ONTARIO ENERGY BOARD

RPP Prices and GA Modifier
&
July 2017 QRAMs

June 21, 2017

Confidential Briefing for Ministry of Energy

REGULATED PRICE PLAN (RPP)
&
GLOBAL ADJUSTMENT (GA) MODIFIER

OEB Responsibilities under the FHA

- The *Fair Hydro Act, 2017* (FHA) establishes responsibilities for the OEB to:
  - Set RPP prices to give RPP consumers the benefit of their "fair adjustments" over the coming years
  - Set a "GA modifier" to give eligible consumers that are not on the RPP their fair adjustments over the coming years
- The OEB is required to set new RPP prices and a GA modifier within 15 business days of the FHA receiving Royal Assent – so by June 22, 2017
- RPP prices and the GA modifier will take effect July 1, 2017
  - Utilities are expected to issue invoices accordingly, but if any should not, its eligible customers will receive the benefit as a lump sum payment retroactive to July 1, 2017

RPP Prices & GA Modifier

- The RPP Prices and GA Modifier that will be in effect for electricity consumed between July 1, 2017 and April 30, 2018 have been set by the OEB as shown below. The RPP prices deliver a reduction in the proxy consumer's bill of 25.18%:

Time-of-Use RPP Prices	**Off-Peak**	**Mid-Peak**	**On-Peak**	**Average Price**
Price per kWh	6.5¢	9.5¢	13.2¢	8.2¢
% of TOU Consumption	65%	17%	18%	
Tiered RPP Prices	**Tier 1**		**Tier 2**	**Average Price**
Price per kWh	7.7¢		9.0¢	8.2¢
% of Tiered Consumption	54%		46%	
GA Modifier for Specified Customers not on RPP				
GA Modifier per MWh				$-32.90

Setting RPP Prices

- Consumers that are on the RPP will see the fair adjustments through their RPP prices
  - The OEB has set RPP prices to give effect to the commitment to lower electricity bills on average by 25%
    - The 25% is inclusive of the 8% ORECA rebate and of the bill mitigation impacts of shifting the cost of the OESP and most of the cost of the RRRP from ratepayers to provincial revenues
  - The calculations are done by reference to a "proxy" consumer that has certain attributes set out in the regulation - essentially a Toronto Hydro residential customer on TOU prices using 750 kWh of electricity every month, not on equal billing, not receiving any OESP payments, etc.
  - The OEB has calculated what the proxy consumer's bill (Invoice A) would otherwise have been based on:
    - RPP prices that would have been effective on May 1 if determined in the normal way without consideration of the FHA (these RPP prices were noted in the April RPP Report)
    - May 1 rates and charges, other than OESP where April 30 is the relevant date
  - The OEB has then set new RPP prices that result in this proxy consumer having a bill (Invoice B) that is, as close as feasible, 25% lower than Invoice A (inclusive of the impact of the other measures noted above)

Steps for Determining RPP Prices Under OFHP

1. Determine the bill for the proxy customer as it would have been absent OFHP (Invoice A)
2. Determine the total bill amount that is 25% less than Invoice A
3. Calculate savings from lower HST charges and the 8% rebate
4. Calculate $2.26 of savings from removal of OESP and reduction in RRRP
5. Determine $25.32 of further reductions to be delivered through RPP prices ($40.40 - $12.82 - $2.26)

		Total Invoice Amount A ($)	Target Invoice Amount B ($)	Net Reduction ($)
	Electricity			
1	Off-peak	44.36	(5) To be determined to achieve 25% reduction in Invoice B relative to Invoice A	
2	Mid-peak	16.96		
3	On-peak	24.98		
	Delivery			
4	Cost of losses	3.24		
5	Distribution and Transmission	47.94	47.94	0.00
	Regulatory			
6	OESP	0.86	0.00	-0.86
7	RRRP	1.63	0.23	(4) -1.40
8	Other	3.05	3.05	0.00
9	Subtotal	143.02	115.44	-27.58
10	HST	18.59	15.01	-3.58
11	8% Rebate	(1) 0.00	(2) -9.24	(3) -9.24
12	Total	161.61	121.21	-40.40

