

OEB ECPA Review
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Stakeholder Forum
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[\(http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/456644/view/\)](http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/456644/view/)

1. The Ontario retail electricity market suffers from an asymmetry of information and so is dominated by unsavoury sellers and gullible buyers.
2. The Global Adjustment or GA – paid for by customers on regulated rates and those on retail contracts – already provides protection against varying spot prices.
3. Ontario retail electricity contracts duplicate what is already being done by the GA, causing consumers to effectively speculate on the spot market price of electricity. These contracts are therefore very unnecessary.
4. The extreme profit margins embedded in retail electricity contracts virtually guarantee a homeowner will incur an added cost. This cost can be \$ 200 or more per year.
5. If we must improve the cement life jacket, side-by-side bill comparisons should be proactively audited and verification scripts should be modified such that the retailer clearly identifies for the customer the option costs, the higher cost option and magnitude of the differential.

Today's Comments

- Focus on electricity
- The cement life jacket:
 - Electricity retailing unnecessary, costly for smaller Ontario customers
- Improving the cement life jacket:
 - Enforcement / compliance gets failing grade
 - Suggested changes to ECPA

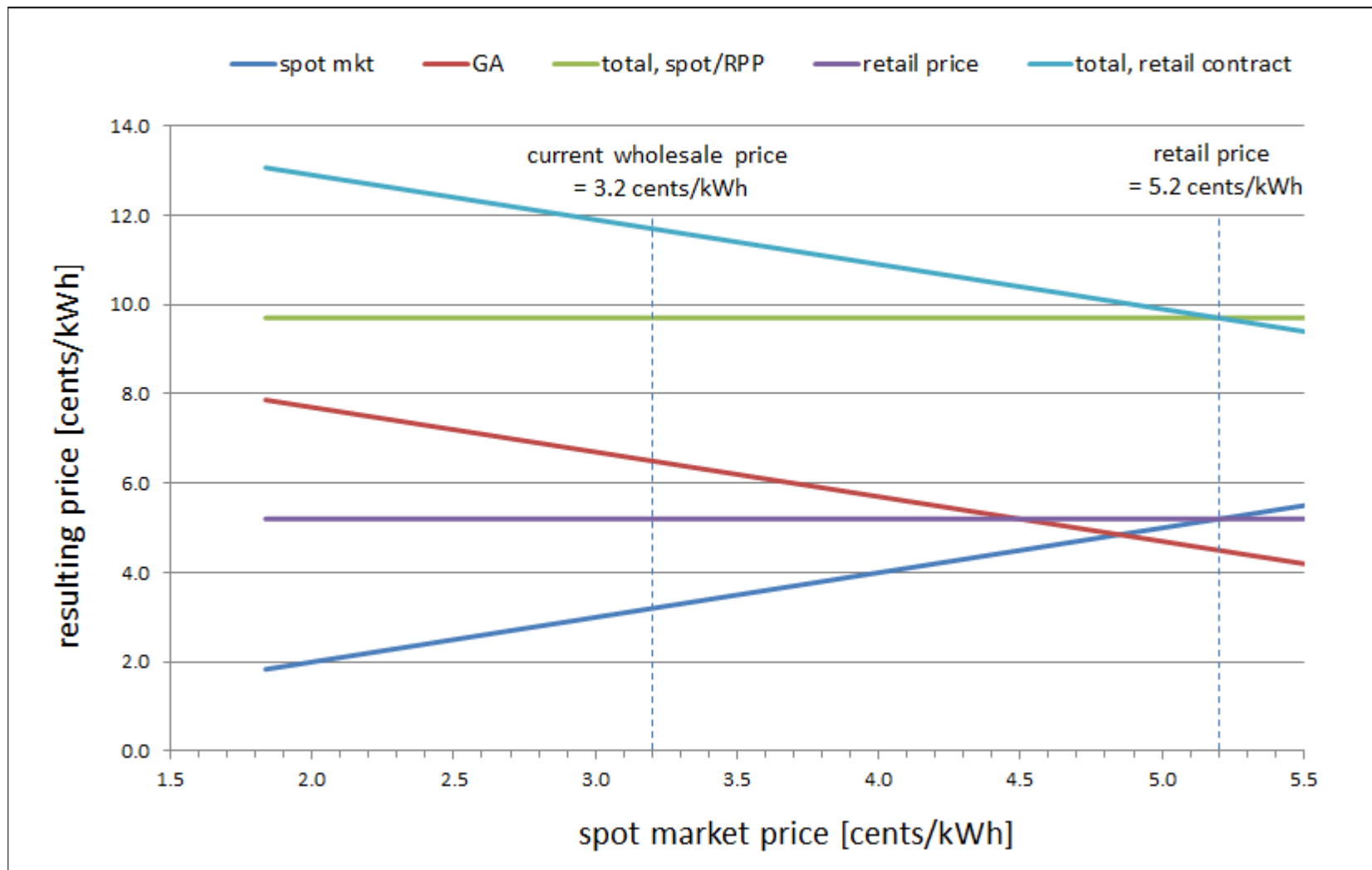
Definitions, Assumptions

- Hedging: Entering into a fixed-price contract
- Spot market price: Base load price, adjusted for typical small-customer load profile
- Global Adjustment, Class B
 - Unit rate, paid on energy consumed
 - Vast majority of customers, including residential (both on Regulated Price Plan and on retail contracts)
- Total commodity price
 - = spot price + GA (Regulated Price Plan)
 - = contract price + GA (retail contract)

Hedging – Why ?

- Reduce exposure to (upward) movements in the underlying commodity price
- Increase budget certainty
- Not to “save money”

