

Message

From: Tam Wagner [/O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=70AD853871354761A98848DE59C4C792-TAM WAGNER]
Sent: 2017-08-24 10:19:02 PM
To: Hanna Smith [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=f635b7ca1e924e76b641a64f40fcb20b-Hanna Smith]
Subject: RE: Alternative Pricing Options and the OEB

Thanks for this, Hanna. I'm working through the ED IR responses now. Will send some comments back to you before morning.

Have a good night.

Cheers,
 -Tam-

From: Hanna Smith
Sent: August 24, 2017 10:12 PM
To: Tam Wagner
Subject: Alternative Pricing Options and the OEB

Hi Tam,

Here are some key points for tomorrow's meeting with Darren and Jon. Mark Gojmerac and I are scheduled to meet on Monday to discuss more in depth how load-serving entities operate participate in day-ahead and real-time markets, which touches on LMP.

- Within parameters set by the Ministry of Energy through legislation, regulations and directives, the OEB has the authority through to determine the rates applied to LDC-billed customers through its codes and guidelines (e.g. Standard Supply Service Code and Distribution System Code).
 - For example, the OEB has been looking at different pricing options for distribution-connected commercial and industrial customers
- Currently, all LDC customer classes pay based on the HOEP either directly or indirectly:

	Customer Class	Prices Exposed to	Affected by Load Pricing Options	Share of Ontario Demand
LDC-Settled Loads	ABOVE 250,000 kWh			44%
	Large User (>5,000 kW)	HOEP	Yes	
	General Service (GS) between 500 kW and 5,000 kW	HOEP	Yes	
	GS between 50 kw and 500 kW with MIST Meter	HOEP	Yes	
	GS between 50 kw and 500 kW with Conventional Meter	Weighted average HOEP over billing period	Yes	
	AT OR BELOW 250,000 kWh			42%
	Low-volume Customers (residential and GS less than 50 kW)	OEB-regulated price (based on HOEP forecast, complicated by the Fair Hydro Plan)	Yes	

- It would be up to the OEB, informed by government policy direction (if applicable) and stakeholder engagement, to determine how alternative load pricing options would flow down to LDC-billed customers if at all.

- In making a determination, the OEB must follow its objectives to “protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service” and to “promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry”. In other words, alternative load pricing options would need to offer clear benefits to both LDCs and customers.
- LDCs in Ontario currently have no ability to hedge pricing risks, unlike load-serving entities (the LDC equivalent) in jurisdictions that have LMP. Here are some of the differences between the two types of entities:

	LDC	LSE	
Regulatory Oversight Level	Provincial (OEB)	Federal (FERC) for wholesale transactions and and state (commissions) for retail transactions	
Typical Shareholder(s)	Municipalities	Publicly-Owned (more numerous but typically smaller)	Investor-Owned (serve ~74% of customers in the US)
		Various public entities, including cities and ports	Investors
Funding	Regulator-approved revenue requirement recovered from customers	Bond market	Bonded debt, owner/shareholder stock investment and operating profit
Shareholder Return Mechanism	Fixed dividends	Dividends, utility bonds	Dividends and/or growth in stock value
Price Risk Absorber	Customers	Customers	LSE, unless state commission allows absorption in customer rates
Market Participation	Price taking non-dispatchable load	• Offering into day ahead market (must fill a day-ahead scheduling reserve obligation) • Offering into capacity market (if applicable) • Purchase of supply in real-time market as needed	
Options for Managing Pricing Risk	None	• Forward contracts: Can strike one-to-one contracts with generating companies to purchase a fixed amount of electricity at a locked-in price to be delivered at a specified time in the future. • Call options: Can purchase a specified quantity of electricity at a specified delivery time at an agreed upon “strike” price • Demand Response (DR): Can reward end users for offering DR, lowering the amount to be bought in the real-time market if demand exceeds contracted/purchased supply	