

# Attachment: PRELIMINARY PREFERENCES FOR RPP STRAWMAN (Conventional Meters)

October 26, 2004

Company	Comments
<b>BOMA</b> <b>Mike McGee</b>	<p>Basic Approach: Default to SIMPLE and WORKABLE, perhaps at the expense of cost reflectivity. We need to consider the practicality of burdening the LDC's with huge reconciliation/variance obligations when we need them to be focusing on implementation of smart metering!</p> <ol style="list-style-type: none"> <li>1. No retroactivity ( ever!) Hopefully this is a given.</li> <li>2. No variances applied to RPP consumers exiting or entering (unjustified complexity)</li> <li>3. Do variance true-ups and rebasing together. (keep it simple). And from the variance analyses presented it seems worst case is 10% over 1 year. This is nothing compared to the 3 cent to 8 cent jump that landed us in this mess, or compared to volatility in natural gas SSS prices. So make the adjustment ANNUAL. (simplicity)</li> <li>4. Hold positive variances in reserve ('rainy day' logic; also basic human and corporate behaviour - we only notice the increases, not the decreases. Remember that when market opened at May and June 2002, market prices were 3.0 and 3.7 cents. Did anyone say " wow - my bill has gone down! "?</li> <li>5. No seasonality. Given the lack of correlation of market prices to season, why bother. An extra complication that will be lost on consumers, especially given bi-monthly billing, and will present further problems with estimates/reconciliations.</li> <li>6. No notice necessary. Again if it is annual, people will know there is a change coming.</li> <li>7. Tiered pricing. This is highly problematic in terms of equity amongst customer groups (as noted by SEC comments), especially since we are not yet dealing with defined eligible groups.</li> <li>8. This exercise is relatively straightforward compared to the need to establish an appropriate TOU rate for smart meter deployment. Remember that many currently 'designated' consumers already have smart meters and so are looking to see what the RPP TOU will be. Also some progressive LDC's are already implementing smart meters in the small consumer class and are anxious to apply the RPP TOU rate.</li> </ol> <p>Back to the equity issue: We have presently defaulted to assuming 'residential' and 'small business' will be eligible for RPP. The current 4.7/5.5 tiered pricing at the 750 kWh/month threshold is by definition inequitable to small businesses that can use up to 20,000 kWh/month. If we are to continue tiered pricing (primarily for the implicit conservation message) perhaps we should default to 750 kWh/month for Residential and , say, 10,000 kWh/month for small GS consumers. Still arguably inequitable, but better.</p>

<b>BOMA (cont'd)</b>	<p>An even simpler default would be one single RPP price for all eligible consumers. This would avoid equity issues, make things simple, albeit at the expense of losing the implicit conservation signal. You could arguably say that the conservation signal will come from the RPP Smart Meter rate, with an appropriate on-peak / off - peak split.</p>
<b>VECC Bill Harper</b>	<ol style="list-style-type: none"> <li>1) Cost Reflectivity applies more to the issue of rebasing than true-ups. i.e., frequent rebasing will enhance cost reflectivity more than frequently true-ups. In deed once the time period has passed - there's some question in my mind as to whether when/how true-ups occur has anything to do with cost reflectivity.</li> <li>2) I uncertain about the need for seasonal prices. In deed Tiered rates may accomplish the same thing and do a better job in terms of the other objectives --- at least for residential customers.</li> <li>3) True-ups - should probably be frequent and over a longer time period -- that way they will "hopefully" tend to offset each other and not distort prices or lead to price instability.</li> <li>4) Customers should have some notice of rate changes prior to receiving a bill based on the new rates and preferably a month - though this may be impractical. This aligns with the Minister's comments that the RPP will allow customers to "plan" and "anticipate costs".</li> <li>5) There should be true-ups on exit to the extent possible</li> <li>6) Might be useful to consider extending the first year beyond 12 months in order to align adjustments with the seasons.</li> <li>7) I'm quite interested in seeing the projected "variance balances" associated with the fourth straw man where price increases were limited.</li> <li>8) I'm concerned that if we introduce too many elements that change 1/4'ly (e.g. tiers, true-ups, rebasing, seasonality) prices will be changing in unpredictable ways to the extent customers will not be able to read any messages in their "rates". Indeed, as we've seen various charges could be going both up while others are going down at the same time.</li> </ol>

