



Regulated Pricing Plan Working Group

Final - MEETING NOTES - Meeting #6

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

November 4, 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)
Hydro One (Brenda Bracken)
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/Gay Cook)
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 Notes](#)

Meeting notes from Meetings 4 and 5 were discussed. One issue was the proper characterization of the discussion about consumer mobility in Meeting 4. Board staff undertook to revise the notes to capture the essence of the discussion, in particular, noting the informal vote of the WG on the issue.

[WG Action Items](#)

Pursuant to previous WG discussion on the timing of CIS and billing changes, LDC representatives on the WG volunteered to table a short explanation of the time requirements for making such changes in their IT systems. This information was to be available at the next WG meeting.

[Presentation on the Global Adjustment](#)

A WG member volunteered to make a presentation on the draft regulations governing the calculation and assignment of the “Global Adjustment” (GA). The speaking notes for the presentation are attached to these meeting notes.

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The basic thesis of the presentation is that unless the GA appears as a separate line item on a RPP consumer's bill then that consumer will not be able to make a meaningful comparison of the commodity costs between the RPP and retail contracts. The WG member cited the endorsement of both the Government and WG of the proposition that RPP mechanisms should not inhibit retail choice. This endorsement was characterized as a sufficient condition to support the GA as a separate line item on an RPP consumer's bill.

The WG member stated that the OEB or the IESO had the authority and capability to order the inclusion of the GA on the bill. Other WG members suggested that the method for setting the RPP price could be through separable forecasts of the market price and the GA.

Many WG members expressed opinions on the comparability issue. Most agreed that comparability was important but diverged in whether it was essential for the GA to appear on the RPP consumers' bills. Some WG members expressed the opinion that if comparability was important, then total comparability was required, including the treatment of variances and true-ups. The existing regulations were felt to be sufficiently vague as to make both options (separate components for the market price and GA or both components rolled into the RPP price) possible.

Navigant Presentation

The presentation focussed on developing a "decision strawman" for conventional meters to bring closure to as many issues as possible. The major issues presented for additional discussion and to be resolved were: mobility conditions and tiered rate structures. Other issues where the WG reached consensus were reiterated in the presentation and discussion was for clarity and final wording for the decision strawman. These issues included seasonality, transition in the second year of the RPP, the methodology/objectives of setting the RPP prices.

Tiers

The WG discussed tier structures extensively in Meeting #5. Although the current tiered structure was felt to be an imperfect and ineffective incentive for conservation, the WG felt that doing away with tiers in a conventional meter RPP would be too radical a departure from existing government policy. Some WG members supported a single price RPP.

The WG discussion focussed on methods for adjusting the tiers to remove perceived cross subsidies between residential and commercial consumers in the existing "one size fits all" tier structure. Data from one LDC showed that the percentage of total load under the lower price tier was much greater for small volume consumers than commercial and small industrial consumers. This implicit cross subsidy between customer classes was felt to be an undesirable trait of tiers but one that might be reduced through a more refined tier design. One alternative suggested was to have the first tier volume based on a percentage of total average consumption across customer classes, i.e., tier kilowatt-hours defined by 25% (30%, 40%) of total average consumption by customer class. The WG recognized that eliminating all cross

subsidies was impossible but that varying the tiers by customer class would be a better option than “one size fits all”.

The WG decided that seasonal tiers were unjustified by the data and too complicated. Also, a majority of the WG felt that more than two tiers was also too complicated. The WG agreed that adjustments to the existing tier structure could redress imbalances and that a conventional meter RPP should have a two tier structure.

Mobility

The majority of the WG preferred an RPP model that had no variance account balance final payments for consumers exiting or entering the RPP. Some WG members supported clearing the variance account attributable to individual consumers if they left the RPP. Some WG members suggested that the administrative costs of such a system would not justify the benefits. **(N.B.: Estimating these costs was an action item in a later WG meeting.)**

Some discussion suggested that the need for collecting this variance balance was unjustified by the size of the variance accounts generated by the Navigant model simulations. Others suggested that the amount of the individual customer variances collected would not support the costs of a customer-specific tracking system for balances.