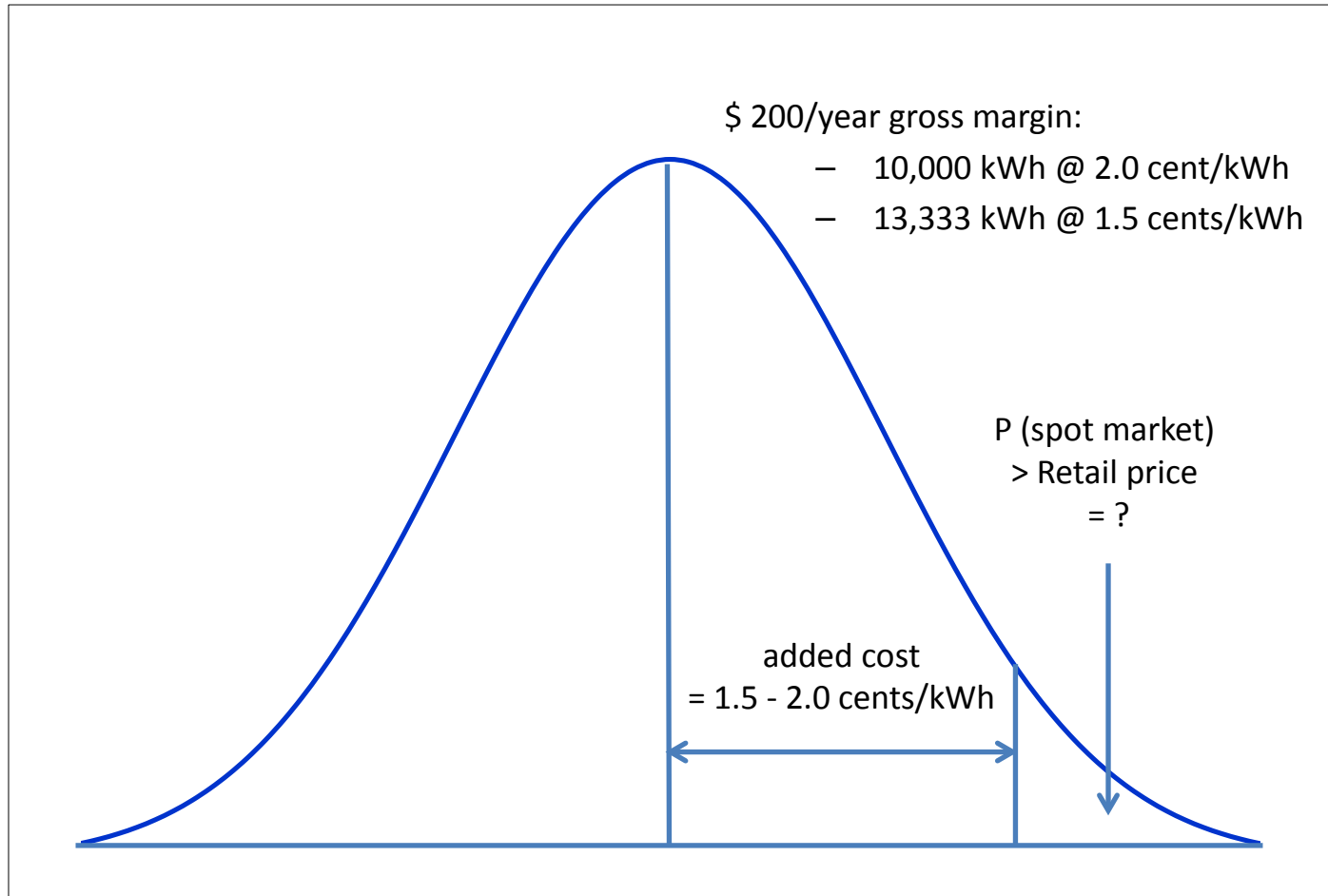
Hedge Outcomes



Hedge Outcomes

- In absence of GA, total price varies with spot market price
- GA provides stability (though with contract prices well above market rates)
- With retail contract:
 - GA still must be paid
 - Reintroduces instability
 - Further increases cost
 - To benefit, spot market must rise drastically

P (Retail Contract Paying Off) = Very Low



Side-by-Side Bill Comparison, v1

(contract energy price = RPP Price Report forecast + 2.0 cents/kWh)

Regulated Price Plan (RPP)						
Off-peak	512	kWh	x	7.7	cents/kWh	\$ 39.42
Mid_peak	144	kWh	x	11.4	cents/kWh	\$ 16.42
On-peak	144	kWh	x	14.0	cents/kWh	\$ 20.16
total - RPP	800	kWh			cents/kWh	\$ 76.00
Contract						
Energy	800	kWh	x	4.252	cents/kWh	\$ 34.02
Global Adjustment		kWh	x	7.490	cents/kWh	\$ 59.92
total - Contract	800	kWh			cents/kWh	\$ 93.94
difference (+ve = higher contract cost)						\$ 17.94

Side-by-Side Bill Comparison, v2

(contract energy price = weighted wholesale price + 2.0 cents/kWh)

Regulated Price Plan (RPP)						
Off-peak	512	kWh	x	7.7	cents/kWh	\$ 39.42
Mid_peak	144	kWh	x	11.4	cents/kWh	\$ 16.42
On-peak	144	kWh	x	14.0	cents/kWh	\$ 20.16
total - RPP	800	kWh			cents/kWh	\$ 76.00
Contract						
Energy	800	kWh	x	5.200	cents/kWh	\$ 41.60
