



Ontario Energy Board Commission de l'énergie de l'Ontario

DECISION AND ORDER

EB-2018-0294

**In the matter of regulatory charges effective January 1, 2019, for
the Wholesale Market Services rate and the Rural or Remote
Electricity Rate Protection charge**

BY DELEGATION, BEFORE: Theodore Antonopoulos

DECEMBER 20, 2018

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1 INTRODUCTION AND SUMMARY

Every year, the Ontario Energy Board (OEB) sets the rates that all licensed and rate-regulated Ontario distributors charge their customers in order to recover certain Ontario-wide costs. The rates recover the costs of the day-to-day operations of the electricity market, support system planning and administration, and fund certain provincial rate assistance programs.

The largest of these rates is known as the wholesale market service (WMS) rate. The WMS rate is the rate set by the OEB for electricity distributors to charge their customers in order to recover the WMS charges by the Independent Electricity System Operator (IESO). WMS charges recover the cost of the services provided by the IESO to operate the electricity system and administer the wholesale market. The IESO charges all entities that participate in its wholesale market the actual market service costs that vary from month to month. Individual electricity distributors recover the WMS charges from their customers through a WMS rate, which is the same for all distributors unless they file an application for a different rate based on their unique circumstances. The WMS rate is set with consideration of historical wholesale market costs as well as for factors that might influence the upcoming period. The current WMS rate, which has been in place since January 1, 2016, is \$0.0036 per kilowatt-hour.

The second of these regulatory charges reviewed annually by the OEB is the rural or remote electricity rate protection (RRRP) charge. This charge funds the RRRP program, established by regulation by the provincial government. The RRRP is designed to reduce costs for eligible customers located in rural or remote areas, where the costs of distributing electricity to these customers is higher. Pursuant to Ontario Regulation 442/01 (the RRRP Regulation), made under the *Ontario Energy Board Act, 1998* (the OEB Act), the RRRP program cost is recovered from all electricity consumers in the province through a charge that is reviewed annually and approved by the OEB. As a result of changes to the RRRP Regulation, which took effect on July 1, 2017, the cost of providing RRRP to eligible customers of Hydro One Networks Inc. was shifted to provincial revenues. The OEB therefore re-set the charge. The current RRRP charge, which has been in place since July 1, 2017, is \$0.0003 per kilowatt-hour.

This Decision establishes the RRRP charge at \$0.0005 per kilowatt-hour, \$0.0002 per kilowatt-hour higher from the current level, and the WMS rate (including Capacity Based Recovery (CBR)) at \$0.0034 per kilowatt-hour, \$0.0002 per kilowatt-hour lower from the current level. This results in offsetting changes to the two charges and, as a result, it is estimated that there will be no impact on customer bills.

These charges appear on the tariffs of rates and charges of all licensed Ontario electricity distributors and are reflected in the Regulatory Charge on customers' bills.

2 THE PROCESS

The calculations of the WMS rate and the RRRP charge are largely mechanistic exercises. The IESO provides the OEB with forecasts of energy consumption for the upcoming year to calculate certain rates as required by regulations. Information on costs comes from prior OEB decisions and the IESO. Accordingly, this Decision and Order is being issued by Delegated Authority without a hearing pursuant to section 6(4) of the OEB Act. The rates established in this Decision will be effective January 1, 2019.

3 WHOLESALE MARKET SERVICES

Customers of the wholesale electricity market (including electricity distributors) pay WMS charges to the IESO. WMS charges recover the cost of services required to operate the electricity system and administer the wholesale market. These charges include the costs of items such as operating reserve, certain market costs related to system congestion and imports, as well as other costs such as losses on the IESO-controlled grid. Individual electricity distributors recover the WMS charges from their customers through the WMS rate, which is authorized by the OEB under section 78 of the OEB Act.

WMS Rate Methodology

The WMS rate is intended to compensate distributors for the charges they receive from, and pay to, the IESO for the cost to operate the electricity system and run the wholesale market. The difference between the IESO's charges to a distributor and the payments received by the distributor from its customers is recorded in Account 1580 of the Uniform System of Accounts. Any audited balances within Account 1580 are generally considered for disposition in the distributor's next rate application.¹

Determining the WMS Rate

In its last decision regarding the WMS rate², the OEB maintained the WMS rate at the level of \$0.0036 per kilowatt-hour effective January 1, 2018, for Class B customers, including a CBR component of \$0.0004. For Class A customers, distributors bill their share of the actual CBR charge based on their contribution to peak.

