BRIEFING NOTE – PROJECTED COMMODITY COSTS – IESO and OEB

ISSUE: There is a divergence between supply cost forecasts prepared by the Independent Electricity System Operator (IESO) in the 2017 Long Term Energy Plan (2017 LTEP) and the OEB / Power Advisory for the Regulated Price Plan (RPP).

KEY INFORMATION:

- A forecast of Ontario's electricity commodity cost that takes into consideration the best available information is critical for providing government with the best possible estimate of the impact of the Fair Hydro Act's replacement on the fiscal plan.

- 2017 LTEP, released in October 2017, incorporates an IESO projection for the commodity cost of electricity for residential consumers – prior to the Fair Hydro Act – of $79.43/month in 2018, equivalent to $105.88/MWh.

- The May 2018 RPP Supply Cost report, finalized in April 2018, includes a supply cost forecast for the period from May 2018 to April 2019 of $126.37/MWh, which is $20.49/MWh or about 19% higher than the IESO's forecast (*see table below*).

	Forecast Prepared	Release Date	2018 Cost Projection ($/MWh)
2017 LTEP	Summer 2017	October 2017	105.88
RPP Supply Cost report	Spring 2018	April 2018	126.37*

*OEB forecast covers the period from May 2018 to April 2019.

- At the Ministry's request, in September 2018, the IESO analyzed the differences between the two sets of forecasts and found that nearly half of the variance in the commodity cost can be attributed to the following factors, which reflect methodological differences as well as information available to the OEB that was not available to the IESO at the time the forecast was finalized:

    1. *Interjurisdictional trade* – The RPP supply cost projection does not account for the impact of imports and exports, resulting in an impact of $4.27/MWh. Currently, Ontario is a net exporter so trade effectively lowers costs for consumers.

    2. *Adjustment factor* – The RPP supply cost projection includes a $1/MWh adjustment to account for random effects that are more likely to increase costs than decrease costs over the forecast period.

    3. *Ontario Power Generation (OPG) rates* – Assumptions about payment amounts for OPG's regulated generation accounts for $0.60/month of the

difference in forecasts. In March 2018, the OEB issued an order setting payment amounts for OPG's prescribed generation for 2017 to 2021.

4. *Class A and Class B share values* – Power Advisory has assumed that Class B consumers pay a slightly higher share of Global Adjustment (GA) costs, representing $0.85/month of the difference in forecasts.

5. *HOEP forecast* – Power Advisory's forecast for the market price (~$22/MWh) is lower than the corresponding LTEP forecast (~$30/MWh), leading to a $0.60/month difference in forecasts.

- In addition, other factors that may contribute to differences in the forecast include assumptions regarding consumption levels, carbon pricing as well as generation under development, including Napanee GS. Note: The IESO 18-Month Outlook from September 2018 indicates that Napanee GS will come online in the first quarter of 2019.

BACKGROUND:

- The following table summarizes the RPP supply cost as forecast by Power Advisory in April 2018:

RPP Supply Cost Summary for the period from May 1, 2018 through April 30, 2019		$/MWh
Forecast Wholesale Electricity Price - Simple Average		$19.64
Load-Weighted Costs for RPP Consumers		
Wholesale Electricity Cost - RPP-Weighted		$21.57
Global Adjustment	+	$103.80
Adjustment to Address Bias Towards Unfavourable Variance	+	$1.00
Adjustment to Clear Existing Variance[3]	+	$0.00
Average Supply Cost for RPP Consumers	=	**$126.37**

- In the April 2018 RPP Supply Cost report, the OEB notes that, overall, RPP supply costs have increased by 10 per cent compared to the April 2017 RPP Supply cost report. A number of factors have contributed to this change, according to the OEB:
  - Changes in the payment amounts for OPG's prescribed generation facilities. On March 29, 2018, the OEB issued an order setting payment amounts for OPG's prescribed nuclear and hydro generation for the January 1, 2017 through December 31, 2021 period. Although the previous supply cost forecast took into account 50% of the impact of OPG's "as applied for" payment amounts, including 100% of the approved amounts increases supply cost during this forecast period.

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- New generation coming into service, and in particular the gas-fired Napanee Generating Station, which will put upward pressure on GA.
- Market prices are expected to be lower than in the previous forecast period, primarily due to lower gas prices. Reductions in market prices are largely offset by increases in GA costs. Class B consumers, including RPP customers, pay a higher proportion of GA costs per MWh, so a reduction in market prices generally leads to a small increase in net (market prices plus GA) costs per MWh.
- Changes in eligibility requirements for the Industrial Conservation Initiative (ICI) have increased the number of customers participating in the program. This results in an increase to the proportion of GA costs per MWh paid by Class B consumers, including RPP customers.