This confidential draft document is provided for discussion purposes only. It should not be construed as representing the position adopted by the Government of Ontario on any of the topics included or not included in this document. Any notes included in **this document are intended only to help facilitate a discussion of the topics to which they relate.**

NOTICE: THESE ARE INSTRUCTIONS FOR A DRAFT.

THE LANGUAGE USED IS SUBJECT TO CHANGE BASED ON DRAFTING REQUIREMENTS

PLEASE DO NOT FORWARD OR DISTRIBUTE ANY FURTHER.

A PROPOSAL TO CREATE REGULATION

MADE UNDER THE

ELECTRICITY ACT, 1998

Background: The intent is to amend the GAM regulation in order to add to the GA liability of specified consumers' their proportionate (e.g. to be calculated on a volumetric, per kilowatt-hour, basis) share of the interest/carrying charges that OPG/FSM must pay on the OFHPA borrowings it conducts each reference period ***(Tara - Please include this note for clients - commencing when? Has the borrowing already commenced? (e.g. as of May 1, 2017 or January 1, 2018?)).*** The idea is to pass these amounts through to Class A consumers /market participants and class B consumers / market participants <u>who are also specified consumers</u> for the purposes of the OFHPA.

- To do this, we need to isolate the class of consumers using definitions for Class A specified consumers / market participants and class B specified consumers / market participants.
- We then propose to add new provisions (s. 10.1)(calculation of GA liability for Class A consumers/market participants) to add the proportionate share of interest / carrying charges and FSM Fees paid or payable by the FSM to the liability of each consumer, <u>on a volumetric (that is, a per kilowatt-hour) basis</u>. Note: this means that even Class A consumers and market participants who incur GA liability based on the calculation of their peak demand factor (pdf) on a non-volumetric basis, but based on their contribution to average monthly system

peak demand, will be affixed liability for their share of OFHPA interest/FSM fees on a volumetric basis.

- IESO Cost recovery mechanism: At 10.2, we've added a provision for recovering costs related to the Letter of Credit (LC) that the IESO would enter into as a result of entering into the Master Transfer and Services Agreement, where the counterparty is Ontario Power Generation as Financial Services Manager (FSM).

General approach to determining relevant consumption:

For Class A specified consumers and Class A specified market participants, and for Class B specified consumers and Class B specified market participants, we need to determine the proportionate share, calculated on a volumetric basis, of the total of FSM interest/carrying costs + FSM fees (calculated or determined under s.19(3) of the OFHPA or the FSM Fees Reg, which, as we understand it, is also going to LRC on Oct 16/17) allocated by the IESO to those specified consumers based on their proportionate share of total consumption. Therefore we need to determine or calculate the following in the amending Reg:

- a variable that isolates total class A specified consumers' total consumption (e.g. the amount distributed to the class A specified consumer during the month) for the month:
- a variable that isolates total class A specified market participants total consumption for the month (e.g. the total net volume of electricity withdrawn by the Class A specified consumer during the month):
- a variable that isolates total class B specified consumers' total consumption (e.g. the amount distributed to the class B specified consumer during the month) for the month:
- a variable that isolates total class B specified market participants' total consumption for the month(e.g. the total net volume of electricity withdrawn by the Class A specified consumer during the month)::
- ALTERNATIVELY: A variable that combines these amounts.

Proposed Formula

Then we need to create a formula that provides for the total amount of interest and carrying charges borne by the FSM on its borrowings for the month, plus the total amount of FSM fees for the month, which must be paid or incurred by the IESO per s.25.33(1)), so that these amounts can be allocated by distributors (and the IESO for any relevant consumers/m.p's they serve) to each of the above classes of consumers based on their consumption.

1. **Determine Finance / FSM Fees Rate**

FSM Rate =

[(Total Monthly Interest and Carrying charges ["funding costs" as defined under the OFHPA incurred by FSM) + (FSM Fees)]

[Total Consumption Allocated to Class A and Class B specified consumers-and-market-participants – we're using the new T we've provided for below.]

2. **Electricity Vendors (LDC's and IESO) to Determine individual consumer liability**

IESO to multiply consumption (amount of electricity withdrawn) by each specified Class A and Class B specified market participant by the above-noted rate.

Distributor to multiply consumption of each individual Class A and Class B specified consumers by above-noted Rate.

PART II - Instructions for amending O. Reg. 429/04

- Amend s. 1 to add defined terms: "Class A Specified Consumer" and "Class B Specified Consumer" and "Financial Services Manager". We might also leverage the definition of "Funding costs" from O. Reg. 206/17 in a future draft.

