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**BY E-MAIL AND WEB POSTING**

August 2, 2013

To: All Licensed Electricity Distributors  
All Licensed Electricity Retailers  
Independent Electricity System Operator  
Ontario Power Authority  
All Other Interested Parties

**Re: Consultation on Proposed Revisions to Regulated Price Plan Manual:  
Changes to the Calculation of the Final Variance Settlement Amount  
for Consumers that Leave the Regulated Price Plan  
Board File No.: EB-2013-0273**

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The Ontario Energy Board (the “Board”) is proposing revisions to the [Regulated Price Plan Manual](#) (“RPP Manual”) to change the manner in which the variance settlement amount that consumers pay, or receive, when they exit the Regulated Price Plan (“RPP”) is calculated. This letter describes those proposed revisions and invites interested stakeholders to comment on them.

### **Background**

Consumers that are eligible for the RPP may choose to leave the RPP for a variety of reasons, including switching to an electricity retailer or electing spot market pricing. Under section 3.7 of the Board’s [Standard Supply Service Code](#) (the “SSS Code”), consumers that leave the RPP are charged or credited with a final RPP variance settlement amount (“FVSA”). The FVSA is intended to reflect the consumer’s share of any accumulated variance (difference) between the forecast cost of RPP supply that is used to set RPP prices and the actual cost of that supply in any 12-month period. The variance account that tracks the difference is held by the Ontario Power Authority (the “OPA”). The FVSA may be a charge or a credit, depending on whether actual supply costs have been higher or lower than forecast.

The SSS Code states that the FVSA is to be calculated by distributors in accordance with the RPP Manual. Section 6 of the RPP Manual in turn provides that the FVSA for a consumer is calculated based on the consumer's consumption over the 12-month period preceding the consumer's departure from the RPP. This is currently the case whether the consumer has been on RPP for less than 12 months or more than 12 months. In other words, even for a consumer that has been on RPP for less than 12 months, the FVSA is calculated by reference to the consumer's consumption over the preceding 12 months.

When the Board developed the RPP in 2004-2005, the Board was aware that, if and to the extent that the FVSA was a credit, some consumers might find it financially advantageous to switch back and forth from the RPP to another pricing option. The Board did not consider it necessary to address the issue at that time, but indicated that it would monitor the situation.

The FVSA has consistently been a credit since December 2011. Currently, for a consumer that uses an average of 1,000 kWh per month the FVSA is a credit of \$25.15, and for a consumer that uses an average of 20,000 kWh per month the FVSA is a credit of \$503.04.

It has recently come to the Board's attention that the incidence of switching back and forth between the RPP and another pricing option has increased, particularly in the case of larger volume RPP consumers. Based on the current rules and the persistently positive (credit) position of the FVSA, it appears to the Board that an increasingly large number of consumers are obtaining a financial benefit that the FVSA was not intended to provide. The Board therefore believes that it is appropriate to address this issue at this time, and further believes that distributors should be in a position to readily administer a more precise FVSA calculation methodology than might have been the case when the RPP was initially developed.

### **Proposed Revisions to the FVSA Calculation Methodology**

For a consumer that has been on the RPP for a continuous period of less than 12 months, the Board is proposing that the FVSA be calculated based on that consumer's consumption over the period during which the consumer was on the RPP. In the Board's view, this approach appropriately reflects that consumer's contribution to the RPP variance account balance, bearing in mind that the RPP prices that the consumer has paid will have reflected that balance as at the most recent price setting.

For consumers that have been on the RPP for a continuous period of at least 12 months, the Board believes that the current FVSA calculation methodology (based on 12 months of consumption) should be retained, because it remains an appropriate proxy for their contribution to the RPP variance account balance. As described in the RPP Manual, RPP prices are set on the basis of recovering the forecast variance over a 12-month period. Therefore, the rationale for using a proxy of 12 months of consumption is that RPP prices will have been reset to account for any outstanding variance while the consumer was on the RPP. In effect, the consumer will have paid/been repaid any variance amount.

