

**STANDARD SUPPLY SERVICE
IMPLEMENTATION GUIDELINES**

BOARD STAFF DRAFT FOR DISCUSSION

ONTARIO ENERGY BOARD

MARCH 31, 2000

STANDARD SUPPLY SERVICE

10.1 INTRODUCTION

On October 18, 1999, the Board issued its *Decision with Reasons in the Matter of a Proposed Standard Supply Service Code for Electricity Distributors* (the “Decision”) in the proceeding under Board docket RP-1999-0040. The Decision identified a number of implementation requirements, including:

- Detailed methodology for the pricing and procurement of standard supply;
- Specific rules relating to the distributors’ SSS account true-ups;
- Administration of Purchase Power Variance/Deferral Account (“PPVA”);
- Methodology for setting the rate to be charged by third parties delivering standard supply;
- Mechanism to determine that third party SSS rates are just and reasonable; and
- Minimum contract requirements to be imposed by utilities on third party providers.

10.2 PURPOSE

The purpose of this chapter is to provide guidelines for the eligibility of SSS customers for fixed or spot price, the regulatory requirements for PPVA distributions, power procurement options (direct versus third party), the SSS Administrative Charge and guidance for distributors seeking exemptions to the fixed price rate requirement.

10.3 STANDARD SUPPLY SERVICE CODE

These guidelines must be interpreted and applied in conjunction with the Standard Supply Service Code (“SSS Code”) issued December 8, 1999 which sets out the minimum conditions that a distributor must meet in carrying out its obligation to sell electricity under section 29 of the *Electricity Act, 1998*. The SSS Code applies to all Ontario Energy Board licensed electricity distributors in the Province of Ontario.

10.4 PRINCIPLES/OBJECTIVES FOR STANDARD SUPPLY SERVICE

In its Decision, the Board considered the following principles/objectives for standard supply service.

- Customers should have access to electricity through their current supplier at market based prices.
- Customers should not be locked into the standard supply service, but should be free to move to and from the distributors’ obligation to sell electricity in order to facilitate retail competition.
- The provider of SSS should be indifferent with respect to whether a consumer switches to an alternative supplier.
- Standard supply service is a regulated activity that should not cross subsidize competitive activities.
- A distributor should not bear any [significant] volume risk or price risks in providing standard supply service. Rules related to standard supply service should ensure that all retail market participants operate on a level playing field.
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10.5 DEFINITION OF THE 50kW PEAK DEMAND LEVEL

Sections 2.5.2 and 2.5.3 of the SSS Code stipulate that electricity distributors must provide all large customers with a peak demand above 50 kW the weighted average hourly spot price for electricity. Customers with a peak demand of 50 kW or less must be provided a fixed price. Due to the fact that a large majority of small volume customers do not have demand meters, proxy measures are necessary.

10.5.1 Customers without demand meters

All residential customers with kilowatt-hour (volume) meters shall be deemed to have a demand of 50 kW or less. All non-residential customers with kilowatt-hour (volume) meters and annual energy consumption of 150,000 kWh or less during the preceding 12 months shall be deemed to have a demand equivalent to 50 kW or less. Therefore, the price for these customers will be a fixed price.

10.5.2 Customers with Demand or Interval Meters

Residential or non-residential customers with either demand or interval meters that indicate an average monthly peak demand during a specified 12-month period of greater than 50kW shall receive the spot price pass-through for the following calendar year.

10.5.3 Exemption for Customers with Interval Meters

Residential or non-residential customers with interval meters that indicate an average monthly peak demand during a specified 12-month period of less than or equal to 50kW shall receive a spot price pass-through for the following calendar year unless the customer requests in writing that the distributor re-classify the customer to a fixed price.

The applicability requirements are summarized in the table below.

Table 10-1 Customer Categorization

Customer Class	Meter Type	Fixed Rate	Spot price pass-through
Residential Customers	Volume Meters	All	none
	Demand Meters	~ 50 kW	™ 50 kW
	Interval Meters	upon request	automatic
Non-Residential Customers	Volume Meters	~ 150,000kWh/yr	™ 150,000kWh/yr
	Demand Meters	~ 50 kW	™ 50 kW
	Interval Meters	upon request	automatic

10.5.4 Measurement Period for Assignment

For classification and measurement purposes, the specified twelve month period will be the most recent consecutive 12-month period inclusive of October through to the following September, prior to the beginning of the next rate year. If sufficient data is not available, a distributor may choose an alternate 12 consecutive month period for customer assignment.

