” was out-of-scope because that would be determined by government regulation at a later date. Concerns were raised that not knowing which specific classes were included in the RPP could be problematic because that will have a direct impact on the variance account (i.e., the more customer classes, the higher the kWh, the higher the potential variance) and have implementation issues. It was noted that the working group needs this information as soon as possible and, until such time, the working group will need to make an assumption. For example, should the assumption be the current “LV&D consumers” which has existed since Bill 210 or “residential and small business consumers” which has consistently been in the Minister’s statements and the Ministry’s communications since Bill 100 was released? No final decision was made at this time.

A retailer representative also raised concerns about the “bill content” being out-of-scope. It was noted that, after April 1st, the “global adjustment” (i.e., regulated asset adjustment) could get included in the RPP or shown separately on the consumer’s bill as will be the case for all non-RPP consumers. Board staff explained that the “bill content” was out-of-scope because the Ministry had just released a regulation which identifies what line items shall be included in the consumer bill. It was suggested that the regulation may be interim in nature.

The mandate of the working group was discussed and it was noted that it needed to go beyond RPP pricing. The mandate needed to take into account all aspects of the code that will need to be developed. There was agreement on this matter.

A concern was raised about the schematics (i.e., \$ and power flows) on slides 7 through 9 in the presentation because they showed the RPP price as a single adjusted price, while the RPP price will actually be a price forecast with subsequent true-ups. There will also be an adjustment for the regulated assets. As a result, there should be two flows as opposed to one in the slides — the RPP price and the Global Adjustment.

A concern was raised about the references to a “revenue requirement” for generators on many slides in the presentation and, instead, more appropriate terminology would be “forecast supply costs”. It was agreed this terminology was more appropriate since non-regulated generators will be involved.

Another “issue” was raised that was not included in the presentation. How accurately can LDCs track individual variances to the individual customer?

Primary Concerns of Working Group Members

During the presentation each working group member was asked to discuss their primary RPP concerns [*Note: This is the only part of the meeting notes that will identify each member*].

OESC:

- C The RPP price needs to remain as close to the actual market prices as possible (i.e., need more frequent true-ups than annual).
- C The Global Adjustment should appear separately on the bill for RPP consumers.

PowerStream:

- C Build on existing LDC systems functionality.
- C Minimize financial risks for LDCs in terms of timing by taking into account other future LDC obligations (e.g., cost allocation and rate class changes).
- C If LDCs hold a RPP-related variance account, LDCs should be kept whole.

- C Need to learn from the past (back where we were 7 years ago).

OFA:

- C The RPP must work for consumers.

Direct Energy:

- C The Global Adjustment should appear separately on the bill for RPP consumers.
- C RPP price should be adjusted frequently.
- C RPP price should reflect fully allocated costs (i.e., include LDC RPP-related administration costs). Board staff clarified that what Direct was referring to is likely similar to a “retail adder” which is the terminology used in some US states (e.g., Maryland) for including utility administration costs in the total default supply (standard offer service) price.

Barrie Hydro:

- C Ease of implementation and administration.
- C No major changes to LDC billing systems.
- C Fair to consumers.
- C RPP price should closely reflect market prices (when it did in the past, there was a major impact on consumption).
- C LDCs held harmless.

IMO:

- C The IMO has offered wholesale settlement services *[Note: Board staff clarified this with the IMO after the meeting. The legislation requires the OPA to settle the RFP contracts. The IMO has offered to do these settlements, as they do now with OEFC, so that duplicate systems are not created and to ensure there are no changes to downstream settlement interfaces which would add costs to the system].*
- C Already have tiered pricing in place and consumers are becoming familiar with it. The working group should build on that.
- C Minimize changes to existing tools and processes.

Consumers Council:

- C Fair to consumers.
- C Cannot keep changing everything for consumers.
- C Need to address conflicting objectives such as “stable pricing” (i.e., could imply infrequent true-ups) vs “cost-reflectivity” (i.e., implies frequent true-ups).
- C Properly taking into account the smart metering initiative will be a challenge.

Epcor:

- C Need to consider a structure that does not put up barriers to competition.

Kiniteq:

- C Utilize as much existing technology as possible.

CFIB:

- C Need predictable and stable pricing.
- C In terms of true-ups, minimize retroactivity. Small businesses can't handle it.
- C Keep it simple (90% of small businesses have less than 20 employees).