Others suggested that the calculation was not particularly difficult if some precision was sacrificed in the calculation and that the OPA/IESO could readily supply the data required for calculating variance balances. Others suggested that although residential customer variance collection may not justify the costs, larger volume consumers may have much larger balances that would justify collection costs.

Smart Meter Strawman

Many issues addressed in the conventional meter strawman are transferable to the smart meter strawman. The major additional issue is a time of use pricing structure which smart meters enables.

Navigant proposed eight time of use pricing periods - off-peak, peak and super peak for four summer/four winter months and off-peak and peak for four shoulder months. Some WG members suggested that eight pricing periods may be too complex for consumers and that perhaps the initial RPP should start with something more simple. Another member stated that coordination with smart meter deployment might be difficult with eight pricing periods. Another WG member suggested that consumers need to get familiar with the new pricing schemes and that a gradual introduction of TOU would be more suitable. Others suggested that the preferred technology for smart meters may only support six “price buckets”, i.e., pricing periods.

Navigant suggested that if the price differentials in the TOU schedule were narrower, then fewer price buckets would be required. Some WG members suggested that fewer TOU prices may be desirable but that a certain level of “price shock” would be required to get a material

demand response from consumers, therefore, reduce the number of periods but keep the price spread substantial. Another WG member noted that if demand shifts substantially the variance account will be affected. A different WG member observed that there are real system cost changes from load shifting. Navigant observed that if there is a substantial investment in smart meters then there is an expectation that the RPP will support load shifting actions (“flatten the load curve”) and reduce total system costs. Some WG members suggested that just two prices, invariable for a year, would be sufficient to secure load response action from consumers.

However, the WG supported the use of three seasons in developing the smart meter RPP - winter, summer and shoulder.

The topic of using the “global adjustment” (GA) or OPA variance account to “stretch” TOU prices was discussed. Some members supported using the GA differentially to stretch prices; others opposed. The consensus view was that the GA and variance should be uniformly distributed across the pricing buckets, i.e., same differentials per kWh for all prices.

“Critical peak pricing” (CPP) stimulated extensive discussion. Some WG members noted that recent government statements seemed to support CPP as a “given” component of the RPP. Other members were sceptical that CPP actually delivers real results, citing the California and French experiences as unrepresentative and non-transferable to Ontario.

Others suggested that the RPP should include CPP as a future addition when smart meter penetration and the enabling communications and data collection technology is available. Another suggestion was for the WG to recommend that CPP be included in the RPP when conditions warrant and to be specific in identifying those conditions. It was also advanced that a “grace period” might be useful for CPP introduction, i.e., consumers bill no worse than if they had stayed on straight TOU prices.

Collection of separate variance account pools for conventional and smart meters was rejected by the WG. The WG supported a single variance pool to reduce administrative costs and “migration” problems from one pool to another as smart meter penetration increases.

Next Meeting

The WG agreed to one additional meeting on November 8th to address all remaining strawman issues.

Date Finalized: *November 25, 2004*

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Appendix A - Direct Energy Input Global Adjustment Treatment

November 3, 2004

Regulated Price Plan for Electricity Consumers **Treatment of the Market Price and the Global Adjustment Components**

