Regulated Pricing Plan Working Group

MEETING NOTES - Meeting #4

Ontario Energy Board
North Hearing Room
2300 Yonge Street, 25th Floor

October 27, 2004
8:30 a.m. - 4:30 p.m.

Barrie Hydro (John Olthuis)
BOMA /FRPO/CIPPREC (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 Distributors 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 #3 Notes

General discussion of the notes resulted in removing preliminary preferences on the strawman elements from the body of the meeting notes but retaining the WG member input via e-mail with attribution in the appended table of responses. This was to avoid duplication. For those WG members that did not follow-up with an e-mail, it was agreed that their preliminary strawman preferences should be moved to the table to make it complete.

Board Staff Action Items

Ministry of Energy officials have still not provided clarification of the price stability issue, i.e., whether an announced, annual RPP price regime with prices varying within the year would be in compliance with the amended Bill 100. Board staff undertook to renew the request for a definition.

Board staff are developing a chart with timelines for other distribution service cost changes, i.e., regulated asset recovery, new distribution rates, cost allocation, etc. However, general discussion among WG members revealed that the spring of 2005, 2006 and 2007 would all be particularly challenging periods for managing general system cost increases.

Navigant Presentation

Navigant distributed a slide deck for discussion of common issues around two draft strawmen: a customer acceptance model and a customer incentive model. As well, the deck led the WG through a discussion of several "elements of a strawman" issues that were left over from the previous meeting.

Mobility Conditions

The discussion focussed on the types of mobility issues (exit/entry to/from retailers, exit the LDC territory, moving from one LDC to another), fairness and equity, minimum exit time and prevention of gaming.

A number of WG members advanced the proposition that the RPP conditions should minimize mobility barriers. Others observed that the trade off between equity and fairness needed to be balanced against the administrative costs to ensure equitable and fair treatment of consumers. Some members observed that administrative costs of tracking consumers entry and exit in the detail required to ensure "total equitable treatment" would likely be prohibitive.

Navigant observed that a "true up" payment upon exit would be relatively easy to administer but a true up payment upon entry would be relatively difficult to administer because of the difficulty of breaking down and tracking variance account causality. Others observed that "gaming" opportunities are likely to be negligible because of the difficulty of tracking variance account balances by non-experts. Some members observed that retailers would be disadvantaged by an exit payment and that more frequent variance account true ups and re-basing was the solution to the fairness and equity issue. Another member observed that the more frequent the true ups, the easier to collect a final settlement payment. One member observed that the final bill calculation of a consumer exiting an LDC service territory is not as straight forward as assumed.

Board staff raised concerns that the terminology used in slide 6 (Mobility Models: Leaving) of the presentation could be misleading. The text implied that requiring a customer to pay what they owe in terms of the variance account was a barrier to mobility. Board staff suggested that an artificial barrier to customer mobility is more consistent with an "exit fee" and paying only the true-up that is owed was actually "neutral" in terms of mobility. Requiring the customer to pay what they owe is not an accurate reflection of an "exit fee" in terms of other jurisdictions. In those other jurisdictions (e.g., Maine), an "exit fee" is an incremental charge (beyond what is owed on the bill) which is applied to consumers that leave default supply. Board staff also suggested that Option 1, which would not require a true-up upon leaving to a retailer, could be viewed as establishing a framework to intentionally facilitate customer switching. As a result, Board staff requested that Navigant revise the slide so that it was not misleading. One WG member disagreed and felt that the slide should not be revised, as they were of the view that requiring a payment upon switching from the RPP would in fact create a practical barrier to customer mobility.

A straw vote of the WG on the options for settlement of variance account balances upon exit and entry was in favour of no balance settlements for either.

Discussion about minimum exit duration as a gaming opportunity showed that the risk of gaming was thought to be minimal, primarily because of retailer exit penalties and the delay in shifting consumers from RPP to retail service. Some members also observed that section 29 of the existing statute requires LDCs to supply any consumer who requests such service. The WG agreed that there should be no minimal out time for those that exit the RPP and that retailer contract penalties were sufficient to prevent gaming. **(N.B.: The WG did not discuss the situation of consumers who opt for spot price pass through and then wish to rejoin the RPP at a later period.)**

Unfavourable Variance

Navigant's forecast analysis demonstrates that the likelihood of an unfavourable variance account balance (unfavourable from the consumers' view) is greater than a favourable balance. This is the result of the supply risks from the regulated assets of OPG, primarily the risks of poor nuclear performance and hydraulic output variations, and other factors such as fuel price volatility, demand changes, etc..

The issue of building a "positive cushion" in the RPP price to offset the expectation of higher probabilities of the actual price exceeding the forecast price generated significant discussion. Some members advocate building a cushion to offset future true ups. Some observed that retailers may have an advantage if credits from over collection were foregone; others observed that consumers do not consider potential credits but only the direct charges for supply when making a retail/RPP decision. Some suggested that a 1% annual upward bias would be sufficient to cushion consumer variance recovery shock.

The WG recognized that the model-based analysis was a useful representation of likely "real world" outcomes. The WG noted that even if the market price forecast and RPP price setting were based on an expectation of "zero variance" there was a significant probability of unfavourable balances accumulating. To address the propensity of actual market outcomes to result in unfavourable variances for consumers, the WG suggested that the RPP be set to account for this propensity and to offset the financial impacts of unfavourable variances.

Model Strawmen

Navigant presented two composite strawmen to motivate discussion of the specific elements that might be required in an RPP for conventional meters. The purpose of the two strawmen was to illustrate the possible components of a decision strawman and the impact on variance account balances of several statistically representative model runs. Navigant's presentation materials show the detailed analysis. A separate strawman for "smart meters" will be presented at a later meeting.

The two model strawmen are: consumer acceptance and consumer incentives. These strawmen were developed only as a method to concisely present the possible elements of a decision strawman and were not meant to "draft" strawmen. See the Navigant slide deck for Meeting #4 for the differences in strawman elements and tools between the two models.

Discussion of the analysis focussed on the variance account balance graphs. Some WG members questioned how steeply the variance account balance recovered with resets and true ups. *[Note: Navigant subsequently advised the working group of an error in computation of the accumulated variance, and that the chart would be corrected].* Other members asked about the impact of the 6% limiting constraint on price increases. *[Note: Navigant subsequently informed the working group that, without the cap, two of the price increases would have exceeded 6%.]*

It was then decided to complete the work on developing the conventional meter strawman the next day as the meeting came to an end.

Future Meetings

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

Possible need for one more meeting depending on outcome of November 4th.

Action Items

No new action items; follow-ups on rate schedule are still due.

Date Finalized: *November 9, 2004*

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