

FAIR HYDRO PLAN ACCOUNTING

Alefiya Jivajee, Market Accounting Analyst

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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.

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, the former Ontario Power Authority (fOPA) was to maintain a variance account that ensures generators of electricity receive the cost of generation.
 - The fOPA established contracts with 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.

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.

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

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).

How it works? (Contd.)

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

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.

Questions?