**Barrie Hydro  
John Olthuis**

As requested the following reiterates and perhaps adds to my comments during our roundtable discussion on our preferences in developing our straw man options:

I must say that I am personally of the opinion that the most accurate form of pricing is spot market pass through where non-interval metered customers are billed on the weighted average hourly spot market price. (SSS post market opening pricing)

This form of pricing naturally encourages conservation, provides realistic price signals and reflects and recovers the true cost of electricity. Customers have the option of pay as you go, but to provide predictability, they have the choice to enroll on the LDC budget payment plan with annual reconciliation or enroll with a retailer at fixed pricing. Unfortunately I believe this form of price plan is out of scope for the RPP working group.

Under a fixed price RPP:

No LDC held variance accounts.

Trueup/Rebase/Recovery - Preference is a simultaneous/concurrent annual adjustment where all previous years variances and forecasted variances are taken into account but a provision must be made for the exception if a defined price signal forces a price signal adjustment. (That said, the price signal must be used as a system "fail-safe" where a severe long term probability such as a nuke going off-line indefinitely exists)

Tiers - A single tier is one consideration. This makes sense if all low volume and residential customers are to be grouped into one RPP. This will accommodate small business and customers on fixed income in electrically heated housing facilities. Individual customer consumption levels will provide the conservation incentive.

A two or three tier escalating price system is another consideration that can be used to escalate conservation, but careful consideration must be made in determining the tier levels and the price points.

A two tier system is my preference in order to escalate the incentive for conservation.

Seasonality - I feel seasonal fixed price adjustments are unnecessary as consumer consumption patterns dictate this. The more a consumer uses in a particular season the higher the cost regardless if the rate varies. (Why should a customer without air conditioning have to pay more during summer months? The

**Barrie (cont'd)**

consumers with air conditioning pay more simply because they use more)

Notice - I believe limited notice (one month or less) or on effected bill notice is all that will be necessary.

Entry Exit - dependant on meter reading cycles but 12 months should be manageable and limit the possibility/perception of gaming.

Residential/Small Business - A single tier system eliminates any concern small business may have regarding inequities. If a two or three tier system is implemented based on residential consumption volumes, small businesses may be impacted as they are now. Having said this I am of the opinion that most small businesses operate during the hours of 7:00 a.m. and 7:00 p.m. and although the two or three tier system would cause a larger percentage of small business consumption to be based at a higher rate, I feel this is reasonable given the fact that the price of electricity is higher during these periods.

In the case of customers on fixed income in electrically heated housing facilities, a single tier system would alleviate their concerns regarding higher price blocks, however, if a two to three tier system is maintained then I feel that existing and perhaps new measures through Ontario Works and other social safety nets should be in place to compensate if need be. (The higher operating costs may also encourage housing authorities to convert to alternative sources of heating or enter into other energy efficiency initiative)

I caution a higher volumetric quantity for the first tier of small business customers as this would encourage high consuming residential customers to request this rate classification to benefit from the higher first tier. The question is who would enforce this as many small businesses are home based. Although a higher first tier volume combined with a higher first tier price for small business may discourage this gaming.

The point in last paragraph is if you strike different first tier levels for business and residential but affix the same price for the first tier, larger volume residential customers would attempt to benefit by claiming small business status.

Eg

Residential

Small business

0-750            .047

0-1200        .047

>750           .055

>1200        .055

**Barrie (cont'd)**

In this case the residential customer could simply claim they were a small business operating out of their home in order to take advantage of the first tier.

To prevent this you would have to do something like this:

Residential		Small business	
0-750	.047	0-1200	.050
>750	.055	1200-12250	.055
		>12250	.060

**The Spi Group  
Mark Kerbel**

As requested, here is a summary of my comments at the end of our Oct 20 meeting. For reference, the comments are made strictly with a critical eye on operational complexity, and not on policy issues (since that's not my role at this WG).

