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BY E-MAIL AND WEB POSTING

November 5, 2013

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

Re: **Adoption of Revisions to the 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**

The Ontario Energy Board has today issued a revised Regulated Price Plan Manual (“RPP Manual”) that incorporates changes to the way in which the variance settlement amount that consumers pay, or receive, when they exit the Regulated Price Plan (“RPP”) is calculated. The revised RPP Manual is available on the Board’s website at www.ontarioenergyboard.ca.

Background

On August 2, 2013, the Board issued a [letter](#) inviting comments on proposed revisions to the RPP Manual regarding the way in which the RPP final variance settlement amount (“FVSA”) is calculated for consumers that leave the RPP. The proposed revisions were developed in light of concerns that an increasingly large number of consumers may be obtaining a financial benefit that the FVSA was not intended to provide, by switching back and forth from the RPP to another pricing option.

To address the issue, the Board proposed that the FVSA for a consumer that has been on the RPP for a continuous period of less than 12 months be calculated based on that consumer’s consumption over the period during which the consumer was on the RPP. For a consumer that has been on the RPP for a continuous period of at least 12 months, the methodology for calculating the consumer’s FVSA would remain unchanged (based on 12 months of consumption).

The Board received comments on the proposed revisions to the RPP Manual from four electricity distributors and a property management company. The comments are available on the Board's [website](#). Most of the comments were supportive of the Board's proposal. One distributor suggested that the Board should also explore the idea of implementing an administrative charge that would be levied on a consumer who does not stay on the RPP for a minimum Board-predetermined period of time. According to this distributor, a charge of this nature would potentially reduce cross subsidization between customers, as well as put the onus on the customer to pay for the costs associated with switchover procedures.

Another distributor identified a potential limitation in the Board's proposed approach in relation to consumers that move from one service territory to another. Specifically, this distributor noted that the FVSA that is paid to or recovered from such a consumer could be lower under the Board's proposed approach than it should be unless the former distributor advises the new distributor of the consumer's RPP status prior to the consumer's move. This distributor also requested that a two-month transition period be provided to ensure that distributors can properly integrate and test the accuracy of the revised FVSA calculation methodology. A third distributor indicated that it was not aware of any consumers opting in and out of the RPP in its service area, that the cost of implementing the Board's proposed approach would be incurred without a benefit to the distributor's consumers and that it would require four months to implement the revised FVSA calculation methodology. This distributor also suggested, as an alternative to the Board's proposed approach, that consumers be allowed to opt in and out of the RPP only once in any 12-month period, or alternatively that the FVSA be recoverable or payable (as applicable) only once in any 12-month period in relation to any given consumer.

Adoption of Revisions with One Addition

The Board has considered the comments received and has determined that it will adopt the revisions to the RPP Manual as proposed, with one addition as described below. The Board believes that its approach is commensurate with the scope and financial implications of the issue that the Board is seeking to address, and can be administered by distributors with relative ease. If circumstances change materially, the Board may give further consideration to one or more of the alternative approaches suggested by distributors.

The Board believes that there is merit to providing greater clarity in relation to the issue of consumers that move from one service territory to another. This issue is apt to arise most frequently in relation to residential consumers, who historically have not switched back and forth from the RPP to another pricing option and for whom the amount of the FVSA (whether positive or negative) will typically be relatively small. As such, the potential costs of requiring a distributor to ascertain a new customer's RPP history for the purposes of calculating the FVSA are likely to outweigh the benefits. The Board will therefore not impose such a requirement. However, where a distributor is made aware of a customer's RPP history or chooses to obtain it, the distributor should take that information into account when calculating the FVSA for the consumer. This has now been reflected in the revisions to section 6 of the RPP Manual.

The changes to section 6 of the RPP Manual as adopted by the Board are set out in Appendix A to this letter, and have been incorporated into the revised RPP Manual that is now available on the Board's website. The current version of the RPP Manual will also remain on the website for a period of time in light of the Board's approach to the implementation of the revised FVSA calculation as described below.

Coming into Force

The Board believes that it is appropriate to defer implementation of the revised methodology for calculating the FVSA to allow for a transition period. The Board has therefore determined that the revisions to the RPP Manual should take effect on January 1, 2014, and be used in calculating the FVSA for any consumer that leaves the RPP after that date. Where a distributor has not yet applied the FVSA to a consumer that had already left the RPP, the distributor should calculate the FVSA based on the rules as they existed when the consumer left the RPP.

Any questions relating to the revisions to the RPP Manual should be directed to the Market Operations hotline at market.operations@ontarioenergyboard.ca or 416-440-7604. The Board's toll-free number is 1-888-632-6273.

Yours truly,

Original Signed By

Kirsten Walli
Board Secretary

Attachment: Appendix A: Revisions to Section 6 of the Regulated Price Plan Manual

Attachment A

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,¹ as described in Chapter 3 of this Manual. However, once consumers leave RPP supply,² 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 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

¹ 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.

² 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.

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 15th 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.

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.

Where the consumer that departs the RPP has been a customer of the distributor for less than 12 months, the distributor shall, for the purposes of determining the Final Settlement Consumption Period, take into account the length of the customer's continuous RPP supply in another service area immediately prior to opening of the customer's account if that information is known to the distributor.

~~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.