Average Supply Cost and Resulting TOU Prices

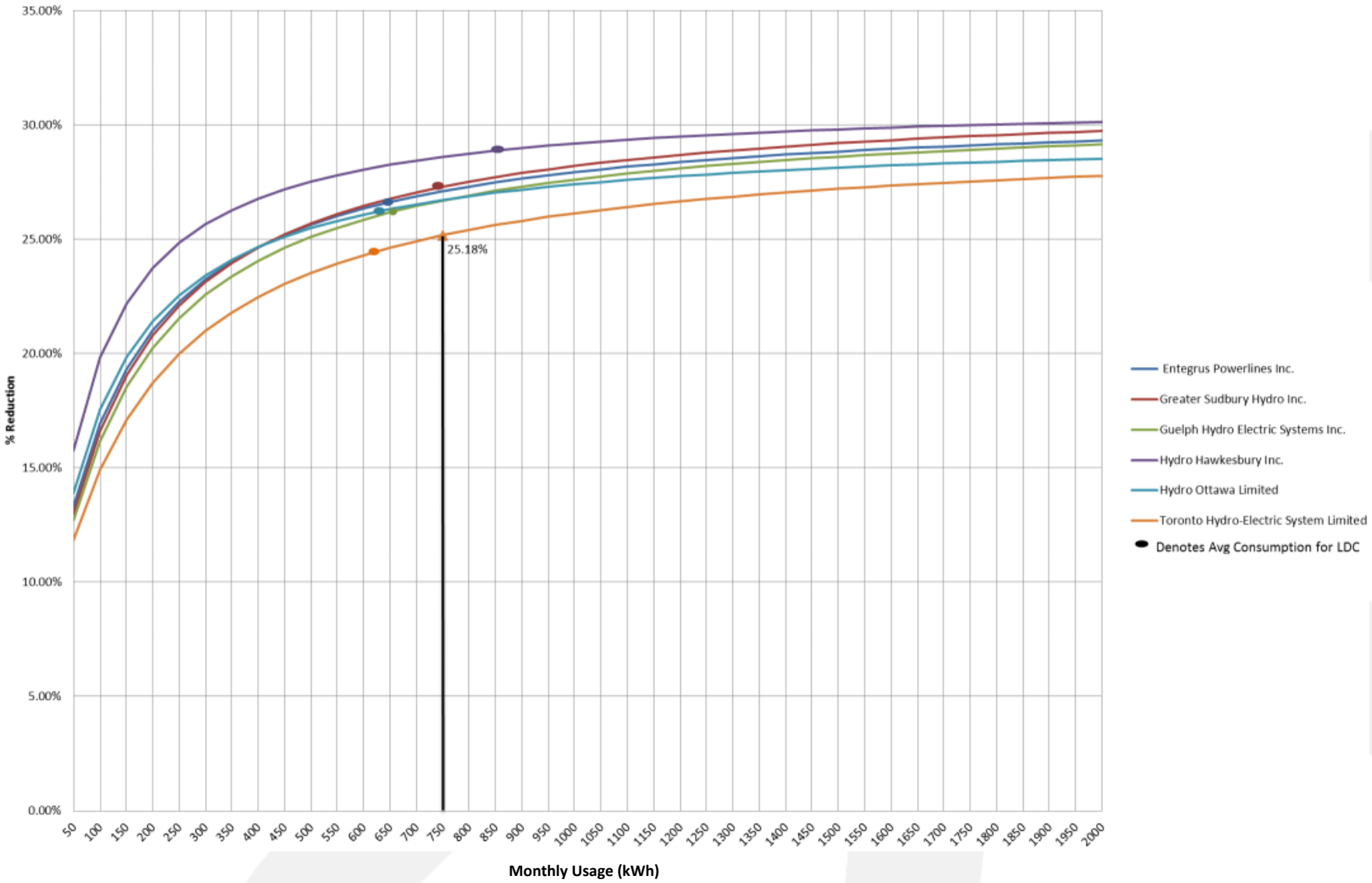
- New, lower TOU prices have been derived by altering the amount of the GA cost embedded in the price for each TOU period
- The new RPP TOU prices maintain overall on-, mid-, and off-peak price ratios that pre-date the FHA

