Message

From: Jeannette Briggs [/O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=148095610F7242F48A5A9DA24B1A8A87-JEANNETTE B]
Sent: 2018-07-10 12:53:14 PM
To: Adrian Pye [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=72156be4624446d1a621c64d98172f05-Adrian Pye]
CC: Tam Wagner [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=70ad853871354761a98848de59c4c792-Tam Wagner]; Beverly Nollert [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=77d8dd544ae147549a653b31016467e9-Beverly Nol]; Idalin McKenzie [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=d7d5b89cca6a4afa88ab3660c7e6c103-Idalin McKe]; Michael Boll [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=4811917e15054407b665fe16d12ff415-Michael Bol]; Anthony Martinello [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=3fb7d76317b34780b15d96309b995c31-Anthony Mar]
Subject: RE: Fair Hydro Plan, three questions - one party is seeking to have the carrying costs of the Fair Hydro Plan made an issue in the IESO's 2018 Revenue Requirement application

Importance: High

The Act allows the Financial Service Manager to submit their carrying costs:

Ontario Fair Hydro Plan Act, 2017

S.O. 2017, CHAPTER 16
SCHEDULE 1

FINANCIAL SERVICES MANAGER

Appointment

18 Ontario Power Generation Inc. is appointed as the Financial Services Manager for the purposes of this Act, unless it is unable or unwilling to do so, in which case the Minister may appoint a different Financial Services Manager in accordance with the regulations.

Duties and powers

19 (1) The Financial Services Manager shall perform the duties assigned to it under this Act and may administer the investment asset on behalf of the investment interest owners.

Same

(2) The administration of the investment asset may include providing information to the IESO in respect of obligations under Part III and such other activities as may be prescribed.

Fees

(3) Subject to any prescribed limitations, the Financial Services Manager may establish and charge fees in relation to such matters as may be prescribed in accordance with the regulations, which regulations may provide for the ability to recover costs and expenditures and to earn a return.

Same, Board approval

(4) Before establishing fees under subsection (3), the Financial Services Manager shall submit them to the Board for approval in accordance with the regulations.

PART V
THE REGULATORY ASSET

IESO deferral

23 (1) The IESO deferral for each month, commencing May 1, 2017, shall be determined by the IESO in accordance with the regulations.

The associated Ontario Regulation (O. Reg. 206/17) allows the IESO to rely on carrying costs as submitted by the Financial Service Manager. It is the OEB's authority as detailed in this O. Reg. 10.1 – 10.15 to oversee the Financial Services Manager Fees. As the IESO may rely on information as provided with respect of the amounts submitted and oversight is under the OEB, I believe it is for the OEB to decide if the carrying costs values can be released/reported:

ONTARIO REGULATION 206/17

GENERAL

IESO to pay, remit amounts re carrying costs of financing entity

9.1 (1) During the period beginning on December 1, 2017 and ending on July 31, 2021, the IESO shall pay and remit to a financing entity any amounts charged to the IESO by the financing entity in respect of carrying costs of the financing entity during the period beginning on June 1, 2017 and ending on July 31, 2021. O. Reg. 415/17, s. 3.

(2) For the purposes of determining the amounts to be paid and remitted under subsection (1), the IESO may rely on information provided by a financing entity with respect to the amounts. O. Reg. 415/17, s. 3.

(3) The carrying costs of a financing entity for a period of time shall be determined as follows:

1. After eliminating any duplication in the following amounts, calculate the sum of the following amounts:

i. Funding costs paid or payable during the period.

ii. Derivative payments required to be made during the period.

iii. Amounts deposited, as required under the governing documents of funding obligations, into accounts other than capital accounts during the period.

iv. Financing entity expenses paid or payable during the period.

v. Tax liabilities payable during the period.

2. After eliminating any duplication in the following amounts, calculate the sum of the following amounts:

i. Amounts withdrawn, as permitted under the governing documents of funding obligations, from accounts other than capital accounts during the period.

ii. Any payments received in connection with a derivative agreement, including ordinary course receipts, payments received on termination and payments received in connection with margining or collateral arrangements.

iii. Tax refunds received during the period.

3. Subtract the sum calculated under paragraph 2 from the sum calculated under paragraph 1. O. Reg. 415/17, s. 3.

(4) The determination of the carrying costs of a financing entity for a period of time shall be made on an accrual basis accounting method. O. Reg. 415/17, s. 3.

(5) The IESO may grant security to a financing entity in order to secure its obligations to pay and remit present and future amounts due under this section. O. Reg. 415/17, s. 3.

