

Price True-Ups for Extraordinary Circumstances

Under some extraordinary circumstances, large unexpected variances (deviations) could accumulate in a short time. This could occur as a result of some major unanticipated event, such as a prolonged unexpected outage of a large generator. As described in Chapter 4 of this Manual, deviations of actual from forecast variances are tracked and monitored monthly. It might be desirable, under such extraordinary circumstances, to take prompt action to bring prices back towards cost to avoid the possibility of accruing undesirably large deviations and, as a result, unusually high price adjustments at the next scheduled RPP price adjustment date.

In general, it would be expected that such action would not be taken on the basis of one or two months' experience, but rather would be considered on a quarterly basis. Quarterly analysis smooths the more extreme variations of monthly results, and should therefore avoid making changes in reaction to a relatively short-term extreme event that does not recur.

For similar reasons, an interim true-up of this kind should only occur when there has been an extraordinary accumulation of deviations from the expected variance, as indicated by the unexpected variance exceeding a trigger value. Considerations in setting the trigger value include the impact on the consumer bill and the probability of such a high unexpected variance occurring.

The trigger value was determined by the OEB in the initial version of this Manual based on the analysis below:

Assuming roughly 4 million RPP consumers, the average cost per customer of a \$40 million unexpected variance is about \$10. That would have a bill impact of under \$1 per month, if collected over 12 months. Variance modeling shows that an unexpected variance of about \$40 million a month occurs less than 10% of the time. Choosing a trigger value of \$160 million would produce an impact of approximately \$40 per customer, and a bill impact of about \$3.40 per month.

Variance modeling suggests that random events would produce an unexpected

variance of that magnitude in a single quarter less frequently than once in five years.

Based on these parameters, the initial *trigger value* was set at \$160 million – about 4% of the total RPP cost in its first year. If the trigger were set today using these same proportions, the trigger would be about \$250 million.

When a significant *unexpected* variance, informed by reference to the 4% trigger value, accumulates over a quarter that does not conclude with a scheduled semi-annual true-up and rebasing, the OEB will evaluate whether a price true-up should be implemented in the form of an RPP price adjustment to begin to recover that variance. It is important to clarify that only the unexpected portion of the variance would be included in the RPP price adjustment at that time.

The price true-up will be calculated as the total unexpected variance divided by the total forecast RPP demand over the next 12 months.

This extraordinary case is the only time that a change in the RPP price is based solely on the need to recover accumulated deviations of the variance from the expected variance (i.e., only retrospective). All ordinary or scheduled RPP price adjustments are based on recovery of both the forecast RPP supply cost and the past accumulated deviations (i.e., both retrospective and prospective).