Global Adjustment		kWh	x	7.490	cents/kWh	\$ 59.92
total - Contract	800	kWh			cents/kWh	\$ 101.52
difference (+ve = higher contract cost)						\$ 25.52

Fines, Penalties Failing

- Enforcement proceedings provide alarming reading:
<http://www.ontarioenergyboard.ca/oeb/Industry/Rules%20and%20Requirements/Compliance%20and%20Enforcement/Enforcement%20Proceedings>
- Penalties a cost of doing business
- Do the math (example):
 - 25,000 residential customer equivalents (RCEs)
 - Gross margin = \$ 200/year/contract
 - Penalties of \$ 50,000/year
= \$ 2/contract = 1% of gross margin
- Must have penalties, other measures that act as true deterrents

Compliance / Enforcement

- Need proactive, systematic, quantitative approach to auditing
- If not already using, adopt Acceptance Sampling
 - OEB is effectively “buying” on public’s behalf
 - Acceptance Quality Limit (AQL) = worst tolerable quality level
= maximum rate of errors tolerated in lot
 - Set AQL(s) depending on severity of errors
 - Outcomes: Accept or Reject lot
- Retailer’s additions, renewals could constitute a “lot”
 - Quarterly
 - Monthly

Final Words

- Abolish retail electricity contracts (new and renewals)
- If continuing retail electricity:
 - Increase, tighten disclosure
 - Introduce (high) quality standards
 - Strongly enforce