Regulatory Option for Temporary Funding of Financing Entity's Cost/Interests

For discussion purposes, the following is a potential regulatory mechanism whereby IESO market settlement mechanisms might be used to fund the financing entity's costs until the clean energy adjustment may be charged to specified consumers. This is subject to the there being sufficient regulation making authority to enact the regulations contemplated below.

1. A regulation could be passed (possibly pursuant to section 26(1) of FHA) requiring IESO, as part of the regulatory asset transfer, to fund financing entity's costs/interest in relation to such transferred regulatory asset for the period during which the clean energy adjustment may not be recovered from specified consumers. The regulation may indicate these funding amounts will be added to the global adjustment (GA) but only allocated to specified consumers (i.e. not form part of GA payable by Class A or Class B consumers who are not also specified consumers under Fair Hydro).
    a. This regulatory funding mechanism would be similar to other existing mechanisms whereby a third party's costs are funded from the GA via IESO settlement processes. For example, section 26.1 of the Ontario Energy Board Act creates a mechanism for IESO to collect costs incurred by the Ministry from consumers. Likewise, section 78.5 of the Ontario Energy Board Act requires the IESO to make payments to distributors with respect to amounts approved by the OEB for CDM programs and to recover such payment amounts from prescribed consumers as part of the GA.

2. A regulation could be passed (or amend O. Reg for 430/04 and/or O. Reg 429/04) pursuant to section 25.33(1)(c) and 25.33(2)(c) of the Electricity Act:

    - prescribing funding amounts incurred/paid for by the IESO pursuant to paragraph 1 above

    - prescribing specified consumers (as defined in Fair Hydro Act) as class of market participants and class of consumers for which adjustments will be made relating to funding amounts

    - prescribing, as necessary, payment adjustments and variance account treatment

3. If the above regulations were passed, amounts the IESO invoices electricity vendors monthly would include each electricity vendor's proportionate share of the funding amount. Proportionate share would likely be determined based on volume of electricity withdrawn by the electricity vendor's specified consumers during that month compared to total electricity withdrawn by all specified consumers in province for that month.

4. Difference between gross amounts billed by IESO to electricity vendors (which include funding amounts referred to above) and net amounts received by IESO from electricity vendors taking into account fair hydro adjustment constitutes IESO deferral (s. 23, FHA and s. 15, O. Reg 206/17).

5. IESO deferral is included in a variance account (s. 24(1), FHA)

6. All amounts in variance account constitute a regulatory asset (s. 25, FHA), which the IESO:

    - may transfer to the financing entity (s. 26(1), FHA)

    - or, if any balance remains in the variance account, recover through OEB-approved rates from specified consumers on or after May 1, 2021 (s. 25, FHA)