10.5.5 Abnormal Conditions

Distributors may take into account abnormal conditions that may have occurred during the measurement period such as unusual weather patterns and choose to maintain the existing customer categorizations if they are considered to be reflective of normal operations.

10.5.6 New Customers

Distributors will be responsible for categorizing new customers according to their expected consumption characteristics and service size. Once categorized, new customers will maintain their status until a three year period of data is available. At that time, should the data indicate a different applicable status, then the distributor shall perform a re-assignment.

10.5.7 Customer Request for Change of Assignment

All customers who do not have demand meters may request that the electricity distributor deem the customer to be below or above the equivalent 50 kW demand level. In such cases the utility will review the customer's most recent 12 consecutive month consumption and any other information provided by the customer that may be relevant to future consumption levels. If a category re-assignment is warranted, the distributor shall re-assign the customer accordingly.

10.5.8 Notification of Change of Assignment

Following a review, the distributor shall notify those customers whose actual or deemed demand reflects a potential change in assignment to either the fixed or spot pass-through SSS price. Such notice shall be given no later than 30 days before reassignment.

10.6 SSS REFERENCE PRICE

The SSS Code, in section 2.5.3, requires that small volume/residential consumers with a peak demand of 50 kW or less receive a fixed price subject to terms established by the Board. The Board proposes to set the fixed or "reference price" based on a forecast of electricity prices in the Province.

Price Band Proposal

Board staff specifically requests parties to comment on this proposal for the price levels and band methodology.

Due to market uncertainty and the dominant position of Ontario Power Generation Inc., the value of a third party market forecast for the initial period following market opening is questionable. In future years, the use of third party price forecasts may be considered. For the initial period, a price band is proposed with the reference price set within a band.

The methodology that is being proposed for the initial period of SSS is a reference price to be set within a price band. The floor price is represented by 3.8 cents per kWh and a ceiling price would be established for the highest expected average price in the new market. This would be based on an estimate of the incremental cost of power from a new generator. The ceiling price might be, for example, 5.0 cents per kWh. (During the SSS proceeding, the Board received evidence that put this price at 4.86 cents per kWh).

The floor and ceiling prices would be weighted according to the expected share of the market controlled by OPG to arrive at the reference price. For example, if 70% of the generation market is forecasted to be OPG-controlled, then the floor will receive a 70% weighting and the ceiling a 30% weighting. Using the example figures, the Price Band would be 3.8 to 5.0 cents per kWh and the reference price would be calculated at 4.16 cents per kWh.

10.6.1 Price for Customers on Fixed Pricing

Following the opening of the electricity market, customers assigned to fixed pricing will receive a fixed SSS price of X.XX cents per kilowatt-hour for electricity. The distributor shall bill fixed price customers for energy consumption at this rate until a new reference price becomes effective. The Price Band range shall be set at X.XX to X.XX.

10.6.2 SSS Rate Application

An electricity distributor shall make an application to the Board indicating its pricing and procurement intentions: fixed price, third party procurement, or fixed price exemption. The timing of the application will be in conjunction with the distributor's filing for distribution rates or adjustments to those rates. The filing should indicate the rate schedules that will apply to SSS customers.

10.7 PURCHASED POWER VARIANCE/DEFERRAL ACCOUNT (PPVA)

The Decision contains a discussion of a variance account that would be set up to smooth spot price variations so as to allow the utility to offer a "fixed" price to the SSS customer. The PPVA will be the tool to accomplish this task. The PPVA accounts for differences between the forecast fixed reference price and the spot market power cost billed to the utility by the IMO and used for settlement purposes.

The Decision also refers to "true-ups" which represent the disposition of balances in the PPVA. Board staff proposes to adopt the policy that the dispositions be carried out at mid-year and end-of-year and on customer exit in accordance with a Board-approved process. All true-ups will be calculated for each customer based on that customer's actual energy consumption.

10.7.1 Definition of PPVA

The PPVA is available only to an electricity distributor offering a Board-approved fixed price. A PPVA cannot be established for an electricity distributor who has received approval to provide SSS service through an affiliate or third party supplier.

The PPVA shall record the difference between the cost of power billed to fixed price consumers by SSS providers under Section 29 of *The Electricity Act, 1998* using a Board-approved fixed SSS reference price and the cost of power billed to the SSS provider as per section 7.4.2 of the Retail Settlement Code ("RSC"). Entries in the PPVA shall be made in accordance with the Board's Accounting Procedures Handbook for Electric Distribution Utilities.

