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HST Guide for IESO Transactions

Issue 39.1

GUIDE

*The purpose of this document is to provide an
overview of the operation of the HST in the IESO-
administered markets.*

Public

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Table of Contents

Table of Contents	iii
Table of Changes	iv
Preamble	5
1. Introduction	6
2. Role of the IESO	6
3. HST Accounting and Documentation	7
4. GST/HST and Non-Resident <i>Market Participants</i>	9
4.1 General Overview of Operation of Value Added Taxes	9
4.2 GST/HST Registration Required for <i>Market Participants</i> in IESO- Controlled Markets	9
4.3 HST Payable to Canada Border Services Agency on Imports	10
4.4 HST on Sales by <i>Market Participants</i> to IESO	11
4.5 HST on Purchases by <i>Market Participants</i> from IESO	11
4.6 Filing of GST/HST Returns and Calculation of Net HST Payable	11
5. Physical Market Transactions	12
5.1 Sales and Purchases of Energy	12
5.2 Administrative Pricing	13
5.3 Physical Bilateral Contracts	13
5.4 Payments for Ancillary Services and Other Supplies	14
5.5 Surcharges to Price of Electricity	17
5.6 Debits Charged to Suppliers to the Market	19
5.7 Rebates to Electricity Purchasers	20
5.8 Guarantees	21
5.9 Renewable Integration	21
5.10 Day-Ahead Commitment Process (DACP)	22
5.10.1 Day-Ahead Production Cost Guarantee	22
5.10.2 Intertie Offer Guarantee and Day-Ahead Failure Charges	24
5.10.3 Day-Ahead Uplift Charge and Rebate	25
6. Financial Market	26
6.1 Transmission Rights Market	26

7. Transmission Services	27
7.1 Payments to Transmitter from the IESO	27
7.2 Payments to the IESO from Energy Purchasers	27
8. Legislated Charges/Rebates	29
8.1 OPGI Mitigation Rebate Settlements	29
8.2 Debt Retirement Charge/ Credit	29
8.3 Rural or Remote Rate Protection (RRRP) Program	29
8.4 Fixed Energy Rate Settlement/Balancing Amount	30
8.5 Fixed Wholesale Charge Rate Settlement/ Balancing Amount	30
8.6 Regulated Price Plan Settlement Amount	30
8.7 Regulated Price Plan Retailer Settlement/Balancing Amount	31
8.8 NUG Contract Adjustment Settlement Amount	31
8.9 Regulated Nuclear Generation Adjustment/Balancing Amount	32
8.10 Regulated Hydroelectric Generation Adjustment/Balancing Amount	32
8.11 Global Adjustment Settlement/Balancing Amount	33
8.12 OPA Administration Credit/Charge	34
8.13 OPA Contract Adjustment Settlement/Balancing Amount	35
8.14 Renewable Energy Standard Offer Program Settlement/Balancing Amount	35
8.15 Feed-in Tariff Program Settlement/Balancing Amount	36
8.16 Hydroelectric Contract Initiative Settlement/Balancing Amount	36
8.17 Clean Energy Standard Offer Program Settlement/Balancing Amount	37
8.18 OPA Demand Response Programs 2 and 3	38
8.19 Northern Pulp and Paper Electricity Transition Program (NPPETP)	39
8.20 Renewable Generation Connection - Monthly Compensation Settlement Credit / Debit	39
8.21 Conservation Assessment Recovery	40
8.22 Northern Industrial Electricity Rate Program (NIERP)	40
8.23 Conservation and Demand Management – Compensation Settlement Credit	41
8.24 Ontario Clean Energy Benefit Program	41
8.25 Biomass Non-Utility Generation and Energy from Waste (EFW) suppliers Contract Initiative Settlement/Balancing Amount	42
8.26 Capability Based Demand Response Program	43
8.27 Demand Response Capacity Obligations	44
8.28 Ontario Electricity Support Program	45

8.29	Adjustment Account Credit	46
8.30	Ramp-Down Congestion Management Settlement Credit Charges	46
8.31	Ontario Rebate for Electricity Consumers	47
8.32	Ontario Fair Hydro Plan (OFHP)	48
8.33	OFHP – First Nations On-Reserve Delivery Credit Program	49
8.34	OFHP – Distribution Rate Protection Program for Residential Consumers	49
8.35	OFHP – Financing Entity	50
8.36	OFHP – Regulatory Asset	51
8.37	Hydroelectric Standard Offer Program	51
9.	Administrative Charges	53
9.1	Dispute Resolution	53
9.2	Market Participant Default Settlement Debit	53
9.3	Market Participant Default Interest Debit	53
9.4	IESO Administration Charge	54
9.5	GST/HST Charge Types	54
9.6	Administrative Penalties	54
9.7	Smart Metering Charge	54
9.8	Recovery of Costs	55
Appendix A: Expired Settlement Calculations Kept for Purposes of Re- Calculation		A-1

Table of Changes

Reference (Section and Paragraph)	Description of Change
Section 8.35 OFTP... Ontario Fair Hydro Plan... Financing Entity	Change HST determination for charge type 1444 from HST applicable to HST not applicable.
Section 8.37 Hydroelectric Standard Offer Program	Add a new section 8.37 for the charge types associated with the Hydroelectric Standard Offer Program (HESOP), (1425 and 1475) and its HST treatment.
Section 8.11 Global adjustment Settlement/Balancing Amount	Amend section 8.11 Global Adjustment Settlement/Balancing Amount to include new Charge Types 1426 and 1476 and its corresponding HST treatment.

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Preamble

Effective July 1, 2010, the Ontario provincial retail sales tax was replaced with a value-added tax and combined with the federal goods and services tax to create a federally administered harmonized sales tax (HST). The new HST is 13% - consisting of the provincial portion at eight per cent and the federal portion at five per cent. With few exceptions, the HST in Ontario applies to the same base of property and services as the GST. For market charges, this means that, subject to the place of supply rules, most charges that currently attract GST in Ontario will attract HST.

The new rate is effective for transactions for which the HST is payable on or after July 1, 2010. Consequently, the *IESO invoice* for July 2010 (issued in August) is subject to the 13% HST rate. Daily *settlement statements* issued for July 2010 trading dates will also use the 13% HST rate.

Adjustments to *invoice* amounts will be adjusted at the original rate of tax.

1. Introduction

The purpose of this document is to provide *market participants* with an overview of the operation of the HST (Harmonized Sales Tax) in the *IESO-administered markets*.

Much of the information contained in this document derives from rulings previously provided to the *IESO* by the Canada Revenue Agency (CRA) with respect to the GST. The HST is the result of combining the Ontario provincial retail sales tax with the federal GST to create a federally administered harmonized sales tax governed by the Excise Tax Act. It is important to recognize that this overview is not intended to be a comprehensive elaboration of the operation of the HST in this market. *Market Participants* are advised to seek advice from the tax authorities and their professional advisors to clarify the implications of the operation of these taxes for their particular circumstances and to identify their compliance requirements.

– End of Section –

2. Role of the IESO

The *Market Rules* state that “the *IESO* shall not be a counter-party to any trade transacted through the *real-time markets*.” Nevertheless, for GST/HST purposes, the CRA has ruled that the *IESO* will be treated as if it is a principal, buying and reselling *energy* and other property and services. Consequently, for all transactions administered by the *IESO*, for GST/HST purposes only, the *IESO* will be considered to be a principal to the transaction, either purchasing or selling to *market participants*.

This treatment will provide much greater certainty in the application of HST to transactions in the *IESO-administered markets*. If the *IESO* were treated, for HST purposes, simply as an intermediary administering transactions between suppliers and purchasers, it would have entailed major problems for the operation of the HST for the market. Importantly, because of the nature of the product and the manner in which the market operates, it is impossible for any particular sale of *energy* by one *market participant* to be traced through to a particular purchaser. Moreover, because of line losses and other factors, even in aggregate, the amount of electricity injected into the *IESO-controlled grid* is not equal to the amount withdrawn from the *IESO-controlled grid*. Finally, the ruling recognizes that purchasers are required to pay the *IESO* for the *energy* they take from the *IESO-controlled grid*, and it is the *IESO*, not the load *market participant*, that is required to pay the *generators* for the *energy* they supply into the *IESO-controlled grid*.

On the basis of these factors, we believe that the CRA’s ruling, which provides that the *IESO* be treated as a principal in its transactions with *market participants*, will greatly simplify the overall operation of the tax for the *IESO-administered markets*.

– End of Section –

3. HST Accounting and Documentation

In its role as operator of the electricity market in Ontario, the *IESO* is responsible for providing operational data to *market participants*. In this regard, the *IESO* will issue documentation to *market participants* covering both the supplies that they make to the *IESO*, and the supplies that the *IESO* makes to them.

Preliminary and Final Settlement Statements

The *IESO* will issue *preliminary settlement statements* to *market participants* on a daily basis, covering all the *market participant's* transactions for that particular day. The statements will be issued 10 *business days* following the date to which the statement relates. Ten *business days* later, the *IESO* will issue the *final settlement statement* for that particular day. Both the preliminary and the final statements will contain a detailed section, identifying transactions for each *charge type*, for each location and each time interval in the particular day, as well as a summary section showing the daily totals for each of the *charge types*. The statements will show the corresponding HST on each transaction.

Invoices

In the real-time market, *invoices* will be issued monthly by the *IESO* ten *business days* after month end (concurrent with the issuance of the preliminary statement for the last *trading day* in the month). In the financial market, *invoices* will be issued weekly, 6 *business days* after the last *trading day* for that week. In the real-time market, *invoices* will cover all transactions occurring in the previous calendar month. The *invoice* will include data from each of the final statements available as of the date of the *invoice*, and from preliminary statements for those days of the month for which final statements are not yet available, plus any adjustments from the previous *billing period* that were processed in the month. For the financial market, as final statements are available for all *trading days* before the *invoice* is issued, only final statement data will be used.

Like the preliminary and *final settlement statements*, the *invoice* from the *IESO* will include all *charge types*, covering transactions both where the *market participant* is a supplier and where it is a purchaser of goods/services. Hence, the *invoice* will function both as a sales *invoice* for the *IESO* for supplies it makes to *market participants*, and as a sales *invoice* for *market participants* making supplies to the *IESO*.

The *invoice* will include data from both final and *preliminary settlement statements*. Where preliminary *settlement* data is included in one month's *invoice*, the *invoice* issued the following month will include any adjustments to that data that were included on final statements issued after the *invoice*. For GST/HST purposes, a Credit or Debit Note must be issued identifying any downward adjustments where tax is adjusted. In this regard, the *IESO invoice* constitutes a Credit or Debit Note for GST/HST purposes.

The *invoice* will include the name, address, and GST/HST registration number of both the *IESO* and the *market participant*. All amounts shown on the *invoice* will be tax-excluded amounts. The *invoice* will include two line items for HST, one specifying the total amount of HST payable to the *IESO* by the *market participant* (*charge type* 950), and the other showing the total amount of HST payable to the *market participant* by the *IESO* (*charge type* 900).

Market Participants that both supply *energy* to, and purchase *energy* from the *IESO* in a month should note that only the net consideration payable or receivable for *energy* transactions (*charge types* 100 and 101) in the month will be shown on the *invoice*. However, the HST will not be calculated on the net amount. Rather, the HST on each sale or purchase transaction or adjustment thereto will be

accumulated in *charge type* 900 or 950 depending on the sign of the tax amount. In addition, *market participants* will be able to identify the individual sale or purchase transaction for each location and interval from the daily preliminary and final detailed *settlement statements* they receive. With these statements as supporting documentation to the *invoices*, *market participants* will have sufficient information to determine their taxable sales and purchases of *energy*, and the amount of HST applied to each, for purposes of filing their GST/HST returns.

– End of Section –

4. GST/HST and Non-Resident *Market Participants*

4.1 General Overview of Operation of Value Added Taxes

The GST/HST is a tax on the supply of goods and services made in Canada, similar to Value Added Taxes (VATs) in Europe and other countries around the world. GST/HST registered vendors are required to collect the tax, on their taxable sales of taxable goods and services in Canada. The tax is collected at each stage in the production - distribution chain. In calculating the tax to be remitted to the Canadian government on the GST/HST return, GST/HST registrants are entitled to claim input tax credits for the tax paid on their inputs that are consumed, used or supplied in the course of a commercial (taxable) activity. Consequently, registrants only remit the net amount of taxes to the Canadian government (tax on sales less the tax paid on inputs). If, in a given tax filing period, the input tax credit claimed exceeds the tax on sales, the registrant will receive a refund cheque for the difference after it files its GST/HST return for the period. Because businesses engaged in taxable activities can claim input credits¹ for all tax payable on their inputs, it is only at the final consumer level where the tax is ultimately borne.

The GST/HST is intended as a tax on consumption in Canada. Consequently, GST/ HST is payable on all imports of goods into Canada. However, the Canada Border Services Agency (CBSA) only collects the federal component of the HST (5%) when they clear goods entering Canada. The provincial component is self-assessed by the importer only to the extent that the goods are not for use exclusively in a commercial activity. Since the import of electricity into the *IESO-controlled grid* is solely for resupply, the import is for exclusive use in a commercial activity and the self-assessment of the provincial component is not required. Exports are not subject to GST/HST (zero-rated) because the consumption occurs outside of Canada.

4.2 GST/HST Registration Required for *Market Participants* in *IESO-Controlled Markets*

Under the *Market Rules*, virtually all *market participants* (other than *market participants* that transact only in the financial markets) are required to register for the GST/HST. Information on procedures to register and on other GST/HST related requirements can be obtained from the CRA Web site –

www.cra-arc.gc.ca. Importers and exporters of electricity will also require an import/export account with CBSA. For more information on this refer to the CBSA web site - www.cbsa-asfc.gc.ca. The import/export account can be applied for when the *market participant* registers for GST/HST.

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A non-resident person applying to be registered for GST/HST that does not have a permanent establishment in Canada is required to provide and maintain security with the CRA². The amount of security to be posted is generally equal to 50% of the estimated net tax remittable by or refundable to,

¹ The 2009 Ontario Budget announced temporary recapture of input tax credits (ITCs) that would apply to certain items used by large businesses, including financial institutions, in the course of their commercial activities (i.e., the making of taxable supplies, including zero-rated supplies). The recaptured amounts would be temporary during the initial implementation of the HST and would only apply to the Ontario portion of the HST

² As indicated in CRA publication RC4027(E) entitled "Doing Business in Canada – GST/HST Information for Non-Residents"

the registrant over a one-year period, subject to a minimum of \$5,000 and a maximum of \$1,000,000. The requirement to post security may be waived for non-residents that have annual taxable sales in Canada of less than \$100,000, and whose annual net tax, either remittable or refundable, is less than \$3,000 per year. (All indicated amounts are in Canadian dollars)

4.3 HST Payable to Canada Border Services Agency on Imports

Suppliers of *energy* into the *IESO-controlled grid* from the USA are responsible for clearing the imports of *energy* into Canada. Consequently, they must file the appropriate documents with Canada Border Services Agency (CBSA), and pay the federal portion of the HST (5%) to CBSA.

Generally, CBSA will not release imported goods to the importer until the importer has filed the appropriate import entry documentation and paid the applicable duties and taxes on the importation. However, there will be a streamlined system available for commercial importers of electricity. The import of electricity falls under the CBSA Procedures for the Importation of Continuous Transmission Commodities (CTCs) CN-438. Refer to the CBSA website and search by form # for further information on detailed processes and schedules.

Under the streamlined system, importers of electricity into Ontario will file a single CBSA accounting document ("V type B3") to CBSA and pay the federal portion of the HST (5%) on electricity imports on a calendar month basis. Importers will have two options for reporting and paying the federal portion of the HST (5%) to CBSA:

- They may both report and pay CBSA the federal portion of the HST (5%) on their previous calendar month's imports on the 25th of the current month; or
- They may report their previous calendar month's imports to CBSA on the 24th of the current month, and remit their tax payment to CBSA by the last *business day* of the month. (Consequently, by reporting one day earlier, they may delay the payment to CBSA by approximately 6 days).