While the WMS charge billed by the IESO over the 10-month period from January 1, 2018 to October 31, 2018 has fluctuated from month to month, the weighted average WMS charge including CBR³ for the period is \$0.0037 per kilowatt-hour (the weighted average CBR charge is \$0.0004 per kilowatt-hour). The previous decision on the WMS charge⁴ stated that the weighted average WMS charge including CBR for January 1,

¹ OEB policy requires that Group 1 accounts be disposed if they exceed (as a debit or credit) a pre-set disposition threshold of \$0.001 per kWh, unless a distributor justifies why balances should not be disposed. If the balance does not exceed the threshold, a distributor may elect to request disposition.

² Decision and Order in the matter of regulatory charges, EB-2017-0333, December 20, 2017.

³ The weighted average WMS charge including CBR is calculated by summing up the weighted monthly WMS charge net of RRRP charge, including the CBR. The weighted monthly WMS charge is derived from the monthly WMS charge net of RRRP charge posted by the IESO multiplied by the weight of the monthly Ontario demand for the specific month.

⁴ Decision and Order in the matter of regulatory charges, EB-2017-0333, December 20, 2017.

2017 to October 31, 2017 is \$0.0034 per kilowatt-hour. If the WMS charges in November and December 2017 are included, the weighted average WMS charge including CBR for 2017 declines to \$0.0031 per kilowatt-hour. The further decrease is mainly attributable to the negative WMS charge in November 2017 mostly due to market rebates and adjustments. The IESO's 2019 forecasted consumption in Ontario has dropped slightly from the 2018 forecast to 134.7 terawatt-hours, including transmission line losses.⁵

A review of the WMS charges for the period from 2011 to 2018 indicates that the years of 2011 to 2013 inclusive, 2015⁶ and 2017 have seen over-collections by distributors because the WMS rates exceeded the weighted average WMS charges. In 2014, 2016, and 10 months of 2018, the OEB's WMS rates slightly exceeded the weighted average WMS charges applied by the IESO.

Table 1, below, sets out the accumulated balances in Account 1580 as at year ends of 2013 to 2017 inclusive, each of which is a credit.

Table 1: Account 1580 Balances

Accumulated Balance as at Dec 31 of each year (\$ in millions)	2013	2014	2015	2016	2017
	-\$341	-\$280	-\$386	-\$482	-\$358

The OEB has reduced the WMS rate twice in the past. In its 2014 regulatory charge decision⁷, the OEB reduced the WMS rate from \$0.0052 per kilowatt-hour to \$0.0044 per kilowatt-hour effective May 1, 2013 primarily in light of a history of significant over-

⁵ The forecasted transmission line losses were included because the WMS charges include the costs of items such as operating reserve, certain market costs related to system congestion and imports, as well as other costs, such as losses on the IESO-controlled grid.

⁶ The weighted average WMS charge, net of the RRRP, in 2015 was \$0.0025 per kilowatt-hour, which was below the OEB WMS rate of \$0.0044 per kilowatt-hour in 2015. The relatively low weighted average WMS charge in 2015 was mainly attributed to the negative monthly uplift charge that is part of the WMS charge for a number of months in 2015 (March to August and November). The IESO explained that a negative uplift indicates that the market receives a rebate such that it resulted in a net credit. The rebates are generally attributed to transmission rights clearing, reimbursements from the adjustment account or other corrective settlements resulting in a credit to the market.

⁷ EB-2013-0067

collection. In its 2016 regulatory charge decision⁸, the OEB reduced the WMS rate from \$0.0044 per kilowatt-hour to \$0.0036 per kilowatt-hour, effective January 1, 2016.

Findings

Given the persistent credit balance in Account 1580 and that the weighted average WMS charges have been below the WMS rates charged to customers by electricity distributors for five out of the last seven complete years, the OEB finds that the WMS rate effective January 1, 2019 shall be reduced. However, due to the uncertainty with respect to the level of the IESO's WMS charges in the future, the impact of the market renewal program, and the frequency and impact of future dispositions of electricity distributors' Account 1580 balances, the quantum of the reduction should not be large, and certainly not to the levels of previous reductions.