BOMA/Federation of Rental Housing Providers of Ontario:

- C Large consumers want a competitive market. Need the right conditions.
- C Whatever is made available to residential needs to be made available to multi-residential (i.e., tenants).

EDA:

- C Keep it simple.
- C Remain aware of other initiatives (e.g., smart metering, DSM, cost allocation) in developing the RPP.

VECC:

- C We are all here because of a consumer revolt. Need consumer protection.
- C Should not be designed to force/incent consumers off of RPP (i.e., consumers should only pay their fair share).

SPI:

- C Operational LDC concerns/issues.
- C Need to minimize the risks/costs of meeting the tight timelines.

Following this expression of working group members' primary RPP concerns, Navigant noted that the MDC did not properly take consumers into account when they designed the market and that's why we are here today; because of customer revolt. As a result, there is a need to add an objective that was not included in the presentation. This objective is "Consumer Acceptance". Navigant added that we have done some things right and others wrong in the past and there is a need to learn from that.

It was added by a working group member that the working group cannot base their decisions solely on what seemed logical. There is a need to look at past experience. For example, did the change to 4.7/5.5 tiered pricing have an impact on consumption? An LDC member responded that it was not possible to ascertain due to the weather this summer (i.e., low temperatures) which makes it difficult to compare against 2003.

It was noted that some of our existing mechanisms can help address objectives such as price stability. For example, equal billing plans and bi-monthly billing.

A question was raised as to whether there is a plan to have a transitional RPP until smart meters are installed. Also, should the working group prioritize and focus first on non-smart meters and, subsequently, when the working group better knows where the smart metering WG is going, then address an RPP for smart meters? It was added that the smart metering WG had only one more meeting scheduled. There was no final decision during the meeting whether this was the appropriate strategy. *[Note: After the meeting, it was learned through discussion with Board staff that the smart metering WG had extended their meeting schedule for "Planning and Strategy" to October 21st.]*

Objectives (Cont'd)

With respect to "**Consumer Choice**" objective, it was suggested that RPP entry/exit provisions should not limit retail choice.

On the objective of "**Low Administration Costs**", it was emphasized that this needed to apply to everyone. Not only the LDCs.

Navigant then discussed slide 22 which attempted to illustrate the many potential conflicts between the objectives. For example, stability vs cost-reflective, stability vs conservation, etc. As a result, the working group does not have an easy task in achieving its mandate which is to: *"Develop an RPP for consideration by Board staff that satisfies the objectives as well as possible"*.

There was a decision to deviate from the presentation and have a further roundtable discussion of the "objectives" as opposed to moving on to "tools". "**Price Stability**" was further discussed. A consensus appeared to develop that more frequent adjustments / true-ups with smaller changes in the price better achieves price stability relative to infrequent true-ups and adjustments of a large magnitude. And there is a need to balance true-up/adjustment frequency with price shock.

On the natural gas side, it was noted that most of the consumer complaints have not arisen due to the frequency of adjustments (i.e., quarterly). In fact, most residential consumers do not seem to be aware there is a QRAM. Instead, consumer complaints have peaked when the rate adjustments are of a large magnitude such as that of Union Gas which led to the government review of the OEB. It was added that the stakeholders have now settled on the QRAM in natural gas, for the past 5 years, after experimenting with annual price adjustments and using triggers, and we should learn from that.

An LDC member raised a concern that many LDCs use bi-monthly billing and a quarterly true-up may not be appropriate as there would be 4 true-ups within 6 billings which could mean an adjustment on every bill. Another option suggested would be to have 3 true-ups per year (every 4 months) which may mesh better with 6 billings (every

2 months) and would reduce the likelihood of an adjustment on every bill. Another option raised could be for all LDCs to change to monthly billing as a number of LDCs already do it. An LDC member stated that this would likely not be cost-effective for all LDCs as long as we have manual meter reads.