	Invoice A	Invoice B	Net Reduction
Average Supply Cost	**¢/kWh**	**¢/kWh**	**¢/kWh**
Load-weighted average wholesale electricity price	2.5	2.5	0.0
Global Adjustment	8.8	5.5	-3.3
Adjustment to Address Bias Towards Unfavourable Variance	0.1	0.1	0.0
Adjustment to Clear Existing Variance	0.1	0.1	0.0
Average Supply Cost for RPP Consumers	**11.5**	**8.2**	**-3.3**
Resulting Time-of-Use RPP Prices			
Off-Peak	9.1	6.5	-2.6
Mid-Peak	13.3	9.5	-3.8
On-Peak	18.5	13.2	-5.3

Total Invoice Amounts A & B for Proxy Consumer

		Total Invoice Amount A ($)	Total Invoice Amount B ($)	Net Reduction ($)
	Electricity			
1	Off-peak	44.36	31.69	-12.67
2	Mid-peak	16.96	12.11	-4.85
3	On-peak	24.98	17.82	-7.16
	Delivery			
4	Cost of losses	3.24	2.32	-0.92
5	Distribution and Transmission	47.94	47.94	0.00
	Regulatory			
6	OESP	0.86	0.00	-0.86
7	RRRP	1.63	0.23	-1.40
8	Other	3.05	3.05	0.00
9	Subtotal	143.02	115.16	-27.86
10	HST	18.59	14.97	-3.62
11	8% Rebate	0.00	-9.21	-9.21
12	Total	161.61	120.92	-40.69 *or* 25.18%

Actual Savings Vary with LDC and Consumption



Setting the GA Modifier

- Eligible consumers that are not on the RPP will see their fair adjustments through a reduction in their GA costs in each billing period
  - The GA modifier is required to be a $/MWh amount that represents the difference between the RPP prices applicable to Invoice A and the RPP prices applicable to Invoice B
  - LDCs (and the IESO, where applicable) will multiply each customer's consumption by the GA modifier and apply that as a reduction to the GA charges otherwise payable by the customer in a billing period

GA Modifier Calculation

- The difference between the RPP prices applicable to Invoice A and Invoice B is $24.68 for a customer using 750 kWh in a billing period
- This amount is then converted to a $/MWh charge of $32.90 / MWh

	Electricity Cost in Invoice A	Electricity Cost in Invoice B	Change
Electricity Price ($)	86.30	61.62	-24.68
GA Modifier ($/MWh)			-32.90

JULY 2017 QRAMS

Background

- The price of gas fluctuates based on market conditions, including how much gas people want to buy and how much supply is available
- The natural gas utilities - Enbridge, Union Gas and NRG - purchase the natural gas commodity on behalf of their customers and pass-through the cost with no markup
- The Quarterly Rate Adjustment Mechanism (QRAM) process is a regular, mechanistic process for adjusting commodity prices that has been employed since 2001 and has been in its current form since 2009
  - It allows natural gas utilities to regularly adjust their rates to reflect changes to the forecasted costs of purchasing and transporting natural gas and to true-up costs from prior periods
  - It determines how much the utilities will charge customers for the natural gas commodity for the next quarter based on a forecast of market prices for the next 12 months – essentially 'smoothing' the market price
  - Quarterly rate changes smooth the cost of gas for customers while still providing a market-based price to facilitate competition

QRAM Process

- The OEB established the current process and timelines for QRAM applications through a 2009 decision (EB-2008-0106)
- Applications were received on June 9 and 12, 2017
- No notice is published, but applications are filed with the OEB and also given to intervenors of record from proceedings which established the QRAM process and applicants' rate cases
- Parties can make comments on the application within 5 calendar days of the QRAM application filing
- The applicant has 2 calendar days to reply to any comments received
- Decisions are currently planned to be issued on June 27, 2017