Adjustments that may be recorded by the IESO

16. For the purposes of paragraph 3 of subsection 24 (1) of the Act, the IESO shall record the following adjustments in a variance account each month:

1. All funding rebates and other amounts paid by the IESO to a financing entity during the month.

2. Any variance account balances in variance accounts established and maintained under subsection 25.33 (5) of the *Electricity Act, 1998* and costs incurred in relation to the balances.

3. Any amounts paid or incurred by the IESO under section 9.1. O. Reg. 206/17, s. 16; O. Reg. 415/17, s. 5.

Regards,

Jeannette Briggs Director, Settlements - Corporate Services
Independent Electricity System Operator (IESO)| T: 905-855-6364 | C: 416-997-6364
Station A, Box 4474, Toronto, ON, M5W 4E5
Web: www.ieso.ca | Twitter: IESO_Tweets | LinkedIn: IESO
Conservation: www.saveONenergy.ca | Twitter: saveONenergyOnt | LinkedIn: saveONenergy

Corporate Services collaborates with you to deliver solutions and expertise that enable the IESO to achieve its goals

---

From: Adrian Pye
Sent: July 10, 2018 11:20 AM
To: Jeannette Briggs
Cc: Tam Wagner; Beverly Nollert; Idalin McKenzie
Subject: Fair Hydro Plan, three questions - one party is seeking to have the carrying costs of the Fair Hydro Plan made an issue in the IESO's 2018 Revenue Requirement application

Jeannette,

In our 2018 revenue requirement application filed with the OEB we included a draft issues list. Comments on and suggested additions to this list were received last Friday and our response to these are due this Friday. One suggested addition, shown below, is whether the carrying costs of the Fair Hydro Plan are appropriate. I understand these carrying costs are tracked in the Deferred Global Adjust Variance account, along with certain other costs, and this account was included as an item in the IESO's 2017 Annual Report.
Given this, are the carrying costs associated with the Fair Hydro Plan broken out and made publicly available by the IESO and, if so, where is this information available? If this information is not already available is there any reason the carrying costs cannot or should not be public considering that we are likely to receive IRs on this issue.
While the IESO's Annual Report is reviewed and signed off by KPMG I believe we can respond that the amounts in the Deferred Global Adjust Variance account are appropriate are the carrying costs associated with the Fair Hydro Plan reviewed independently by the Fair Hydro Trust, OPG or by any other body?
Also, as these carrying costs are pass-through costs they are not recovered through the OEB approved fee except for staff time associated with processing the charges and preparing invoices, is this correct?

Thanks,

Adrian
>>>>>>>>>>>>>>>>

Suggested additional Issue by Energy Probe:
3. Are the carrying costs of the Fair Hydro Plan appropriate.
As part of the Fair Hydro Plan, IESO records the difference between the amount of Global

Adjustment costs that are incurred compared to what are actually collected from customers – with that difference acting as a monthly discount in hydro bills. The difference – along with carrying costs of the Fair Hydro Trust – is recorded in the Deferred Global Adjustment Variance account and, subsequently, transferred to the Fair Hydro Trust as a regulatory asset to be collected from future ratepayers.

Energy Probe has two concerns. <u>First, what are the carrying costs associated with the Fair Hydro Trust? And second, is IESO accurately reporting those costs as part of its annual fees application? To date, we don't know whether these costs are material or not.</u>

Excerpt from the IESO's 2017 Annual Report:

In 2017, the Government of Ontario announced its Fair Hydro Plan (FHP), which was implemented through the *Fair Hydro Act, 2017*. Under the FHP, the IESO continues to settle the market and recover Global Adjustment from customers, but as a result of the fair adjustment applicable to specified consumers (defined in the Ontario *Fair Hydro Plan Act, 2017*), the IESO collects less than the full amount of the Global Adjustment. The IESO records the shortfall together with the costs of financing the shortfall, the amounts charged to the IESO by the Fair Hydro Trust in respect of the carrying costs of the Fair Hydro Trust, when applicable, and certain other amounts in a Deferred Global Adjustment Variance account. The Regulated Price Plan Variance account balance as of July 1, 2017, was included in the Deferred Global Adjustment Variance. The FHP also shifted the cost of the Ontario Electricity Support Program (OESP) and most of the Rural or Remote Rate Protection (RRRP) program costs from ratepayer- to taxpayer-funded programs. These accounts comprise the market-regulated assets.

The cumulative amount recorded in the Deferred Global Adjustment Variance account to the end of December 2017 was $1,378,000 thousand. On December 21, 2017, a regulatory asset in the amount of $1,179,000 thousand was transferred to the Fair Hydro Trust. As a result, as at December 31, the Deferred