10.7.2 Administration of the PPVA on Customer-Specific Basis

The PPVA shall be maintained on a customer-specific basis for those customers receiving standard supply service and assigned to fixed pricing. The utility shall use the Net System Load Shape (NSLS) methodology set out in section 3.4 of the Retail Settlement Code (“RSC”) to estimate hourly allocations of energy consumption and prices for consumers without interval meters.

10.7.3 Calculation of PPVA Balances

A debit or credit to the customer’s PPVA account shall be calculated and posted at the close of each month.

10.7.4 PPVA Review and True-up

First Period PPVA and True-Up

In the first period of SSS, a true-up will be mandatory at mid-year 2001, reflecting actual data covering the 8-month period from the market opening to June 30, 2001. The true-up will be calculated in the manner shown in Table 10-2.

The end-of-year true-up will not be applied to year-end 2000 as it reflects only two months of activity after the scheduled market opening.

Standard PPVA and True-Up

In-Year: Prior to September of each year, commencing in 2002, the utility shall compare the reference price to the actual year-to-date June 30 spot price (as weighted by the utility’s NSLS). If the difference between these prices is greater than 10%, the utility shall dispose of the PPVA for each customer. This will be done via a credit or debit to the customer’s account and will apply to year-to-date balances from January 1 to June 30. The amount shall be posted on the customer’s next bill. An example is shown on Table 10-2.

Year-End: The first end-of-year true-up will be carried out at year-end, 2001. The Board will issue further direction regarding year-end clearance of PPVA accounts at a future date.

Table 10-2 Example Calculation of a Residential Customer PPVA & True-Up

	Customer Consumption (kWh)	Reference Price** (cents/kWh)	Actual Price*** (cents/kWh)	Energy Amount Billed (\$)	Spot Price Actual amount (\$)	PPVA**** (\$)	Actual Price vs Reference Price (%)
	a	b	c	d	e	f	g
				a x b	a x c	d - e	(c - b) / b
November	950	4.75	5.25	45.13	49.88	(4.75)	
December	1,200	4.75	6.03	57.00	72.36	(15.36)	
January	1,250	4.75	6.13	59.38	76.63	(17.25)	
February	1,200	4.75	5.85	57.00	70.20	(13.20)	
March	1,050	4.75	4.83	49.88	50.72	(0.84)	
April	980	4.75	4.15	46.55	40.67	5.88	
May	950	4.75	3.95	45.13	37.53	7.60	
June	1,000	4.75	5.65	47.50	56.50	(9.00)	
MID YEAR	8,580	4.75	5.30	407.55	454.47	(46.92)	11.5%
TRUE-UP AMOUNT Credit / (Debit)						(46.92)	

Notes: This example is representative of the period November 2000 through June 2001.

** Price used is for demonstration purposes only.

*** On this Table, the actual price is shown as the monthly average of hourly prices occurring in the month.

**** The cumulative PPVA at June 30 is the amount \$46.92 which would be debited to the customer's account. Due to timing of IMO settlements, the actual prices may not be known until a period after June 30.

10.7.5 Carrying charges for PPVA

The distributor shall assign an interest rate equal to the Bank of Canada rate in effect on the first day of each month. The carrying charge amount shall be calculated and accrued monthly. The same rate shall be applied to any balance in the account, whether positive or negative. The carrying charge amount shall be included in the PPVA balance.

10.7.6 Customer Exit Provisions

A utility who receives a Service Transaction Request (STR) to change a customer's supplier in accordance with section 10.5 of the RSC or receives notice that the customer is leaving the utility's service for any reason shall calculate the customer's PPVA balance up to the time of the final meter read and initiate a true-up. The true-up shall be included on the customer's final bill.

10.7.7 Providing PPVA Information on Customer's Bill

The electricity distributor shall display each customer's most recently calculated cumulative PPVA balance as a separate information item on each customer's bill. The bill shall not identify the PPVA balance as being an amount currently payable, but simply identify the amount as an information item.

10.8 THIRD PARTY SUPPLY

The Decision makes provision for distributors to engage third party SSS suppliers subject to certain requirements regarding third-party pricing and contract features.

It is proposed that distributors wishing to pursue standard supply service provision through a third party or affiliate may do so under the following provisions.