Summary of Applications

- The majority of natural gas customers across Ontario will see increases on their bills relative to bills at current rates
  - Typical residential customers in Enbridge's service area will experience a bill increase of 3.9%
  - Typical residential customers in Union's Southern zone will experience an increase of 4.8%
  - Typical residential customers in Union's North East zone will experience an increase of 3.8%
  - Typical residential customers in Union's North West zone will experience a bill decrease of -0.2%
  - Typical residential customers in NRG's service area will experience a bill increase of 2.7%

Enbridge's July 2017 QRAM Application

- Enbridge's July 2017 QRAM is increasing the typical residential customer bill by $36.23 or 3.9% per year over the April 2017 QRAM
- Increases are driven by the rising forecast costs of its commodity portfolio ($16.51 increase) and true up costs for differences in past periods ($18.82)

Customer Type	Total Annual Bill – July 2017 QRAM	Total Annual Bill – April 2017 QRAM	Total Annual Bill – July 2016 QRAM	Change from April 2017 per year	Change from July 2016 per year	# of Customers
Residential	$944.08	$907.84	$831.57	$36.23 or 3.9%	$112.51 or 13.5%	1,931,000

Note 1: 2,400 m3 annual consumption
Note 2: Includes the interim rates approved for cap & trade of $80.44 per year

Union's July 2017 QRAM Application

- Union's July 2017 QRAM is increasing the typical residential customer bill in Union South by $39.53 and by $40.08 in Union North East, and decreasing the typical residential bill by $1.71 for Union North West customers over the April 2017 QRAM
  - **Union South:** rate increases of $39.53 or 4.8% are largely driven by true up costs for differences in past periods ($29.89), as well as increasing forecast commodity prices at Dawn ($9.48 increase)
  - **Union North East:** rate increases of $40.08 or 3.7% are largely driven by true up costs for differences in past periods ($26.39 Commodity + $3.87 Transportation), as well as increasing forecast commodity prices at Dawn ($9.52 increase)
  - **Union North West:** declining rates of $1.71 or -0.2% are largely driven by declining weighted average forecast commodity prices at Empress ($12.60) and are partially offset by true up costs for differences in past periods ($10.12)

Customer Type	Total Annual Bill – July 2017 QRAM	Total Annual Bill – April 2017 QRAM	Total Annual Bill – July 2016 QRAM	Change from April 2017	Change from July 2016	# of Customers
Residential – Southern Zone	$862.67	$823.14	$656.80	$39.53 or 4.8%	$205.87	1,090,000
Residential – North East Zone	$1,130.53	$1090.45	N/A due to rate zone changes	$40.08 or 3.7%	N/A due to rate zone changes	337,000 (all north)
Residential – North West Zone	$991.61	$993.32		-$1.71 or -0.2%		

Note 1: 2,200 m3 annual consumption

Note 2: Includes the interim rates approved for cap & trade of approximately $74 per year for each zone

NRG's July 2017 QRAM Application

- NRG's July 2017 QRAM is increasing the typical residential customer bill by $24.89 or 2.7% per year over the April 2017 QRAM
- Increases are driven by rising gas supply charges ($24.89)
- NRG became a system gas customer of Union as of November 1, 2016 and therefore the majority of NRG's forecast gas costs over the next 12-month period are based on Union's commodity price (as proposed in Union's July 2017 QRAM application)

Customer Type	Total Annual Bill – July 2017 QRAM	Total Annual Bill – April 2017 QRAM	Total Annual Bill – July 2016 QRAM	Change from April 2017	Change from July 2016	# of Customers
Residential	$941.88	$916.99	$801.31	$24.89 or 2.7%	$140.57 or 17.5%	8,200

Note 1: 2,009 m3 annual consumption
Note 2: Includes the interim rates approved for cap & trade of $68.21 per year

