



Regulated Pricing Plan Working Group

MEETING NOTES - Meeting #2

**Ontario Energy Board
Environmental Review Board - Boardroom
2300 Yonge Street, 12th Floor**

**October 8, 2004
8:30 a.m. - 3:30 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)
Coalition of Large LDCs (Ed Chatten)
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

[Review of Meeting #1 Notes](#)

Members of the group remarked that the detailed notes were quite helpful and constituted an accurate record of the meeting. Board staff noted that subsequent meeting notes may not have as much detail, depending on who was compiling them.

Some members expressed a view that attribution in the notes may be too detailed. Discussion about attribution followed and the general consensus was to follow a policy of non-attribution, review of draft notes and a determination at the review if more detailed attribution would contribute to clarity or understanding of the WG deliberations.

Members contributed changes to the draft notes. Board staff undertook to edit the draft and post a final document on the website with the presentation materials from the first meeting.

[Board Staff Report on Policy Coordination and Out of Scope Issues](#)

Board staff reported on progress in the Smart Meters initiative and issues relevant to RPP development. The OEB Smart Meters project is governed by a Ministerial directive

to develop an implementation plan that will fulfill the Government's objectives for smart meter penetration of the Ontario market.

The Smart Meters project extended the deadline for their Technology Working Group input until October 21. The major decision remaining is a recommendation about the type of meter to install. The choices seem to be limited to interval and TOU meters with the major considerations for comparison being initial capital cost, capabilities and flexibility for future policy choices.

A WG member noted that there are more costs to consider than the initial capital costs and that a full cost comparison must account for software and data transfer costs. Another WG member noted that the SM Policy WG recommendations are at odds with the direction of the Technology WG and that the latter WG may be operating on the false premise that hourly prices are not an option. This member noted that the SM Policy WG has determined that hardware and software must support all possible pricing configurations including TOU, CPP and even spot price pass through. The WG was concerned that the SM Technology WG may make recommendations that would limit the flexibility of the RPP to address the policy objectives of the RPP project.

Action item: For the sake of full debate and consideration of all options, the WG suggested that Board staff make the RPP WG's views known to the SM Technology WG that *a priori* judgements on pricing options should not be a consideration in their technology choices. Furthermore, the WG suggested that this communication emphasize that technologies that support maximum flexibility in addressing the current and possible future policy objectives of the Government was desirable.

Action item: The working group members also requested that the Board staff speaking notes be distributed on the Smart Metering issue (See Attachment A).

Board staff reported on a meeting with Ministry of Energy and Ministry of Finance staff on the interpretation of regulations and amendments to Bill 100 that are relevant to the RPP. Several issues concern the RPP WG.

Designated Consumers

Ministry staff advised that currently the definition of designated consumers eligible for the RPP did not appear to be a pressing concern of stakeholders. However, they noted that this issue may become more important over the next month or so. In response to a question about decision timelines, Ministry staff responded that the end of October was likely a challenging deadline.

Some WG members noted that regardless of the definition of the eligible RPP consumers, the WG should design an RPP with sufficient flexibility to address any eligible consumer definition. Other members noted that the risks of variance account growth, in absolute terms, will depend on the volume of power sold under the RPP

which is directly proportional to the eligible customer decision. Other discussion focussed on the issue of boundary lines, net system load shape (NSLS) issues and fair treatment. In later discussion, a related question of how to treat designated consumers who may be within a threshold of eligibility during one period (year 1) but outside it because of growth, business conditions or corporate decisions (year 2) was tabled. This particular detail highlighted the difficulty of any RPP design that is based on consumption levels instead of pre-determined customer classes. One member suggested that the WG recommendations in the strawman design should highlight the implications of various eligibility choices.

Regulated Asset Adjustment (RAA) or Global Adjustment

Board staff discussed this issue with Ministry staff in the context of clarifying the intent of the settlement and bill content regulations. Ministry staff suggested that the RAA will not appear as a separate line item on RPP consumers' bills and that the OPA will hold the RAA balances for consumers on the RPP.

Some WG members questioned whether the regulations could be interpreted so strictly, noting that the language was ambiguous. Other WG members noted the usefulness of the RAA information and the fact that it will be available *ex post* from the monthly wholesale settlements between the IMO, OPA and wholesale market participants.

The Ministry clarification, although not wholly satisfying to all WG members, was sufficient to keep this issue as an "out of scope" item until such time as further clarification changes that status.