10.8.1 Third Party Procured Pricing

An electricity distributor who elects to have SSS provided by a third party must provide evidence that the resulting SSS price is just and reasonable and that the rates are no higher than if the distributor procured and sold the electricity directly.

This requirement can be met by an electricity distributor seeking competitive bids in the manner described in this section for third party procured SSS. All third party procured SSS supply must comply with the contractual terms set out in this section. As well, the utility must file any third

party contract with the Board.

10.8.2 Competitive Tendering Procurement

An electricity distribution utility or groups of two or more distributors may procure SSS supply through a competitive tendering bid. To demonstrate compliance the utility shall, at the time of filing its SSS application, provide the following:

- evidence of the publication of the Request for Proposal (“RFP”) in newspapers or other wide circulation print and/or other appropriate media;
- a list of parties submitting bids;
- the name and licence number of the successful bidder and the price accepted by the utility; and
- a list of bid prices.

In all cases involving competitive bidding, the price must not exceed the ceiling price established in the Price Band as set out in section 10.6 of this Chapter.

10.8.3 Sole-Source Procurement

In situations where there has been no public tendering process and a single party makes a solicitation for SSS supply, the proposed price will require Board approval. The utility shall provide the Board with the following information.

- the name and licence number of the provider and the price proposed; and
- an explanation as to why the utility chose not to solicit competitive bids through an RFP process.

The pricing provisions of the contract will be subject to an *ex post* review by the Board and the Board may require a refund to be distributed, *pro rata*, to all fixed price customers supplied by the distributor under the terms of the contract. The Board will assess whether the price is just and reasonable and is no higher than if the distributor supplied directly by comparing the actual price for the year to the contract price. If the contract price has exceeded the actual price, as measured by the utility’s NSLS weighted spot price by more than 5%, the utility shall be required to

reimburse customers for any difference over and above the 5% amount. The reimbursement shall be calculated to reflect the customer's actual energy consumption over the contract period.

The utility will review the actual and contract price no later than 60 days after the expiry of the annual term of the contract. Any credit shall be returned to the customer no later than 90 days after the contract's expiry.

10.8.4 Standard Contract Terms

All contracts for third party supply must contain clauses that have the following effects.

- Assurance that the price is a fixed price and is effective for a duration of at least one year. If the contract extends beyond one year, the contract must include a mechanism to re-determine or re-establish the fixed price for any subsequent year.
- To permit unfettered customer mobility, there must be no limitations on volume adjustments.
- The contract must contain the Board-issued licence number of the supplier.

10.9 SSS ADMINISTRATIVE CHARGE

Section 2.5.1 of the Code states that the SSS charge should allow for the distributor to recover its cost of providing SSS. The Decision states that the administrative charge should cover the incremental costs of settlement of SSS accounts.

10.9.1 SSS Flat Rate

A SSS Flat Rate of \$0.25 per customer per month shall be applied and added to the Monthly Service Charge explained in Chapter 3, section 3.3 of the Rate Handbook.

The inclusion of the SSS Charge as a component of the Monthly Service Charge is based on the premise that an identical amount will be charged to customers who are provided retail supply and billed under the Distributor-Consolidated billing option set out in section 7 of the RSC. The charge of \$0.25 is based on gas utility fees for Agency, Billing and Collection ("ABC Billing"). This fee has been adjusted to exclude bad debt collection because the current methodology for setting distribution rates set out in Chapters 3 and 4 of the Rate Handbook incorporates bad debt collection for both distribution and commodity.

10.9.2 Utility Specific SSS Administration Charge

A utility may, as part of a future cost allocation study made in accordance with the requirements set out in other parts of the Rate Handbook for the determination of distribution rates, make application to the Board for a utility specific SSS Administration Charge.

10.10 APPLICATION FOR EXEMPTION TO FIXED PRICE

In accordance with paragraph 3.1.11 of the Decision, any distributor may make application to the Board for an exemption to the fixed price for small customers in favor of a spot price pass-through. The information needed to assist the Board in its determination must include:

- Assurances that the distributor will offer an equal billing plan option to all customers who elect such a service.
- Evidence that all potentially affected customers received advance notice of the intentions of the distributor via a billing insert or other direct customer contact. Such notice must provide information regarding the potential bill impact of the spot price pass-through. The advance notice must be sent to customers at least two billing periods prior to the proposed effective date.
- Summary of customer comments and concerns received after the billing insert notice. The summary should note the number of customers making contact on the utility's proposals.