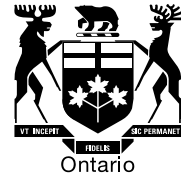


Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



BY E-MAIL & WEB POSTING

July 25, 2016

**TO: All Licensed Electricity Distributors
IESO**

**RE: Accounting Guidance on Capacity Based Recovery (previously called
Capacity Based Demand Response)**

On June 16, 2016 the OEB issued the [Draft Accounting Guidance](#) on the Capacity Based Recovery for comment from distributors and the IESO. All comments received were considered and incorporated into the final document as deemed appropriate. Today the OEB is issuing the final Accounting Guidance on the Capacity Based Recovery.

Any questions relating to this letter or your application should be directed to Raj Sabharwal at 416-440-7694 or rajvinder.sabharwal@ontarioenergyboard.ca.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary

Accounting Guidance

Capacity Based Recovery

Program Background:

In April 2015, the IESO established charge types (CT) 1350 and 1351 to recover the costs of a transitional initiative which brings contracted demand response (DR) providers from the Demand Response 3 (DR3) program into the wholesale energy market. The transitional initiative is called Capacity Based Demand Response or CBDR and the charge types were labelled with this name. The initiative was intended to be transitional until such time as the IESO could develop the annual DR Auction as part of the ongoing effort to expand Ontario's ongoing re-procurement of DR capabilities to a more cost-effective, market based platform.

The initiative provides availability and utilization payments to both aggregated and individual loads who are capable of reducing their consumption at times of peak demand and when it is cost-effective for them to do so.

In March 2015, approximately 500 MW were procured under CBDR. As of May 2016, 367 MW of demand response capacity has expired from the CBDR initiative and the balance will expire in 2018.

In July 2015 the IESO procured 80 MW under a second initiative called the Demand Response Pilot Program. In May 2016, these 80MW came into service. In December 2015 367 MW were procured through a third initiative (the DR auction), and these MW also came into service in May 2016. The ongoing re-procurement of DR will take place through subsequent auctions.

The megawatts under these DR initiatives are not procured under any CDM program as defined in the global adjustment (GA) regulation (O.Reg. 429/04) as the IESO did not have authority to bill market settlement amounts to GA without a change in regulation. Since the IESO was creating a market mechanism under the market rules it could recover the costs of this market program through uplift charges under CTs.

The costs of all three demand response initiatives (approximately 133 MW for CBDR, 80 MW for the DR pilot program, and 367 MW for the DR auction) are recovered by the IESO under CTs 1350 and 1351.

The IESO changed the name of the CTs 1350 and 1351 in December 2015 to Capacity

Based Recovery (CBR). Consequently, the OEB has also renamed its regulatory accounts.

CBR recovery is allocated in the same manner as GA (i.e. recovering peak capacity-related costs in a manner that is tied to the contribution of various consumers to peak-capacity resources).

General:

Account 1580 CBR sub-accounts are Group 1 variance accounts and distributors are expected to adopt the guidance set out below and propose their disposition as part of Group 1 deferral and variance accounts pursuant to the application process established by the OEB.

Carrying charges apply to the CBR sub-accounts.

The Supplementary Decision and Order (EB-2016-0193) dated June 16, 2016 supersedes the tariff sheets for the purpose of WMSR billings of Class A customers until the distributors' revised tariffs are issued through their next rate proceedings.

1. CBR for Class B

Billings (revenues) to be recorded in Account 4062 Billed - WMS, Sub-account CBR Class B

Effective January 1, 2016:

The WMSR of 0.36¢/kWh, which includes the CBR rate of 0.04¢/kWh, has been in effect since January 1, 2016. Distributors are to record WMS revenues on all consumption effective January 1, 2016 and onwards for Class B customers, excluding Wholesale Market Participants, in the following manner:

- Billed WMS revenues of \$0.0032/kWh to Account 4062 Billed - WMS
- Billed WMS revenues of \$0.0004/kWh to Account 4062 Billed - WMS, Sub-account CBR Class B

Before January 1, 2016:

As there was no CBR component included in the WMS rate in 2015, there should be no entries in Account 4062 Billed - WMS, Sub-account CBR Class B in 2015.

Costs (charges) to be recorded in Account 4708 Charges - WMS, Sub-account CBR Class B

Distributors must follow the guidance provided in the OEB letter dated June 4, 2015 for recording costs in this sub-account. According to that guidance, CT 1351 for CBR for Class B Loads is recorded in Account 4708 Charges – WMS, Sub-account CBR Class B. The June 4, 2015 letter can be accessed [here](#) for convenience.

Variances to be recorded in Account 1580 Variance - WMS, Sub-account CBR Class B:**Effective January 1, 2016:**

The variance in this account should capture the difference between the billed WMS revenues of \$0.0004/kWh booked in Account 4062 Billed - WMS, Sub-account CBR Class B and the charges from the IESO booked in Account 4708 Charges - WMS, Sub-account CBR Class B.

Before January 1, 2016:

No revenue was collected from customers for CBR prior to January 1, 2016 since the CBR component was not embedded within the WMS rate in 2015. All costs paid for CBR for Class B customers for the consumption period from April 1, 2015 to December 31, 2015 would have been recorded in Account 1580 Variance - WMS, Sub-account CBR Class B.