The B3 report and payment must be received at the CBSA office during normal business hours on the aforementioned dates. Note that there currently is no facility established at CBSA to handle electronic filing or wire transfers of funds. Consequently, importers are advised to use couriers or designated agents to deliver the monthly report and payment to the CBSA office on time (by 4:30 pm) or they will be fined.

The data to be used in compiling the monthly B3 report to CBSA should be drawn from final and *preliminary settlement statements* received from the *IESO* for the particular month. The CBSA B3 report and the *IESO invoice* will both use the same reporting period – the calendar month. To minimize compliance issues for non-resident importers, the data for the report to CBSA will be based on the same mix of final and preliminary statements that is used in the preparation of the *IESO invoice* to the *market participant* as described in Section 3. This will ensure consistency between the data used on the *IESO invoice* and the data on imports the *market participant* must report to CBSA. Further, where a non-resident *market participant* only imports electricity into Canada for sale into the *IESO* market (i.e., they do not also withdraw electricity from the *IESO-controlled grid*, and are not engaged in Physical Bilateral Contracts), the value of imports for CBSA purposes should coincide with *charge type* 100 (Net Energy Market Settlement for Generators and Dispatchable Load) and *charge type* 1131 (Intertie Offer Guarantee Settlement Credit – Energy) amounts recorded on the *IESO invoice*. (As noted in Section 5, the amount for *charge type* 100 on the *invoice* nets sales against purchases during the month.) *Charge type* 1131 should be included with *charge type* 100 to reflect the total price received by the importer for the sale of electricity into Ontario.

To ensure consistency and facilitate reporting requirements and procedures for non-residents, all importers of electricity into Ontario will report to the same CBSA office, located in Toronto. Importers may wish to use a broker or an agent to handle their filing and payment arrangements. Information on CBSA brokers can be obtained from the CBSA Web site. Non-resident importers that wish to file their monthly B3 reports and pay CBSA on their own are required to post *security* with CBSA (separate from the *security* referenced in Section 4.2). The *security* deposit required is equal to the importer's estimated monthly federal portion of the HST (5%) payable to CBSA. Importers that have a permanent establishment in Canada are not required to post *security* in respect of the federal portion of the HST (5%) payable to CBSA on imports. Non-resident *market participants* are advised to contact their professional tax advisors, or CBSA for assistance in posting *security*, and for filing CBSA import documents.

For additional information, *market participants* may also contact the IESO Customer Relations.

4.4 HST on Sales by *Market Participants* to IESO

Market Participants are required to collect HST on taxable sales of goods and services. This includes sales of *energy* into the *IESO-controlled grid*, as well as supplies of *ancillary services* provided to the IESO.

The prices referred to in the *Market Rules* do not include HST. The IESO will add HST to the amounts it pays to *market participants* for taxable supplies made in Ontario. The *market participant* must include these amounts in calculating their HST remittable on their GST/HST return.

4.5 HST on Purchases by *Market Participants* from IESO

The IESO will also add HST to their charges to *market participants* purchasing taxable goods and services. However, sales to purchasers for export out of Canada are generally zero-rated (non-taxable) under the GST/HST legislation.

4.6 Filing of GST/HST Returns and Calculation of Net HST Payable

GST/HST registrants with annual taxable sales in Canada over \$6 million are required to file GST/HST returns on a monthly basis. The return for a particular month is due by the end of the following month. Registrants with annual sales in Canada, including sales of associated persons, of less than \$6 million may file returns quarterly, at the end of the month following the quarter.

In calculating the net GST/HST payable on the return, the registrant computes the total GST/HST collectible on all sales in Ontario during the reporting period less the total GST/HST paid or payable on inputs. This latter amount includes a credit for the federal portion of the HST (5%) payable to CBSA in respect of imports during the tax-filing period. Only the net GST/HST is remittable with the GST/HST return.

– End of Section –

5. Physical Market Transactions

5.1 Sales and Purchases of Energy

Sales and purchases of electricity are recorded under the following *charge types*:

- Net Energy Market Settlement for Generators and Dispatchable Load (*charge type* 100); and
- Net Energy Market Settlement for Non-Dispatchable Load (*charge type* 101).

Charge types 100 and 101 are the major categories of electricity transactions between the *IESO* and *market participants*. *Charge types* 100 and 101 are used for both sales and purchases of *energy* for *market participants*. *Charge type* 101 is only used for transactions at Ontario locations.

As noted in Section 3, these *charge types* are used for both sales and purchases. Consequently, the amounts in the monthly *invoice* for these *charge types* will net sales against purchases during the month.

Sales by Market Participants into the IESO-Controlled Grid

The *Market Rules* specify that the place of delivery of the electricity is in Ontario. Consequently, as noted in Section 4, all sales by *market participants*, including those made by non-resident *market participants*, into the *IESO-controlled grid* will be subject to 13% HST. In addition, non-residents will be responsible for reporting and remitting the federal portion of the HST (5%) (Division III Tax) to CBSA on the importation of the *energy* into Ontario.

Purchases by Market Participants

Sales to *market participants* will be subject to HST, if the *energy* is for use in Canada. Sales to *market participants* will be zero-rated if the *energy* is sold to a *market participant* for export out of Canada.

There are two ways in which electricity may be exported out of Ontario to the USA:

- It can be transmitted directly across an international *intertie* to the USA; or
- It can be transmitted across an inter-provincial *intertie* (Quebec or Manitoba) for subsequent transmission to the USA. In this scenario, the *market participant* bidding to purchase the electricity in the *IESO* market would identify a USA location as the ultimate destination of the electricity.

In either situation, the sale to the non-resident *market participant* will be zero-rated. Note that the *Market Rules* state that a *bid* to purchase electricity by a non-resident *market participant* where the electricity is to be transmitted to the USA will constitute a declaration that the purchase is for export. This has been approved as meeting the conditions set out in the *Excise Tax Act* to zero-rate the purchase as an export.

Purchases of *energy* by *market participants* from the *IESO-controlled grid* that are for use in Canada will be subject to HST. The *Market Rules* specify that where *energy* or an *ancillary service* is being conveyed into the *IESO-controlled grid* from an *intertie zone* outside the Province of Ontario; or out of the *IESO-controlled grid* to an *intertie zone* outside the Province of Ontario, delivery of such *energy* or *ancillary service* to or from, as the case may be, the *boundary entity* shall, for all purposes,

be deemed to occur on the Ontario portion of the applicable *intertie*. The place of delivery of the electricity is in Ontario.

Note that in certain circumstances, it is possible that the *IESO market price of energy* for a particular interval will be negative. That is, the supplier will pay the *IESO* to inject electricity into the *IESO-controlled grid*, and the *IESO* in turn will pay a *market participant* that withdraws electricity from the *IESO-controlled grid*. In such circumstances, the recipient of the electricity is considered for HST purposes to be selling a service to the supplier of the electricity. The service is taxable even where the recipient of the electricity is located in the USA.

5.2 Administrative Pricing

Additional Compensation for Administrative Pricing Settlement Credit (charge type 113)

This payment is to compensate a *market participant* in the event that *administered prices* from a market system planned/forced *outage*, publication of incorrect prices or market suspension are found to have resulted in a financial loss being imposed on them.

Additional Compensation for Administrative Pricing Settlement Debit (charge type 163);

This surcharge on *market participants'* purchases of electricity is to recover the payment of Additional Compensation for Administrative Pricing Settlement Credit (charge type 113).

HST Treatment

These charges are considered adjustments to the original price of electricity, and accordingly their HST treatment will mirror the treatment of the basic charge/payment for the electricity:

- Purchases/sales of *energy* by *market participants* from/into the *IESO-controlled grid* will be subject to HST, if the *energy* is for use in Canada
- Purchases/sales to *market participants* will be zero-rated if the *energy* is sold/purchased to/by a *market participant* for export out of Canada

5.3 Physical Bilateral Contracts

Physical bilateral contracts (PBCs) are contracts for the sale of *energy* directly between two *market participants*. The PBC will specify:

- the quantity of *energy* supplied;
- the price of the *energy*; and
- the location/date/time interval of the PBC.

The purchasing party to the PBC will submit a *bid*, and if successful, will withdraw the electricity from the *IESO-controlled grid* at the location designated in the *bid*. The withdrawal will show up as a charge against the *market participant* at the location/interval where the withdrawal occurs. Similarly, the supplier will submit an *offer*, and if successful, will inject electricity into the *IESO-controlled grid* at the location designated in the *offer*. It will be credited for the supply at the location/interval where the injection occurs.

When the *IESO* is advised of the PBC, it will credit the purchaser, and debit the supplier, for the value of the quantity of *energy* supplied in the PBC, at the location/ interval specified in the PBC.

Under the CRA ruling, the settling of the PBC by the *IESO* (credit to the PBC purchaser, debit to the PBC supplier) is not treated as simply nullifying the charges for the physical withdrawal and injection by the two *market participants* respectively. (This would have required a complex cross-referencing system to match up physical injections and withdrawals against PBC quantities occurring in other locations.) Rather, the PBC *settlements* are treated as consideration for supplies separate from the corresponding physical withdrawals and injections. For example, if a PBC load *market participant bids* for, and physically withdraws 100 MW of electricity, and documentation is presented to the *IESO* to show that it has a PBC to purchase that quantity, it is treated as making a purchase of 100 MW from the *IESO* at the location of the physical withdrawal, and a sale of 100 MW (the PBC amount) to the *IESO* at the location specified in the PBC. This can result in asymmetrical tax implications where the purchaser is a non-resident, purchasing for export.

In addition, under the *Market Rules*, the parties to a PBC can elect to reassign certain uplift and rebate amounts, relating to the PBC amount. As in the case of the PBC amount, these reassigned amounts are also subject to HST, regardless of the location of the PBC parties.

Documentation Between Parties to PBC

The seller under a PBC will be responsible for charging and remitting the appropriate amount of HST on the sale to the PBC purchaser, and issuing the purchaser the appropriate documentation to claim the input tax credit. Where the purchase is for export, the purchaser will be required to issue appropriate documentation to the vendor to support zero rating of the transaction.

5.4 Payments for Ancillary Services and Other Supplies

In its role as system operator, to ensure the *reliability* of the Ontario power system, the *IESO* will make payments to suppliers for “*ancillary services*”, which are certain guarantees of supply and other property or services. The *IESO*, in adhering to *reliability standards*, decides how much of each ancillary supply is required at any point in time. The *IESO* operates a competitive *real-time market* for some of these rights (e.g. *operating reserves*) and contracts for others through a competitive procurement process. In addition, the *IESO* is required to make certain payments to suppliers as compensation for additional costs that may arise in specific situations.

In each case, the *IESO* must recover the amounts paid to the *generators* or other service provider by charging purchasers of electricity a surcharge (uplift).

The following is a description of the specific payments to service providers for *ancillary services* and other supplies and their HST treatment:

1. **Congestion Management Settlement Credit for Energy (*charge type 105*)**
 - Congestion Management Settlement Credit for 10 Minute Spinning Reserve (*charge type 106*)**
 - Congestion Management Settlement Credit for 10 Minute Non-Spinning Reserve (*charge type 107*)**
 - Congestion Management Settlement Credit for 30 Minute Operating Reserve (*charge type 108*)**

These are payments by the *IESO* to suppliers to compensate them where they have offered in electricity, or reserves, at a price, at or below the market clearing price, but where the *IESO* has instructed them not to supply electricity into the *IESO-controlled grid* for system *reliability* reasons. Alternatively, these payments may be made to loads not to withdraw electricity from the *IESO-controlled grid* (constrained-off) or requiring them to withdraw electricity (constrained-on).

These are considered to be supplies of intangible personal property (IPP) for use in Canada. Consequently, they are subject to HST, when paid to *market participants* in Canada or the USA.

2. Outage Cancellation/Deferral Settlement Credit (*charge type 114*)

This item refers to situations where the *IESO* pays a supplier for cancelling or deferring a *planned outage* in order to continue to supply electricity. For example, a *generator* may have scheduled with the *IESO* to have an *outage* to perform routine maintenance, but for system *reliability* reasons, the *IESO* has directed the *generator* to remain on-line and provide electricity into the *IESO-controlled grid*. The payment is in effect an add-on to the price paid to the *generator* for the electricity. This payment is available only to *generators* located in Ontario.

This is considered to be a surcharge paid for the electricity supplied by the *generator*, and is therefore subject to HST.

3. Unrecoverable Testing Costs Credit (*charge type 115*)

In certain circumstances the *IESO* will compensate a *generator* for unrecoverable costs it incurred for testing its systems at the *IESO*'s request.

These payments to suppliers will be subject to HST, when paid to *market participants* in Canada or the USA.

4. Timeline Reliability Maintenance Credit (*charge type 116*)

In certain situations, for system *reliability* reasons, the *IESO* may limit the amount of *energy* or *ancillary services* that a *market participant* may supply into, or withdraw from, the *IESO-controlled grid*. In these instances, the *IESO* will compensate the *market participant* for financial losses suffered as a result of the limitation being imposed.

As in the case of the Congestion Management *settlement* credits, these payments to *market participants* are considered to be payments for intangible personal property, and are subject to HST, when paid to *market participants* in Canada or the USA.

5. Emergency Energy Credit (*charge type 117*)

In the event of an *emergency* situation, the *IESO* may be required to purchase electricity from suppliers. Where the vendor is a GST/HST registrant, the payment for *energy* under this *charge type* would be subject to tax in the same manner as other purchases of *energy*. However, where the vendor is a non-resident that is not registered for the GST/HST, HST will not apply on the purchase of the electricity from the vendor, but the federal portion of the HST (5%) will be payable to CBSA on the importation.

6. Station Service Reimbursement Credit (*charge type 119*)

This credit is to reimburse Ontario *generators* for any uplift charges associated with *energy* withdrawals they make where the *energy* withdrawal is specifically tied to the operation of the *generation facility* while it is a net producer of *energy*. The credit is subject to HST.

7. Intertie Offer Guarantee Settlement Credit – Energy (*charge type 130*)

Day-Ahead Intertie Offer Guarantee Settlement Credit (*charge type 1130*)

Intertie Offer Guarantee Reversal (*charge type 1137*)

NOTE: These *charge types* expire October 11, 2011. For historical purposes, *charge type* details have been moved to Appendix A.

8. Demand Response Credit (*charge type 134*)

NOTE: This program expired April 30, 2010. For historical purposes, *charge type* details have been moved to Appendix A.

9. 10-Minute Spinning Reserve Market Settlement Credit (*charge type 200*)**10-Minute Non-spinning Reserve Market Settlement Credit (*charge type 202*)****30-Minute Operating Reserve Market Settlement Credit (*charge type 204*)**

These payments for operating *reserve* are guarantees by suppliers that they will be able to supply the *IESO-controlled grid* with a specified quantity of *energy* in the event that they are called upon by the *IESO*.

These supplies are considered to be supplies of IPP for use in Ontario. Consequently, they are subject to HST when provided by all *market participants* (whether in Canada or the USA).

10. Black Start Capability Settlement Credit (*charge type 400*)

This is a guarantee to supply *energy* from a black start if called upon by the *IESO* and is available to Ontario *generators* only.

These supplies are considered to be supplies of IPP for use in Ontario and are subject to HST.

11. IESO-Controlled Grid Special Operations Credit (*charge type 410*)

These payments provide compensation to Ontario *market participants* when the activation of a *special protection system (SPS)* results in a loss of revenue. An example is compensation for a dispatchable *generation facility* that is tripped offline as a result of an activation of a *SPS*.

These supplies are considered to be supplies of IPP for use in Ontario and are subject to HST.

12. Reactive Support and Voltage Control Settlement Credits

- Incremental Loss Settlement Credit (*charge type 1401*)
- Hourly Condense System Constraints Settlement Credit (*charge type 1402*)
- Speed-no-load Settlement Credit (*charge type 1403*)
- Condense Unit Start-up and OM&A Settlement Credit (*charge type 1404*)
- Hourly Condense Energy Costs Settlement Credit (*charge type 1405*)
- Monthly Condense Energy Costs Settlement Credit (*charge type 1406*)
- Condense Transmission Tariff Reimbursement Settlement Credit (*charge type 1407*)
- Condense Availability Cost Settlement Credit (*charge type 1408*)
- Monthly Condense System Constraints Settlement Credit (*charge type 1409*)
- Daily Condense Energy Costs Settlement Credit (*charge type 1417*)
- Incremental Loss Offset Settlement Amount (*charge type 1451*)

These items refer to payments for the provision of components of electricity to the *IESO-controlled grid* (e.g. voltairs to support the necessary level of voltage).