The issue of Critical Peak Pricing was raised. It was explained by a member that was also on the Smart Metering WG that the Minister's directive on smart meters appeared to suggest that Critical Peak Pricing (CPP) was a must and that the RPP working group needs to take that into consideration. *[Note: Board staff reviewed the directive following the meeting. The directive states that the meter must be able to accommodate all types of pricing, since the pricing may change over time including time of use (TOU), seasonal and CPP. Therefore, it is not mandatory that the working group include CPP as part of the RPP. However, CPP — similar to TOU and seasonal pricing — should be added as another "tool" for the working group's "consideration" as it was not included in the presentation on slide 24].*

“Predictability” was then discussed. It was noted that knowing 3 months in advance of a price change may be adequate given the natural gas experience. In addition, the Ministry provided about 3 months notice between the announcement and implementation of the new 4.7/5.5 tiered pricing which suggests that 3 months notice was adequate from the Ministry's perspective.

It was added that there may be a need to have only a predictable “price structure” for peak/off-peak pricing, as opposed to a predictable “price”. It would be predictable and would influence changes in consumption behaviour.

The working group then moved on to **“cost reflectivity”**.

It was suggested that “replacement cost reflectivity” should be used instead as it builds in a buffer. *[Note: “Replacement” cost was not specifically defined in the meeting and there are different ways to define it].*

It was noted that there is a trade-off between minimizing the *frequency* of true-ups and minimizing the *magnitude* of the variances/true-ups.

It was also raised that there does not necessarily need to be a set frequency in terms of true-ups to attempt to maintain cost reflectivity. Instead, a trigger could be relied upon. It was questioned whether Navigant had an idea from their modelling how large the variances could be. Navigant did not have any information available at this time.

The IMO mentioned that seasonality is likely not the big issue that everyone believes it to be, with most generators scheduling outages in the spring and the fall which reduces supply and increases the price to levels that are closer to prices in the summer and winter. *[Note: In subsequent discussions, it was concluded that this statement was more*

reflective of the “fall” which tends to be “repair season” — not the “spring” where the seasonal differentiation in price is quite apparent].

Potential Tools

It was then decided to return to the presentation and cover “tools”.

Rate Structure

It was mentioned that “tiered” pricing can be useful to reflect marginal costs and encourage conservation.

It was added that all tiers did not necessarily need to be fixed. The first tier could be fixed and consumption over a specific threshold could be subject to the spot price (HOEP). Another working group member questioned how pragmatic that would be since subjecting residential consumers to the volatility of the spot market price is what got us here in the first place.

It was also noted that the rate structure tools are not mutually exclusive. For example, the price could be both “seasonal” and “tiered”.

In terms of “time of use” (TOU) pricing, if for all RPP consumers, there would be a need to use load profiles for consumers without smart meters which would not be fair since a consumer’s change in their individual consumption behaviour would not have a direct impact on their bill. In addition, the NSLS that would need to be used may not even match the consumer groups for which we need to develop the RPP. Moreover, it would create inequities between consumers and not incent the desired behaviour. As a result, there may be a need for two RPPs. A RPP for smart meters (e.g., TOU) and an RPP for consumers without smart meters (e.g., tiered).

Customer Classes

There could be different RPP prices for different customer classes (e.g., residential vs small business) and/or different RPP prices within a class for consumers with different attributes (e.g., electric heating vs no-electric heating, AC vs no AC, etc.)

Other tools discussed were the RPP exit/entry provisions, the frequency of true-ups, and the recovery period for true-ups.

Another tool is to bias the price forecast upwards as a contingency.

It was then decided to leave the remainder of the presentation — discussing criteria development and scoring the strawman — for the next meeting and turn to scheduling the remaining 5 meetings.

Future Meetings

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| Friday, October 8 th (8:30 - 3:00) | - | Environmental Review Board (12 th Fl, 2300 Yonge [next elevator bank]) |
| Wednesday, October 13 th (9:00 - 4:30) | - | Meeting Room 1 (24 th Fl) |
| Wednesday, October 20 th (9:00 - 4:30) | - | North Hearing Room (25 th Fl) |
| Wednesday, October 27 th (9:00 - 4:30) | - | North Hearing Room (25 th Fl) |
| Thursday, October 28 th (9:00 - 4:30) | - | North Hearing Room (25 th Fl) - <i>tentative</i> |

Action Items

- C Board staff to provide a discussion of the pertinent regulations and a smart metering update at the next meeting.
- C Navigant to undertake an analysis of variance scenarios and present the results to the working group.
- C Board staff to prepare and distribute draft meeting notes to the working group.
- C Board staff to try and obtain greater certainty from the Ministry around the true-up/price adjustment provisions in the amended Bill 100.

Date Finalized: *October 10, 2004*

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