BRIEFING NOTE – OPTIONS FOR RECOVERING INTEREST COSTS AND FEES FROM RATEPAYERS DURING INITIAL FOUR YEAR PERIOD

ISSUE:

- For the purposes of implementing the *Ontario Fair Hydro Plan Act, 2017* (OFHPA), ENERGY must determine an approach regarding how amounts related to interest costs and Financial Services Manager fees ("carrying costs") are recovered from specified consumers, defined under the OFHPA, for the period July 1, 2017 and April 30, 2021 (i.e., "the inflationary cap period").

KEY INFORMATION:

- Under the current OFHPA model, financing entities can recover carrying costs through funding rebates payable by the IESO. Carrying costs incurred by financing entities include interest expenses and fees for the Financial Services Manager (FSM) (i.e., OPG).

- For the period May 1, 2021 to April 30, 2047, recovery of carrying costs will be achieved via the Clean Energy Adjustments (CEA) on specified consumers' bills (i.e., from the electricity consumers eligible for OFHPA reductions).

- For the period July 1, 2017 to April 30, 2021, there is no existing mechanism to recover amounts related to carrying costs from specified electricity consumers.

- The overall intention is that the recovery of these amounts from consumers would not result in any corresponding increase to rates under the OFHPA. The intention is to add these amounts to the shortfall in GA recorded by IESO (e.g. the IESO's monthly deferral and its regulatory asset) such that the recovery of carrying costs would not result in any real increase in electricity costs or any reversal of OFHP commitments (i.e., the 25% reduction and the inflationary increases would remain intact).

- While OPG and the Independent Electricity System Operator (IESO) both emphasize that the recovery of interest costs from specified consumers is required during the four-year inflationary cap period neither have stated a strong preference for any specific approach to achieve recovery of such costs. They do advise that the option chosen must meet certain requirements from an accounting perspective in order for these amounts to be given the appropriate accounting treatment

OPTIONS / CONSIDERATIONS:

- Two options are under consideration regarding the recovery of interest payment amounts from specified consumers.

Options	Description	Considerations
1. Recover interest and fees amounts from specified consumers using the existing Clean Energy Adjustment (CEA) framework.	• This option would use the existing CEA structure in the OFHPA to recover amounts from specified consumers, have those amounts collected and recorded by IESO, and for IESO to remit the amounts it collects to OPG to ensure the desired accounting treatment is achieved. • While further analysis is required from a legal perspective, the OFHPA does not appear to prohibit the recovery of interest costs and fees from specified consumers via CEAs or a mechanism similar to CEAs. • This option would require amendment to both regulations made under the OFHPA (i.e., O.Reg 206/17 and O.Reg. 195/17).	• This option requires relatively fewer legislative and regulatory amendments by using the existing OFHPA framework for CEAs to make the necessary connection to specified consumers. • This option may require a new line item on bills. **Note:** Any amounts included on a new line item on bills would result in no additional charges on electricity consumers – there would be a corresponding decrease to the electricity line equal to the amount charged. • The Ontario Fair Hydro Plan (OFHP) commitments of the initial 25% reduction and the inflationary cap increases would still be achieved under this option.
2. Recover interest and fees amounts from specified consumers via the Global Adjustment (GA).	• This option would use the existing GA structure to recover amounts from specified consumers, have those amounts collected and recorded by IESO, and for IESO to remit the amounts it collects to OPG to ensure the desired accounting treatment is achieved. • Two new classes of consumers would be created (i.e., Class A Specified Consumers, Class B Specified consumers). • Relatively significant amendments to O.Reg. 429/04 would be required in addition to potential amendments to the	• Creating new consumer classes for reasons of recovering amounts related to OPG interest costs would represent a departure from the current structure of GA – there is no precedent for assigning specific components of GA to certain classes of consumers. • It is not clear how the introduction of component specific cost recovery would impact IESO/LDC's from a settlement perspective. **Note**: Timelines may not allow significant engagement with LDCs on the issue.

	OFHPA regulations.	• Given the recovery of GA costs is calculated differently for existing Class A and Class B consumers (i.e., Class As using a peak demand factor and Class Bs volumetrically), the recovery of additional amounts related to interest costs would also likely have to be calculated on this class A/Class B basis between the two new classes of specified consumers. • It is likely that this option would not require a separate line item. However the impacts of the carrying costs are likely to be transparent through IESO's published GA component breakdown. • The Ontario Fair Hydro Plan (OFHP) commitments of the initial 25% reduction and the inflationary cap increases would still be achieved under this option.

TIMELINES:

- OPG will likely require a decision on an approach regarding the recovery of interest costs from specified consumers prior to the issuance of the FAA letter from the Minister to OPG (i.e., prior to the OPG Board meeting on September 27).

- To meet OPG's timelines for funding the GA shortfall under the OFHPA, any amendments to regulations would be required to track to the October 14, 2017 LRC. **Note**: This means that a posting to the Regulatory Registry would not be possible.

- Once a decision is made on an approach, ENERGY/LSB/IESO would work to finalize a draft by the end of September. Note: Input from the Ontario Energy Board (OEB) and Local Distributions Companies would also likely be required.

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