

**Ontario Energy
Board**

P.O. Box 2319
2300 Yonge Street
27th Floor
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
2300, rue Yonge
27^e étage
Toronto ON M4P 1E4
Téléphone: 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273



BY EMAIL AND WEB POSTING

March 29, 2016

To: All Licensed Electricity Distributors

Re: **Guidance on Wholesale Market Services Accounting for Capacity Based Demand Response (CBDR) and new IESO Charge Type 9920**

This letter provides further guidance on the treatment of CBDR charges and new guidance on a one-time credit arising from the IESO's settlement dispute process.

Capacity Based Demand Response (CBDR)

In May 2015, the IESO introduced a new wholesale market service charge to recover costs associated with contracted demand response providers active in the wholesale energy market. The program is known as CBDR.

The OEB has responsibility for establishing a wholesale market service (WMS) rate charged by distributors to recover the costs of wholesale market activities from their customers. The WMS rate-setting process is largely a mechanistic exercise based on forecasts provided from the IESO and other inputs. In setting the rate for the CBDR, the OEB used the average actual over the May 2015 to September 2015 period. The OEB issued a Decision and Order¹ (the Order) on November 19, 2015 to set the new WMS rate at \$0.0036 per kWh. This includes a CBDR rate of \$0.0004 per kWh.

The OEB provided regulatory accounting guidance on the new charge types related to CBDR for Class A and Class B customers in a letter dated June 4, 2015. This letter identified the USoA Sub-accounts where the distributors are to record the CBDR charges, revenues, and variances. An updated list of charge types related to wholesale market services was attached to the June 2015 letter.

¹ EB-2015-0294

Distributors are directed to record the Billed WMS revenues in the following manner so the CBDR revenues for Class A and Class B customers are tracked separately:

- Billed WMS revenues of \$0.0032 per kWh to Account 4062 Billed - WMS
- Billed WMS revenues of \$0.0004 per kWh to Account 4062 Billed - WMS, Sub-account CBDR Class A
- Billed WMS revenues of \$0.0004 per kWh to Account 4062 Billed - WMS, Sub-account CBDR Class B

Avoiding Future True Ups: Adjustment to CBDR for Class A Customers

CBDR costs vary by the settlement period. Class A loads that are wholesale market participants are charged CBDR costs in proportion to their contribution to peak, using the Global Adjustment (GA) methodology. The rules relating to the calculation and billing of the GA are set out in a regulation under the Electricity Act, 1998 (O. Reg. 429/04).

Since the WMS rate is based on a forecast and CBDR costs vary, distributors who serve Class A customers that are not market participants need to take steps during each settlement period to ensure that Class A customers pay the amounts which more closely reflect their proportion of costs. This will avoid the requirement for customized and complex true-ups at a later date. Accordingly, effective for April 2016 billings, and for the purpose of billing Class A customers that are not wholesale market participants, distributors are directed to calculate and apply a monthly adjustment to the eligible Class A customer bills as follows:

- a) Amount 1: the amount billed to the eligible Class A customer in accordance with the Order
- b) Amount 2: the amount to be recovered from the Class A customer for the period, based on the customer's peak demand factor
- c) Adjustment Calculation: $\text{Adjustment} = \text{Amount 1} - \text{Amount 2}$
- d) Apply Adjustment Amount calculated in c) above to eligible Class A customers' bills. For example, if the amount charged to a Class A customer per the Order is \$1,000, and the amount for the period based on the customer's peak demand factor is \$200, then a credit of \$800 should be applied as an adjustment to the customer's bill.

The Adjustment calculated in c) above will be recorded in Account 4062 Billed - WMS, Sub-account CBDR Class A so that going forward in any given month the variance

arising from new transactions in Account 1580 Variance - WMS, Sub-account CBDR Class A will be zero.

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 continue to report Account 1580 Variance - WMS, Sub-account CBDR Class A in their continuity schedules and must provide detailed explanations for any time periods where this account balance is not zero.

Distributors seeking to dispose of Account 1580 in an upcoming application may be expected to demonstrate that they have given consideration to the appropriate disposition of any balance in the Class A-related sub account arising from transactions that may pre-date this communication. Additional guidance will be included in the upcoming filing requirements for 2017 rate applications.

