FAIR HYDRO PLAN ACCOUNTING

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Table of Contents

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Definitions

- Hourly Ontario Energy Price (HOEP):

  It is the hourly wholesale price of electricity determined in the real-time market administered by the IESO.
- Rural or Remote electricity Rate Protection:

  This RRRP program provides a rate subsidy to eligible consumers in rural or remote areas, and is funded by ratepayers.

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A little crash course on some definitions for acronyms I will be using in this presentation.

Definitions (Contd.)

- Global Adjustment Mechanism (GAM):
  - As per Bill 100, fOPA was to maintain a variance account that ensures generators of electricity receive the cost of generation.
  - fOPA established contracts with these generators to cover these costs plus conservation costs and others (M&RD funds).
  - GAM is the difference between HOEP and the generator contract price, either positive or negative.

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When Contract price is greater than HOEP the IESO pays the generators. When HOEP is greater than contract price the generators pay the IESO.

Definitions (Contd.)

- Regulated Price Plan (RPP):
  - The OEB sets electricity prices for consumers twice a year under this plan. This is done to recover the forecast cost of supply over time.
  - There is a difference each month between RPP and HOEP and this is maintained in a variance account by the IESO.

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When the hourly Ontario energy price (HOEP) is greater than the RPP, the IESO pays the excess amount and records a financial asset as the electricity market funds paid are receivable from the market. When the HOEP is less than the RPP, the IESO receives the difference and records a financial liability as the funds received will be returned to the market.

Background

- The *Fair Hydro Act, 2017* came into effect June 1, 2017. According to the Act:
  - Electricity bills will reduce on average by 25%
  - Rates will not increase beyond the rate of inflation for 4 years
  - Additional relief to disadvantaged consumers
  - Spreading out of the costs of clean electricity investments over a longer period of time

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How it works?

- The electricity bill reduction will be observed by consumers accordingly:
  - Consumers that pay RPP will be charged a reduced RPP rate.
  - Consumers that are not paying RPP prices will see a reduction in Global Adjustment charges that they would otherwise pay (GA Modifier).

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How it works? (Contd.)

- As per the GAM contracts, the IESO will continue to pay generators the contract price.
- However, due to the reduced RPP rate IESO recovers a much lower amount from the LDC's thereby incurring debt in order to pay the generators.
- This growing variance is then recognized as a regulatory asset as these costs will be recoverable in the future.
- Beginning in November 2017, OPG will purchase this regulatory asset from the IESO and these funds will be used to repay the debt.

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Programs

- Various programs have been established under the FHP:

1) RRRP Program: will be split into 3 with two paid by provincial revenues and one by a new rate.
2) OESP Program: expanded eligibility and increased credits available to low income consumers.
3) First Nations On-Reserve Delivery Credit: credit to on-reserve consumers to off-set high cost of delivery.
4) Distribution Rate Protection: reduced distribution charges for eligible consumers in remote areas.

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Questions?

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