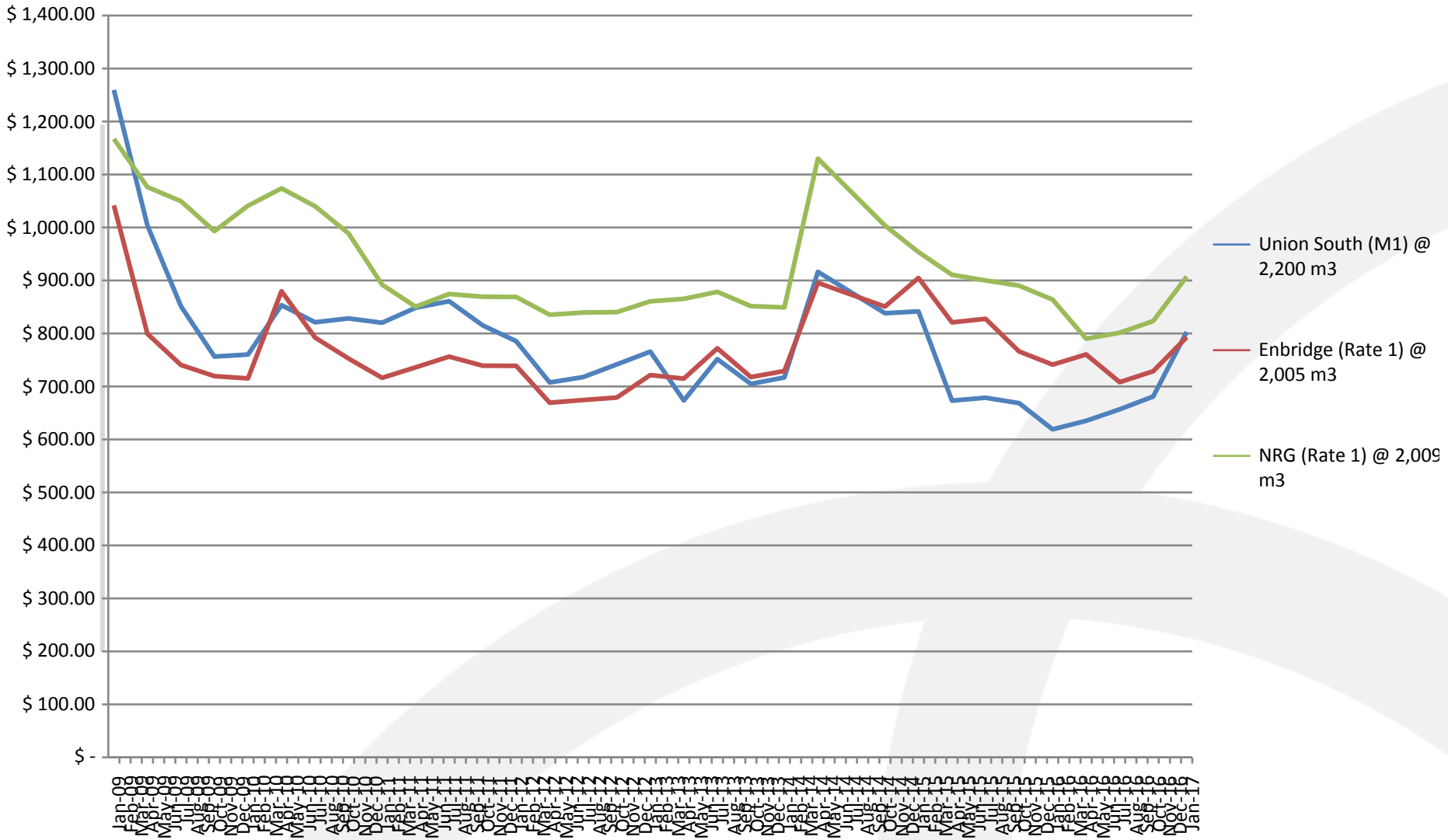
Key Messages

- The majority of natural gas customers across Ontario will see increases on their bills relative to current rates
- The rate changes reflect the forecast price of natural gas over the next 12-month period and also reflect a gas cost adjustment for the difference between the actual and forecasted gas commodity prices in the previous quarter
- The rates are effective from July 1, 2017 to Sept 30, 2017
- The bill impacts include interim rates approved by the OEB to recover cap and trade costs

