LEGISLATION AND REGULATIONS COMMITTEE
BRIEFING NOTE

Energy
Regulated Price Plan (RPP) Review

JEP Committee Feb 18, 2014	Cabinet March 5, 2014	LRC and Cabinet December 13, 2016	Effective Date January 1, 2017

Summary of Proposal

The following proposal contains no variances from Cabinet direction.

Context for Decision:

Since April 2005, the Ontario Energy Board (OEB) has administered the Regulated Price Plan (RPP), an energy price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay for electricity better reflects the price paid to electricity generators. About 4.9 million residential and low-volume business consumers are eligible for the RPP.

Smart meters have enabled time of use (TOU) pricing – this means that the price consumers pay for electricity now better reflects the cost of producing it at peak and off-peak times. There are three TOU pricing periods; off-peak (when energy demand is low and less expensive sources of electricity are used), mid-peak (when the cost of energy and demand are moderate) and on-peak (when demand is highest and more expensive forms of electricity production are used to meet demand). Almost all RPP-eligible consumers have smart meters and over 96 percent pay under the TOU structure. The remaining RPP-eligible consumers are billed under the RPP's tiered pricing structure or a separate retail contract.

Following the release of the 2013 Long Term Energy Plan (LTEP), the OEB initiated a review of the RPP to look at the effects of different TOU pricing structures. The OEB then released its RPP Roadmap in November 2015, a five-point plan to redesign the RPP to respond to policy objectives, improve system efficiency and give consumers greater control. The OEB's RPP Guidance Document identifies a prioritized list of pricing options to be tested through the RPP pilots. The priority RPP pricing pilots fall into two broad categories:

1. **Critical peak pricing (CPP)** which is an application of prices for specific hours when the electricity system is stressed and/or hourly energy market prices are high.

2. **TOU variations** which test different types of changes to the existing on-peak/mid-peak/off-peak structure or the price ratio between the different TOU periods.

The Proposal

The Ministry of Energy proposes flexible pilots for households to test different approaches to pricing structures. These pilots are intended to reduce system peak, support an efficient electricity system, and give consumers additional incentives and opportunities to better manage their electricity bills.

The OEB's responsibilities and authorities for setting RPP pricing are set out in legislation and regulation (Ontario Regulation 95/05 Classes of Consumers and Determination of Rates), including the adjustments the OEB can make to the pricing scheme. There is a requirement that TOU prices under the RPP have an off-peak period that begins no later than 7pm and ends no earlier than 7am on weekdays and all day on weekends and holidays. There are currently no exceptions permitted to this requirement.

The proposed amendment would make an exception to this requirement to support the delivery of pilot programs that test alternative pricing options that are aimed at achieving the OEB's RPP Roadmap objectives (i.e. pricing options outside of the 7pm-7am off-peak period requirement).

Without the proposed amendment, the pricing pilots would be undertaken by using a "shadow billing" approach. Under shadow billing, pilot participants are given their standard bill on the existing TOU pricing plan, plus an additional hypothetical bill (i.e. the 'shadow' bill) that details what they would have been charged based on the prices being tested in the pilot pricing program.

Data gathered through the pricing pilots could inform future OEB decisions about changes to the TOU pricing structure and pricing periods.

Why does Ontario need these changes? Why now?

The OEB's RPP Roadmap commits to having pilots in market no later than May 2017. If the proposal is approved, the OEB and Local Distribution Companies (LDCs) need time to roll out the pilots before May 2017, including modifications to the billing system.

What are the key steps to deliver this proposal?

As many as 5 pilots are expected to be implemented across 11 electricity distributors' territory, although the OEB will make the final decision. Applications were received from Hydro One, London Hydro, PowerStream, Oshawa PUC and CustomerFirst which is a collection of seven small to mid-sized distributors.

The OEB estimates that as many as 23,000 RPP customers (households) would participate in the pilots, but the number will ultimately depend on how many applications are approved by the OEB and the number of customers who choose to participate in the pilots.

