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Licensing and Applications Branch

Ontario

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To: Electricity Distribution Companies and Electricity Retailers

Re: Compliance with Section 8 of the Retail Settlement Code - Retailer Prudentials

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This bulletin contains important information regarding compliance with your electricity distribution licence.

In December of 2002, the Independent Electricity Market Operator (IMO) informed wholesale market participant distributors that the IMO would be using a price of $43/MWh on an interim basis to establish the maximum net exposure for distributors. However, the IMO has indicated that the estimated market price in the real-time energy market remains at $65/MWh. This situation has led to some confusion as to the price to be used to calculate the prudential obligations of electricity retailers.

In response to concerns expressed by several market participants, Brian Hewson, Manager of Energy Licensing, sent an e-mail on February 14, 2003 to market participants regarding the method of calculating the maximum allowable security to be requested from a retailer by a distributor. That e-mail indicated that the intent of the Retail Settlement Code sections 8.1.1 and 8.1.3 was to mirror the obligations imposed on distributors by the IMO in the obligations imposed on retailers by distributors.

I have received correspondence from both electricity distributors and electricity retailers that suggests that disputes remain as to the price to be used in the calculation of the maximum allowable security to be requested from a retailer. Section 8.1.1, Step 1 of the Retail Settlement Code contains the following description of the price to be used in calculating the competitive electricity costs used in the calculation of the maximum allowable security to be requested from a retailer:

> "For the purpose of this estimation, the price estimates used in calculating competitive electricity costs shall be the same as the most recent estimated market prices in the real-time energy market

> established by the IMO for the purposes of determining market participant maximum net exposures and prudential support obligations."

Section 8.1.3 also refers to this price in the calculation of retailer prudentials for distributor-consolidated billing.

It is my opinion that the final clause of this description, "for the purposes of determining market participant maximum net exposures and prudential support obligations" is important. It appears that the "estimated market price[s] in the real-time energy market established by the IMO" is $65/MWh. However, it appears that the IMO is not using this price for the purpose of determining a distributor market participant's maximum net exposures and prudential support obligations. The price used for that determination is $43/MWh. A strict reading of the Code would indicate that the price estimates used in calculating competitive electricity costs should be $43/MWh for retailer prudentials.

However, I accept that when the Code was drafted it was not contemplated that there would be a difference between the "estimated market price[s] in the real-time energy market" and the price used "for the purposes of determining market participant maximum net exposures and prudential support obligations." In addition, the degree of risk remains the same as prior to the introduction of Bill 210 for those retailer loads which are not subject to price protection. In these unusual circumstances, I will exercise my discretion not to impose an administrative penalty on distributors who require a prudential support obligation based on an electricity cost of $43/MWh for that portion of a retailer's load which is price protected, and $65/MWh for that portion of a retailer's load that is not price protected. However, I do not regard as acceptable the imposition of a $65/MWh competitive electricity cost on the entire load of a retailer, if part of that load is subject to the legislated price protection program.

It is my expectation that distribution utilities will comply with the intent of the Code and make the appropriate adjustment to retailer prudentials. I expect that this activity can be completed by or before April 14, 2003.

If you have questions on this matter, please contact Russ Houldin, Licensing Advisor, at 416-440-8112 or by e-mail at houldiru@oeb.gov.on.ca

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