- \* True-ups (triggered or automatic) and rebasing should occur as frequently as possible, namely monthly, in order to encourage regulators and market participants to fully specify the processes in detail, and hence, encourage automation of said processes. Examining the current state of issues in BPPR \*quarterly\* reporting is the most obvious basis for this conclusion.
- \* Two tiers leads to enough difficulty in tracking, but three is even more complex. Just in case not everyone is aware of this, there is no way to 100% accurately track the exact consumption breakdown in the current two-tiered world (although one can get very close to a reasonably good number), so by extension, three tiers will permit slightly more error to creep in.
- \* Seasonal rates: More complexity leading to more pro-rated periods as the seasonal rate changes will have to be calculated on almost every other bill in a large number of cases. Again, more complexity can lead to more errors (let alone customer confusion and therefore call centre support costs).
- \* Entry/exit conditions: Tracking customer mobility is one of the most difficult tasks currently facing LDCs, let alone retailers, therefore the more complex the conditions and workload for participants, the more error-prone and costly this will be to implement. This often includes mobility within the same territory. Stipulating conditions whereby the LDC (and possibly retailer) must perform additional computations, especially at a much later date (e.g. the 9 month delay cited in the gas distributor's case earlier in the meeting) is error-prone. As a further case in point, there is no province-wide tracking of customers, so it would currently not be possible to track entry/exit of RPP for SSS customers who leave the province.
- \* Customer classes: Just an observation that by using consumption tiers, one is indirectly introducing

<p><b>The Spi Group (cont'd)</b></p>	<p>pricing that is geared towards different classes. For example, the vast majority of residential customers pay at or near the 4.7c rate, while the vast majority of commercial price-protected customers pay very close to the 5.5c rate. Maybe it's just a matter of semantics, but I'm not sure I see the need to discuss separate rates per class when tiers already provide this function without having the additional complexity of class-specific customers. Perhaps a better way of explaining this is that we don't have to define customer classes if we're using tiers, since the tiers should be defined with the classes in mind.</p>
<p><b>Consumers Council of Canada (CCC) Julie Girvan</b></p>	<p>True-ups: The gas model has considerable merit and customers have become accustomed to it. Accordingly the quarterly approach should be given serious consideration. It represents a compromise between attempting to reflect actual costs and ensuring that there is some stability and predictability. It also represents a compromise between annual and monthly approaches which both have their problems. The issue of bi-monthly billing needs to be considered and the difficulties it may impose on a quarterly approach.</p> <p>Rebasing: quarterly seems preferable given the same points made on true-ups. A trigger mechanism could be useful to avoid the need for small changes.</p> <p>Recovery period: The recovery period mechanism has to be flexible to adapt to small and large variances. It can be complicated with a quarterly approach depending upon how the accounting is done (layering etc.)</p> <p>Seasonality: I do not see the value in introducing a seasonal component given the data we have seen. Can it affect usage?</p> <p>Tiers: Tiers introduce complexity and another set of trade-offs (cross-subsidies within classes, conservation objectives etc.). Trying to have Tiers and time of use buckets may be very complicated. Also, we need evidence as to how it affects behaviour. What are the true objectives of tiers?</p> <p>Notice: Initially notice may be more important, but not as important as customers become accustomed to the process and framework. If notice is required the trade-off may be to compromise the timeliness of the forecast.</p> <p>Entry/Exit: Every approach has complex issues around mobility. Full mobility has a cost to it. Restricting mobility can adversely impact competitiveness in the retail market. The previous rules may not still be applicable.</p> <p>Designation: If the eligible customers are residential and small business how is "small business" defined? It</p>