"(1.2) For the purposes of sections 10.1 and 10.2 of this Regulation],

(a) A "Class A specified consumer" means a specified consumer within the meaning of subsection 1(2) of the *Fair Hydro Plan Act, 2017* and who is also a Class A consumer for the purposes of this Regulation;
(b) A "Class B specified consumer" means a specified consumer within the meaning of subsection 1(2) of the *Fair Hydro Plan Act, 2017* and who is also a Class B consumer for the purposes of this Regulation;

(1.3) For the purposes of section 10.1 and 10.2 of this Regulation:

(a) A "Class A specified market participant" means a specified consumer within the meaning of subsection 1(2) of the *Fair Hydro Plan Act, 2017* and who is also a Class A market participant for the purposes of this Regulation;

(b) A “Class B specified market participant” means a specified consumer within the meaning of subsection 1(2) of the *Fair Hydro Plan Act, 2017* and who is also a Class A market participant for the purposes of this Regulation;

(1.4) For the purposes of section 10.1 and 10.2 of this Regulation, “Funding costs” has the same meaning as in subsection 1(1) of Ontario Regulation 206/17 (General) made under the *Ontario Fair Hydro Plan Act, 2017*;

Next, please add a new provision to deal with the calculation of FSM interest and finance charges and FSM fees as follows:

Rate, Fair Hydro Carrying Costs, etc.

Total net volume, Class A and B Specified Consumers

s.10.1 (0.1) For the purposes of this section, the IESO shall calculate the total volume of electricity distributed to the consumers referred to in subsection (1.2) and the total net volume of electricity withdrawn from the IESO-controlled grid during the month by market participants referred to in subsection (1.3) of section 1, as follows:

$$T = D + E + F + G$$

Where,

T = the total volume of electricity distributed to the consumers referred to in subsection (1.2) and the total net volume of electricity withdrawn from the IESO-controlled grid during the month by market participants referred to in subsection (1.3) of section 1.

D = The total net volume of electricity for the month distributed to class A specified consumers by a licensed distributor;

E = The total net volume of electricity for the month distributed to class B specified consumers by a licensed distributor;

F = The total net volume of electricity withdrawn from the IESO-controlled grid for the month by class A specified market participants;

G = The total net volume of electricity withdrawn from the IESO-controlled grid for the month by class B specified market participants

(1) For the purposes of this Section, the IESO shall determine the FSM Rate for each month using the formula

$$\frac{A + B}{T}$$

In which,

"A" = [(Total Monthly Interest and Carrying charges incurred by FSM *[ntd: the total of all Funding Costs incurred by the FSM during the month)*

"B" = (FSM Fees for the month]

"T" has the same meaning as in subsection (0.1).

(2) The IESO shall calculate *[determine]* for each of its Class A and Class B specified market-participants the market participant's liability for the amounts and fees referred to in subsection (1) by multiplying the FSMR rate referred to in subsection (1) by the [total net volume of electricity] withdrawn by the market participant during the month.

(3) The distributor shall calculate *[determine]* for each of its Class A and Class B specified consumers the consumer's liability for the amounts and fees referred to in subsection (1) by multiplying the FSMR rate referred to in subsection (1) by the consumer's consumption for the month.

(4) The distributor shall track and remit the amounts determined under subsection (3) to the IESO separately from the amounts otherwise determined and remitted under this Regulation.

(5) The IESO shall separately track and, together with the amounts referred to in subsection (4), remit the amounts determined under subsection (2) to the Financial Services Manager.

IESO Cost Recovery, etc.

s.10.2 (1) For the purposes of this Section, the IESO shall determine the IESO Rate for each month using the formula:

$$\text{IESOR} = \frac{A}{T}$$

In which,

"A" = [(Total Monthly charges incurred by IESO in relation to the Line of Credit)

"T" has the same meaning as in subsection (0.1) of section 10.1.

(2) The IESO shall calculate *[determine]* for each of its Class A and Class B specified market-participant the market participant's liability for the amounts referred to in subsection (1) by multiplying the IESOR rate referred to in subsection (1) by total net volume of electricity withdrawn from the IESO-controlled grid by the market participant during the month.

(3) The distributor shall calculate *[determine]* for each of its Class A and Class B specified consumer the consumer's liability for the amounts referred to in subsection (1) by multiplying the IESOR rate referred to in subsection (1) by the total volume of electricity distributed to the consumer during the month by a licensed distributor.

(4) The distributor shall track and remit the amounts determined under subsection (3) to the IESO separately from the amounts otherwise determined and remitted under this Regulation.

(5) The IESO shall separately track the amounts determined under subsection (1) from the amounts otherwise determined and remitted under this Regulation.

Variance accounts, etc.:

10.3 (1) The amount of the global adjustment determined under section 10.1 that is allocated by the IESO to a market participant who is a Class A specified market participant or a Class B specified market participant is to be tracked in one or more variance accounts held by the IESO in respect of each such market participant.

(2) The amount of the global adjustment determined under section 10.1 that is allocated by the licensed distributor to a Class A specified consumer or a Class B specified

consumer is to be tracked in one or more variance accounts held by the distributor in respect of each such consumer.