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**From:** Glenn Zacher [GZacher@stikeman.com]  
**Sent:** 2017-04-05 9:03:02 PM  
**To:** Michael Boll [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=4811917e15054407b665fe16d12ff415-Michael Bol]; Peter Hamilton [PHamilton@stikeman.com]  
**CC:** Anthony Martinello [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=3fb7d76317b34780b15d96309b995c31-Anthony Mar]; Jeannette Briggs [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=148095610f7242f48a5a9da24b1a8a87-Jeannette B]  
**Subject:** RE: RPP Variance - Interest

\*\*\* EXTERNAL email. Please be cautious and evaluate before you click on links, open attachments, or provide credentials. \*\*\*

Great thx for clarification

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**From:** Michael Boll [mailto:Michael.Boll@ieso.ca]  
**Sent:** Wednesday, April 05, 2017 8:55 PM  
**To:** Glenn Zacher; Peter Hamilton  
**Cc:** Anthony Martinello; Jeannette Briggs  
**Subject:** FW: RPP Variance - Interest

Glenn and Peter,

Anthony has helpfully pointed out the below. Current process is for IESO's interest costs relating to its RPP variance to be carried in the variance account and rolled into next RPP price setting. This relates to the discussion today regarding whether the IESO's interest costs for the deferral account would become part of the regulatory asset or funded by IESO some other way.

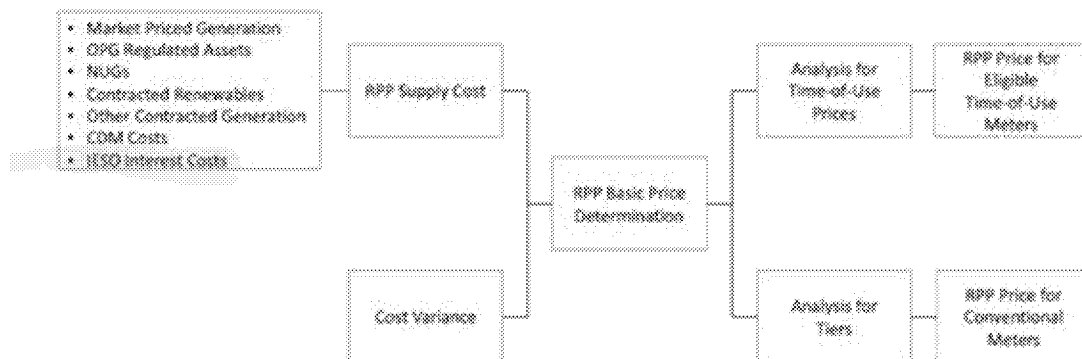
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**From:** Anthony Martinello  
**Sent:** April 05, 2017 8:33 PM  
**To:** Michael Boll; Jeannette Briggs  
**Subject:** RPP Variance - Interest

Michael -- see below (OEB link and snagits), to support for why today's RPP variance has interest (expense and income) kept within the RPP variance account. Regards.

[http://www.ontarioenergyboard.ca/oeb/Documents/EB-2004-0205/RPP\\_Manual.pdf](http://www.ontarioenergyboard.ca/oeb/Documents/EB-2004-0205/RPP_Manual.pdf)

Figure 2: Process for RPP Price



### *Roles of the Independent Electricity System Operator (IESO)*

The IESO's main roles is to plan the electricity system, procure resources, administer the wholesale electricity market in Ontario and to direct the operation of the IESO-controlled grid, scheduling and dispatching the electricity system to maintain safe and reliable electricity supply. The IESO settles the wholesale market with all wholesale market participants, both buyers and sellers. The other main responsibilities of the IESO are forecasting electricity demand and supply adequacy and contracting for supply or demand management. The IESO roles with respect to the RPP are:

- to include the global adjustment in its monthly settlements;<sup>2</sup>
- to hold in a variance account the amounts due to differences between actual electricity commodity prices and the forecast-based RPP prices; and
- to provide the OEB with information as may be required by the OEB for purposes of the determination of RPP prices and the final RPP variance settlement amount.<sup>3</sup>

Equation 1 below shows the calculation of the RPP supply cost.

#### Equation 1

$$C_{RPP} = M + \alpha [(A - B) + (C - D) + (E - F) + G] + H, \text{ where}$$

- $C_{RPP}$  is the RPP supply cost;
- $M$  is the amount that the RPP supply would have cost under the Market Rules;
- $\alpha$  is the RPP proportion of the total global adjustment costs;<sup>5</sup>

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<sup>5</sup> The expression in square brackets is the global adjustment. "G" in the expression in square brackets integrates two separate components of the global adjustment formula (G and H) as set out in O. Reg. 429/04 (Adjustments under Section 25.33 of the Act) made under the Electricity Act.