<p><b>CCC (Cont'd)</b></p>	<p>is a better approach to define eligibility on the basis of load.</p> <p>Key point: The best approach for this group would be to fully flesh out three or so options that stress different objectives. What we have seen is that there is no perfect model and each approach meets different objectives in different ways.</p>
<p><b>Ontario Federation of Agriculture Ted Cowan</b></p>	<p><b>A True Ups –</b></p> <ol style="list-style-type: none"> <li>1 that true ups which trigger additional payments by customers be required very rarely. This can be achieved by extremely accurate price forecasting or more probably by charging some amount or percentage that is consistently above the forecast price</li> <li>2 that true ups which yield a payment to customers occur no more than once per year and that once made the variance account remain with a surplus of about 1.5% of the gross traded value</li> </ol> <p><b>B Rebasing –</b></p> <ol style="list-style-type: none"> <li>1 that rebasing be linked to underlying structural changes that effect supply or demand such as lower water levels in L.Erie (which reduces hydraulic supply) or particular success with conservation efforts or opening or closing of coal or nuclear plants or switching coal to gas</li> <li>2 that as these structural changes are generally of a kind that can be anticipated, that the rebasing be done when thy are anticipated, not after their effects are evident in prices</li> <li>3 whenever he variance account surplus exceeds 2.5% of the gross annual traded value, the ‘extra’ charged to maintain the variance account could be automatically reduced – somewhat akin to a pension contributions holiday</li> </ol> <p><b>C Recovery Period</b></p> <ol style="list-style-type: none"> <li>1 a maximum of 12 months, but accelerated to the extent that bill increases can be kept below a particular percentage (say 5%) or a maximum of \$ 10 extra per month for residential bills under say 1,000 kwh per month</li> </ol>

**OFA (cont'd)**

**D Lag Time and Notice**

- 1 If a reasonable surplus is built up, surpluses will be the predominate feature triggered and no notice is needed for that
- 2 If additional charges are needed to pay for power and keep the variance account whole, then the charges should be imposed and collected as soon as possible

**E Tiers (Tiers are not enough)**

- 1 tiers are important to the conservation objective and to gentle treatment of those for whom power is a major domestic expense
- 2 OFA favours seasonally tiered prices that provide a seasonally adjusted base amount of power to RPP customers at a rate that varies only with rebasings – this base volume to be priced at the ‘heritage rate’
- 3 OFA feels size of the second tier of power might vary by customer class or past billing history (say 85 % of use in same period for prior year) and that this power be provided at the forecast estimate of HOEP plus increase needed to sustain the variance account
- 4 The third tier should cover power use over the 85% of past comparable period use and should be priced to encourage conservation.
- 5 OFA feels that heritage priced first tier for domestic and basic business use and different sized tiers by customer class or a second tier that reflects past use is a suitable way of distributing resource rent to customers as it protects jobs and economic production and facilitates lower costs for low income families, while encouraging conservation.

**F Seasonal pricing**

- 1 summer and winter prices should be higher than spring and fall prices and customers should know this well in advance

**OFA (cont'd)**

**G Entry and Exit**

- 1 accumulated surplus variance , less \$ 50, paid to customers when they leave the area or go to a retailer
- 2 leaving customers off RPP for the shortest period needed to cover one winter and one summer
- 3 no difference in prices based on time of joining RPP
- 4 no attempt to retro-active bill, leaving customers

**H Second year transition**

- 1 anticipate in the first year by taking on the surplus from the present 4.7/5.5 pricing (assuming the surplus survives the winter) combined with an overcharge to build the variance account (likely means a year one RPP price 1 to 1.25 cents below retail offerings), the reduced differential between RPP and retail offers greater competitive climate between market offerings and RPP
- 2 with sufficient overcharge, second year transition would allow for reduction of overcharge and a repayment to consumers rather than a claw back

**I Residential and small business classes**

- 1 all existing private sector designations should continue to be eligible
- 2 government (MUSH) clients should have a maximum of 2 years eligibility
- 3 all classes would pay the same price for power within a tier, but different tier sizes, or less complete use of power available in a tier or a tier based on a percent of past use, would induce slight but acceptable differences in actual prices paid that would be covered with repayment of surpluses in the variance account

**J Health of variance account**

build a positive balance so LDC's and OPA are never financially at risk from underpayment for power

OPA would retain the interest from the variance account and would be expected to fund a substantial part of its operations with that interest.