These are considered to be supplies of tangible personal property for use in Ontario and are available only to suppliers in Ontario. The credits are subject to HST.

13. Regulation Service Settlement Credit (*charge type 404*)

This item is a guarantee to provide *energy* to the *IESO-controlled grid* if requested and is available only to suppliers in Ontario. It is considered to be a supply of IPP for use in Ontario and is subject to HST.

14. Emergency Demand Response Program Credit (*charge type 406*)

NOTE: This program expired April 30, 2010. For historical purposes, *charge type* details have been moved to Appendix A.

15. Must Run Contract Settlement Credit (*charge type 500*)

This item refers to a premium payment for electricity paid to a particular *generator* located in Ontario, which as a result of its strategic location, has been required by the *IESO* to supply electricity into the *IESO-controlled grid*.

This payment constitutes a higher price paid by the *IESO* to the supplier for electricity and is subject to HST.

5.5 Surcharges to Price of Electricity

Net Energy Market Settlement Uplift (*charge type 150*)

This is the most prominent surcharge added to the amount charged for electricity sold to purchasers. It is calculated to offset costs borne by the *IESO*, such as line losses, and is allocated to *market participants* based on their withdrawals of *energy* from the *IESO-controlled grid*. Although it will commonly be a positive surcharge, it is possible that in certain circumstances, a negative surcharge will arise (in effect, reducing the cost of the electricity).

HST Treatment

This charge is considered to be a surcharge to the price of electricity and accordingly, the HST treatment will mirror the treatment of the basic charge for the electricity to purchasers – subject to HST if the *energy* is for use in Canada and zero-rated if the *energy* is sold to a *market participant* for export out of Canada.

Surcharges to Price of Electricity Corresponding to Specific Payments to Suppliers

The *IESO* also levies a variety of surcharges on the purchases of electricity by *market participants* to recover the cost of its payments to suppliers for *ancillary services* and other supplies (as set out in 5.4) and Guarantees (as set out in 5.8).

The following are the transaction items and *charge types* for these uplifts to the charges for electricity:

- Congestion Management Settlement Uplift (*charge type 155*);
- Outage Cancellation/Deferral Debit (*charge type 164*);
- Unrecoverable Testing Costs Debit (*charge type 165*);

- Tieline Reliability Maintenance Debit (*charge type 166*);
- Emergency Energy and EDRP Debit (*charge type 167*);
- Transmission Rights Market Shortfall Debit (*charge type 168*);
- Station Service Reimbursement Debit (*charge type 169*);
- Generation Cost Guarantee Recovery Debit (*charge type 183*);
- 10 Minute Spinning Market Reserve Hourly Uplift (*charge type 250*);
- 10 Minute Non-spinning Market Reserve Hourly Uplift (*charge type 252*);
- 30 Minute Operating Reserve Market Hourly Uplift (*charge type 254*);
- Black Start Capability Settlement Debit (*charge type 450*);
- Hourly Reactive Support and Voltage Control Settlement Debit (*charge type 451*);
- Monthly Reactive Support and Voltage Control Settlement Debit (*charge type 452*);
- Regulation Service Settlement Debit (*charge type 454*);
- IESO-Controlled Grid Special Operations Debit (*charge type 460*); and
- Must Run Contract Settlement Debit (*charge type 550*).

HST Treatment

These charges are considered to be surcharges to the price of electricity and accordingly, their HST treatment will mirror the treatment of the basic charge of electricity to purchasers:

- subject to HST if the *energy* is for use in Canada
- zero-rated if the *energy* is sold to a *market participant* for export out of Canada

The following uplift to the charge for electricity has expired as of April 30, 2010:

- Demand Response Debit (*charge type 184*)

NOTE: For historical purposes, *charge type* details have been moved to Appendix A

5.6 Debits Charged to Suppliers to the Market

Adjustments to Payments to Suppliers

There are a number of *charge types*, which are debits charged to suppliers into the market. In particular, if a supplier has been paid for providing a certain level of *operating reserve* (as described in section 5.4), and it is subsequently determined that the supplier could not have met its obligations if called upon, the *IESO* will debit the supplier to reflect the reduced amount of reserves actually provided over the period.

The following are the *charge types* for these debits:

- 10 Minute Spinning Market Reserve Shortfall Debit (*charge type* 251);
- 10 Minute Non-Spinning Market Reserve Shortfall Debit (*charge type* 253); and
- 30 Minute Operating Reserve Market Shortfall Debit (*charge type* 255).

For HST purposes, the above debits are considered to be downward adjustments to the amounts previously paid to the suppliers for supply of these services, and are subject to the same HST treatment as the original payments.

In addition, if a specific supplier is determined to have been paid an excessive price as a result of the supplier's use of its local market power, it may be debited an amount under the following *charge type*:

- Local Market Power Debit (*charge type* 120)

The Local Market Power Debit is subject to HST, which mirrors the tax treatment of the original sale of electricity into the *IESO-controlled grid*:

- all sales by *market participants*, including those made by non-resident *market participants* will be subject to HST.

A *dispatchable load market participant* is not entitled to congestion management *settlement* credits (CMSC) where these are the result of the *facility's* own equipment or operational limitations. The *IESO* would completely recover such payments after the fact from the applicable *dispatchable loads* through the following *charge type*:

- Self-Induced Dispatchable Load CMSC Clawback (*charge type* 1050)

This clawback applies only to *dispatchable loads* in Ontario and is subject to HST.

Finally, if a *market participant* fails to import or export their *energy* as scheduled they will incur a failure charge. The *charge types* are as follows:

- Real-time Import Failure Charge (*charge type* 135); and
- Real-time Export Failure Charge (*charge type* 136).

Failure charges are considered to be adjustments to the amounts previously paid to / collected from importers and exporters of *energy*. They will be subject to the same HST treatment as the original payments:

Purchases by *market* participants:

- subject to HST if the *energy* is for use in Canada
- zero-rated if the *energy* is sold to a *market* participant for export out of Canada

Sales by *market* participants:

- subject to HST, including those made by non-resident *market* participants

5.7 Rebates to Electricity Purchasers

As noted in Section 5.5, to recover the cost of payments for *ancillary services* and other supplies, the *IESO* levies a variety of surcharges on the purchases of electricity by *market participants*. However, where the *IESO* recoups some of its costs through adjustments to payments to suppliers (as described in Section 5.6), the *IESO* will pass on the savings to purchasers through rebates.

The following are the *charge types* associated with these rebates:

- 10 Minute Spinning Market Reserve Shortfall Rebate (*charge type* 201);
- 10 Minute Non-Spinning Market Reserve Shortfall Rebate (*charge type* 203);
- 30 Minute Operating Reserve Market Shortfall Rebate (*charge type* 205); and
- Intertie Failure Charge Rebate (*charge Type* 186).

These rebates are considered to be downward adjustments to the amounts previously charged to the purchasers of electricity. For HST purposes, the rebates are subject to the same HST treatment as the original purchase of electricity:

- subject to HST if the *energy* is for use in Canada
- zero-rated if the *energy* is sold to a *market participant* for export out of Canada

Other Rebates

1. TR Clearing Account Credit (*charge type* 102)

Under the *Market Rules*, the *IESO* may, as circumstances permit, distribute funds from the *Transmission Rights (TR) Clearing Account* on a pro-rata basis to purchasers of electricity. The *TR Clearing Account Credit* is considered to be a reduction in the consideration paid for electricity by purchasers. Consequently, this credit is subject to HST in the same manner as the original purchases of *energy*:

- subject to HST if the *energy* is for use in Canada
- zero-rated if the *energy* is sold to a *market participant* for export out of Canada

2. Emergency Energy Rebate (*charge type* 118)

In the event that the *IESO* supplies electricity to a neighboring jurisdiction that is in an *emergency* situation, the *IESO* will *distribute* the proceeds of the sale on a pro-rata basis to purchasers of

electricity. The tax status of the *Emergency Energy Rebate* is the same as the *market participants'* original purchases of *energy*:

- subject to HST if the *energy* is for use in Canada
- zero-rated if the *energy* is sold to a *market participant* for export out of Canada

3. Local Market Power Rebate (*charge type 170*)

Where the *IESO* collects an amount from a *market participant* under *charge type 120* (Local Market Power Debit), it will *distribute* the proceeds collected to *market participants* as a rebate, based on their purchases in the previous month. The tax status of this rebate is the same as the *market participants'* original purchases of *energy*:

- subject to HST if the *energy* is for use in Canada
- zero-rated if the *energy* is sold to a *market participant* for export out of Canada

5.8 Guarantees

Generation Cost Guarantee Payment – (*charge type 133*) and

These are payments by the *IESO* to provide a market incentive and mechanism for available spare generation to be on-line. There would be a guarantee of recovery of start-up and minimum generation costs for domestic *generation facilities* participating in this voluntary program. The *IESO* compares the sum of revenues of the *market participant's combined guaranteed costs* with the sum of market revenues. If the sum of market revenues is less than the *combined guaranteed costs*, the *IESO* will pay the *market participant* the difference, thus guaranteeing the recovery of those costs for the *generation facility*.

HST Treatment

This is considered to be a payment for intangible personal property (IPP) for use in Ontario and will be subject to HST, when paid to *market participants* whether in Canada or the USA. However, for technical reasons this program is only available to Ontario *generators*.

5.9 Renewable Integration

The *IESO* has established forecasting services as a procured service to accommodate *variable generation* from wind and solar resources. Forecasting services relating to *variable generation* implements one of the key principles of the *IESO's* "Renewable Integration Initiative" – integrate the influx of renewable generation into the *IESO-administered markets*.

There are two *charge types* relating to these transactions:

- Forecasting Service Settlement Amount (*charge type 1600*); and
- Forecasting Service Balancing Amount (*charge type 1650*).

Costs paid to forecasting entities are treated as a procured service charge and are made under *charge type* 1600. Load and export customers are charged an uplift charge under *charge type* 1650.

HST Treatment

Payments to forecast entities under *charge type* 1600:

US Vendor

- When the service is rendered outside Canada, and the US vendor is not a GST/HST registrant, *charge type* 1600 will not be subject to tax
- If the US vendor is a GST/HST registrant, *charge type* 1600 will be subject to HST

Canadian Vendor

- When the service is rendered in Canada, *charge type* 1600 will be subject to HST

The uplift charge under *charge type* 1650 is considered to be a surcharge to the price of electricity and accordingly, the HST treatment will mirror the treatment of the basic charge of electricity to purchasers:

- subject to HST when the *energy* is for use in Canada
- zero-rated when the *energy* is sold to a *market participant* for export out of Canada

5.10 Day-Ahead Commitment Process (DACP)

The Day-Ahead Commitment Process (DACP) was introduced in June 2006 to address *reliability* concerns. The DACP allows the commitment of certain dispatchable *generators* and the economic scheduling of imports, exports and linked wheels in the day-ahead time frame, in return for a financial guarantee. It is designed to enhance the efficiency of the electricity market through the advanced scheduling and commitment of resources required to provide electricity on a daily basis. DACP provides:

- A dependable view of the next day's available supply and anticipated *demand*;
- A 24-hour optimization process that minimizes the cost of generation and reduces uplift charges through improved efficiency in unit commitment;
- Accurate unit commitment to allow *generators* to react appropriately;
- An opportunity for *market participants* to use their *energy*-limited resources to most effectively meet *reliability* needs;
- An incentive to imports, exports and linked wheels that have been scheduled day-ahead to flow in real-time; and
- A way to mitigate the financial risk of commitment for importers and *generators*.

5.10.1 Day-Ahead Production Cost Guarantee:

The following *charge types* have been created to settle payments to *generators*:

- Day-Ahead Fuel Cost Compensation Credit (*charge type* 1138)

If for reliability purposes the *IESO* is required to decommit a *generator* before the *minimum run time* has been reached as committed in the DACP, the *generator* can claim compensation for fuel not expended by the *facility*

- Day-Ahead Production Cost Guarantee Payment – Component 1 and Component 1 Clawback (*charge type* 1500)
A credit allowing *generators* to recover any shortfall in payment on the delivered real-time *dispatch* of the day-ahead constrained schedule based upon the real-time revenue received for that amount of *energy* in comparison with the costs as represented in the *generator's* day-ahead *offer*. Also includes clawback for the portion up to *minimum loading point* of the Day-Ahead Production Cost Guarantee Component 1 for the constraint in Day 1 to complete the *minimum generation block run-time* from Day 0.
- Day-Ahead Production Cost Guarantee Payment – Component 2 (*charge type* 1501)
A credit / charge allowing *generators* to recover the cost of arranging the delivery (where the real-time *offer* is less than the day-ahead *offer*), or subtract any gain (where the real-time *offer* is greater than the day-ahead *offer*) for the portion of day-ahead constrained schedule that is not implemented in the real-time *dispatch* schedule as a result of economic selection.
- Day-Ahead Production Cost Guarantee Payment – Component 3 and Component 3 Clawback (*charge type* 1502)
Applies to a scheduled day-ahead *generator* for the income received from real-time congestion management *settlement* credits (CMSC) for the *generator's* day-ahead constrained schedule delivered in real-time. Also includes the CMSC clawed back up to *minimum loading point* for the constraint on Day 1 to complete the *minimum generation block run-time* from Day 0.
- Day-Ahead Production Cost Guarantee Payment – Component 4 (*charge type* 1503)
Applies to a scheduled day-ahead *generator* for the income received from real-time *operating reserve* for the *generator's* day-ahead constrained schedule.
- Day-Ahead Production Cost Guarantee Payment – Component 5 (*charge type* 1504)
A credit allowing *generators* to recover the costs incurred to bring the *generator* up to *minimum loading point*.
- Day-Ahead Production Cost Guarantee Reversal (*charge type* 1505)
Appears on *settlement statements* when the *settlement amount* for a *generator's* 'as-offered' costs incurred to achieve synchronization, ramp output to Day-Ahead constrained schedule and then to run for no less than the *minimum generation block run-time* is less than \$0 (i.e. a charge).
- Day-Ahead Generator Withdrawal Charge (*charge type* 1510)
Applies to a scheduled committed day-ahead transaction that is withdrawn and (a) does not have a 'bona-fide or legitimate' reason for the failure, and (b) fails a price test.

HST Treatment

These are considered to be payments for intangible personal property (IPP) for use in Ontario and are subject to HST, when paid to *market participants* whether in Canada or the USA. However, for technical reasons, this program is available only to Ontario *generators*.

Note: *charge types 1500 through 1505, 1510* replace *charge type 1133 – Day-Ahead Cost Guarantee Payment*

5.10.2 Intertie Offer Guarantee and Day-Ahead Failure Charges

Intertie Offer Guarantee (IOG) is paid to suppliers of imported *energy* to compensate them for net profit losses. These losses arise because of discrepancies between the (a) accepted *offer* (import) prices from the day-ahead *pre-dispatch of record* or the real-time *pre-dispatch schedule*, and (b) the provisional *market prices* from the day-ahead or the *real-time market* schedules.

- Intertie Offer Guarantee Settlement Credit – Energy (*charge type 1131*)

Compensation for cumulative, hourly financial losses as implied by the market schedule for imports of *energy* at an *intertie metering point*.

Charge type 1131 replaces the following *charge types*:

- *charge type 130 – Intertie Offer Guarantee Settlement Credit-Energy;*
- *charge type 1130 – Day-Ahead Intertie Offer Guarantee Settlement Credit; and*
- *charge type 1137 – Intertie Offer Guarantee Reversal.*

If a *market participant* fails to import or export their *energy* as scheduled, they will incur a failure charge.