Amendment to Bill 100

The amendment to Bill 100 seems to limit the first-year RPP to an unchanged rate for the entire year. Board staff sought clarification of the intent from the Ministry. Although there is some ambiguity in the amendment language, Ministry staff strongly suggested that the amendment does eliminate variance account true ups and RPP rebasing for the first twelve months of the plan. The Ministry observed that a good forecast was the key requirement to ensure that the RPP does not generate significant variance account balances that may require onerous recovery mechanisms in future years. Board staff acknowledged the need for good forecasts but also pointed out the inherent risks of supply outlooks and fuel price forecasts and the resulting quick build-up of variance account balances. Board staff suggested that more, rather than less, flexibility was required to deal with unforeseen circumstances.

Action Item: Board staff to further explore the ability to design a first year RPP that incorporates within year variations in price based on seasonality and/or peak/off peak prices but unchanged from the announced levels throughout the year.

[Navigant Presentation](#)

Navigant distributed a power point deck to guide the WG's further discussion of objectives, criteria scoring mechanisms, analysis of variance account balances/true ups and first approaches to meeting the RPP objectives and developing a strawman proposal [Note: The presentation is posted on the OEB web site along with these meeting notes].

Criteria and Scoring

Navigant used the an example from the New Brunswick Market Design Committee to illustrate a hedonic (non-ordinal) approach to ranking choices among alternative models for the RPP. General discussion ensued as to the usefulness of this, or similar, approaches.

One WG member observed that a non-numerical ranking is difficult to collate because of the various views that individual decision makers will have about the same roster of objectives. Others pointed out that this non-numerical approach actually provides flexibility for a group decision because it allows each member of the group to assign a relative ranking to criteria without an *a priori* consensus, noting that the criteria still have to be well defined.

Another member stated that this decision was not a binary one: first, establishing that the criteria are important; and, second, weighting that importance? Navigant offered that yes, this was a doable method but that quite a lot of time could be required to reach a consensus on weighting and that the end result may be no better than an unweighted roster of criteria with decision makers supplying their own ranking.

Another member observed that there should be some sort of "sanity check", get the views of committee members and try to get a group sense of the big picture with weighting included. A different member observed that a straight vote around the table without weighting would be an unfair method and that another way was needed. Others suggested that a subjective weighting was best and would have to decide the primary criteria by interpreting the Minister's statements which may be contradictory in the detailed design for a strawman.

Navigant expressed concern that a detailed weighting scheme may take a lot of time to develop/decide and may not have much additional value compared to a more subjective approach. Some members suggested that the WG may not need a formal scoring mechanism if there are no multiple strawmen advanced. Another member suggested that a formal approach might help in defending/justifying the WG's choices of approaches and tools in the strawman.

The WG decided to not invest the time up-front in establishing a formal scoring mechanism. Instead, the WG will focus on strawman development and wait and see if it might be needed for helping to decide on trade-offs among alternative strawmen and/or

tools.

Variance Account Analysis

Navigant provided some representative model runs of alternative scenarios to generate estimates of variance account balances. These runs were designed to test the potential range of variance account balances and how quickly they might increase, making recovery problematical if the size of price increases and price stability were important concerns.

Sources of variance account balances were listed as supply deviating from projected or forecast levels, demand changes from forecast and fuel price changes from forecast. *(Note: A WG observer undertook to provide some levels of hydraulic generation variability over recent years.)* The analysis assumed that RPP was 50% of total load. Navigant noted that the impacts of the various scenarios are asymmetric because deviations that result in higher prices are on the more sharply sloping supply curve than deviations that result in lower prices.

Some members questioned the assumptions of how the variances would be recovered in the simulations, noting that assuming a 12-month recovery results in smearing the impacts and not delivering a proper pricing signal to consumers.

A long discussion on the gas industry QRAM process resulted in an undertaking by a WG member to provide additional detailed information at the next WG meeting.

The simulation results demonstrated that variance account balances could grow substantially in a short period of time and that liquidation of the balances could present special difficulties in setting the RPP levels in subsequent years. The WG noted that the analysis may exaggerate some of the impacts because responses to the change in market prices would likely dampen the actual impacts over time. However, the WG agreed that the analysis provided insights and should be viewed as illustrative of the need for flexibility to adjust the RPP prices to respond to actual events.

Action Items: 1. WG observer to provide data on hydraulic generation variability over a number of years. 2. WG member to bring a QRAM expert to the next WG meeting to further the WG's understanding of how the gas industry accounts for commodity prices that deviate from expected levels.

First Approaches to Meeting Objectives

The Navigant presentation focussed on some approaches to develop strawman elements that will deliver on the primary objectives of the RPP. The intent was to get WG ideas and reactions that could lead to approaches for constructing a strawman.

