



Regulated Pricing Plan Working Group

MEETING NOTES - Meeting #3

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

Wednesday, October 20, 2004

9:00 a.m. - 4:45 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

QRAM Presentation

The meeting began with a presentation by Pascale Duguay of Direct Energy which described the Quarterly Rate Adjustment Mechanism (QRAM) of both Enbridge and Union Gas, and how they differed. The purpose of this QRAM overview was to educate the RPP working group (WG) members about some potential options for consideration in the event that the RPP WG decides to include quarterly true-ups and/or price adjustments within the strawman that they ultimately develop.

Pascale also discussed the evolution to the QRAM which included the use of “triggers” as opposed to “automatic” adjustments. Enbridge’s trigger thresholds were \$20 (“reporting” trigger) and \$35 (“action” trigger) which evolved over time and were based on a qualitative customer survey. It was explained that the trigger was unpredictable for the OEB and the utility since, once the trigger was hit, an application was required for rate recovery which required Board approval. On average, the trigger was hit about once a year which increased to twice per year just prior to the change to a QRAM approach.

Pascale was asked why actual prices differed enough to necessitate quarterly adjustments when it was understood that the gas utilities had entered into contracts for much of their supply. It was explained that many of the contracts were tied to

fluctuating market price indices and only a small percentage were totally fixed in terms of price. The primary rationale for the contracts was to guarantee adequate supply, as opposed to price, for their customers.

As part of the QRAM, Enbridge essentially only has discretion in the final quarter. It is in this end-of-year true-up that Enbridge also accounts for customer migration. All variances in the Purchased Gas Variance Account (PGVA) are deemed to be commodity but there are other costs included such as those for load balancing. In one particular quarter, load balancing accounted for over 80% of the total PGVA.

In terms of migration, the billing system accumulates the amount owed by each system supply customer and they are required to pay for what they used when they exit system supply. *[Note: It was clarified after the meeting that “migration” within the context above accounts for both “moves” outside of the utility’s territory and “switches” to a retailer].*

It was also explained that no notice is provided to system supply customers prior to a rate adjustment/true-up. The customer is informed only when they receive their first bill following an adjustment (i.e., after-the-fact).

A working group member explained that providing prior notification (e.g., 1 month) results in a stale (i.e., less accurate) price forecast. Therefore, in determining the appropriate notice period, it requires finding a balance between the length of the notice period and the relevancy of the price. For example, it is expected that, the longer the notice period is, the less accurate/relevant the price forecast will be which results in a higher variance account and subsequent true-up.

It was noted that electricity is different from gas. As a result, zero notice may be acceptable in gas but may be unacceptable for electricity, particularly in the first couple of years for the RPP (or until consumers become more accustomed to it).

For *Union’s* QRAM, the *main differences* from *Enbridge’s* include: the quarterly rate change and clearing of PGVA is automatic (i.e., no thresholds), the clearing of the PGVA is included in the gas commodity charge (i.e., not a separate line item on the bill) and the clearing is based on prospective 12-month volumetric forecast. In other words, it amounts to clearing the previous quarter variances (actual and forecast), including previous forecasting error over 12 months. There is also no final fiscal year-end true-up.

[Note: The above noted QRAM presentation is posted on the web site, along with the meeting notes].

Review of Meeting Notes

The meeting notes were discussed from the WG's second meeting. Other than a few additions and some minor clarifications, the meeting notes were accepted. Once revised, these meeting notes will be posted on the OEB web site along with the presentations.

Action Items from Previous Meeting

Action items from the meeting notes were discussed. Board staff noted that they had met with the lead staff person (L. Reid) of the Smart Metering WG where it was clarified that the meters being recommended must be able to accommodate hourly data. A RPP WG member (also involved in the SM WG) stated that there are still documents circulating amongst the WG which suggested otherwise. Board staff committed to resolving this outstanding conflict. *[Note: Board staff subsequently forwarded an e-mail from L. Reid which confirmed that the meters being recommended would be capable of accommodating hourly data and, therefore, both Critical Peak Pricing and passing through the hourly Ontario energy price (HOEP) would be possible. This is now considered a closed issue].*

Board staff also noted that the response received from the Ministry, on the question regarding whether seasonal pricing was an option in the first year, was not clear and that they were awaiting further clarification. Board staff suggested that the WG proceed on the assumption that seasonal pricing was an option, for the time being, since seasonal pricing would be similar to tiered pricing if the price levels for each season were all announced prior to the RPP going into effect.