- Day-Ahead Linked Wheel Failure Charge (*charge type 1134*)
Applies to scheduled day-ahead linked wheel that does not flow in real-time and does not have a 'bona-fide or legitimate' reason for the failure.
- Day-Ahead Import Failure Charge (*charge type 1135*)
Applies to a scheduled day-ahead import that does not get scheduled in *pre-dispatch* and does not have a 'bona-fide or legitimate' reason for the failure.
- Day-Ahead Export Failure Charge (*charge type 1136*)
Applies to a scheduled day-head export that does not flow in *pre-dispatch* and does not have a 'bona-fide or legitimate' reason for the failure.

HST Treatment

The payment to suppliers under *charge type 1131* will mirror the tax treatment of the suppliers' sale of *energy* into the *IESO-controlled grid*. They will be subject to HST, including sales by non-resident *market participants*.

Failure charges are considered to be adjustments to the amounts previously paid to / collected from importers and exporters of *energy*. They will be subject to the same HST treatment as the original payments:

Purchases by *market participants*:

- subject to HST if the *energy* is for use in Canada
- zero-rated if the *energy* is sold to a *market participant* for export out of Canada

Sales by *market participants*:

- subject to HST, including those made by non-resident *market participants*

Exception: Day-Ahead Linked Wheel Failure Charge (*charge type* 1134)

The Day-Ahead Linked Wheel Failure Charge applies to a scheduled day-ahead linked wheel that does not flow in real-time and does not have a ‘bona-fide or legitimate’ reason for the failure. As this *charge type* looks at both imports and exports together and can only be settled as either an import or an export, not both, for HST purposes, *charge type* 1134 will be subject to HST (for all *market participants* whether in Canada or the USA).

5.10.3 Day-Ahead Uplift Charge and Rebate

The *IESO* will levy a variety of uplift charges on the purchases of electricity by *market participants* to recover the cost of its payments to suppliers under the Day-Ahead Commitment Process.

- Day-Ahead Production Cost Guarantee Recovery Debit (*charge type* 1550)
Recovers cost of the real-time and day-ahead generation cost guarantees based on pro-rata share of Allocated Quantity of Energy Withdrawn (AQEW) / Scheduled Quantity of Energy Withdrawn (SQEW)
- Day-Ahead Fuel Cost Compensation Debit (*charge type* 1188)

Proceeds collected by the *IESO* from *generators* under the Day-Ahead Generator Withdrawal Charge (*charge type* 1510) will be distributed to all *market participants* based on their pro-rata share of Allocated Quantity of Energy Withdrawn / Scheduled Quantity of Energy Withdrawn through the following *charge type*:

- Day-Ahead Generator Withdrawal Rebate (*charge type* 1560)

HST Treatment

The Day-Ahead Production Cost Guarantee Recovery Debit (*charge type* 1550) recovers costs from the Day-Ahead Production Cost Guarantees (*charge types* 1500 through 1505).

For HST purposes, *charge types* 1188 and 1550 are considered to be surcharges to the price of electricity and accordingly, their HST treatment will mirror the treatment of the basic charge of electricity to purchasers:

- subject to HST if the *energy* is for use in Canada
- zero-rated if the *energy* is sold to a *market participant* for export out of Canada

The Day-Ahead Generator Withdrawal Rebate (*charge type* 1560) will be subject to HST according to the basic charge of electricity to purchasers:

- subject to HST if the *energy* is for use in Canada
- zero-rated if the *energy* is sold to a *market participant* for export out of Canada

– End of Section –

6. Financial Market

In addition to administering the *physical markets for energy and ancillary services*, the *IESO* will administer a financial market: the *Transmission Rights Market*.

6.1 Transmission Rights Market

There are two *charge types* for transactions in the *Transmission Rights* market:

- Transmission Rights Auction Settlement Debit (*charge type* 52); and
- Transmission Rights Settlement Credit (*charge type* 104).

In its operation of the *Transmission Rights market*, on a periodic basis, the *IESO* will conduct an auction of *Transmission Rights*. Successful bidders will obtain *Transmission Rights* for a period of time (typically 1 month or more) that will entitle the holder to receive a payment from the *IESO* equal to the difference between the *hourly Ontario energy price* and a neighboring jurisdiction (e.g., Ontario/ New York, Ontario/ Quebec, etc.)

The auction payment that the *market participant* makes to the *IESO* for the *Transmission Right* is the Transmission Rights Auction Settlement Debit. The payment that the *IESO* makes to the *Transmission Rights holder*, equal to the price differential between the two jurisdictions, is the Transmission Rights Settlement Credit.

HST Treatment

The CRA has ruled that the transactions in the *Transmission Rights market* constitute “financial services” for purposes of the HST. Consequently, both of these *charge types* are exempt from HST.

– End of Section –

7. Transmission Services

Transactions and related *charge types* for *transmission services* fall into two categories:

- Payments from the *IESO* to *transmitters*; and
- Charges from the *IESO* to purchasers of *transmission services* (i.e., purchasers of electricity).

7.1 Payments to Transmitter from the IESO

There are four transaction/*charge types* relating to payments by the *IESO* to *transmitters*:

- Network Service Credit (*charge type* 600);
- Line Connection Service Credit (*charge type* 601);
- Transformation Connection Service Credit (*charge type* 602); and
- Export Transmission Service Credit (*charge type* 603).

The first three of these are charges that relate to transmissions exclusively within Ontario. The Export Transmission Service Credit applies to transmissions from Ontario across an *intertie*, either to an adjoining province (Quebec or Manitoba) or to the USA.

HST Treatment

The *Market Rules* state that these payments to the *transmitter* are for the use of the *transmitter's facilities*. As the *facilities* are exclusively located in Ontario, each of the above payments is subject to HST.

7.2 Payments to the IESO from Energy Purchasers

There are four transaction/*charge types* relating to payments to the *IESO* from *energy* purchasers corresponding to the four *charge types* described above:

- Network Service Charge (*charge type* 650);
- Line Connection Service Charge (*charge type* 651);
- Transformation Connection Service Charge (*charge type* 652); and
- Export Transmission Service Charge (*charge type* 653).

Based on the *Market Rules*, these payments to the *IESO* by purchasers of *energy* are for *transmission services*.

HST Treatment

The first three of these charges relate to *transmission services* exclusively within Ontario, and are therefore subject to HST. The HST applies to the Export Transmission Service Charge with respect to transmission to other provinces and it is zero-rated where the transmission is to the USA. Note that where a transmission to the USA is routed through another province, the Export Transmission

Service Charge applicable to the transmission across the inter-provincial *intertie* is zero-rated, as the ultimate destination of the transmission is the USA.

– End of Section –

8. Legislated Charges/Rebates

8.1 OPGI Mitigation Rebate Settlements

NOTE: This program expired April 30, 2009. For historical purposes, *charge type* details have been moved to Appendix A.

8.2 Debt Retirement Charge/ Credit

There are two *charge types* relating to these transactions:

- Debt Retirement Charge (*charge type* 752); and
- Debt Retirement Credit (*charge type* 702).

The Debt Retirement Charge is a legislated charge, which is to pay off the stranded debt associated with Ontario Hydro. It is imposed on Ontario-resident *market participants* purchasing electricity in Ontario. The *IESO* will add this as a surcharge to the price charged for electricity to Ontario *market participants*. The *IESO* will remit the amount collected to the Ontario Government (Debt Retirement Credit).

HST Treatment

The CRA has ruled that the Debt Retirement Charge forms part of the consideration for the supply of electricity, and would therefore be subject to HST according to the place of supply rules. The Debt Retirement Credit is not subject to HST as it is not a consideration for a supply.

8.3 Rural or Remote Rate Protection (RRRP) Program

There are two *charge types* relating to these transactions:

- Rural and Remote Settlement Debit (*charge type* 753); and
- Rural and Remote Settlement Credit (*charge type* 703).

The Rural or Remote Rate Protection (RRRP) program is a surcharge on all electricity purchasers in Ontario. It is used to fund the Rural and Remote Settlement Credit, which is paid to *distributors* in rural and remote areas to subsidize their purchases of electricity. Hence, the price of electricity sold to these *distributors* will be reduced from that which it would otherwise have been.

The RRRP program provides a rate subsidy to eligible consumers in rural or remote areas, and has been funded by ratepayers. Pursuant to certain amendments to the *Ontario Energy Board Act, 1998* that resulted from the *Ontario Fair Hydro Plan Act, 2017* coming into force, funding for the program will be mostly shifted from ratepayers to money appropriated by the Legislature. The Ontario Energy Board has set a new lower charge to ratepayers that pay for the cost of the program. Hydro One will submit to the *IESO* the amounts to be reimbursed and the claimed amounts will be paid through the existing *charge type* 703. This will be balanced by a charge to the Ministry of Energy (MOE) under the new *charge type* 1753, "MOE - Rural and Remote Settlement Debit".

The following additional *charge type* has been created to settle this program:

- MOE - Rural and Remote Settlement Debit (*charge type* 1753).

Through the MOE - Rural and Remote Settlement Debit under *charge type* 1753, the *IESO* will recover the funds from the Ministry of Energy.

HST Treatment

The CRA has ruled that the Rural and Remote Settlement Debit is a surcharge on the price of electricity and is subject to HST. The Rural and Remote Settlement Credit reduces the price of electricity on which the HST is charged. Consequently, the credit will also be treated as being subject to HST.

Charge type 1753 is an amount recovered from the Ministry of Energy and, as such, it is not subject to HST.

8.4 Fixed Energy Rate Settlement/Balancing Amount

NOTE: The provisions of this section do not apply for any period beginning after March 31, 2005. For historical purposes, *charge type* details have been moved to Appendix A.

8.5 Fixed Wholesale Charge Rate Settlement/ Balancing Amount

NOTE: The provisions of this section do not apply for any period beginning after March 31, 2005. For historical purposes, *charge type* details have been moved to Appendix A.

8.6 Regulated Price Plan Settlement Amount

Pursuant to the Ontario Government's legislative amendments in Bill 100, the following *charge types* replaced the Fixed Energy Rate Settlement/Balancing Amount 140 and 190 effective January 1, 2005:

- Regulated Price Plan Settlement Amount (*charge type* 142); and
- Regulated Price Plan Balancing Amount (*charge type* 192).

The Regulated Price Plan Settlement Amount is an amount, either positive or negative, charged or paid to local *distributors* to fix the price for *energy* at the Regulated Price Plan (RPP) rate, as required by Bill 100. It represents the difference between the amount charged to Local Distribution Companies ("LDCs") for electricity consumed by low-volume and designated *consumers* calculated at *market prices*, and the amount calculated at the RPP.

The Regulated Price Plan Balancing Amount can be either a payment by the *Ontario Power Authority* ("OPA") to the *IESO* to compensate it for payments it makes to local *distributors* under *charge type* 142 where market charges are more than the RPP, or a payment by the *IESO* to the OPA to pass on amounts collected from local *distributors* under this *charge type*, where market charges are less than the RPP.

HST Treatment

Charge type 142 is, in effect, an adjustment, either positive or negative to the price of electricity sold to Ontario *market participants*. Consequently, it is subject to HST.

The payment to or from the OPA under *charge type* 192 is not subject to HST as it is not a payment for a supply.

8.7 Regulated Price Plan Retailer Settlement/Balancing Amount

Pursuant to the Ontario Government's legislative amendments in Bill 100, the following *charge types* were added for *settlement of retailer* claims:

- Regulated Price Plan Retailer Settlement Amount (*charge type* 149); and
- Regulated Price Plan Retailer Balancing Amount (*charge type* 199).

The Regulated Price Plan Retailer Settlement Amount is an amount, either positive or negative, charged or paid to local *distributors* that in turn is charged or paid to a participating *retailer*. It represents the difference between the amount charged to *retailers* for electricity consumed by low-volume and designated *consumers* calculated at *market prices*, and the amount calculated at the designated contract price.

The Regulated Price Plan Retailer Balancing Amount can be either a payment by the *OPA* to the *IESO* to compensate it for payments it makes to local *distributors* under *charge type* 149 where designated contract charges are more than the market charges, or a payment by the *IESO* to the *OPA* to pass on amounts collected from local *distributors* under this *charge type*, where designated contract charges are less than the market charges.

HST Treatment

Charge type 149 is, in effect, an adjustment, either positive or negative to the price of electricity sold to Ontario *market participants*. Consequently, it is subject to HST.

The payment to or from the *OPA* under *charge type* 199 is not subject to HST as it is not a payment for a supply.

8.8 NUG Contract Adjustment Settlement Amount

Pursuant to the Ontario Government's legislative amendments in Bill 100, the following *charge types* were added for *settlement of Ontario Electricity Financial Corporation ("OEFEC") Non-utility Generator ("NUG")* claims:

- NUG Contract Adjustment Settlement Amount (*charge type* 143); and
- NUG Contract Adjustment Balancing Amount (*charge type* 193).

The Non-utility Generator (NUG) Contract Adjustment Settlement Amount is an amount, either positive or negative, charged or paid to *OEFEC*, as required by Bill 100. It represents the difference between the amount paid to *OEFEC* for electricity produced by NUGs calculated at *market prices*, and the amount calculated at the NUG contracted amounts.

The NUG Contract Adjustment Balancing Amount can be either a payment by the *OPA* to the *IESO* to compensate it for payments it makes to *OEFEC* under *charge type* 143 where NUG contract amounts are more than the market payments, or a payment by the *IESO* to the *OPA* to pass on amounts collected from *OEFEC* under this *charge type*, where NUG contract amounts are less than the market payments.

HST Treatment

Charge type 143 is an adjustment, either positive or negative, to the price of electricity acquired from the *OEFEC*. Consequently, it is subject to HST.

The payment to or from the *OPA* under *charge type* 193 is not subject to HST as it is not a payment for a supply.

8.9 Regulated Nuclear Generation Adjustment/Balancing Amount

Pursuant to the Ontario Government's legislative amendments in Bill 100, the following *charge types* were added for *settlement* of Ontario Power Generation ("OPG") prescribed nuclear assets:

- Regulated Nuclear Generation Adjustment Amount (*charge type* 144); and
- Regulated Nuclear Generation Balancing Amount (*charge type* 194).

The Regulated Nuclear Generation Adjustment Amount is an amount, either positive or negative, charged or paid to OPG, as required by Bill 100. It represents the difference between the amount paid to OPG for electricity produced by baseload nuclear plants calculated at *market prices*, and the amount calculated at the regulated nuclear generation rate.

The Regulated Nuclear Generation Balancing Amount can be either a payment by the *OPA* to the *IESO* to compensate it for payments it makes to OPG under *charge type* 144 where regulated nuclear generation amounts are more than the market payments, or a payment by the *IESO* to the *OPA* to pass on amounts collected from OPG under this *charge type*, where regulated nuclear generation amounts are less than the market payments.

HST Treatment

Charge type 144 is an adjustment, either positive or negative, to the price of electricity acquired from the OPG. Consequently, it is subject to HST.

The payment to or from the *OPA* under *charge type* 194 is not subject to HST as it is not a payment for a supply.

8.10 Regulated Hydroelectric Generation Adjustment/Balancing Amount

Pursuant to the Ontario Government's legislative amendments in Bill 100, the following *charge types* were added for *settlements* OPG prescribed hydroelectric assets:

- Regulated Hydroelectric Generation Adjustment Amount (*charge type* 145); and
- Regulated Hydroelectric Generation Balancing Amount (*charge type* 195).

The Regulated Hydroelectric Generation Adjustment Amount is an amount, either positive or negative, charged or paid to OPG, as required by Bill 100. It represents the difference between the amount paid to OPG for electricity produced by certain baseload hydroelectric plants calculated at *market prices*, and the amount calculated at the regulated hydroelectric generation rate.

The Regulated Hydroelectric Generation Balancing Amount can be either a payment by the *OPA* to the *IESO* to compensate it for payments it makes to OPG under *charge type* 145 where regulated hydroelectric generation amounts are more than the market payments, or a payment by the *IESO* to the *OPA* to pass on amounts collected from OPG under this *charge type*, where regulated hydroelectric generation amounts are less than the market payments.

HST Treatment

Charge type 145 is an adjustment, either positive or negative, to the price of electricity acquired from the OPG. Consequently, it is subject to HST.