**Electricity  
Distributors  
Assoc.  
Wayne Taggart**

General Principles - the RPP should be simple, understandable and readily implementable

True-ups and rebasing - annually, during the same time period for both Recovery period - over the 12 months following the true-up

Lag time and notice - one month should be sufficient to calculate the true-up; notice can be minimal, especially once the RPP gets rolling, it will become an expectation for customers

Price tiers - systems are established to have 2 tiers based on the existing model. Let's build on that system which also achieves the Minister's objective of providing a conservation incentive

Seasonal pricing - the evidence suggests that this is not as critical as once thought. Choose the simpler way and not introduce seasonality at this time.

Entry / Exit - in order to preserve the perception of no gaming, allow 12 months to elapse for entry and exit; take the long run view and leave the variances alone on exit. Amounts should most often be small and mobility will have a tendency to balance out over time. New customers should pay the same rates as existing customers. We have to avoid the complexity of having systems that track the customer-specific variances and trying to apply them at the appropriate time.

Second year transition - clear the variances as per a regular true-up /rebasing after the first year of RPP

Residential and small businesses - all of the eligible customers should pay the same amounts for energy. This should not be an opportunity to try to implement social policy by introducing additional complexity in billing and customer tracking systems.

The IMO Helen Lainis Joseph Freire	Features for Strawman	Recommendation	Objectives Met	Comment
	<ul style="list-style-type: none"> <li>• True-up</li> </ul>	<ul style="list-style-type: none"> <li>• Quarterly review with true up only on materiality trigger</li> </ul>	<ul style="list-style-type: none"> <li>• Cost Reflectivity</li> <li>• Encourage conservation and energy efficiency</li> <li>• Keeps administrative costs low</li> </ul>	<ul style="list-style-type: none"> <li>• this process would, of course, begin in the second year of the rate plan as per government direction</li> </ul>
	<ul style="list-style-type: none"> <li>• Rebase</li> </ul>	<ul style="list-style-type: none"> <li>• Rebasing and true ups to be considered together</li> </ul>	<ul style="list-style-type: none"> <li>• Cost Reflectivity</li> <li>• Encourage conservation and energy efficiency</li> <li>• Keeps administrative costs low</li> </ul>	<ul style="list-style-type: none"> <li>• Rebasing will mitigate the need excessive true ups</li> </ul>
	<ul style="list-style-type: none"> <li>• Recovery period</li> </ul>	<ul style="list-style-type: none"> <li>• Recovery is a rolling 12 months</li> </ul>	<ul style="list-style-type: none"> <li>• Price stability</li> <li>• Price predictability</li> </ul>	<ul style="list-style-type: none"> <li>• Minimal impact of true ups on rates</li> </ul>
	<ul style="list-style-type: none"> <li>• Lag time and notice</li> </ul>	<ul style="list-style-type: none"> <li>• Calculation of true ups performed in last month of quarter and any true up amount and rebasing included on next months bill</li> </ul>		<ul style="list-style-type: none"> <li>• same as QRAM</li> <li>• Consideration to retailers' needs for advance notice in order to sign up contracts.</li> </ul>
	<ul style="list-style-type: none"> <li>• Price tiers</li> </ul>	<ul style="list-style-type: none"> <li>• Two tiers, modeled after two existing tiers.</li> </ul>	<ul style="list-style-type: none"> <li>• Encourage conservation and energy efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• Compatible with existing systems and processes</li> </ul>
	<ul style="list-style-type: none"> <li>• Seasonal pricing</li> </ul>	<ul style="list-style-type: none"> <li>• No seasonal pricing</li> </ul>	<ul style="list-style-type: none"> <li>• Price stability</li> </ul>	<ul style="list-style-type: none"> <li>• Seasonal pricing should be reflected in the forecasting.</li> </ul>
	<ul style="list-style-type: none"> <li>• Entry/exit</li> </ul>	<ul style="list-style-type: none"> <li>• Customers leaving for a competitive</li> </ul>		<ul style="list-style-type: none"> <li>• Given that the variance is held at the provincial level and not by the</li> </ul>