Board staff reported that they were still in the process of getting an inventory/matrix of the timing forthcoming distribution rate increases. The request was made for this information from fellow Board staff but development of the matrix was still a work-in-progress. ***[Action: Board staff to provide matrix to WG once it is completed].***

The IMO had provided a line chart illustrating prices for each season based on the average history to date, since market opening, for each hour of the day. It showed relatively little difference between the seasons. However, it was noted that it needed to be taken into account that these include two extremes (e.g., the past summer had low temperatures).

Navigant presented a second chart with bars illustrating the average HOEP for each month over the same period. The degree to which prices can vary between the seasons became much more evident with prices in May-June 2002 of \$30-\$38/MWh, August-September 2002 of \$70-\$82/MWh, February-March 2003 of \$89/MWh-\$85/MWh and May-June 2003 of \$45/MWh. It also became evident from the chart that prices in

October and November were comparable to summer/winter prices. As a result, Navigant suggested that it may be appropriate to think of summer/fall/winter as one season and spring as a second season.

Navigant reminded the working group that these charts illustrate the HOEP and, for RPP purposes, the Regulated Asset/Global Adjustment should have a dampening effect.

RPP Strawmen Presentation

[Note: Please see the accompanying presentation posted on the OEB web site for context. The intention is not to reiterate the full contents of the presentation].

Navigant began the presentation focusing on the strawmen. A working group member noted that it was not possible to read the titles of slides ***[Action: For future presentations, Navigant will change the format of slides].***

Navigant explained that the purpose of these strawmen is not to pick one as the “winner”. Instead, it was to test the tools against each element and that ultimately the strawman recommended by the working group would be comprised of some mix of elements from some or all of the strawmen in this presentation.

A working group member asked if the intention was to recommend one strawman or a number of options. It was suggested that if there was virtual consensus on a particular strawman as the winner, there would be no point in recommending options. On the other hand, if there was no clear winner, options would be appropriate, however, it would need to be a limited number of well defined options.

Navigant then explained some of the assumptions behind the strawmen such as none included pricing schemes that require smart meters (e.g., Critical Peak Pricing). Also, no price bias has been built into any since this could be incorporated into any of the strawmen.

Navigant also included “variance” simulations for the strawmen based on 1000 random trials. The variances represent deviations from the “expected supply cost” which is about \$4 billion (reflecting the Global Adjustment). The slides show “unfavourable” and “favourable” outcomes. It was clarified, for example, that “unfavourable” represented an “under-collection”. The chart showed a relatively strong bias towards creating “unfavourable” variances. It was clarified that these variances were not modelled to include carrying costs which could be material in 2005 when no true-ups will be permitted, under any circumstances, as per the legislation. There was a question regarding from whose perspective is it unfavourable or favourable. ***[Action: Navigant to clarify on the slides that it is unfavourable/under-collection “in terms of***

consumers”].

Strawmen

Discussion began on the strawmen. There were four which were comprised of:

- 1) Minimize Change (from present conditions)
- 2) Maximize Cost Reflectivity
- 3) Maximize Price Stability
- 4) Balanced

For each strawman, there are 9 characteristics/elements examined which include:

- | | |
|--------------------|---|
| 1) True-Ups | 6) Lag Time/Notice |
| 2) Rebasing | 7) Entry/Exit |
| 3) Recovery Period | 8) Transition to Year 2 |
| 4) Tiers | 9) Residential & Small Business Classes |
| 5) Seasonality | |

It was clarified up-front that there is a need to clearly understand the difference between “rebasing” and “true-ups”. True-ups are *retrospective*. Rebasing is *prospective*.

1. Minimize Change (from present conditions)

There was confusion regarding what Lag Time/Notice was intended to mean. It was clarified that “Notice” was the period of time between when consumers are notified of a price change and the price change being implemented. “Lag Time” is the period of time required to calculate the true-up or price adjustment before providing notice. The WG concluded that “Calculation Period” was preferable terminology to Lag Time. **[Action: Navigant to change “lag time” to “calculation period” in the presentation].**

It was noted that providing a lot of “notice”, such as 2 months, in addition to the lag time would serve no purpose if the price is stale (i.e., inaccurate). Consumers would probably prefer less notice and a more accurate price forecast in order to reduce the size of (or need for) true-ups. It was also suggested that the need for notice may be more important when the RPP is first implemented and then, as consumers become more accustomed to the price adjustments, the need for or amount of notice will likely decline [Note: There is no notice provided by Enbridge/Union as explained by Pascale].

In terms of notice, it was also added that there was a need for the WG to consider the fact that LDCs have different billing periods — monthly, bi-monthly and quarterly — and the notice would likely be included in a bill message or insert.