The payment to or from the *OPA* under *charge type 195* is not subject to HST as it is not a payment for a supply.

8.11 Global Adjustment Settlement/Balancing Amount

Pursuant to the Ontario Government's legislative amendments in Bill 100, the following *charge types* were added for *settlement* of the Global Adjustment:

- Global Adjustment Settlement Amount (*charge type 146*); and
- Global Adjustment Balancing Amount (*charge type 196*).

The Global Adjustment (GA) accounts for the difference between the *market price* and rates paid to regulated and contracted *generators* as well as conservation and *demand* management programs. It covers the cost of building new plants, paying regulated rates to baseload *generators* and greening the power system through conservation, *demand* response and cleaner generation sources.

Ontario Regulation 398/10 made under the *Electricity Act, 1998*, came into force and amended Ontario Regulation 429/04 in October 2010, significantly changing the Global Adjustment by creating two classes of *market participants* with different approaches to the distribution of the global adjustment costs. Further, Ontario Regulation 398/10 added the costs related to *distributor* developed conservation and *demand* management programs to the Global Adjustment pool.

Effective January 1, 2011, *charge type 146* has been retired and replaced with the following new *charge types*:

- Class A Global Adjustment Settlement Amount (*charge type 147*); and
- Class B Global Adjustment Settlement Amount (*charge type 148*).

The Class A and B Global Adjustment Settlement Amount (*charge types 147* and *148*) are an adjustment, either positive or negative, to the price charged for *energy* to *market participants* with load in Ontario. The total GA for a month is the sum of all adjustments, positive or negative, of *charge types 193, 194, 195, 1380, 1381, 1382, 1383, 1384, 1385, 1386, 1390, 1391, 1392, 1393, 1394, 1395, 1396, 1397, 1398, 1450, 1460, 1461, 1462, 1464, 1466, 1468* and *1469*. The portion of the GA allocated to each *market participant* with load in Ontario is determined by pro-rating the sum of all these adjustments across purchases of *energy* by *market participants*.

The Global Adjustment Balancing Amount (*charge type 196*) is an amount, either positive or negative, which is paid to (or received from) the *OPA*, and which is determined as the opposite sign of the sum of all the adjustments, positive or negative, described in *charge types 147* and *148*.

Charge type 197 – Global Adjustment – Special Programs Balancing Amount has been introduced to balance the portion of the Global Adjustment that relates to Special Programs not administered by the *OPA*.

Charge type 1426 and 1476 are created to allocate IESO labour used to support global adjustment related activities including Save ON Energy and other related initiatives.

The following *charge types* were added for *settlement* of the Global Adjustment:

- Global Adjustment Mechanism Labour (*charge type* 1426); and
- Global Adjustment Mechanism Labour Balancing Amount (*charge type* 1476).

HST Treatment

Charge types 147 and 148 are an adjustment, either positive or negative, to the price of electricity sold to Ontario *market participants*. Consequently, they are subject to HST.

The payment to or from the *OPA* under *charge type* 196 is not subject to HST as it is not a payment for a supply.

Charge type 197 is a payment to or from the *IESO* and is not subject to HST as it is not consideration for a supply.

Charge type 1426 and 1476 for Global Adjustment Mechanism Labour are not subject to HST.

8.12 OPA Administration Credit/Charge

NOTE: The *charge types* in this section are no longer in use. Pursuant to the *Ontario Energy Board's* decision and order EB-2015-0275, the *OPA* usage fee was discontinued and a new *IESO* usage fee was approved effective January 1, 2017, therefore the *OPA* Administration Credit and the *OPA* Administration Charge will no longer be utilized as of January 1, 2017. This *OEB* decision and order was in response to transitional issues concerning the *OPA-IESO* merger (January 1, 2015). As such, *charge types* 704 and 754 will no longer be used.

Pursuant to the Ontario Government's legislative amendments in Bill 100, the following *charge types* were added for *settlement* of the *OPA* administration fee:

- *OPA* Administration Credit (*charge type* 704); and
- *OPA* Administration Charge (*charge type* 754).

The *OPA* Administration Credit is the total of all amounts collected under *charge type* 754 which is payable to the Ontario Power Authority.

The *OPA* Administration Charge is a surcharge to the price of *energy* charged to Ontario *market participants* based on their purchases of electricity. It is an amount determined by the *OEB* estimated to cover the costs of operation of the *OPA*.

HST Treatment

Charge type 754 is a surcharge on the price of electricity to *IESO market participants* and is subject to HST. The credit paid to *OPA* under *charge type* 704 is a payment for a supply of administrative services by the *OPA* and is subject to HST.

8.13 OPA Contract Adjustment Settlement/Balancing Amount

The *OPA* has entered into procurement contracts with certain suppliers for Clean Energy Supply, Renewable Energy Supply, and Demand Response to assist the government in achieving its goals in these clean *energy*, new supply and conservation initiatives. The following *charge types* were added:

- OPA Contract Adjustment Settlement Amount (*charge type* 1400); and
- OPA Contract Adjustment Balancing Amount (*charge type* 1450).

The OPA Contract Adjustment Settlement Amount Charge represents the difference between the amount paid to the supplier for electricity produced calculated at *market prices*, and the amount calculated at the contract price; or for Demand Response contracts it represents the contract payments made to the supplier of *demand* response services. It can be either positive or negative, charged or paid to the *OPA* who will settle the contracts with the individual suppliers.

The OPA Contract Adjustment Balancing amount can be either a payment by the *OPA* to the *IESO* to compensate it for payments it makes for these contract adjustments, or a payment by the *IESO* to the *OPA* to pass on amounts collected under *charge type* 1400. The *OPA* would then be balanced out through the Global Adjustment.

HST Treatment

Charge type 1400 is viewed as an adjustment, either positive or negative, to the price of electricity paid to suppliers under these contracts. Consequently, it is subject to HST.

The payment to or from the *OPA* under *charge type* 1450 is not subject to HST as it is not consideration for a supply.

8.14 Renewable Energy Standard Offer Program Settlement/Balancing Amount

The Renewable Energy Standard Offer Program (RESOP) supports small renewable *energy* generating alternatives including Wind, Biomass, Small Hydro and Solar Photovoltaic embedded within a LDC. The *OPA* has entered into procurement contracts with certain suppliers to encourage *embedded generation* to participate in a variety of technologies and their respective applications. However, the LDCs settle these contracts with their *embedded generators*. The following *charge types* were added:

- Renewable Energy Standard Offer Program Settlement Amount (*charge type* 1410); and
- Renewable Energy Standard Offer Program Balancing Amount (*charge type* 1460).

The Standard Offer Program Settlement Amount Charge represents the difference between the amount paid to the supplier for electricity produced calculated at *market prices*, and the amount calculated at the contract price. It can be either positive or negative, charged or paid to the LDCs who will settle the contracts with the individual suppliers.

The Standard Offer Program Balancing Amount *charge type* 1460 can be either a payment by the *OPA* to the *IESO* to compensate it for payments it makes for this Renewable Energy Standard Offer Program, or a

payment by the *IESO* to the *OPA* to pass on amounts collected under *charge type* 1410. The *OPA* would then be balanced out through the Global Adjustment.

HST Treatment

Charge type 1410 is viewed as an adjustment, either positive or negative, to the price of electricity paid to suppliers under these contracts. Consequently, it is subject to HST.

The payment to or from the *OPA* under *charge type* 1460 is not subject to HST as it is not consideration for a supply.

8.15 Feed-in Tariff Program Settlement/Balancing Amount

The Feed-in Tariff program will support small renewable *energy* generating alternatives including Wind, Biomass, Small Hydro and Solar Photovoltaic. The *OPA* has entered into procurement contracts with certain suppliers to encourage renewable *generation facilities* and participation in a variety of technologies and in their respective applications. For *generators* embedded within a *distribution system*, the LDCs will settle these contracts with the *embedded generators*. The following *charge types* were added:

- Feed-in Tariff Program Settlement Amount (*charge type* 1412); and
- Feed-in Tariff Program Balancing Amount (*charge type* 1462).

The Feed-in Tariff Program Settlement Amount charge represents the difference between the amount paid to the supplier for electricity produced calculated at *market prices* and the amount calculated at the contract price. It can be either positive or negative, charged or paid to the LDCs who will settle the contracts with the individual suppliers.

The Feed-in Tariff Program Balancing Amount charge can be either a payment by the *OPA* to the *IESO* to compensate it for payments it makes for this Feed-in Tariff Program or a payment by the *IESO* to the *OPA* to pass on amounts collected under *charge type* 1412. The *OPA* would then be balanced out through the Global Adjustment.

HST Treatment

Charge type 1412 is viewed as an adjustment, either positive or negative, to the price of electricity paid to suppliers under these contracts. Consequently, it is subject to HST.

The payment to or from the *OPA* under *charge type* 1462 is not subject to HST as it is not consideration for a supply.

8.16 Hydroelectric Contract Initiative Settlement/Balancing Amount

The Hydroelectric Contract Initiative will support the existing small supply of clean, renewable hydroelectric generation. The *OPA* has entered into procurement contracts with qualified existing hydroelectric *generation facilities* to increase Ontario's supply of clean, renewable generation. For *generators* embedded within a *distribution system*, the LDCs will settle these contracts with the *embedded generators*. The following *charge types* have been added:

- Hydroelectric Contract Initiative Settlement Amount (*charge type* 1414); and
- Hydroelectric Contract Initiative Balancing Amount (*charge type* 1464).

The Hydroelectric Contract Initiative Settlement Amount charge represents the difference between the amount paid to the supplier for electricity produced calculated at *market prices* and the amount calculated at the contract price. It can be either positive or negative, charged or paid to the LDCs who will settle the contracts with individual suppliers.

The Hydroelectric Contract Initiative Balancing Amount charge can be either a payment by the *OPA* to the *IESO* to compensate it for payments it makes for this Hydroelectric Contract Initiative or a payment by the *IESO* to the *OPA* to pass on amounts collected under *charge type* 1414. The *OPA* would then be balanced out through the Global Adjustment.

HST Treatment

Charge type 1414 is viewed as an adjustment, either positive or negative, to the price of electricity paid to suppliers under these contracts. Consequently, it is subject to HST.

The payment to or from the *OPA* under *charge type* 1464 is not subject to HST as it is not consideration for a supply.

8.17 Clean Energy Standard Offer Program Settlement/Balancing Amount

The Clean Energy Standard Offer Program (CESOP) will support small clean *energy* generating alternatives including combined heat and power and electricity generated as a by-product of another process. Whether the primary fuel source is natural gas, under-utilized heat, or under-utilized *energy*, the intent is to encourage participation by a variety of technologies and their respective applications. Although the *OPA* will enter into contracts with certain suppliers, the LDCs will settle these contracts with their *embedded generators*. Therefore two new *charge types* have been added:

- Clean Energy Standard Offer Program Settlement Amount (*charge type* 1411); and
- Clean Energy Standard Offer Program Balancing Amount (*charge type* 1461).

The Clean Energy Standard Offer Program Settlement Amount Charge represents the difference between the amount paid to the supplier for electricity produced calculated at *market prices*, and the amount calculated at the contract price. It can be either positive or negative, charged or paid to the LDCs who will settle the contracts with the individual suppliers.

The Clean Energy Standard Offer Program Balancing Amount Charge can be either a payment by the *OPA* to the *IESO* to compensate it for payments it makes for this Clean Energy Standard Offer Program, or a payment by the *IESO* to the *OPA* to pass on amounts collected under *charge type* 1411. The *OPA* would then be balanced out through the Global Adjustment.

HST Treatment

Charge type 1411 is viewed as an adjustment, either positive or negative, to the price of electricity paid to suppliers under these contracts. Consequently, it is subject to HST.

The payment to or from the *OPA* under *charge type* 1461 is not subject to HST as it is not consideration for a supply.

8.18 OPA Demand Response Programs 2 and 3

For the Demand Response Program 3, the *OPA* is implementing a contractual load reduction program for direct participants and aggregators that can prove an initial minimum *demand* response capability of at least 5.0 MW and 25.0MW, respectively during the summer months. Other seasons of the year require lower contracted MW minimums as identified within the program rules. Demand Response 2 program is a *demand* response program with contractual obligations to shift load from the On-Peak Period (*business days* from 8:00 a.m. to 8:00 p.m.) to the Off-Peak Period (all other hours). The following *charge types* have been created to settle these programs:

- On behalf of *OPA* for the DR2 Program - Availability Payment Settlement Amount (*charge type* 1330)
- On behalf of *OPA* for DR2 Program - Availability Set-Off Settlement Amount (*charge type* 1331)
- On behalf of *OPA* for the DR2 Program - Utilization Payment Settlement Amount (*charge type* 1332)
- On behalf of *OPA* for the DR2 Program - Utilization Set-Off Settlement Amount (*charge type* 1333)
- On behalf of *OPA* for the DR2 Program - Meter Data Set-Off Settlement Amount (*charge type* 1334)
- On behalf of *OPA* for the DR2 Program – Buy-Down Settlement Amount (*charge type* 1335)
- On behalf of *OPA* for the DR2 Program – Miscellaneous Settlement Amount (*charge type* 1336)

- On behalf of *OPA* for the DR3 Program - Availability Payment Settlement Amount (*charge type* 1340)
- On behalf of *OPA* for the DR3 Program - Availability Over-Delivery Settlement Amount (*charge type* 1341)
- On behalf of *OPA* for the DR3 Program - Availability Set-Off Settlement Amount (*charge type* 1342)
- On behalf of *OPA* for the DR3 Program - Utilization Payment Settlement Amount (*charge type* 1343)
- On behalf of *OPA* for the DR3 Program - Utilization Set-Off Settlement Amount (*charge type* 1344)
- On behalf of *OPA* for the DR3 Program - Planned Non-Performance Event Set-Off Settlement Amount (*charge type* 1345)
- On behalf of *OPA* for the DR3 Program - Meter Data Set-Off Settlement Amount (*charge type* 1346)
- On behalf of *OPA* for the DR3 Program - Buy-Down Settlement Amount (*charge type* 1347)
- On behalf of *OPA* for the DR3 Program - Miscellaneous Settlement Amount (*charge type* 1348)

- Demand Response 2 Availability Payment Balancing Amount (*charge type* 1380)
- Demand Response 2 Availability Set-Off Balancing Amount (*charge type* 1381)
- Demand Response 2 Utilization Payment Balancing Amount (*charge type* 1382)
- Demand Response 2 Utilization Set-Off Balancing Amount (*charge type* 1383)
- Demand Response 2 P Meter Data Set-Off Balancing Amount (*charge type* 1384)

- Demand Response 2 Buy Down Balancing Amount (*charge type* 1385)
- Demand Response 2 Miscellaneous Balancing Amount (*charge type* 1386)
- Demand Response 3 Availability Payment Balancing Amount (*charge type* 1390)
- Demand Response 3 Availability Over-Delivery Balancing Amount (*charge type* 1391)
- Demand Response 3 Availability Set-Off Balancing Amount (*charge type* 1392)
- Demand Response 3 Utilization Payment Balancing Amount (*charge type* 1393)
- Demand Response 3 Utilization Set-Off Balancing Amount (*charge type* 1394)
- Demand Response 3 Planned Non-Performance Event Set-Off Balancing Amount (*charge type* 1395)
- Demand Response 3 Meter Data Set-Off Balancing Amount (*charge type* 1396)
- Demand Response 3 Buy-Down Balancing Amount (*charge type* 1397)
- Demand Response 3 Miscellaneous Balancing Amount (*charge type* 1398)

HST Treatment

The Demand Response Program Settlement Amount *charge types* 1330-1348 are viewed as an adjustment to the price of electricity paid to suppliers of these *demand* response services. Consequently, they are subject to HST.

The payments to or from the *OPA* under *charge types* 1380 - 1398 are not subject to HST as they are not consideration for a supply.

8.19 Northern Pulp and Paper Electricity Transition Program (NPPETP)

NOTE: The provisions of this section do not apply for any period beginning after September 30, 2010. For historical purposes, *charge type* details have been moved to Appendix A.