		<p>retailer cannot return for one year, unless retailer defaults</p> <ul style="list-style-type: none"> <li>• New and returning customers pay the same price as existing (including true ups)</li> </ul>		<p>individual LDCs, exit issue is not applicable from a switch between one LDC's RPP to another LDC's RPP.</p> <ul style="list-style-type: none"> <li>• One year rule is to prevent gaming by RPP consumer.</li> </ul>
	<ul style="list-style-type: none"> <li>• Residential and small business rates</li> </ul>	<ul style="list-style-type: none"> <li>• No distinction between classes</li> </ul>		
<p><b>LDC Coalition Paula Conboy</b></p>	<p>I wholeheartedly agree with Wayne and Mike's statements that the approach should be simple and workable. The implementation costs for market participants should not outweigh the benefit of a more cost reflective model. The more complex model will be in the development of an RPP that will support smart meters.</p> <p>We should keep in mind the inordinate amount of changes that have and are occurring in the sector. We should build on what we have now with minimal change (this may be viewed as an interim price plan to the ultimate roll out of smart meters). Customers have gone from spot market pass through, to a single rate to a two tiered rate. They will also see their distribution rates change next March (DSM implementation and regulated asset recovery) then again the following year (2006 EDR) only to be followed by a cost allocation study in 2007 that will likely lead to a rate design change. Implementing an RPP that introduces frequent change in rates may only serve to increase administration costs and lead to customer confusion and complaints.</p> <p>To that end, I would offer the following:</p> <p>Provides for simultaneous true-up and re-basing. I agree with Mike about keeping the funds from the times of "over-forecast" to help fund the times of "under-forecast".</p> <p>Lag time and notice - One month lag, one month notice. Given that the rate change will be a global change to all customers at the same time the notice could be by way of mass media ad. The first bill reflecting the change would provide notice that "this bill reflects your new rate". This avoids the need to coordinate notice timing with billing period.</p> <p>Recovery period - obviously 12 months.</p>			

<p><b>LDC Coalition (cont'd)</b></p>	<p>Price tiers - stick with the 2 tiers. I like the idea of introducing a conservation signal to get people used to the idea of conservation which we can then build on with the introduction of smart meters. But designate in terms of customer class and/or consumption not corporate organization.</p> <p>Seasonal - no quantifiable benefit to introducing seasonality.</p> <p>Entry/exit - no costs or timing limitations to entry or exit. I don't think the risk of gaming warrants the introduction of a "stay off" period (correct me if I'm wrong...).</p>
<p><b>Canadian Federation of Independent Business</b></p> <p><b>Bruce Fraser</b></p>	<p>True ups - calculated quarterly so that variances do not become too great.</p> <p>Re-basing - quarterly as per the gas industry QRAM but a trigger amount could be used to limit minor changes.</p> <p>Recovery period - 12 month rolling to avoid whipsawing with the ups and downs.</p> <p>Tiers - no tiers as they do not accurately reflect costs. See School Energy comments and Mike's comments earlier today.</p> <p>Seasonality - could be used to better reflect costs in higher demand seasons but effect could be dampened by variances layered on top.</p> <p>Notice - at least one month would be preferable but no notice has worked in the gas industry.</p> <p>Entry/Exit - a simple tracking system to avoid gaming but realize that it would not be worthwhile to try to track every dollar with every customer.</p> <p>Residential/Commercial differences - no difference unless tiers are used (which I don't support - see above) but tiers would have to reflect differences in usages of the two classes.</p>

<b>OESC Gord Potter</b>	<p>True-ups should be frequent and predictable</p> <p>Recovery within the quarter (similar to Enbridge)</p> <p>Seasonality addressed by quarterly true-up</p> <p>Notice - Do not need 1 month</p> <p>Entry/exit - No barriers to customer mobility</p>
<b>Direct Energy Ian Mondrow</b>	<p>True-ups: Frequently</p> <p>Rebasing: Due to lags, no price signal so annual</p> <p>Notice: Minimize delay/lag</p> <p>Rebasing based on a forecast</p> <p>Use tiers</p> <p>Seasonal prices could be useful if the seasonal differences are material</p> <p>Cost reflective looking forward instead of backwards</p>
<b>Epcor Leigh-Anne Palter</b>	<p>Favour the gas model of quarterly true-ups, but problematic with bi-monthly billing due to lack of predictability</p>