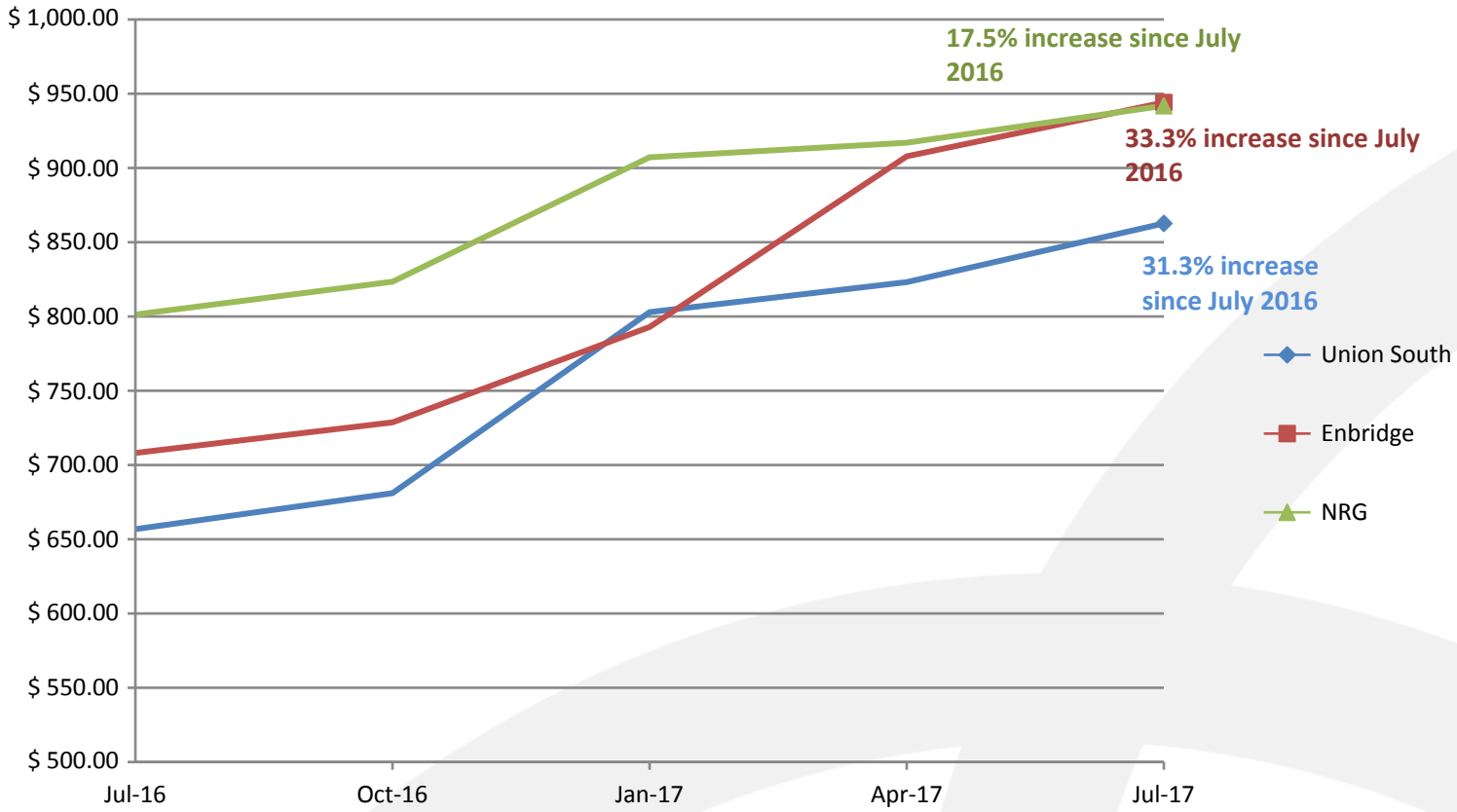
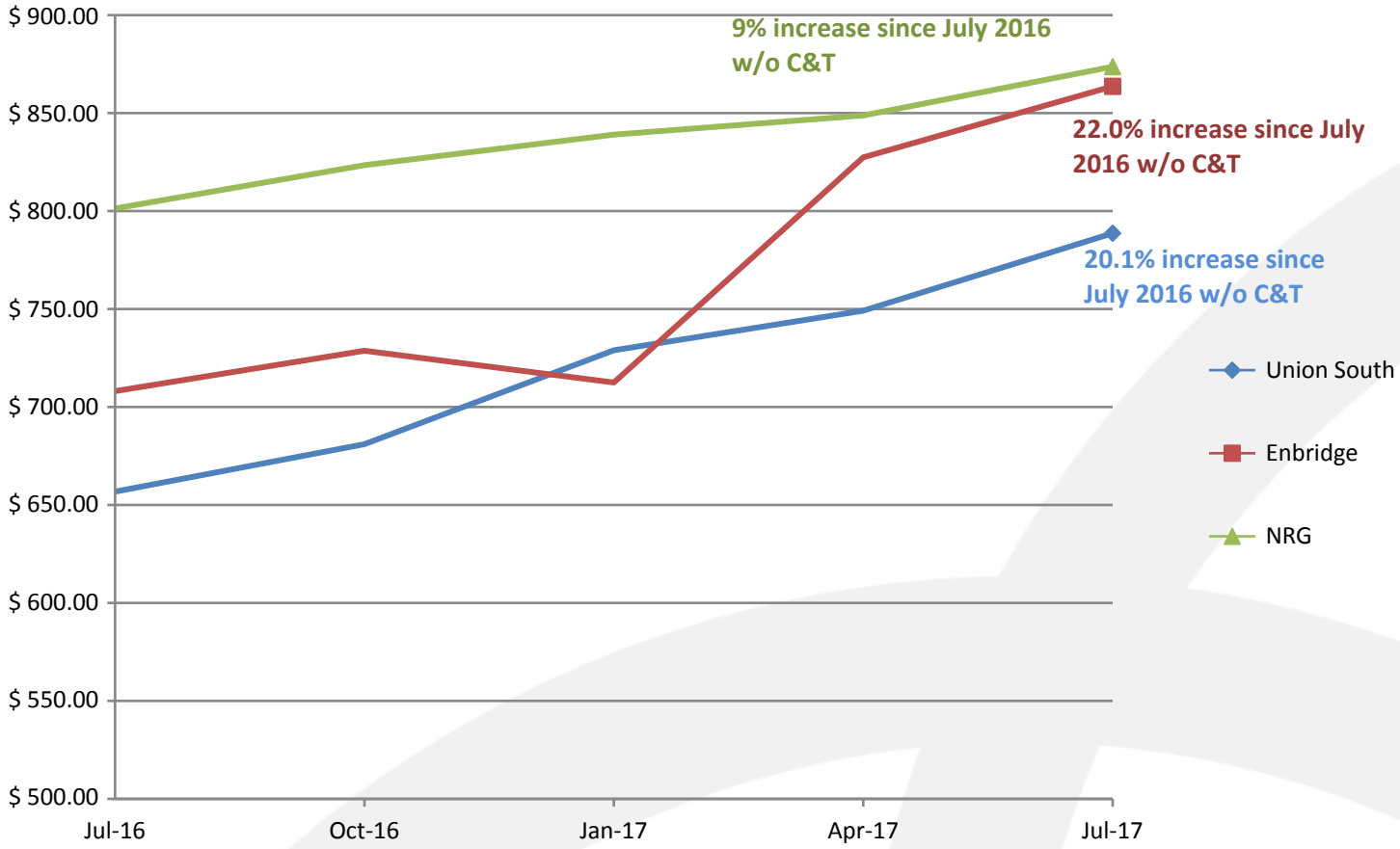
ONTARIO ENERGY BOARD

Appendices

Historical Bill Comparison



Total Bill Comparison: July 2016 to July 2017 (including Cap and Trade)



Total Bill Comparison: July 2016 to July 2017 (excluding Cap and Trade)