

Message

From: Jordan Penic [/O=IMO/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=PENICJ]
Sent: 2016-12-12 5:10:24 PM
To: Joyce Poon [/O=IMO/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=Joyce Poonf49]
Subject: RE: Need to understand...

Thank you. Appreciate that.

From: Joyce Poon
Sent: December 12, 2016 5:10 PM
To: Jordan Penic; Michael Lyle
Cc: Bruce Campbell; Terry Young; JoAnne Butler
Subject: RE: Need to understand...

Sorry for the confusion of sending out a re-write. The attached response by Jordon is fine below.
Joyce

From: Jordan Penic
Sent: December 12, 2016 5:04 PM
To: Joyce Poon; Michael Lyle
Cc: Bruce Campbell; Terry Young; JoAnne Butler
Subject: RE: Need to understand...

All,

Following a conversation with Joyce I have tried develop a response that clarifies that we don't really have the information available to be certain at this point why the residential rates for Toronto Hydro customers are higher. I have removed emphasis and reference to the GA allocation issues, as we're not certain that is a prominent factor.

LTEP 2013 included a forecast for a typical residential electricity customer based on the overall electricity system cost forecast at that time, which included a number of assumptions. The black line in the IESO rate mitigation product reflects the residential bill based on the actual Toronto Hydro Distribution rates that have been approved and established by the Ontario Energy Board (OEB). The OEB establishes Time of Use (TOU) rates to recover the actual costs incurred by the Regulated Price Plan (RPP) customers. Variances could still occur between the actual costs incurred and the cost collected by the TOU rates, which would then be rolled into the establishment of the future TOU rates.

Total electricity system costs, like those used in LTEP 2013 to forecast residential electricity customer costs, do not always perfectly reflect actual rates set by the OEB. Although total system costs may come down, (i.e., cost curve is lower relative to 2013 LTEP), the cost reductions do not necessarily translate into a one-to-one reduction for residential Toronto Hydro customers.

It is also worth noting that the IESO is unlikely to have all the inputs necessary to identify the 2016 actual costs until later in 2017 when verified numbers, (like distributions costs), are made available.

For the groups consideration, I could also suggest we revert back to the original graphic that doesn't include the 2016 actuals from the OEB approved rates.

We need to respond back to the Ministry ASAP, so please weigh in with comments.

-Jordan

From: Jordan Penic
Sent: December 12, 2016 2:48 PM
To: Joyce Poon; Michael Lyle
Cc: Bruce Campbell; Terry Young; JoAnne Butler
Subject: RE: Need to understand...

Hi,

I've tried to simplify the response, but would appreciate your review to ensure it accurately characterizes your last email:

LTEP 2013 included a forecast for a typical residential electricity customer, which included a number of assumptions. The black line in the IESO product reflects the residential bill based on the Toronto Hydro Distribution rates that have been approved and established by the Ontario Energy Board (OEB). The OEB establishes Time of Use (TOU) rates to recover the actual costs incurred by the Regulated Price Plan (RPP) customers. Variances could still occur between the actual costs incurred and the cost collected by the TOU rates, which would then be rolled into the establishment of the future TOU rates.

The main factor in the difference between the 2013 LTEP forecast and the actuals is the distribution of Global Adjustment (GA) costs to different customer classes (Class vs Class B). The 2013 LTEP forecast assumed a higher Hourly Ontario Energy Price (HOEP) than actuals for 2016. The GA costs were higher than anticipated to recover the majority of the total costs of generation when HOEP is low. Higher GA disproportionately impacts Class B customers who pay approximately 88 percent of the GA costs.

Are there any other factors that should be noted that may have caused a higher price compared to HOEP?

-Jordan

From: Joyce Poon
Sent: December 12, 2016 11:57 AM
To: Michael Lyle; Jordan Penic
Cc: Bruce Campbell; Terry Young; JoAnne Butler
Subject: RE: Need to understand...

The black line reflects the residential bill based on the Toronto Hydro Distribution Rates that have been approved and established by the Ontario Energy Board. The TOU rates are also established by the OEB via their RPP process which is a forecast of the commodity costs incurred by the RPP customers and recovered from residential customers by way of the TOU rates. These TOU rates are established by the OEB and are reviewed and set semi-annually (May and November of each year) and will also include historical variances to actuals. The OEB has Navigant produce the TOU rates which would include new contract negotiated elements they forecast to be in place. When they produce that forecast cost for generation cost to RPP customers they will need to consider their expectation of new generation costs, to the extent they are aware of commercially sensitive contract prices in that outlook and be able to include that in their projection for the TOU rates maybe a question more appropriately addressed to the OEB/Navigant.

In general, the OEB is establishing TOU rates that will eventually recover the actual costs incurred by the RPP customers, as variances between the actual costs incurred vs the cost collected by the TOU rates are rolled into the establishment of the future TOU rates.

Although, IESO would not be able to comment on the assumptions used by the OEB in establishing the TOU rates. It is important to recognize the costs the RPP group (Class B) is responsible for is impacted significantly by the HOEP rates. To the extent the HOEP rate declines, the GA cost bucket will increase to recover the majority of the total costs of generation. The larger the GA cost the more the residential customers (Class B) will be paying for these costs since the

Class B customer cost share is about 88% of the GA bucket. Although total cost may come down, i.e., cost curve is bent relative to 2013 LTEP, the cost reductions do not translate into customer bills on a straight forward or a one to one basis.

The following table below illustrates this point that the Actual HOEP has come down significantly compared to the 2013 LTEP projection

HOEP Delta

	2013	2014	2015	2016
HOEP Rate 2013 LTEP (Nominal)	\$ 23.20	\$ 25.88	\$ 25.10	\$ 27.8
Actual HOEP	\$ 24.97	\$ 24.98	\$ 21.66	\$ 14.5
Actual HOEP vs 2013 LTEP	\$ 1.78	-\$ 0.90	-\$ 3.44	-\$ 13.2

- *2016 Actual is the arithmetic average of HOEP as of Dec 16, 2016
- Lower Actual HOEP will mean residential customers will be responsible for a large portion of generation costs
- Lower HOEP means more of the total costs will be recovered via the GA
- Of the GA costs - about 87% of those costs are borne by Class B customers
- In effect, there is a cost shift to residential / low volume users when HOEP declines

Should you have additional questions please let me know.

Attached only for our eyes is the variance of the residential bill in the 2013 LTEP vs. the Actuals by component. I don't propose in sending that out.

Cheers, Joyce

From: Jordan Penic
Sent: December 11, 2016 12:19 PM
To: George Pessione; Michael Lyle; Joyce Poon
Cc: Bruce Campbell; Terry Young; JoAnne Butler
Subject: Fw: Need to understand...

Hi,

See below for an additional question regarding the IESO deck for the Premier.

George/Joyce - could you provide an explanation of the factors that would have led the residential prices to be higher in the early years compared to LTEP 2013?

Thanks,

Jordan

From: Teliszewsky, Andrew (ENERGY) <Andrew.Teliszewsky@ontario.ca>
Sent: Sunday, December 11, 2016 11:55 AM
To: Bruce Campbell; Jordan Penic
Subject: Need to understand...

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

Something doesn't smell right about the IESO deck for Premier – the slide the with trend lines.
Efforts to bend the curve post-2013 ltep were significant. Why is the black line above the green line?
ARBPRIA alone should have pushed that curve down.

Andrew Teliszewsky

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