The first objective was "cost reflectivity". Some WG members questioned the definition of cost reflectivity suggesting that costs are seasonally determined and that recovery in

one period for variances in a previous period may send the wrong price signal to consumers. Another member questioned whether seasonality was still a major consideration, suggesting that variations in seasonal demand and prices were narrowing. Another WG member confirmed that this narrowing is confirmed by demand and price data. *(Note: Navigant undertook to provide seasonal prices and variations.)*

Additional discussion on the efficacy of seasonal pricing to encourage consumer behaviour changes focussed on the need for consumer information to aid behavioural changes, primarily through the installation of appropriate metering.

A discussion of the various cost recovery mechanisms in natural gas markets across Canada showed that a number of mechanisms can result in similar price levels and dampened price variability. The data confirmed that in-year re-basing minimized the next year price shocks and reduced the variance account balances to be recovered.

Price stability was the next objective discussed. One member expressed concern that the RPP was not the only source of change in consumer costs, citing distribution rates, metering costs and other “uplift” like charges, i.e., OPA cost recovery, IESO ancillary service costs, etc. Another member suggested that a matrix of billing changes could be developed to provide a framework for analysing the timing of variance account true-ups and other consumer-level cost recovery mechanisms. Other members suggested that the WG needed to strike a balance between the theoretical optimal and the practical limitations in the strawman’s ability to deliver price stability to consumers. Other members noted that annual true-ups may be sufficient for achieving price stability depending on the size of the true-up required.

Other issues germane to the development of the strawman included the acceptability of setting prices to assure a positive variance to forestall price increases to recover costs from consumers. Other members were concerned about the coincidence of RPP re-basing and/or true-ups with other increases in consumer charges (e.g., distribution rates). In particular, it was noted that early 2006 could have three events occurring close together with the potential to have an impact on RPP prices: the true ups from the first year of the RPP, the start of the postponed capital cost recovery by the LDCs, and the rebasing of the distribution rates. Some WG members suggested a semi-annual re-basing and true-up may minimize consumer impacts.

There was some discussion of the possible use of an upward bias in price to avoid creating large variances that would have to be paid by consumers. Some members noted that such a bias might not be acceptable to skeptical consumers. Others thought the bias would be more acceptable if the rate increase is otherwise relatively low.

Encouraging conservation and demand management brought forward the issue of RPP consumer eligibility. One member suggested that boundary issues of eligibility could be addressed by allowing “growth factors” for demand levels to account for economic growth and market development and thus encouraging conservation efforts as eligible consumers approached their adjusted limits. Others suggested that the WG should

consider a different RPP for consumers with electric space heating. Navigant discussed a utility in Pennsylvania that had implemented seasonal pricing. It was noted that the seasonal pricing only applied to electric heat customers. Navigant added that this is one example of price differentiation within a customer class (based on their attributes).

Others noted that the ability of consumers to respond to RPP price signals would be limited until smart meters were deployed and that the initial RPP should not limit consumers' choices for alternative (retail) price plans. One member suggested that keeping the commodity price higher than the forecast/projected level may be good "insurance" against onerous true-ups and may be seen as prudent and manageable, i.e., a "one week headline". Another member suggested that it would be important to evaluate the impacts at "transition points", i.e., when re-basing or trueing up the RPP.

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There was some discussion of the possible use of an upward bias in price to avoid creating large variances that would have to be paid by consumers. Some members noted that such a bias might not be acceptable to skeptical consumers. It was also noted that an "upward bias" could be considered a conservation incentive. A concern was raised about the impact on low income consumers, as many would likely already have difficulty paying their electricity bills without an upward bias. It was also suggested that small businesses would not want to pay more than they need to pay. It was further added that any decision on whether to incorporate an upward bias would need to be placed "within context". For example, it would likely not be desirable in 2006, or the "Perfect Storm" year, with the implementation of EDR, regulatory asset recovery continuing and the need to clear the RPP variance build-up after being constrained by the legislation from making any in-year adjustments in 2005 regardless of the circumstances and size of the variance account. In contrast, it may be desirable if the RPP variance account balance was small and no other significant rate increases were expected.

Customer choice was another attribute considered by the WG. Several consumer choices were identified - the ability to choose an alternate (retail) supplier, choices within the RPP framework and the capability for a consumer to install an interval meter and choose a spot price pass through option. One member observed that the ability to choose was fundamental for consumers to react to price changes. In response to the proposition that consumers need clear information in order to make comparisons to evaluate their choices, a WG member urged the WG to consider a mechanism to keep

the components of the RPP (the market price forecast and the RAA) separate. Another member observed that consumers have the choice to use electricity but they do not necessarily have discretion in changing electricity usage.