Pilots are expected to broadly assess the impacts by running across several LDC service territories in the winter peaking northern region and the summer peaking southern region and to include samples of low-income customers and high usage customers. LDCs selected to run pilots will communicate details of the pilots to their customers, and provide ongoing communications throughout the pilots. Customers are expected to be billed under the TOU pilot pricing structure beginning in early 2017.

Households will have the option to opt out of all pilots, meaning that customers will be automatically enrolled in the program but will have the ability to opt-out by making a request to their LDC. Some pilots would be offered on an opt-in basis in order to reflect the manner in which some pricing structures may be offered to consumers in the future.

Participating LDCs will be responsible for conducting evaluations and publicly reporting the results of their pilots. The evaluations are expected to include an analysis on impacts on peak demand, total electricity use and consumer acceptance and retention. In addition, the pilots are expected to incorporate a variety of surveys to better understand the consumers participating from a socio-economic perspective, as well as to gauge their level of energy literacy over time.

The pricing pilots could inform future OEB decisions about potential changes to the current TOU pricing structure and pricing periods across the province.

What is the expected cost to government?

All consumers (residential, commercial and industrial) will pay a portion of the cost of the pilots on their bill through the Global Adjustment. The cost to a typical residential household (assumes 9,000kWh per year consumption) would be $2 in one year. For a typical small business (assumes 30,000kWh per year consumption) the impact would be $7 in one year. These estimates are based on an assumed total cost of $30 million for the pilots. The OEB has indicated that the pilot programs would not impact the government's fiscal plan.

The ministry is working with the IESO and the OEB to fund the pilots through the IESO's Conservation Fund. The IESO is expected to enter into contracts with the LDCs on the advice of the OEB, and the IESO would directly fund the LDC pilot program expenses approved by the OEB.

The ministry has indicated that even in the absence of this proposal, the pilot programs would occur (through the shadow billing method) which may result in higher costs as there are higher administrative costs to running pilots on a shadow billing basis.

How will the changes be communicated?

The Ministry of Energy proposes a low profile and reactive communication approach. If approved, the proposed amendments will be announced by a backgrounder in December 2016, which will also include other changes in effect on January 1, 2017.

Terms you need to know

- **Ontario Energy Board (OEB)** – A Crown agency that regulates Ontario's electricity and natural gas sectors in the public interest (implements processes to allow stakeholders to comment on various applications needing approvals, including local distribution company rate applications)
- **IESO - An** agency of the Ministry of Energy responsible for ensuring there is enough power to meet the province's energy needs in real time while also planning and securing energy for the future. It is also responsible for overseeing the delivery of electricity conservation programs delivered by LDCs.
- **Local Distribution Companies (LDCs) –** Local electricity utilities, responsible for distributing power from transmission lines to people's homes (e.g., Hydro Ottawa, Toronto Hydro, etc.)

Cabinet Office Analysis

The proposed amendment aligns with the 2013 Long-Term Energy Plan commitment to put conservation first. Although energy conservation efforts intensify, energy costs for consumers have continued to increase. Through the September 2016 Throne Speech, Ontario introduced a broad Electricity Rate Mitigation Strategy for electricity consumers across the province. Through this proposal new pricing options and structures for energy consumers could be achieved, and serve as an additional tool for consumers to manage increasing electricity costs.

One way that consumers currently try to manage their electricity bills is by shifting their usage to off-peak price periods. Studies commissioned by the IESO and the OEB show that the current TOU peak-price periods (7 am to 7 pm) do not fully align with the system peak, with many periods occurring after 7 pm. The OEB has indicated that this misalignment is expected to grow, resulting in a reduced electricity system benefit and reduced cost savings. This proposal would enable pilots to test TOU price structures that better align with current peak periods. The proposed amendment is open ended in that it allows the OEB to set different off-peak periods for pilot projects that it specifies.