8.20 Renewable Generation Connection - Monthly Compensation Settlement Credit / Debit

Pursuant to the implementation of a new cost recovery framework established by the Green Energy Act, as set out in Ontario Regulation 330/09, the following *charge types* were added for *settlement* of costs associated with the connection of new renewable generation to local *distribution systems* from all electricity *consumers* in Ontario:

- Renewable Generation Connection – Monthly Compensation Settlement Credit (*charge type* 1413); and
- Renewable Generation Connection – Monthly Compensation Settlement Debit (*charge type* 1463).

The Renewable Generation Connection – Monthly Compensation Amount Settlement Debit is collected under *charge type* 1463 which is a surcharge on all electricity purchasers in Ontario.

The Renewable Generation Connection – Monthly Compensation Amount Settlement Credit allows LDCs to recover certain costs associated with the connection of new renewable generation to their local *distribution system*.

HST Treatment

Charge type 1463 is a surcharge on the price of electricity to *IESO market participants* and is subject to HST. The credit paid to LDCs under *charge type 1413* is a payment for the supply of distribution services by the LDCs and is subject to HST.

8.21 Conservation Assessment Recovery

Pursuant to the implementation of a new charge created under Ontario Regulation 66/10, the following *charge type* has been added:

- Conservation Assessment Recovery (*charge type 1415*)

The regulation allows the *IESO* to recover the amount it is assessed with respect to the expenses incurred and expenditures made by the Ministry of Energy and Infrastructure for its *energy* conservation and renewable *energy* programs.

HST Treatment

Charge type 1415 is a surcharge on the price of electricity to *IESO market participants* and is subject to HST.

8.22 Northern Industrial Electricity Rate Program (NIERP)

On behalf of the Ministry of Northern Development, Mines, and Forestry (MNDMF), IESO settles the Northern Industrial Electricity Rate Program rebate funded by the MNDMF for facilities in Northern Ontario. Two *charge types* have been created for this program:

- Northern Industrial Electricity Rate Program Settlement Amount (*charge type 121*); and
- Northern Industrial Electricity Rate Program Balancing Amount (*charge type 171*).

The Northern Industrial Electricity Rate Program Settlement Amount paid to Northern Ontario mills is based on the participating mill's annual consumption (to a limit) times the government directed \$/MWh rebate.

The Northern Industrial Electricity Rate Program Balancing Amount is the payment by the MNDMF to the *IESO* to compensate it for payments it makes to these participating facilities.

HST Treatment

The rebate to participating facilities under *charge type 121* is not subject to HST as it is not consideration for a supply. The qualifying industries do not make supplies of electricity to the *IESO* or to the Ministry of Northern Development, Mines and Forestry in return for the NIER program rebates. The payments are

simply forms of financial assistance made by the MNDMF to the qualifying recipients and no direct link exists between the payment of the NIER program rebate and a supply.

The payment from the MNDMF to the *IESO* under *charge type* 171 is not subject to HST as it is not a consideration for a supply. The MNDMF is not a business or commercial organization and is not providing payment to the *IESO* for supply. Rather, the *IESO* is simply managing the distribution of these payments on behalf of the MNDMF.

8.23 Conservation and Demand Management – Compensation Settlement Credit

Under section 78.5 of the *Ontario Energy Board Act, 1998*, the *IESO* must make payments to a *distributor* (LDC) or the *OPA* for amounts approved by the *Ontario Energy Board (OEB)* relating to conservation and *demand* management (CDM). Specifically, these payments relate to recovery of costs for Board-approved CDM initiatives that are undertaken by LDCs to meet the CDM targets set out in their *licenses*, and to associated performance initiatives. Two *charge types* have been created:

- Conservation and Demand Management – Compensation Settlement Credit (*charge type* 1416); and
- Conservation and Demand Management – Compensation Balancing Amount (*charge type* 1466).

The *IESO* will make these payments as directed by the *OEB* under *charge type* 1416.

The Conservation and Demand Management – Compensation Balancing Amount is an amount charged to the *IESO*. These payments will be recovered through the Global Adjustment.

HST Treatment

Charge type 1416 is a downward adjustment to the price of electricity and is subject to HST.

Charge type 1466 is not subject to HST as it is not consideration for a supply.

8.24 Ontario Clean Energy Benefit Program

The Ontario Clean Energy Benefit (OCEB) was established by the Ministry of Energy to provide financial assistance to Ontarians to help them with the increased costs of upgrading and modernizing the *energy* infrastructure. The OCEB provides *consumers* with eligible accounts with a monthly 10% rebate off the applicable portion of their electricity bills as described in the *Ontario Clean Energy Benefit Act, 2010* and Ontario Regulation 495/10. The rebate applies for a five-year period from January 1, 2011 to December 31, 2015.

Effective January 1, 2011, Ontario Regulation 495/10 directs the *IESO* to reimburse *market participant distributors* for the 10% financial assistance that is provided to *consumers* that have eligible accounts with them; with any of their wholly-embedded *distributors*; and with any licensed *retailers* that use retailer-consolidated billing and that conduct business in their service area or the service area of any of their wholly-embedded *distributors*.

This regulation also directs the *IESO* to reimburse unit sub-meter providers for the 10% financial assistance provided by them on their fees and charges for unit sub-metering that appear on invoices issued by them to *consumers* that are entitled to receive financial assistance.

The following *charge types* have been created to settle this program:

- Ontario Clean Energy Benefit (-10%) Program Balancing Amount (*charge type* 1465); and
- Ontario Clean Energy Benefit (-10%) Program Settlement Amount (*charge type* 9992).

The Ontario Clean Energy Benefit (-10%) Program Settlement Amount under *charge type* 9992 is a payment to *distributors* and unit sub-meter providers.

The Ontario Clean Energy Benefit (-10%) Program Balancing Amount under *charge type* 1465 is the corresponding set-off which is balanced by the *IESO* through a charge to the Ministry of Energy.

HST Treatment

Charge type 9992 is viewed as a form of government assistance at each stage of the billing process. These credits are not subject to HST.

Charge type 1465 is an amount paid by the Ontario government to the *IESO* under the OCEB program and is viewed as financial assistance that must flow through to the *consumer*. These amounts are not subject to HST.

8.25 Biomass Non-Utility Generation and Energy from Waste (EFW) suppliers Contract Initiative Settlement/Balancing Amount

The Biomass Non-Utility Generation (NUG) and Energy from Waste (EFW) Contract Initiative will support the existing small supply of clean, renewable biomass NUG and EFW generation. The Ontario Power Authority's (OPA), a predecessor to the current *IESO*, has entered into individual procurement contracts with qualified existing biomass NUG and EFW *generation facilities* to increase Ontario's supply of clean, renewable generation. For *generators* embedded within a *distribution system*, the LDCs will settle these contracts with the *embedded generators*. The following *charge types* have been added:

- Biomass Non-Utility Generation Contracts Settlement Amount (*charge type* 1418); and
- Biomass Non-Utility Generation Contracts Balancing Amount (*charge type* 1468).
- Energy from Waste (EFW) Contracts Settlement Amount (*charge type* 1419); and
- Energy from Waste (EFW) Contracts Balancing Amount (*charge type* 1469).

The Biomass Non-Utility Generation and Energy from Waste (EFW) Contracts Settlement Amount charge represents the difference between the amount paid to the supplier for electricity produced calculated at *market prices* and the amount calculated at the contract price. It can be either positive or negative, charged or paid to the LDCs who will settle the contracts with individual suppliers.

The Biomass Non-Utility Generation and Energy from Waste (EFW) Contracts Balancing Amount charges collected under *charge type* 1418 and 1419 would be recovered through the Global Adjustment.

HST Treatment

Charge type 1418 and 1419 is viewed as an adjustment, either positive or negative, to the price of electricity paid to suppliers under these contracts. Consequently, it is subject to HST.

The payment to or from the *OPA* under *charge type* 1468 and 1469 is not subject to HST as it is not consideration for a supply.

8.26 Capability Based Demand Response Program

The Capacity Based Demand Response (CBDR) program will be a temporary program that will transition DR resources from the Ontario Power Authority's (OPA), a predecessor to the current IESO, wholesale DR3 contract terms to the *IESO-administered markets* which is governed by the *market rules*. The CBDR program will cease to exist on the date of delivery of the demand response auction which immediately precedes the expiry date of the last DR3 contract. The following *charge types* have been created to settle these programs:

- Capacity Based Demand Response Program Availability Payment Settlement Amount (*charge type* 1300);
- Capacity Based Demand Response Program Availability Over-Delivery Settlement Amt (*charge type* 1301);
- Capacity Based Demand Response Program Availability Set-Off Settlement Amount (*charge type* 1302);
- Capacity Based Demand Response Program Utilization Payment Settlement Amount (*charge type* 1303);
- Capacity Based Demand Response Program Utilization Set-Off Settlement Amount (*charge type* 1304);
- Capacity Based Demand Response Program Planned Non-Performance Event Set-Off Amt (*charge type* 1305);
- Capacity Based Demand Response Program Measurement Data Set-Off Settlement Amt (*charge type* 1306);
- Capacity Based Demand Response Program Buy-Down Settlement Amount (*charge type* 1307); and
- Capacity Based Demand Response Program Performance Breach Settlement Amount (*charge type* 1308).

The Class A and B Capacity Based Recovery Amounts (*charge types* 1350 and 1351) are used to recover the costs of implementing the CBDR program from *market participants* and are an adjustment to the price charged for *energy to market participants* with load in Ontario.

- Capacity Based Recovery Amount for Class A Loads (*charge type* 1350)
- Capacity Based Recovery Amount for Class A Loads (*charge type* 1351)

HST Treatment

The Capability Based Demand Response Program Settlement Amount *charge types* 1300-1308 are viewed as an adjustment to the price of electricity paid to suppliers of these demand response services. Consequently, they are subject to HST.

Charge types 1350 and 1351 are an adjustment to the price of electricity sold to Ontario *market participants*. Consequently, they are subject to HST.

8.27 Demand Response Capacity Obligations

Demand response (DR) in the wholesale market is being transitioned from a contract-based program to an annual DR Auction which will provide a transparent and cost-effective way to select the most competitive providers of DR, while ensuring that all providers are held to the same performance obligations. The DR Auction will take place once per year to procure capacity for two, six-month commitment periods: summer commitment period (May 1 to October 31) and winter commitment period (November 1 to April 30).

Demand response capacity obligations are awarded through the DR Auction. Demand response *market participants* with demand response capacity obligations will be settled for payments and non-performance, using the physical markets settlement process.

The following *charge types* have been created to settle this program:

- Demand Response Capacity Obligations – Availability Payment (*charge type* 1314);
- Demand Response Capacity Obligations – Availability Charge (*charge type* 1315);
- Demand Response Capacity Obligations – Administration Charge (*charge type* 1316);
- Demand Response Capacity Obligations – Dispatch Charge (*charge type* 1317);
- Demand Response Capacity Obligations – Capacity Charge (*charge type* 1318); and
- Demand Response Capacity Obligations – Buy-Out Charge (*charge type* 1319).

The Class A and B Capacity Based Recovery Amounts (*charge types* 1350 and 1351) are used to recover the costs of implementing the demand response capacity obligations from *market participants* and are an adjustment to the price charged for *energy* to *market participants* with load in Ontario.

- Capacity Based Recovery Amount for Class A Loads (*charge type* 1350)
- Capacity Based Recovery Amount for Class A Loads (*charge type* 1351)

HST Treatment

The demand response capacity obligations *charge types* 1314-1319 are viewed as an adjustment to the price of electricity paid to suppliers of these demand response services. Consequently, they are subject to HST.

Charge types 1350 and 1351 are an adjustment to the price of electricity sold to Ontario *market participants*. Consequently, they are subject to HST.

8.28 Ontario Electricity Support Program

On March 26, 2015, the Ministry of Energy announced the Ontario Electricity Support Program (OESP) for low-income electricity consumers in Ontario. The program establishes special rates for low-income consumers and is funded through a per kilowatt-hour charge to the Ontario market.

Pursuant to the OESP Regulation made under the Ontario Energy Board Act, 1998, the IESO will compensate local distribution companies (LDCs) and unit sub-meter providers (USMPs) for any lost revenue resulting from the OESP. The IESO will also make payments to the central service provider retained by the OEB to manage the administration of the program. The LDCs, USMPs and CSP are required to submit requests for OESP payments to the IESO on a monthly basis via a Settlement Online form. The IESO will distribute the OESP payments and collect the funds from the Ontario market through an OESP rate (set by the OEB) to support this program.

The OESP commenced on January 1, 2016 following the conclusion of the Ontario Clean Energy Benefit (OCEB) on December 31, 2015.

Pursuant to certain amendments to the *Ontario Energy Board Act, 1998* that resulted from the *Fair Hydro Plan Act, 2017* coming into force, the Ontario Electricity Support Program (OESP), which establishes special rates for low-income consumers, will no longer be funded by ratepayers through a per kilowatt-hour charge to the Ontario market. Instead, funding for OESP will be paid out of money appropriated for such purposes by the Legislature once the amounts in the variance account maintained by the IESO are exhausted. OESP credits will continue to be settled directly by the respective local distribution companies (LDC) and unit sub-meter providers (USMP), and a central service provider (CSP) will manage the administration of OESP. The LDCs, USMPs and CSP are required to submit to the IESO requests for OESP payments on a monthly basis via a Settlement Online form.

The following *charge types* have been created to settle this program:

- Ontario Electricity Support Program Settlement Amount (*charge type* 1420);
- Ontario Electricity Support Program Balancing Amount (*charge type* 1470); and
- MOE - Ontario Electricity Support Program Balancing Amount (*charge type* 2470).

The Ontario Electricity Support Program Settlement Amount under *charge type* 1420 is a payment to *distributors*, unit sub-meter providers and the central service provider.

The Ontario Electricity Support Program Balancing Amount under *charge type* 1470 is the corresponding set-off which is balanced by the IESO through a charge to all *market participants*. Pursuant to the Fair Hydro Act, *charge type* 1470 will no longer be used and instead a new *charge type* 2470 has been created to settle this program

Through the MOE - Ontario Electricity Support Program Balancing Amount under *charge type* 2470, the IESO will collect the funds from the Ministry of Energy and distribute the OESP credits.

HST Treatment

Charge type 1420 is neither an adjustment to the cost of electricity nor is it in respect of any supply, therefore these credits are not subject to HST.

Charge type 1470 is an amount paid by the *market participants* to the IESO under the OESP program and is viewed as a surcharge on the price of electricity and is subject to HST.

Charge type 2470 is an amount recovered from the Ministry of Energy and as such it is not subject to HST.

8.29 Adjustment Account Credit

The *IESO* adjustment account was established pursuant to Market Rule Chapter 9 Section 6.18.6 to receive and disburse payments related to penalties, damages, fines and payment adjustments arising from resolved settlement disputes, and to reimburse the *IESO* for any associated costs or expenses. At least annually, the *IESO* Board of Directors is required to review the allocation of any remaining balance in the account, once reimbursements have been made, and may direct some or all of the balance in the adjustment account to be distributed to market participants on a basis to be determined by the Board of Directors. The *IESO* Board of Directors has determined any distribution will be a payment to Ontario Loads and Exporters based on their consumption patterns over the preceding six month to help ensure an equitable disbursement.

The *charge type*, Adjustment Account Credit (*charge type 9920*), has been created for the purpose of disbursing funds from the adjustment account.

HST Treatment

Charge type 9920 is considered to be a reduction in the cost of electricity and is subject to HST in the same manner as the original purchases of *energy*:

- subject to HST if the *energy* is for use in Canada
- zero-rated if the *energy* is sold to a *market participant* for export out of Canada

8.30 Ramp-Down Congestion Management Settlement Credit Charges

As of December 8, 2016, non-quick start generators will no longer be eligible for Congestion Management Settlement Credit (CMSC) (see section 5.4) during intervals where the facility is constrained-on while ramping down to come offline unless activated for operating reserve or constrained under a Generation Cost Guarantee or Day-Ahead Production Cost Guarantee during the ramp-down interval.