The discussion on administrative costs was not completed. However, the general proposition that administrative costs should be kept as low as possible and the RPP should employ existing settlement and billing systems whenever possible appears to have general acceptance within the WG.

Following the discussion of the objectives, Board staff noted that there appears to be a need for the WG to place a higher priority on conservation relative to demand response, in the early stages of the RPP, since there will be few smart meters in place that would allow consumers to properly respond to price signals. At the same time, encouraging conservation is not reliant on consumers having smart meters (i.e., can be incented through tiered pricing).

Action Item: Board staff to provide information on the timing of future distribution rate increases.

Future Meetings

The October 13th meeting was cancelled. A make-up meeting may be scheduled for early-November. Final setting of a date was postponed until the October 20th meeting.

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

See bolded sections within the notes.

Date Finalized: *October 25, 2004*

Prepared by: *R. Chute, Ontario Energy Board, 416.440.7682*

ATTACHMENT A

Speaking Notes for October 8th RPP WG Mtg Smart Meter Update

- As per the note I included in the recent meeting notes, the smart metering WG has extended their meeting schedule for the “Planning and Strategy” group to October 21st.

- The **most significant decision remaining** to be made and the decision with the greatest potential impact on the RPP is **what type of meter** to go with — **Time-of-Use (TOU) or Interval**.

- The decision would likely be easy if cost wasn't an issue. They would obviously go with interval. However, cost is a significant issue. The SM WG is currently trying to get a better handle on the cost differential since so much will hinge on it. For example, an Interval Meter may cost twice as much. *[Note: More recent information suggests there is at least a 3 fold differential in the installation costs (\$600 vs \$150-\$200)].*

- An **interval meter** would provide us — the **RPP WG** — with **maximum flexibility** in terms of **price design**. However, a **TOU meter may be adequate** for residential consumers since they can be designed with **up to 6 buckets**. **And it has been stated** by this group on a number of occasions that we need abide by the KISS principle to **KEEP IT SIMPLE.....** So even 6 buckets may be going too far. At least at the outset. At the same time, we are intended to develop a plan for the longer term (i.e., how long do we want to keep it simple).

- As Laurie noted when we met with her, something like 4 buckets could be adequate (e.g., morning - afternoon - evening - over-night). With 6 buckets, you could also have a simple peak/off-peak regime (by having 3 buckets price the same [e.g., 4 cents] and the other 3 buckets priced the same [e.g., 6 cents]).

- At the same time, with a TOU meter, you essentially need to keep it as you got it from the factory in terms of the buckets unless you want to incur some additional costs. Therefore, **one issue for the RPP WG is whether there is a plan to shift buckets over time?** And will there be a desire to KEEP IT SIMPLE over the long term?

- In short, the SM WG has a very difficult decision to make and it will affect our work.

- For General Service consumers, GS over 50 kW will be mandatory and the SM WG will likely **recommend** that Interval Meters be **mandatory** for all **GS over 20 kW**.

- The SM WG's recommended smart meter **roll-out** for **residential and GS < 50 kW** is:

2005	60,000
2006	160,000
2007	200,000
2008	600,000
2009	1,200,000
<u>2010</u>	<u>1,626,000</u>
Total	3,846,000

- We have been talking about dates such as when the SM WG will complete its work. However, what occurred to me is that the intention is for a **final recommendation to go from the Board to the Minister on February 15th. That is only 2.5 months before the RPP is intended to go into effect** and it is likely safe to assume that the Minister will want to take some time before making a decision.

Other Issues - QRAM confirmation

We also thought it was important to confirm the explanation we received at the last meeting about how we arrived at the QRAM in natural gas. What was explained (and is reflected in the meeting notes) was accurate:

It was accurate based on Board staff's recollection. Part of the rationale for the change to the QRAM was that the market was changing from long term contracts (e.g., 20 years) to short term contracts (e.g., monthly) which resulted in greater price volatility. If their recollection was accurate, the QRAM was also introduced in part to help address *inter-generational issues* between and within customer classes that would occur under the previous annual adjustment (i.e., gas heat customers would likely get subsidized under an annual adjustment)

It was also mentioned to me that quarterly adjustments could be beneficial for educating consumers about the seasonal changes in electricity prices.

October 7, 2004

Chris Cincar
Ontario Energy Board