New Charge type 9920 on February 2016 IESO invoices

Distributors received a credit from the IESO under the charge type 9920 Adjustment Account Credit on their February 2016 invoices. The IESO's Adjustment Account was established to receive and disburse payments from penalties, damages, fines and payment adjustments arising from resolved settlement disputes, and to reimburse the IESO for any associated costs or expenses. The IESO annually reviews the allocation of any credit balance (surplus) in the IESO adjustment account. The IESO may distribute some or all of the credit balance to market participants as a rebate².

The IESO Adjustment Account credit paid on February invoices was \$77.3 million. Market participants received their pro-rata share based on the total allocated quantity of energy withdrawn (AQEW) for consumers, or the scheduled quantity of energy withdrawn (SQEW) for exporters, over the six months from September 2015 to February 2016.

For the purpose of regulatory accounting, the OEB requires distributors to record this credit in Account 4708 Charges - WMS.

Other Matters

An updated list of IESO charge types that are recorded in Account 4708 Charges - WMS has been provided in Appendix A. In addition to the new charge type noted above, charge type 1470, Ontario Electricity Support Program Balancing Amount has also been added pursuant to the OEB's Order on regulatory charges. New charge types are highlighted.

² IESO News March 3, 2016

Any questions relating to this letter should be directed to Raj Sabharwal at Rajvinder.sabharwal@ontarioenergyboard.ca or at 416-440-7694. The Board's toll-free number is 1-888-632-6273.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary

Attachment: Appendix A – List of IESO Charge Types

Appendix A

LIST OF IESO CHARGE TYPES
To be recorded in Electricity USoA Account 4708, Charges WMS
Revised March 29, 2016

| IESO Charge Type Number | IESO Charge Type Name of Non-Competitive Wholesale Market Electricity (WMS) Service Charges |
|---|---|
| 150 | Net Energy Market Settlement Uplift <ul style="list-style-type: none"> • Line Losses • Intertie Offer Guarantee (IOG) and Day-ahead IOG |
| 155 | Congestion Management Settlement Uplift |
| 201 203 205 250 252 254 450 451 452 454 550 | Ancillary Services 10 Minute Spinning Reserve Market Shortfall Rebate 10 Minute Non-spinning Reserve Market Shortfall Rebate 30 Minute Operating Reserve Market Shortfall Rebate 10 Minute Spinning Market Reserve Hourly Uplift 10 Minute Non-Spinning Market Reserve Hourly Uplift 30 Minute Operating Reserve Market Hourly Uplift Black Start Capability Settlement Debit Hourly Reactive Support and Voltage Control Settlement Debit Monthly Reactive Support and Voltage Control Settlement Debit Regulation Service Settlement Debit Must Run Contract Settlement Debit |
| 102 118 163 164 165 166 167 168 169 170 183 | Other Charges Transmissions Rights Clearing Account Credit Emergency Energy Rebate Additional Compensation for Administrative Price Debit Outage Cancellation/Deferral Debit Unrecoverable Testing Costs Debit Tieline Reliability Maintenance Debit Emergency Energy Debit Transmission Rights Market Shortfall Debit Station Service Reimbursement Debit Local Market Power Rebate Generation Cost Guarantee Recovery Debit |

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|----------------------------|---|
| 186 | Intertie Failure Charge Rebate |
| 460 | IESO Controlled Grid Special Operations Debit |
| 700 | Dispute Resolution Settlement Credit |
| 750 | Dispute Resolution Settlement Debit |
| 751 | Dispute Resolution Board Service Debit |
| 850 | Market Participant Default Settlement Debit |
| 851 | Market Participant Default Interest Debit |
| 1131 | I/O Settlement |
| 1188 | Day Ahead Fuel Cost Compensation Debit |
| 1350 | Capacity Based Demand Response (CBDR) Program Recovery Amount for Class A Loads |
| 1351 | CBDR Program Recovery Amount for Class B Loads |
| 1463 | Renewable Generation Connection – Monthly Compensation Settlement Debit |
| 1470 | Ontario Electricity Support Program Balancing Amount |
| 1550 | Enhanced Day Ahead Commitment – Production Cost Guarantee |
| 1560 | Enhanced Day Ahead Commitment - Generation Withdrawal Charge |
| 1650 | Forecasting Service Balancing Amount |
| Administration Fees | |
| 753 | Rural Remote Settlement |
| 754 | OPA Administration Charge |
| 9920 | IESO Adjustment Account |
| 9990 | IESO Administration Charge |