To illustrate:

<b>Assumptions</b>	<b>FVSA under Current Rules</b>	<b>FVSA under Proposed Rules</b>
Time on RPP: 4 months Consumption while on RPP: 12,000 kWh Consumption over 12 months before leaving RPP: 36,000 kWh	$\text{FVSA} = V_{\text{FS}} \times 36,000 \text{ kWh}$ <p>Based on current <math>V_{\text{FS}}</math> of \$0.002096/kWh, FVSA = \$75.46</p>	$\text{FVSA} = V_{\text{FS}} \times 12,000 \text{ kWh}$ <p>Based on current <math>V_{\text{FS}}</math> of \$0.002096/kWh, FVSA = \$25.15</p>
Time on RPP: 14 months Consumption while on RPP: 24,000 kWh Consumption over 12 months before leaving RPP: 19,000 kWh	$\text{FVSA} = V_{\text{FS}} \times 19,000 \text{ kWh}$ <p>Based on current <math>V_{\text{FS}}</math> of \$0.002096/kWh, FVSA = \$39.82</p>	$\text{FVSA} = V_{\text{FS}} \times 19,000 \text{ kWh}$ <p>Based on current <math>V_{\text{FS}}</math> of \$0.002096/kWh, FVSA = \$39.82</p>

Note:  $V_{\text{FS}}$  is the “final RPP variance settlement factor” set by the Board. The  $V_{\text{FS}}$  is calculated and published monthly by the Board (around the middle of each month) and must be used by distributors in calculating the FVSA for consumers that leave the RPP. The  $V_{\text{FS}}$  is calculated by dividing the previous end-of-month balance in the OPA’s RPP variance account by the previous 12 months of total RPP consumption. As explained in the RPP Manual,  $V_{\text{FS}}$  is an approximation of the rate at which any RPP consumer would make payments towards (or receive payments from) the accumulated balance in the RPP variance account that is maintained by the OPA.

The revisions to the RPP Manual that would be required to give effect to the proposed change in the FVSA calculation methodology are set out in Attachment A to this letter.

### **Invitation to Comment**

The Board invites interested parties to provide written comments on the proposed revisions to the FVSA calculation methodology under the RPP Manual. Comments must be filed with the Board by **August 15, 2013**, and in accordance with the filing instructions set out in Attachment B.

The Board does not intend to make cost awards available in relation to this consultation. If you have any questions about this consultation, please contact Russell Chute at 416-440-7682 or by e-mail at [Russell.Chute@ontarioenergyboard.ca](mailto:Russell.Chute@ontarioenergyboard.ca). The Board's toll free number is 1-888-632-6273.

Yours truly,

*Original signed by:*

Kirsten Walli  
Board Secretary

Encls:

Attachment A: Proposed Revisions to the Regulated Price Plan Manual  
Attachment B: Filing Instructions

**Attachment A**  
**to Letter Dated August 2, 2013**

**Proposed Revisions to the Regulated Price Plan Manual**

The proposed changes to section 6 of the RPP Manual are shown on the pages that follow.

Insertions are underlined, and deletions are stricken through.

## 6. Methodology for Determining Final RPP Variance Settlement Amounts

### Introduction

This chapter explains the methodology to be used by distributors to compute final settlement variance amounts for RPP consumers leaving the regulated price plan. This is the methodology referred to in section 3.7.1 of the SSS Code.

As shown in Figure 2 of Chapter 1, the OPA carries a variance account representing the accumulated difference between the actual RPP supply cost and the revenues collected from RPP consumers. Consumers who do not leave the RPP will pay or receive the benefit of the accumulated variance over the next 12 months through the component of the RPP price that reflects past variances,<sup>1</sup> as described in Chapter 3 of this Manual. However, once consumers leave RPP supply,<sup>2</sup> they no longer pay RPP prices and therefore no longer pay or receive the benefit of their share of past cumulative variances. For that reason, these consumers will be responsible for a final RPP variance settlement when they leave RPP supply since the RPP price determination assumed that they would have remained on RPP for the full 12 months.