2. CBR for Class A**Billings (revenues) to be recorded in Account 4062 Billed - WMS, Sub-account CBR Class A****Effective the first billing period following the date of the Supplementary Decision Order:**

Distributors must bill Class A customers their share of the actual CBR charge (i.e. equal to CT 1350 on the IESO invoice) based on their respective PDF. Wholesale Market Participants are billed by the IESO for CBR.

All amounts billed to Class A customers must be recorded in Account 4062 Billed - WMS, Sub-account CBR Class A. The amount booked to Account 4062 should be

equal to the amount booked in Account 4708, so there would be no variance recorded in Account 1580 for Class A CBR.

Effective January 1, 2016 to the first billing period following the date of the Supplementary Decision and Order:

The WMS rate of 0.36¢/kWh, which includes the CBR rate of 0.04¢/kWh, has been in effect since January 1, 2016. Distributors must record WMS revenues on all 2016 consumption billed up to the first billing period following the date of the Supplementary Decision and Order to Class A customers in the following manner:

- Billed WMS revenues of \$0.0032/kWh to Account 4062 Billed - WMS
- Billed WMS revenues of \$0.0004/kWh to Account 4062 Billed - WMS, Sub-account CBR Class A

Before January 1, 2016:

As there was no CBR component included in the WMS rate in 2015, there should be no entries in Account 4062 Billed - WMS, Sub-account CBR Class A in 2015.

Costs (charges) to be recorded in Account 4708 Charges - WMS, Sub-account CBR Class A

Costs recorded under CT 1350 for CBR for Class A Loads are recorded in Account 4708 Charges – WMS, Sub-account CBR Class A. Distributors must follow the guidance provided in the OEB letter dated June 4, 2015 for recording costs in this sub-account.

Variances to be recorded in Account 1580 Variance - WMS, Sub-account CBR Class A

Given that the CBR component was not embedded within the WMS rate in 2015, no CBR revenue was collected for Class A customers in 2015. Therefore, all costs paid for CBR for Class A for the consumption period from April 1, 2015 to December 31, 2015 would have been recorded in Account 1580 Variance - WMS, Sub-account CBR Class A.

In addition, there would be additional variances recorded in this sub-account for the period from January 1, 2016 to the date of the first billing after the Supplementary Decision and Order to Class A customers. These variances would be the difference between the billings at \$0.0004/kWh and the actual CBR cost related to Class A customers for 2016.

No new variances would have been recorded starting from the first billing after the Supplementary Decision and Order, as Class A would have been billed on actuals.

3. Treatment of Account 1580, CBR sub-accounts

Treatment of Account 1580 Variance– WMS Sub-account CBR Class A:

For the period of April 1, 2015 to the date of the Supplementary Decision and Order, distributors should apply billing adjustments equal to the difference between the CBR billed by the LDC (\$0 in 2015 and \$0.0004/kWh in 2016) and the CBR charged by the IESO, plus applicable carrying charges on the transactions. The calculation of the billing adjustment is set out in the sections below. The total of the billing adjustments should equal the balance in Account 1580 Variance – WMS, Sub-account CBR Class A, including carrying charges. Once the billing adjustment is processed, the balance in the sub-account should be \$0.

Billing Adjustment Calculation for 2016 Variance in Account 1580 Variance – WMS Sub-account CBR Class A:

Distributors must calculate the billing adjustment as follows:

- For each Class A customer, calculate their allocation of the CBR cost based on their specific proportion of the total 2016 PDF.
- Calculate the amount billed to each Class A customer for CBR based on \$0.0004/kWh on their consumption.
- Calculate the billing adjustment (before carrying charges) as the difference between the above two amounts.
- Allocate the carrying charges in Account 1580 Variance – WMS, Sub-account CBR Class A to each Class A customer on a pro rata basis of the Class A customer's specific proportion of the total PDF.
- Apply the 2016 billing adjustment, including carrying charges, (netted with the 2015 billing adjustment - see below) on the Class A customers' bills by the first available billing month.

Billing Adjustment Calculation for 2015 Variance in Account 1580 Variance – WMS, Sub-account CBR Class A:

Distributors must calculate the billing adjustment as follows:

- For each Class A customer, calculate their allocation of the CBR cost based on their specific proportion of the total 2015 PDF.
- Allocate the carrying charges in Account 1580 Variance – WMS, Sub-account CBR Class A to each Class A customer on a pro rata basis of the Class A customer's specific proportion of the total PDF.
- Apply the 2015 billing adjustment, including carrying charges, netted with the 2016 billing adjustment to the Class A customers' bills by the first available billing month.

Disposition of Variances Recorded for Year 2015 in 2017 Rate Applications:

Distributors are expected to file for disposition of Group 1 deferral and variance accounts pursuant to the applications process established by the OEB. Distributors are expected to report Account 1580 Variance – WMS, Sub-account CBR Class A and Class B on their continuity schedules. However, only Class B balances will be disposed through the rate proceedings.

Disposition of Account 1580 – Variance WMS, Sub-account CBR Class B

- If the distributor does not serve Class A customers, it must transfer the non-WMP Class B variance balance into the WMS Control account for disposition. The rate models for deferral and variance accounts perform this transfer automatically and calculate the rate riders accordingly; when the distributor indicates that it does not serve Class A customers.
- If the distributor does serve Class A customers, it must allocate and calculate the volumetric rate riders in the application for non-WMP Class B customers independently of the deferral and variance account rate models. If the rate riders calculated are insignificant (i.e. more than 4 decimal places), the distributor should propose to transfer the balance in Sub-account CBR Class B into Account 1595 (2017) to be disposed in a future proceeding.