The *IESO* will withhold or recover all CMSC during the ramp-down period; however the generators will receive compensation in the form of a ramp-down settlement amount (RDSA). The RDSA is calculated as the lesser of the CMSC withheld or recovered or the calculated ramp-down compensation (RDC), as per Chapter 9, section 3.5A.1 of the market rules.

The following *charge types* have been created to settle this program:

- Ramp-Down CMSC Claw Back (*charge type 1051*); and
- Ramp-Down Settlement Amount (*charge type 122*).

The Ramp-Down CMSC Claw Back under *charge type* 1051 is the CMSC withheld from *generators* during the ramp-down period.

The Ramp-Down Settlement Amount under *charge type* 122 is a payment to *generators* of the ramp-down settlement amount.

HST Treatment

Similar to the Congestion Management Settlement Credit tax treatment, *charge types* 1051 and 122 are considered to be supplies of intangible personal property (IPP) for use in Canada, and are subject to HST.

8.31 Ontario Rebate for Electricity Consumers

The Ontario Rebate for Electricity Consumers (OREC) was established by the Ministry of Energy to provide financial assistance for certain Ontario electricity consumers in respect of electricity costs. Pursuant to the *Ontario Rebate for Electricity Consumers Act, 2016* and Ontario Regulation (O. Reg.) 363/16 (both of which come into force on January 1, 2017), consumers with eligible accounts are entitled to receive financial assistance in respect of the cost of electricity in an amount equal to an 8% reduction in the amount payable before tax under their electricity accounts for each billing period.

O. Reg. 363/16 requires the IESO to pay to a licensed distributor a sufficient amount to reimburse:

- (i) the licensed distributor for the financial assistance to which consumers who have eligible accounts with such licensed distributor are entitled;
- (ii) wholly-embedded distributors of which the licensed distributor is the host distributor for financial assistance to which consumers who have eligible accounts with such wholly-embedded distributors are entitled; and
- (iii) licensed retailers who use retailer-consolidated billing for financial assistance to which consumers who have eligible accounts with such licensed retailers, and are in the service area of the licensed distributor or of a wholly-embedded distributor of which the licensed distributor is the host distributor, are entitled.

O. Reg. 363/16 also requires the IESO to pay to a unit sub-meter provider a sufficient amount to reimburse such unit sub-meter provider for the financial assistance provided by it to consumers who are entitled to receive financial assistance in respect of the fees and charges for unit sub-metering. Finally, a consumer who is a market participant and has an eligible account with the IESO is entitled to receive financial assistance in an amount equal to 8% of the base invoice amount for each billing period.

The following *charge types* have been created to settle this program:

- Ontario Rebate for Electricity Consumers (8% Provincial Rebate) Settlement Amount (*charge type* 9982); and
- Ontario Rebate for Electricity Consumers (8% Provincial Rebate) Balancing Amount (*charge type* 1467).

The Ontario Rebate for Electricity Consumers (8% Provincial Rebate) Settlement Amount under *charge type* 9982 is a payment to distributors and unit sub-meter providers.

The Ontario Rebate for Electricity Consumers (8% Provincial Rebate) Balancing Amount under *charge type* 1467 is the corresponding set-off which is balanced by the IESO through a charge to the Ministry of Energy.

HST Treatment

Similar to the Ontario Clean Energy Benefit Program tax treatment, *charge types* 9982 and 1467 are viewed as a form of government assistance. As such, these credits are not subject to HST.

8.32 Ontario Fair Hydro Plan (OFHP)

Pursuant to the *Ontario Fair Hydro Plan Act, 2017*, electricity bills will be lowered on an after-tax basis for eligible residential consumers, small businesses and farms. The reduction measure includes the 8% rebate already in effect from January 1, 2017 under the *Ontario Rebate for Electricity Consumers Act, 2016* (O. Reg. 363/16), as outlined in section 8.31 above.

The following *charge types* have been created to settle this program:

- Ontario Fair Hydro Plan Eligible Consumer Discount Settlement Amount (*charge type* 1142);
- Ontario Fair Hydro Plan Eligible Consumer Discount Balancing Amount (*charge type* 1192);
- Ontario Fair Hydro Plan Eligible Non-RPP Consumer Discount Settlement Amount (*charge type* 1143); *and*
- Ontario Fair Hydro Plan Eligible Non-RPP Consumer Discount Balancing Amount (*charge type* 1193).

Local distribution companies (LDCs) will submit to the *IESO* the new Regulated Price Plan (RPP) amount for eligible consumers. The amount will be applied under *charge type* 1142 (Ontario Fair Hydro Plan Eligible Consumer Discount Settlement Amount), and balanced to an *IESO* variance account under *charge type* 1192 (Ontario Fair Hydro Plan Eligible Consumer Discount Balancing Amount). In addition, LDCs will submit to the *IESO* the amount for non-RPP consumers under *charge type* 1143 (Ontario Fair Hydro Plan Eligible Non-RPP Consumer Discount Settlement Amount), and balanced under the *charge type* 1193 (Ontario Fair Hydro Plan Eligible Non-RPP Consumer Discount Balancing Amount).

HST Treatment

Similar to RPP, *charge type* 1142 is an adjustment, either positive or negative, to the price of electricity sold to Ontario *market participants*. As such, it is subject to HST.

The payment to or from the *IESO* under *charge type* 1192 is not subject to HST as it is not a payment for a supply.

Similar to the treatment of RPP consumers, *charge type* 1143 is subject to HST.

Similar to the payment to or from *IESO* for RPP consumers, *charge type* 1193 is not subject to HST.

8.33 OFHP – First Nations On-Reserve Delivery Credit Program

Pursuant to certain amendments to the *Ontario Energy Board Act, 1998* that resulted from the *Ontario Fair Hydro Plan Act, 2017* coming into force, the First Nations On-reserve Delivery Credit provides a credit to eligible on-reserve consumers to off-set the costs covered by the delivery line (or the monthly service charge for utilities that do not have a separate delivery line). The amount of the delivery credit is prescribed by the OEB Act, and the credit applies to electricity used on and after July 1, 2017.

For reimbursement, licenced distributors will submit to the *IESO* the total amount of delivery credits paid to eligible consumers. The claimed amount will be paid by the *IESO* to distributors through the new *charge type* 705, “Ontario Fair Hydro Plan First Nations On-reserve Delivery Amount”. This will be balanced by a charge to the Ministry of Energy (MOE) under the new *charge type* 755, “MOE - Ontario Fair Hydro Plan First Nations On-reserve Delivery Balancing Amount”.

The following *charge types* have been created to settle this program:

- Ontario Fair Hydro Plan First Nations On-reserve Delivery Amount (*charge type* 705); and
- MOE - Ontario Fair Hydro Plan First Nations On-reserve Delivery Balancing Amount (*charge type* 755).

The Ontario Fair Hydro Plan First Nations On-reserve Delivery Amount under *charge type* 705 is a payment to distributors.

The MOE - Ontario Fair Hydro Plan First Nations On-reserve Delivery Balancing Amount under *charge type* 755 is the corresponding set-off that is balanced by the *IESO* through a charge to the Ministry of Energy.

HST Treatment

Charge type 705 is viewed as a consideration for supply by the distributors. As such, it is subject to HST.

Charge type 755 is an amount recovered from the Ministry of Energy and, as such, it is not subject to HST.

8.34 OFHP – Distribution Rate Protection Program for Residential Consumers

Pursuant to certain amendments to the *Ontario Energy Board Act, 1998* that resulted from the *Ontario Fair Hydro Plan Act, 2017* coming into force, the Distribution Rate Protection (DPR) program establishes maximum monthly base distribution charges for eligible residential consumers. Compensation to distributors for the provision of distribution rate protection will be paid out of money appropriated for those purposes by the Legislature. The eligibility requirements for residential consumers are set out in Ontario Regulation 198/17: Distribution Rate-Protected Residential Consumers.

The maximum monthly base distribution rate is set at least once a year by the Ontario Energy Board (OEB), the first of which was set on June 22, 2017. As the DPR program caps the base distribution charges paid by most eligible consumers, distributors must calculate the actual total base distribution

charge and compare this to the maximum charge approved by the OEB and charge no more than the maximum amount. For reimbursement, distributors will submit to the *IESO* the difference between their total distribution charges and the distribution charges after the maximum base was applied from the *IESO*. The claimed amount will be paid by the *IESO* to distributors through the new *charge type* 706, “Ontario Fair Hydro Plan Distribution Rate Protection Amount”. This will be balanced by a charge to the Ministry of Energy (MOE) under the new *charge type* 756, “MOE - Ontario Fair Hydro Plan Distribution Rate Protection Balancing Amount”.

The following *charge types* have been created to settle this program:

- Ontario Fair Hydro Plan Distribution Rate Protection Amount (*charge type* 706); and
- MOE - Ontario Fair Hydro Plan Distribution Rate Protection Balancing Amount (*charge type* 756).

The Ontario Fair Hydro Plan Distribution Rate Protection Amount under charge type 706 is a payment to distributors.

The MOE - Ontario Fair Hydro Plan Distribution Rate Protection Balancing Amount under charge type 756 is the corresponding set-off that is balanced by the *IESO* through a charge to the Ministry of Energy.

HST Treatment

Charge type 706 is viewed as a consideration for supply by the distributors. As such, it is subject to HST.

Charge type 756 is an amount recovered from the Ministry of Energy and, as such, it is not subject to HST.

8.35 OFHP – Financing Entity

Charge types have been created in relation to the administrative costs and interest incurred by the “financing entity” in funding the Ontario Fair Hydro Plan. The financing entity will claim these amounts from the *IESO*.

Charge type 1144, “Ontario Fair Hydro Plan Financing Entity Amount” and *charge type* 1145, “Ontario Fair Hydro Plan Financing Entity Interest” have been created for the purpose of settling these amounts. These amounts will be balanced to an *IESO* variance account under *charge type* 1194, “Ontario Fair Hydro Plan Financing Entity Balancing Amount” and *charge type* 1195, “Ontario Fair Hydro Plan Financing Entity Balancing Interest”.

The following *charge types* have been created to settle this program:

- Ontario Fair Hydro Plan Financing Entity Amount (*charge type* 1144);
- Ontario Fair Hydro Plan Financing Entity Interest (*charge type* 1145);
- Ontario Fair Hydro Plan Financing Entity Balancing Amount (*charge type* 1194); and
- Ontario Fair Hydro Plan Financing Entity Balancing Interest (*charge type* 1195).

HST Treatment

Charge types 1144 and 1145 are a reimbursement of financing charges to the financing entity and as such they are not subject to HST.

Charge types 1194 and 1195 are not a consideration for a supply. As such, they are not subject to HST.

8.36 OFHP – Regulatory Asset

As per the Fair Hydro Act, the IESO may from time to time transfer a specified portion of the regulatory asset to a financing entity; and an agreement between the IESO and a financing entity in relation to the transfer of a specified portion of the regulatory asset shall provide for consideration of a payment by the financing entity to the IESO in an amount equal to the amount of the specified portion.

Charge code 6000 "Ontario Fair Hydro Plan - Regulatory Asset Transfer Amount" is the amount debited to the financing entity and charge code 6050 "Ontario Fair Hydro Plan - Regulatory Asset Transfer Balancing Amount" is the amount credited to the IESO and is used to reduce the variance account.

The following *charge types* have been created to settle this program:

- Ontario Fair Hydro Plan - Regulatory Asset Transfer Amount (*charge type 6000*); and
- Ontario Fair Hydro Plan - Regulatory Asset Transfer Balancing Amount (*charge type 6050*).

The Ontario Fair Hydro Plan - Regulatory Asset Transfer Amount under *charge type 6000* is the transfer of the regulatory asset to the financing entity.

The Ontario Fair Hydro Plan - Regulatory Asset Transfer Balancing Amount under *charge type 6050* is the corresponding set-off that is balanced by the *IESO*.

HST Treatment

Charge type 6000 is viewed as a transfer of a financial instrument. As such, it is not subject to HST.

Charge type 6050 is not a payment for a supply. As such, it is not subject to HST.

8.37 Hydroelectric Standard Offer Program

The Hydroelectric Standard Offer Program (HESOP) program was established for the development of hydroelectric capacity in Ontario and successful applicants were granted the ability to build waterpower projects or incremental projects at existing facilities. IESO has entered into agreements with some Local Distribution Companies (LDCs) to provide the settlement of this program with the generators.

The following *charge types* have been created to settle this program:

- Hydroelectric Standard Offer Program Settlement Amount (*charge type 1425*); and
- Hydroelectric Standard Offer Program Balancing Amount (*charge type 1475*).

The Hydroelectric Standard Offer Program Settlement Amount charge represents the difference between the amount paid to the supplier for electricity produced calculated at *market prices* and the amount

calculated at the contract price. It can be either positive or negative, charged or paid to the LDCs who will settle the contracts with individual suppliers.

The Hydroelectric Standard Offer Program Balancing Amount charge is a payment, positive or negative, to pass on amounts collected under *charge type* 1425 to the IESO and then be balanced out through the Global Adjustment.

HST Treatment

Charge type 1425 is viewed as an adjustment, either positive or negative, to the price of electricity paid to suppliers under these contracts. Consequently, it is subject to HST.

Charge type 1475 is not subject to HST as it is not consideration for a supply.

– End of Section –

9. Administrative Charges

9.1 Dispute Resolution

There are three *charge types* relating to dispute resolution settlements:

- Dispute Resolution Settlement Credit (*charge type* 700);
- Dispute Resolution Settlement Debit (*charge type* 750); and
- Dispute Resolution Board Service Debit (*charge type* 751).

The resolution of disputes between *market participants* may entail a credit being provided to one *market participant* (Dispute Resolution Settlement Credit) and/or a debit being charged to another *market participant* (Dispute Resolution Settlement Debit).

The Dispute Resolution Board Service Debit is a payment from particular disputing *market participants* to the *IESO* to cover the costs associated with the settlement of a dispute (i.e., the cost of operating the *dispute resolution panel*).

HST Treatment

The nature of future disputes cannot be known with certainty, as such, the specifics of each dispute would have to be reviewed to determine the appropriate tax treatment of the credits and debits. However, as a general rule, if the Dispute Resolution Credit/ Debit constitutes an adjustment to the amount charged for a previous supply, it is anticipated that the *IESO* would adjust the HST as well as the consideration for the supply. Hence, the tax treatment would generally mirror that of the original transaction *charge type* which under dispute.

The CRA has ruled that the Dispute Resolution Board Service Debit is a charge for the supply of a service performed in Ontario, and consequently, it will be subject to HST, even where billed to US *market participants*.

9.2 Market Participant Default Settlement Debit

The Market Participant Default Settlement Debit (*charge type* 850) is a charge to all *market participants* by the *IESO* to recover costs in the event that a *market participant* defaults on amounts owed. The *default amount* is collected from non-defaulting *market participants* based on the absolute value of their net *invoice* amount for the *billing period* during which the default occurred.

For HST purposes, this charge to non-defaulting *market participants* is treated as an additional charge to participate in the *IESO* market and is subject to HST.

9.3 Market Participant Default Interest Debit

The Market Participant Default Interest Debit (*charge type* 851) is a charge to all *market participants* by the *IESO* to recover the cost of borrowing funds to address the shortfall in the market as a result of a *market participant's* default on amounts owed. The *default interest* is collected from non-defaulting *market participants* and is based on the *IESO's* cost of borrowing during the default period.

For HST purposes, this charge to non-defaulting *market participants* is considered an amount in respect of a “compensatory damage payment” and is exempt from HST.

9.4 IESO Administration Charge

The IESO Administration Charge (*charge type* 9990) is a fee to *market participants* based on their purchases of electricity. For HST purposes, it is equivalent to a surcharge on the price of electricity over the relevant period. Therefore, the HST treatment is the same as the original charge to the purchasers of *energy*:

- subject to HST if the *energy* is for use in Canada
- zero-rated if the *energy* is sold to a *market participant* for export out of Canada

9.5 GST/HST Charge Types

There are two *charge types* relating to GST/HST payable to or from *market participants*:

- GST/HST Credit (*charge type* 900); and
- GST/HST Debit (*charge type* 950).