- The government has indicated that the RPP for small volume users will co-exist with competitive retail supply options for all consumers. The regulatory and administrative mechanisms proposed for the sector, including the RRP and the global adjustment, should be designed in a way which will enhance rather than limit supply options for consumers.
- The OEB RPP Working Group has accepted the premise that the design of the RPP should not unduly inhibit retail choice.
- In order to be able to meaningfully consider supply options, customers must be able to compare prices.
- Prices for all customers, including those customers on the RPP, will have two basic components:
 - The market clearing price.
 - The global adjustment.
- Customers not on the RPP, including those eligible for the RPP but electing an alternative supplier, will see each of their supply price and their global adjustment separately identified on their bills, on a monthly basis. [*Regulation re Adjustments re Section 25.31 of the Act, s. 3- Adjustments by Licenced Distributors – paragraph 4.*]
- Unless RPP customers are able to identify the component costs/credits on their bills, they will be unable to compare the RPP to other supply options. For example, if RPP customers were presented with unit rates for energy consumed that blend the energy price with the global adjustment, those customers would not be able to compare the RPP unit rate with the prices offered by retailers (which prices would not be blended with the global adjustment). Lack of comparability would:
 - Erect an “information barrier” to retail entry and activity, thereby compromising the ability of the competitive part of “hybrid” structure to succeed and support investment in generation and demand side resources (there would be limited counterparties, less forward contracting liquidity, and a resulting over-reliance on OPA contracting and the public/ratepayer purse).

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- Result in customer confusion and compromise the ability of retailers and others to provide customers with clear information on their supply options. Clearer options and less confusion make for fewer consumer complaints.
- Undermine transparency in respect of the price paid for power and thus impede conservation efforts. (For instance, a unit energy price that is blended with the regulated asset adjustment would distort price signals, if changes to the regulated asset adjustment, from period to period, were out of step with the pure price signal. This would impede appropriate consumer demand response.)
- Attached with this note are illustrative mock-ups of how simplified electricity bills for each of RPP and non-RPP customers could be structured to achieve the transparency urged.
- The regulations currently released do not address, one way or the other, how RPP customers will see their global adjustments reflected on their bills. In respect of RPP customers served through an LDC, the current draft regulations provide as follows:
 - The amount of the global adjustment for a month that is allocated to a consumer who is a regulated consumer shall be charged, paid, credited or set off as required or allowed under Ontario Regulation [*Payments re Section 25.31 of the Act*].
 - The payments regulation to which the foregoing provision refers does not address how the global adjustment for regulated customers will be recovered from those customers. Rather the payments regulation addresses settlement of the variances, as between distributors, the IESO and the OPA, between what regulated customers pay pursuant to the RPP and what they would have paid under the market rules or the Retail Settlement Code.
- It is within the purview of the OEB to direct how the global adjustment for RPP customers is reflected in the design of the RPP and in the presentation to those customers of the rates payable under the RPP.
- The OEB should design an RPP in which the power price and the global adjustment for RPP customers are separately identified for those customers, preferably on their monthly invoices and in the same fashion as will be the case for non-RPP customers.
 - Consistency as between customers is essential to ensure comparability of competitive retail supply options with the RPP. It is also essential to ensure non-discriminatory access by all small volume customers to the stability afforded by the global adjustment.
 - If the global adjustment is to be fixed for RPP customers, it should be fixed for all RPP eligible customers on the same basis.
 - The draft regulation regarding *Adjustments re Section 25.31 of the Act* provides (section 2 – monthly adjustments by the IESO – paragraph 6) that the IESO or the OEB may establish protocols authorizing:

- Interim calculations of the amounts of global adjustments and the amounts to be allocated to market participants based on reasonable estimates of payments and volumes of electricity (which could include fixing the global adjustment); and
- Subsequent adjustments to accounts and payments to reflect any differences in the amounts of the global adjustments allocated to market participants as a result of the differences between estimated and actual payments and volumes of electricity (which could include truing up a variance between forecast and actual global adjustments).
- For instance, the regulated asset adjustment could be forecast forward and fixed on a periodic basis (quarterly, bi-annually, or yearly) for all customers of the class eligible for the RPP. The variances arising during each such period would be tracked, under the aforementioned protocols, and rolled forward into the fixed global adjustment for the next period.
- This proposal is consistent with the government's interest in ensuring stable rates for RPP customers. Such customers would see a fixed unit energy price and a fixed unit global adjustment.
- The proposal is also consistent with the government's interest in standardizing electricity bills for low volume consumers. It would ensure that all low volume consumers, RPP or otherwise, would see the same information, presented the same way, on their bills.
- Finally, all low volume consumers would be afforded equal terms of access to the stability offered by the global adjustment.