The final RPP variance settlement amount could be positive or negative. In other words, depending on the status of the variance account held by the OPA, the consumer could either receive a payment (i.e., credit) or be required to make a payment (i.e., debit).

The contents of this chapter are:

- Determination of Final RPP Variance Settlement Amount and Rate; and
- Final RPP Variance Settlement Amount Calculation.

### Determination of Final RPP Variance Settlement Amount and Rate

The variance amount that is the basis for the final RPP variance settlement is the cumulative variance held by the OPA, referred to in Equation 2 below as  $CV_t$ . That cumulative total is the total variance of the actual RPP supply cost from the revenues collected from RPP consumers. It is therefore the amount that will be collected or credited in the future from or to consumers remaining on RPP supply. It will be collected from or credited to them in the future through the RPP prices they pay. When consumers leave RPP supply, they will not be paying RPP prices

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<sup>1</sup> RPP consumers are also responsible for paying any interest costs incurred by the OPA in relation to the variance account. A consumer leaving the RPP is also responsible for a share of these interest costs. Equation 2 takes into account that such costs are reported monthly to the Board and are added to the variance that is reported to the Board by the IESO each month.

<sup>2</sup> That is, move out of Ontario, switch to the spot market option or to a competitive retailer, or cease to be eligible for the RPP.

and therefore will no longer be paying or receiving the benefit of any of that cumulative variance. The amount the individual consumer would be responsible for or entitled to will therefore be estimated, and recovered or paid, by the distributor at the time of leaving RPP supply.

To facilitate this variance account settlement procedure, the IESO reports monthly to the Board on the accumulated balance in the OPA's RPP variance account. In addition, the OPA reports the accrued interest on the RPP variance account. The Board converts the sum of these amounts into a per kWh variance recovery amount (referred to in Equation 2 below as  $V_{FS}$ ) for final settlement by dividing the total accumulated variance by the actual total RPP consumption in the preceding 12 months. The per kWh variance amount is communicated by the Board to the distributors to use in final settlement and is also made public on the Board's web site. This communication and web site posting is done on or around the 15<sup>th</sup> of each month.

The calculation of this per kWh variance amount is given in Equation 2 below:

**Equation 2**

$$V_{FS} = CV_t / D_{12}$$

Where  $V_{FS}$  = the variance amount for final RPP settlement, per kWh

$CV_t$  = cumulative variance total in the OPA account at the end of month t; and

$D_{12}$  = the total consumption from RPP consumers over the 12 months before (and including) month t.

$V_{FS}$  expresses the cumulative variance on a per unit basis for the most recent 12 months prior to leaving the RPP, and is an approximation of the rate at which any RPP consumer would make payments towards the cumulative variance.

For consumers that remain on RPP, the expected portion of the cumulative variance will be recovered through RPP prices over the remainder of the RPP term and the unexpected portion of the cumulative variance will be recovered when prices are trued-up. The amount per kWh that will be recovered is the cumulative variance divided by the forecast of total RPP consumption over the year. ~~The variance settlement for the consumer who leaves RPP supply will similarly represent the total payment that would have been made over the year. Since there is no forecast of that consumer's expected demand over that year, consumption over the previous year is used as an estimate.~~

**Final RPP Variance Settlement Amount Calculation**

The final variance settlement process collects or credits an appropriate amount from a consumer leaving RPP supply. The amount to be collected or credited in relation to a given consumer is  $V_{FS}$  times that consumer's actual consumption over ~~the preceding 12 months, determined as discussed below.~~ a specified period of time (the "Final Settlement Consumption Period"). The

Final Settlement Consumption Period to be used depends on how long the consumer was on RPP supply before leaving the RPP:

- (a) For a consumer that was on RPP supply for a continuous period of 12 months or more, the Final Settlement Consumption Period is the 12 months preceding the consumer's departure from the RPP.
- (b) For a consumer that was on RPP supply for a continuous period of less than 12 months, the Final Settlement Consumption Period is the actual period during which the consumer was continuously on RPP supply prior to the consumer's departure from the RPP.