These *charge types* are the summation of GST/HST payable from the *IESO* to the *market participant* (GST/HST Credit), or payable from the *market participant* to the *IESO* (GST/HST Debit) respectively. No GST/ HST applies to these amounts.

9.6 Administrative Penalties

The *IESO* may impose financial penalties on *market participants* where they have been found in non-compliance with the *Market Rules*. Typically, these penalties refer to breaches where *market participants* have not fulfilled information requirements, or not properly maintained equipment that is connected to the *IESO-controlled grid*.

The various penalties are not included under any particular *charge type* and shown on the *invoice* or in the daily statements. Rather, they will be included on a separate *invoice* to the *market participant*. The penalties will be subject to HST.

9.7 Smart Metering Charge

As the Smart Metering Entity (SME), the *IESO* is responsible for the administration and operation of the meter data management/meter data repository (MDM/R), which will collect and store information related to the metering of *consumers’* consumption or use of electricity in Ontario. The SME will also provide the validating, estimating and editing process for this data so that it can be used by “MDM/R Service Recipients” for billing purposes. MDM/R service recipients are parties that enter into an agreement with the *IESO* (acting in its capacity as the SME) for usage of the MDM/R.

The Electricity Act, 1998, as amended by Bill 21, entitles the SME to recover, through just and reasonable rates, the costs approved by the *OEB* associated with the conduct of the SME’s activities. Effective May 1, 2013, the costs of developing and operating the MDM/R will be recovered by a

Smart Metering charge levied and collected by the *IESO* from all licensed *distributors* (LDCs) identified in the *OEB's* annual “Yearbook of Electricity Distributors” as described in Ontario Regulation 453/06. The Smart Metering Charge is the *OEB* approved rate per month for each Residential and General Service <50kW customers for each LDC.

The Smart Metering charge will be levied and collected through *charge type* 9980.

HST Treatment

Charge type 9980 is a charge for a service and is subject to HST. The credit paid to *IESO* for SME activities is a payment for a supply of administrative services and is also subject to HST.

For Further Information:

Questions on the details of *IESO charge types* and accounting systems procedures should be directed to *IESO* Customer Relations.

9.8 Recovery of Costs

The Recovery of Costs (*charge type* 9996) is a fee to *market participants* in relation to all reasonable costs, charges, expenses and fees incurred by or on behalf of the *IESO* in the realization, recovery or enforcement of the *prudential support* provided by the *market participant* or enforcement of the rights and remedies of the *IESO* under the *market rules* or at law or in equity in respect of the participation by the *market participant* in the *real-time markets*.

HST Treatment

Charge type 9996 is considered a resupply of general services and is taxed at the tax rate that applies to the address most closely related to the supply.

In the case where the resupply of general services is a Legal Service and the litigation is tried in Ontario, then Ontario HST is applicable.

– End of Section –

Appendix A: Expired Settlement Calculations Kept for Purposes of Re-Calculation

A.1 OPGI Mitigation Rebate Settlements

Note: The provisions of this section do not apply for any period beginning after April 30, 2009. The provisions of this section have been retained in the event that a re-calculation for any period prior to May 1, 2009 is necessary.

Note: For HST purposes, any possible future adjustments are subject to GST/HST applied in a manner consistent with the original tax treatment.

There are two *charge types* relating to the OPGI Mitigation Settlement:

- Ontario Power Generation Rebate Debit (*charge type* 162); and
- Ontario Power Generation Rebate (*charge type* 112).

Based on the *Electricity Restructuring Act, 2004*, Ontario Power Generation Inc. (OPGI) is required to pay rebates to purchasers in Ontario on revenues above a set price for its “non-prescribed” or unregulated generation.

The IESO is responsible for administering the rebate. It will calculate the average price paid to OPGI for *energy* over the preceding quarter. To the extent that a rebate is payable based on the calculation, it will debit OPGI the amount of the rebate. The IESO will then calculate the specific rebates payable to load *market participants* in Ontario based on their purchases of electricity over the preceding year and credit their accounts accordingly. Load *market participants* that resell the electricity are expected to pass on the rebate to their customers as well.

The charge to OPGI is the Ontario Power Generation Rebate Debit and the subsequent credit to Ontario purchasers is the Ontario Power Generation Rebate.

GST Treatment

The CRA has ruled that each of these payments is considered to be an adjustment to the consideration payable, falling under Section 232 of the Excise Tax Act. The IESO will add GST to the amount it debits OPGI under *charge type* 162. Similarly, the IESO will add GST to the amount of the rebate it pays to load *market participants*. In each case, a 5% GST rate will apply because all the transactions covered by the rebate relate to *market participants* in Ontario. It is anticipated that load *market participants* that resell the *energy* (e.g., to *retailers, consumers*) will also adjust the GST when they pass on the rebate they receive from the IESO to their customers, thereby ensuring that the full benefit of the rebate, plus the GST, is passed on to *consumers*. However, the portion of OPG rebate which goes to OPA for Regulated Price Plan customers under *charge type* 112 is not subject to GST as it is not in respect of a taxable supply to or from OPA.

A.2 Fixed Energy Rate Settlement/Balancing Amount

Note: The provisions of this section do not apply for any period beginning after March 31, 2005. The “Electricity Restructuring Act, 2004” (also referred to as Bill 100) replaced the Fixed Energy Rate Program described below, with *charge types* 140/190 being replaced by *charge types* 142/192. The provisions of this section have been retained in the event that a re-calculation of the *energy* rate for any period prior to April 1, 2005 is necessary.

Note: For HST purposes, any possible future adjustments are subject to GST/HST applied in a manner consistent with the original tax treatment.

Pursuant to the Ontario Government’s legislative amendments fixing the price of *energy* to low-volume and designated *consumers* at 4.3 cents per kWh, as elaborated in Bill 210 and the regulations, the following *charge types* have been added:

- Fixed Energy Rate Settlement Amount (*charge type* 140); and
- Fixed Energy Rate Balancing Amount (*charge type* 190).

The Fixed Energy Rate Settlement Amount is an amount, either positive or negative, charged or paid to local *distributors* to fix the price for *energy* at 4.3 cents per kWh, as required by Bill 210. It represents the difference between the amount charged to LDCs for electricity consumed by low-volume and designated *consumers* calculated at *market prices*, and the amount calculated at the fixed price.

The Fixed Energy Rate Balancing Amount can be either a payment by the Ontario Electricity Financial Corporation (“OEFEC”) to the IESO to compensate it for payments it makes to local *distributors* under *charge type* 140 where the *market price* is more than the fixed price, or a payment by the IESO to the OEFEC to pass on amounts collected from local *distributors* under this *charge type*, where the *market price* is less than the fixed price.

GST Treatment

The implementation of the fixed price announced in Bill 210 is retroactive to May 1, 2002. Bill 210 provides for rebates to be paid to eligible *consumers* covering the retroactive period. The rebates are to be paid to *consumers* in two stages. The IESO will be providing local *distributors* rebates under *Charge Type* 140 to compensate them for the rebates they pay to *consumers*. The first rebate applies on the *invoice* for November 2002 issued in mid-December 2002. It is important to note that this rebate will not include an adjustment for GST. Consequently, no GST relating to this adjustment will be included in *charge type* 900.

The second rebate will be issued in early 2003. This rebate will include an adjustment for the GST, which will be reflected in the GST amount shown in *charge type* 900.

On an ongoing basis, *charge type* 140 will be used to credit or debit local *distributors* for the difference between the amount charged for electricity calculated using *market prices* and using the fixed rate. GST will apply to these amounts.

Payments received from or paid to the OEFEC under *charge type* 190 will not attract GST. These payments are not in respect of a taxable supply to or from the OEFEC.

A.3 Fixed Wholesale Charge Rate Settlement/ Balancing Amount

Note: The provisions of this section do not apply for any period beginning after March 31, 2005, as their operation expired as of that date. Accordingly, *charge types* 141 & 191 are no longer applicable for any such period. The provisions of this section have been retained in the event that a re-calculation of the authorized charge for any period prior to April 1, 2005 is necessary.

Note: For HST purposes, any possible future adjustments are subject to GST/HST applied in a manner consistent with the original tax treatment.

Local *distributors* collect a wholesale charge from *consumers*. This charge is an estimate, which is intended to cover the cost to the local *distributor* of the total of the various uplifts described elsewhere in this guide, the Rural and Remote Settlement Debit, and the *IESO* Administration Charge. Since May 1, 2002, the estimated wholesale charge collected from *consumers* has been 6.2 cents per kWh.

Under the Regulations accompanying Bill 210, the wholesale charge to consumers will be fixed at 0.62 cents per kWh. To implement this measure, two new *charge types* have been implemented:

- Fixed Wholesale Charge Rate Settlement Amount (*charge type* 141); and
- Fixed Wholesale Charge Rate Balancing Amount (*charge type* 191).

The Fixed Wholesale Charge Rate Settlement Amount is an amount included on each *invoice*, either positive or negative, equal to the difference between the sum of the uplifts and other components that the wholesale charge to the *consumer* is intended to fund, and the fixed wholesale charge amount of 6.2 cents per kWh.

The Fixed Wholesale Rate Balancing Amount is either a payment by the *OEFC* to the *IESO* or a payment from the *IESO* to the *OEFC*, equal to the sum of the *IESO*'s credits or debits to *market participants* under *charge type* 141.

GST Treatment

Charge type 141 is in effect an adjustment, either positive or negative, to the price of electricity sold to Ontario *market participants*. Consequently, it is subject to GST.

Payments received from or paid to the *OEFC* under *charge type* 191 will not attract GST. These payments are not in respect of a taxable supply to or from the *OEFC*.

A.4 Emergency Demand Response Program (EDRP)

Note: The provisions of this section do not apply for any period beginning after April 30, 2010, as their operation expired as of that date. Accordingly, *charge type* 406 is no longer applicable for any such period. The provisions of this section have been retained in the event that a re-calculation of the authorized charge for any period prior to May 1, 2010 is necessary.

Note: For HST purposes, any possible future adjustments are subject to GST/HST applied in a manner consistent with the original tax treatment.

Emergency Demand Response Program Credit (*charge type* 406)

This item refers to load that can be called upon the *IESO* to be interrupted on short notice in order to maintain the *reliability* of the *IESO-controlled grid*. It is considered to be a supply of IPP for use in Ontario and is subject to HST when paid to *market participants* whether in Canada or in the USA.

A.5 Emergency Load Reduction Program (EDRP)

Note: The provisions of this section do not apply for any period beginning after April 30, 2010, as their operation expired as of that date. Accordingly, *charge types* 134 & 184 are no longer applicable for any such period. The provisions of this section have been retained in the event that a re-calculation of the authorized charge for any period prior to May 1, 2010 is necessary.

Note: For HST purposes, any possible future adjustments are subject to GST/HST applied in a manner consistent with the original tax treatment.

Demand Response Credit (*charge type* 134)

This *charge type* covers two programs the Emergency Load Reduction Program (ELRP) and the Transitional Demand Response Program (TDRP). Under these programs, participating companies would receive payments for reducing actual load consumption in response to emergency situations and wholesale market spot prices. These payments are to compensate load *market participants* for a service provided and would be subject to HST.

Demand Response Debit (*charge type* 184)

This *charge type* is a surcharge by the *IESO* on the purchase of electricity by *market participants* to recover the cost of its payments to suppliers for *ancillary services* and other supplies. The HST treatment will mirror the treatment of the basic charge for the electricity purchasers.

A.6 Northern Pulp and Paper Electricity Transition Program (NPPETP)

Note: The provisions of this section do not apply for any period beginning after September 30, 2010, as their operation expired as of that date. Accordingly, *charge types* 111 & 161 are no longer applicable for any such period. The provisions of this section have been retained in the event that a re-calculation of the authorized charge for any period prior to October 1, 2010 is necessary.

Note: For HST purposes, any possible future adjustments are subject to GST/HST applied in a manner consistent with the original tax treatment.

On behalf of the Ministry of Northern Development, Mines, and Forestry (MNDMF), *IESO* settles the Northern Pulp and Paper Electricity Transition Program rebate funded by the MNDMF for eligible mills in Northern Ontario. Two *charge types* have been created for this program:

- Northern Pulp and Paper Mill Electricity Transition Program Settlement Amount (*charge type* 111); and
- Northern Pulp and Paper Mill Electricity Transition Program Balancing Amount (*charge type* 161).

The Northern Pulp and Paper Mill Electricity Transition Program Settlement Amount paid to the Northern Ontario mills is based on the participating mill's annual consumption (to a limit) times the government directed \$/MWh rebate.

The Northern Pulp and Paper Mill Electricity Transition Program Balancing Amount is the payment by the MNDMF to the *IESO* to compensate it for payments it makes to these participating mills.

HST Treatment

Charge type 111 is viewed as a downward adjustment to the price of electricity previously charged to the purchasers of electricity. For HST purposes, the rebates are subject to the same HST treatment as the original charge to the purchasers.

The payment from the MNDMF under *charge type* 161 is not subject to HST as it is not consideration for a supply.

A.7 Intertie Offer Guarantee & Failure Charge

Note: The provisions of this section do not apply for any period beginning after October 11, 2011, as their operation expired as of that date. Accordingly, the following *charge types* are no longer applicable for any such period:

- *charge types* 130, 1130 and 1137 have been replaced with *charge type* 1131
- *charge type* 1133 has been replaced with *charge types* 1500 through 1505, 1510
- *charge type* 1139 has expired and is not being replaced

The provisions of this section have been retained in the event that a re-calculation of the authorized charge for any period prior to October 12, 2011 is necessary.

Note: For GST/HST purposes, any possible future adjustments are subject to GST/HST applied in a manner consistent with the original tax treatment

Effective October 12, 2011, the Enhanced Day-Ahead Commitment Process will go into service. As a result, several existing *charge types* will either expire or be replaced.

Charge types to be replaced with *charge type* 1131 – Intertie Offer Guarantee Settlement Credit-Energy:

- Intertie Offer Guarantee Settlement Credit – Energy (*charge type* 130);
- Day-Ahead Intertie Offer Guarantee Settlement Credit (*charge type* 1130); and
- Intertie Offer Guarantee Reversal (*charge type* 1137).

Intertie Offer Guarantee (IOG) is paid to suppliers of imported *energy* to compensate them for net profit losses. These losses arise because of discrepancies between the (a) accepted *offer* (import) prices from the day-ahead *pre-dispatch of record* or the real-time *pre-dispatch schedule*, and (b) the provisional *market prices* from the day-ahead or the real-time *market schedules*.

Where a supplier has is paid IOG for the same hour in both the *real-time markets* and day-ahead markets, the Intertie Offer Guarantee Reversal (*charge type* 1137) will reverse the lower of the two payments.

These payments to suppliers will mirror the tax treatment of the suppliers' sale of *energy* into the *IESO-controlled grid*. Consequently, they will be subject to HST, including sales by non-resident *market participants*.

Expired *charge types*:

- Intertie Failure Charge Reversal (*charge type* 1139)

If a *market participant* fails to import or export their *energy* as scheduled they will incur a failure charge. If they fail an import in both the day-ahead commitment process and the *real-time market* for the same hour, an *intertie* failure charge reversal will apply to reverse the smaller of the two charges.

For HST purposes, *charge type* 1139 is considered to be a downward adjustment to the amounts previously paid to the suppliers of these services, and are subject to the same HST treatment as the original payments.

Charge type to be replaced with *charge types* 1500 through 1505, 1510

- Day-Ahead Cost Guarantee Payment (*charge type* 1133)

This payment by the *IESO* provides a market incentive and mechanism for available spare generation to be on-line. There would be a guarantee of recovery of start-up and minimum generation costs for domestic *generation facilities* participating in this voluntary program. The *IESO* compares the sum of revenues of the *market participant's combined guaranteed costs* with the sum of market revenues. If the sum of market revenues is less than the day-ahead *combined guaranteed costs*, the *IESO* will pay the *market participant* the difference, thus guaranteeing the recovery of those costs for the *generation facility*.

HST Treatment

This is considered to be a payment for intangible personal property (IPP) for use in Ontario and will be subject to HST, when paid to *market participants* whether in Canada or the USA. However, for technical reasons this program is only available to Ontario *generators*.

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