Prior to January 1, 2011, the global adjustment was allocated to RPP supply costs according to the share of total Ontario load represented by RPP consumers, denoted here as  $\alpha$ .

O. Reg. 429/04 has been amended to revise how global adjustment costs are allocated to consumers. O. Reg. 429/04 defines two classes of consumers: Class A, comprised of consumers whose maximum hourly demand for electricity in a month is at least 5 MW, or at least 3 MW for customers in certain industries; and Class B consumers, comprised of all other consumers, including RPP consumers.

Therefore, as of January 1, 2011,  $\alpha$  is defined as follows:

$$\alpha = (RPP_A / \text{Class B}_A) \times 1/(1-\beta), \text{ where}$$

$\beta$  = the proportion of Global Adjustment costs attributed to Class A consumers;  
 $RPP_A$  = the total load of RPP consumers;

- A is the amount paid to prescribed generators in respect of the output of their prescribed generation facilities;<sup>6</sup>
- B is the amount those generators would have received under the Market Rules;
- C is principally the amount paid to the OEFC with respect to its payments under contracts with the non-utility generators (NUGs);
- D is principally the amount that would have been received under the Market Rules for electricity and ancillary services supplied by those NUGs;
- E is the amount paid to the IESO with respect to its payments under certain contracts with renewable generators;<sup>7</sup>
- F is the amount that would have been received under the Market Rules for electricity and ancillary services supplied by those renewable generators;
- G is (a) the amount paid by the IESO for its other procurement contracts for generation (both conventional and certain renewable) or for demand response or conservation and demand management ("CDM"),<sup>8</sup> and (b) the sum of any amounts approved by the OEB for conservation and demand management programs approved by the OEB that are payable by the IESO to;<sup>9</sup> and
- H is the interest paid to or earned by the IESO in relation to the RPP variance account.

The forecast per unit cost of the RPP supply is  $C_{RPP}$  divided by the total forecast energy demand of RPP consumers. RPP prices are based on that forecast per unit cost. For that per unit cost forecast, all the terms in Equation 1 must be forecast. The remainder of this chapter describes the methodology for forecasting these terms, the average per unit cost of RPP, and the methodology for setting the base RPP price.

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#### *Cost for IESO Variance Account*

This section describes the calculation of the sixth term of Equation 1:

$$C_{RPP} = M + \alpha [(A - B) + (C - D) + (E - F) + G] + H$$

The IESO incurs direct costs to carry the RPP-related variance account. The IESO must pay interest on any negative variances. The IESO also credits the variance account with interest earned on any positive balances. Interest amounts can be forecast using the forecast of variance over the year and an assumption of the interest rates the IESO would earn or pay, given its credit rating.

The IESO does not currently allocate any other specific operating costs to the administration of its RPP-related variance account.

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As shown in Figure 2 of Chapter 1, the IESO carries a variance account representing the accumulated difference between the actual RPP supply cost and the revenues collected from RPP consumers. Consumers who do not leave the RPP will pay or receive the benefit of the accumulated variance over the next 12 months through the component of the RPP price that reflects past variances,<sup>19</sup> as described in Chapter 3 of this Manual. However, once consumers leave RPP supply,<sup>20</sup> they no longer pay RPP prices and therefore no longer pay or receive the benefit of their share of past cumulative variances. For that reason, these consumers will be responsible for a final RPP variance settlement when they leave RPP supply since the RPP price determination assumed that they would have remained on RPP for the full 12 months.

The final RPP variance settlement amount could be positive or negative. In other words, depending on the status of the variance account held by the IESO, the consumer could either receive a payment (i.e., credit) or be required to make a payment (i.e., debit).

The contents of this chapter are:

- Determination of Final RPP Variance Settlement Amount and Rate; and
- Final RPP Variance Settlement Amount Calculation.

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<sup>19</sup> RPP consumers are also responsible for paying any interest costs incurred by the IESO in relation to the variance account. A consumer leaving the RPP is also responsible for a share of these interest costs. Equation 2 takes into account that such costs are reported monthly to the OEB and are added to the variance that is reported to the OEB by the IESO each month.

<sup>20</sup> That is, move out of Ontario, switch to the spot market option or to a competitive retailer, or cease to be eligible for the RPP.

To facilitate this variance account settlement procedure, the IESO reports monthly to the OEB on the accumulated balance in the IESO's RPP variance account. In addition, the IESO reports the accrued interest on the RPP variance account. The OEB converts the sum of these amounts into a per kWh variance recovery amount (referred to in Equation 2 below as  $V_{\text{R}}$ ) for final settlement by dividing the total accumulated variance by the actual total RPP consumption in the preceding 12 months. The per kWh variance amount is communicated by the OEB to the distributors to use in final settlement and is also made public on the OEB's web site. This communication and web site posting is done on or around the 15th of each month.