The issue of small business versus residential consumers was discussed. This strawman had the two customer classes being treated the same. One WG member was of the view that this was not equitable, under tiered pricing, since small businesses, in most cases, have much higher volumes at the higher price. For example, for one sample utility (Barrie Hydro), 2/3 of residential was below 750 kWh and 1/4 of small business was below 750 kWh. Therefore, it was suggested that small business was subsidizing residential consumers. Another WG member noted that the same issue arises within the residential class; i.e., some under 750 kWh while others are over 2000 kWh and these high volume residential consumers would be subsidizing low volume small business consumers to an even greater degree with differentiated tiers. In addition, with differentiated tiers, there would likely be a need to differentiate the true-ups which adds further complexity, particularly for LDCs. Another WG member added that it may be more appropriate to differentiate between customers based on consumption levels.

Navigant presented illustrative charts following the discussion of each strawman. These charts attempt to illustrate the frequency and magnitude of price changes. A WG member noted that these charts were missing important information — the estimated variance balance held by the OPA. **[Action: Navigant to add the estimated OPA variance balance to each slide to provide a more balanced perspective].**

2. Maximize Cost Reflectivity

This strawman would true-up/rebase on a quarterly basis and always clear the variance account at fiscal year-end similar to Enbridge.

A WG member asked why there are not monthly true-ups if this strawman is intended to maximize cost-reflectivity. Navigant responded that they did not believe anything exceeding a quarterly true-up would be acceptable to the WG, since the WG needs to account for price stability to some degree.

It was questioned whether 3 weeks notice was enough. There was a response reminding the WG that the gas utilities provide no notice at all. It was also suggested that Navigant was unaware that there was zero notice until Pascale's presentation and that "no" notice could have been included in this strawman as an option.

There was still some confusion around the lag/notice period so the WG went through an example.

- C True-up calculated in October (for quarter ending Sept 30)
- C Two month notice provided on November 1 (until Dec 31)
- C True-up effected on Jan 1
- C Therefore, start to collect on Jan 1 to recover variance accumulated July 1 - Sept 30.

This strawman had 3 tiers. The 2nd reflecting marginal price in peak season (i.e., only applies winter/summer). The 3rd reflecting marginal price at system peak. The 3rd tier is intended as a proxy for critical peak pricing (CPP), since CPP requires a smart meter.

It was mentioned that customer mobility is a complex issue, with customers switching to retailers and moving to other LDCs or outside of Ontario. And minimizing the variance balance through an accurate forecast or frequent true-ups reduces the impact and/or the need to directly address these customer mobility issues.

There was then a lengthy discussion regarding forecasts.

When Navigant presented the chart for this strawman, there was a comment that it did not appear to be very stable with a true-up (with no constraints) every 3 months. There was another comment that if gasoline prices remained the same for only one week, everyone would likely think that was very stable.

3. *Balanced Strawman*

This is the only strawman with a “materiality trigger” for true-ups (i.e., true-up based on \$ amount rather than a predetermined period of time). Except for the seasonality aspect, it was suggested that this strawman was similar to Union’s QRAM.

A WG member noted that one of the problems associated with seasonal pricing for retail consumers is that it is intended to send a price signal but it may not be sending the correct price signal since consumers are billed, for example, in the fall for summer consumption.

Another issue that was raised which is not specific to any one strawman is, if there is a surplus resulting from the current pricing structure (4.7/5.5), would that be used in setting the first RPP price or would the government retain those funds. **[Action: Board staff to contact the Ministry to get feedback regarding this matter].**

4. *Maximizing Price Stability*

This is the only strawman of the four that placed a “cap” on the recovery of true-ups and rebasing, with the uncollected amounts above the cap to be carried forward.

The working group ran out of time before they could discuss the *Maximizing Price Stability* strawman. It was decided that the time remaining would be better utilized going around the table and having the WG members list the option for each element that they preferred and/or did not like. This would provide Navigant with material to develop some more defined strawmen for the next meeting. Some WG members noted

that they felt rushed and needed more time to think this over. As a result, it was agreed that all WG members could add or make changes to what they stated via e-mail by Friday. **[Action: WG members to e-mail any additional preferences if desired].**

Navigant reminded the group that the options discussed were not exclusive to a certain strawman (e.g., if you like an entire strawman, except for how variances are dealt with, don't throw the baby out with the bath water).

WG Member Strawman "Initial" Preferences (for Conventional Meters)

See Attachment. *[Note: These represent the initial preferences of the WG members prior to discussing the various strawman elements as a full group].*

Future Meetings

Wednesday, October 27th (9:00 - 4:30) - North Hearing Room (25th Fl)
Thursday, October 28th (9:00 - 4:30) - North Hearing Room (25th Fl)
Thursday, November 4th (9:00 - 4:30)

Date Finalized: October 29, 2004

Prepared by: Chris Cincar, Ontario Energy Board, 416.440.7696