

Rate Mitigation Update



Ontario's Fair Hydro Plan (OFHP) Major Components

- Refinancing the Global Adjustment (GA) over a 30 year period for Regulated Price Plan (RPP) eligible consumers, including families, farms and small businesses – similar to Ontario Rebate for Electricity Consumers (8% rebate)
- Enhancing competitiveness for small manufacturers and industrials by lowering the eligibility threshold for Industrial Conservation Initiative (ICI)
- Helping vulnerable electricity consumers by enhancing electricity support and conservation programs, and funding these programs from provincial revenues
- Ministry support for Market Renewal

OFHP Impact on IESO

- New Legislation and Regulations
- Agreements with an OPG financing entity
- Regulatory Accounting and mitigating any IESO financial risks
- Treasury & Settlements changes, and IESO operational risks and resourcing
- Settling the Plan components

Legislation Permitting Refinancing GA

- Legislation and regulations are expected to be introduced to enable deferral of GA costs
- IESO is providing input to legislation/regulation drafting:
 - No long term IESO liability for deferral amount
 - IESO legal authority for its activities
 - Efficient, clear working with current processes
 - Responsibilities assigned appropriately

Arrangements with OPG

- It is expected the deferred GA would be an IESO regulatory asset that IESO would sell to an OPG financing entity
- The financing entity would own the regulatory asset, finance the purchase of the asset from IESO, and in future recover the deferred amount from ratepayers
- IESO would act as the financing entity's agent to collect deferred amount from a defined class of consumes
- It is expected IESO and the financing entity would enter into sales and servicing arrangements

Financial Statements Accounting Change

- Change to from Public Sector Accounting Board (PSAB) to Regulatory Accounting
- Introduction of audited Market Financial Statements (review of variance balances)
- Kim this is a placeholder for you- I guessed what you would say ...

Regulatory Accounting



Treasury Changes

Financing:

- Potential increased need for line of credit(s) to bridge the deferred asset and timing
- Timing of credit draws in order to minimize costs
- IESO may carry bridge longer than planned if OPG stalls or cannot sell to investors

Credit Risk Mitigation:

- LDCs payment default risks which encompasses the regulatory assets

Treasury Changes

Operational Risk and Resourcing:

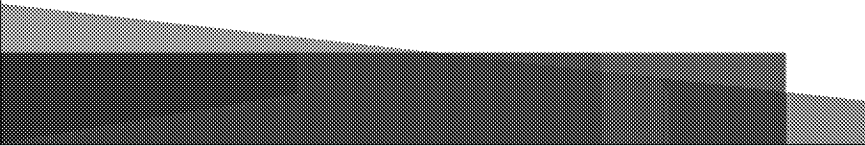
- Payment of OPG ongoing bills, interest costs rolling, and potential taxes (HST) matters
- Variance/deferred asset segregation of cashflows, banking, and audit trail processes
- Reporting and/or providing data to initiative stakeholders and maybe to OPG/investors
- Potential Ontario Securities Commission (maybe USA) reporting requirements
- Service level agreements

Settlement Changes

- Project underway for implementing new charge types and new forms to accommodate Plan (specific programs described in Appendix slides)
- Very short timelines – implementation dates May 1 and July 1, 2017
- Working with the Ministry to avoid duplicate LDCs efforts – IESO collects all information in our system and provides information to meet Ministry reporting requirements
- Likely to be Settlements staff impacts

APPENDIX

Detailed Description Of Settling Plan Components



Global Adjustment Reduction Amount

- Regulated Price Plan (RPP) general rate and TOU rates reduced to achieve 25% (after taxes) after bill savings – OEB to use proxy Toronto Hydro 750 KWh consumer after removing 8% and other programs moving to provincial revenues to set new rate, likely to be around 16% reduction of current RPP rates
- Rate discount/KWh established for those eligible but not on RPP
- Aiming to have reduced rates for May 1, 2017

Global Adjustment Reduction Amount

- IESO continues with Market Settlement calculating commodity costs payable to generators and program participants – HOEP plus Global Adjustment, **no change**
- Continue to invoice LDCs with their portion of Class A and Class B commodity costs to clear Market, **no change**
- As normal, LDCs submit to the IESO shortfall of commodity cost collections from rate payers and receive invoice reductions, **significant increase expected from \$30M to \$200M monthly**
- Shortfalls are financed by sale of deferral asset

Lowering the Eligibility Threshold for Industrial Conservation Initiative (ICI)

- Expanding the eligibility threshold of ICI to small energy intensive manufacturers and industrials with average monthly peak demand over 500 kilowatts – (targeting North American Industry Classification System (NAICS) businesses)
- Exclusively LDC customers
- Impact is higher GA borne by all Class B which is likely to be deferred into the GA smoothing mechanism

Vulnerable Consumers Programs Impacting IESO

- Changing Rural or Remote electricity Rate Protection (RRRP) program to provide distribution charge relief for the customers of the costliest LDCs
- Enhancing the Ontario Electricity Support Program (OESP) and working to ensure the program uptake is as close as possible to 100%.
- Establishing a new First Nations On-Reserve Delivery Credit.

Rural or Remote Rate Protection (RRRP)

- Current program split into three programs
- Two to be paid by provincial revenues and the other by a new RRRP rate
- IESO to settle all programs with additional reporting requirements to Ministry
- New charge types and forms required
- OEB to provide new rate shortly - effective July 1, 2017

Ontario Electricity Support Program (OESP)

- Expand eligibility and increase credits to cover more low income Ontarians effective May 1, 2017
- OESP to be funded by provincial revenues eventually
- Initial funding from IESO held OESP variance of \$104M (funding likely available until January 2018)
- Continued OEB reporting requirements
- Additional Ministry reporting requirements

New First Nations On-Reserve Delivery Credit

- Eliminating the delivery charge for all on-reserve First Nations households and removing the monthly service charge for customers of licensed distributors which charge a bundled rate
- 11 LDCs request refund from IESO ~ \$20M
- New charge types and form required
- On-Reserve Delivery Credit funded by provincial revenues - effective July 1, 2017