If a distributor does not have a precise total for the consumer's actual consumption over the applicable Final Settlement Consumption Period, the distributor must reasonably estimate the consumer's consumption over that Period. This must be done by using actual meter readings to the maximum extent possible and interpolating to get an estimate of what the meter reading would have been on the date that corresponds with the beginning of the applicable Final Settlement Consumption Period.

~~In general, a distributor will not have a precise total for the consumer's actual consumption over the exact 12-month period before the date on which the consumer leaves RPP supply. Whether from a final meter read or a pro-rated estimate, the distributor will have final consumption data for the final bill. The distributor may not have a corresponding meter read for a period of exactly 12 months before the final billing date because many distributors read meters on a bi-monthly schedule. However, distributors do retain meter reading history for at least a year, so they do have total metered consumption by the consumer for some previous 12-month period.~~

~~In the absence of actual consumption information, a distributor must reasonably estimate the consumer's consumption over the previous 12-month period. This must be done by using actual meter readings to the maximum extent possible and interpolating to get an estimate of what the meter reading would have been on the date exactly 12 months prior to the final meter read.~~

~~This allows for a fair approximation of the actual amount that the consumer would have been responsible to pay or would have received the benefit of had the consumer remained on RPP supply, while not burdening the distributor with the unduly complex data maintenance or computational requirements associated with a more precise determination.~~

A distributor must collect or credit this final RPP variance settlement amount from each consumer leaving RPP supply under the conditions described in section 3.7.1 of the SSS Code. For this amount then to be properly credited to or debited from the OPA variance account, it must be reported to the OPA under procedures established by the OPA and the IESO.



## **Attachment B**

**to Letter Dated August 2, 2013**

### **Filing Instructions**

Two (2) paper copies of each filing must be provided, and should be sent to:

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, Suite 2700  
Toronto, Ontario M4P 1E4

The Board requests that stakeholders make every effort to provide electronic copies of their filings in searchable/unrestricted Adobe Acrobat (PDF) format, and to submit their filings through the Board's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/>, quoting the file number **EB-2013-0273**. A user ID is required to submit documents through the Board's web portal. If you do not have a user ID, please visit the "e-filings services" webpage on the Board's website at [www.ontarioenergyboard.ca](http://www.ontarioenergyboard.ca), and fill out a user ID password request. Additionally, stakeholders are requested to follow the document naming conventions and document submission standards outlined in the document entitled "RESS Document Preparation – A Quick Guide" also found on the e-filing services webpage. If the Board's web portal is not available, electronic copies of filings may be filed by e-mail at [boardsec@ontarioenergyboard.ca](mailto:boardsec@ontarioenergyboard.ca).

Those that do not have internet access should provide a CD containing their filing in PDF format.

Filings to the Board must be received by the Board Secretary by **4:45 p.m.** on the required date. They must quote the applicable file number (**EB-2013-0273**) and include your name, address, telephone number and, where available, your e-mail address and fax number.

All materials related to this consultation will be available for viewing at the Board's offices and on the Board's website ([www.ontarioenergyboard.ca](http://www.ontarioenergyboard.ca)).

If the filing is from a private citizen (i.e., not a lawyer representing a client, not a consultant representing a client or organization, not an individual in an organization that represents the interests of consumers or other groups, and not an individual from a regulated entity), before making the filing available for viewing at the Board's offices or placing the filing on the Board's website, the Board will remove any personal (i.e., not business) contact information from the filing (i.e., the address, fax number, phone number, and e-mail address of the individual). However, the name of the individual and the content of the filing will be available for viewing at the Board's offices and will be placed on the Board's website.