The cost of the pilots will be spread out in a marginal increase on electricity bills of consumers. The expected rate impact for a typical residential household is an increase of about $2 for one year. The cost of the pilots will not be shown as a separate line item on bills, as they are expected to be included in the Global Adjustment.

The intended outcome of the pilots is that in the future, RPP customers could have the option of choosing between alternative pricing structures depending on their consumption patterns. This could reduce the need to make costly energy infrastructure investments such as new natural gas generation facilities that would be used in peak periods and allow customers to better manage their electricity costs.

Other Options Considered:

Even in the absence of this proposal, pilot programs would continue to occur (through the shadow billing method) which may result in higher costs as there are higher administrative costs to running pilots on a shadow billing basis. Current pricing pilots that do not maintain the 7pm to 7am off-peak requirement use the "shadow billing" approach where pilot participants are given their standard bill on the existing pricing plan, plus a hypothetical bill (i.e. the 'shadow' bill) that shows what they would have been charged based on the prices being tested in the pilot pricing program. TOU pilots currently in place by Powerstream and Hydro One use this approach. Participants in these pilots pay whichever bill is lower of the two. The OEB has indicated that the requirement for shadow billing increases administrative costs and distorts customer response to the pilot because they are not billed based on the pilot design.

The effect of the proposed amendment would be pilots that bill customers with an off-peak period that differs from that currently specified in regulation, enabling more effective pilots.

Stakeholder Response:

- Households ~~or low-volume businesses~~ in pilot areas are expected to respond to price signals by shifting demand away from the higher priced periods. It is unclear if these consumers would be supportive or not.
- The general public is unlikely to respond as the pilots will be targeted to specific customers in LDC service areas.
- The OEB established a working group to inform the development of RPP pilots, the working group met three times, on February 18th, March 10th and April 12th 2016. The working group consists of six LDCs (PowerStream, Newmarket Hydro, Thunder Bay Hydro, Energyplus, Horizon Utilities and Hydro One), the Consumers Council of Canada, the Low-Income Energy Network, Toronto Community Housing Corporation, the IESO and the Ministry of Energy. This group provided advice to the OEB in the development of an RPP Guidance Document which assisted LDCs in selecting, designing, proposing and developing implementation plans for the RPP pilots.
- The Ministry of Energy posted proposed regulatory amendment to the Environmental Registry and the Regulatory Registry for 45 days from September 15 to October 30, 2016. Four comments were received and were generally supportive.

Risks:

- Timing and capacity– the LDCs would have until May 2017 to bring their pilots to market, giving them some flexibility to manage other changes also being implemented in 2017, such as the 8% HST rebate and rate mitigation measures associated with Cap and Trade. Nonetheless, implementation by May 2017 is likely to be challenging for some LDCs. This is partially mitigated by as the fact that LDCs that would offer pilots have made voluntary applications to the OEB and are already working with the OEB to develop implementation plans.
- ~~Flexibility of the proposal – the proposed amendment is very flexible and allows the OEB to set different off-peak periods for any pilot projects that it specifies. It is not known how many customers would be impacted by these pilots or if customers would have an option to opt out of the pilots.~~
- Confusion for customers - consumers included in the pilots may be concerned about the number of changes to energy bills and the introduction of a narrower window for off-peak pricing. This can be mitigated by explaining that the pilot projects will test pricing options that will help to provide consumers with optimal pricing in the long run.

Linkages:

- The OEB is proposing to test different approaches to pricing that have been tested in other jurisdictions. There is not one specific jurisdiction that can be highlighted as being closest to the Ontario pilot approach.
- Ontario's Long Term Energy Plan will be updated in early 2017.
- The *Ontario Rebate for Electricity for Electricity Consumers Act, 2016* (ORECA) is scheduled to come into force on January 1, 2017 and will put into place an 8% rebate for residential, small business customers and farms. In addition to the 8% rebate other regulations will enable the other elements of the broader rate mitigation strategy.