For the reasons outlined later in this Decision, the OEB is increasing the RRRP charge by \$0.0002 per kilowatt-hour. Having decided that the WMS rate for 2019 should be reduced, the OEB finds that it is reasonable for this reduction to be set at \$0.0002 per kilowatt-hour, thus offsetting the RRRP charge increase. Together, the changes result in no rate impacts for customers. The OEB will therefore set the WMS rate at \$0.0034 per kilowatt-hour, including a CBR component of \$0.0004 per kilowatt-hour.

Account 1580 records the difference between distributors' actual costs and the amount collected from customers at this rate. The December 31, 2018 balances in this account will be filed with the OEB by April 30, 2019. The OEB will monitor the balances in Account 1580 as well as the WMS charges by the IESO to evaluate if a further adjustment to the WMS rate is warranted.

⁸ EB-2015-0294

4 RURAL OR REMOTE ELECTRICITY RATE PROTECTION

Currently, all customers in Ontario pay the OEB-approved RRRP charge based on how much electricity they consume. The total amount collected through the RRRP is a source of revenue for identified rural or remote electricity distributors whose costs are higher because they serve small numbers of customers over large geographic areas or in remote regions. The RRRP revenue allows them to reduce the amount they would otherwise have to charge eligible customers for distribution service.

The OEB approves a RRRP requirement amount to be collected from electricity distributors by the IESO each year. The OEB also approves a charge that the IESO applies in order to recover the RRRP requirement amount from all customers in the province. Electricity distributors in turn levy an OEB-approved retail RRRP charge to recover the RRRP amount paid to the IESO. The OEB last approved a RRRP charge of \$0.0003 per kilowatt-hour⁹, effective January 1, 2018 to December 31, 2018, on December 20, 2017 for both the IESO and retail charges.

The RRRP requirement for 2019 is shown in the table below. The Hydro One Networks Inc. portion of the RRRP, which as of July 1, 2017 is being recovered through the tax base due to amendments to the RRRP regulation, is no longer included in the total.

⁹ Decision and Order in the matter of regulatory charges, EB-2017-0333, December 20, 2017.

Table 2: Calculation of RRRP Requirement for 2019

Inputs for 2019 RRRP Requirement	(\$ in millions)
IESO Estimated under collection (in 2018)	\$ 19.5513
Hydro One Networks Inc.	\$ -
First Nations (O. Reg. 442/01, schedule 1)	\$ 1.6
Algoma Power ¹⁰	\$ 12.5411
Hydro One Remote Communities Inc. ¹¹	\$ 38.187
2019 RRRP Requirement Total	\$ 71.8794

Determining the January 1, 2019 RRRP charge

The RRRP amount required to be collected from ratepayers for 2019 is \$71.8794 million. The IESO's full-year 2018 energy forecast excluding the transmission line losses is 131.7 terawatt-hours. The resulting RRRP charge would be \$0.00055 per kilowatt-hour or \$0.0006 when rounded to the standard four decimal places.

Any over- or under-recovery of the total RRRP amount recovered in 2019 through ratepayer funds by the IESO shall continue to be tracked in the variance account held by the IESO. As required under subsections 5(12) and (13) of the RRRP Regulation, the OEB will include any future variance account balance when it assesses the RRRP charge for 2019.

Findings

The OEB finds that, for electricity consumed on or after January 1, 2019, the RRRP charge will be increased to \$0.0005 per kilowatt-hour. The 2019 RRRP charge will be lower than the calculated (rounded) RRRP amount of \$0.0006 per kilowatt-hour. If the OEB were to set the charge at \$0.0006 per kilowatt-hour, the balance in the IESO

¹⁰ \$12.8867 million approved in EB-2018-0017 dated December 13, 2018 less the 2018 overpayment of \$0.35 million made by the IESO to Algoma Power due to the timing of the decisions (the 2018 regulatory charge Decision EB-2017-0333 ordered the IESO to pay Algoma Power of \$13.5 million in 2018 based on Algoma Power's 2017 Decision EB-2016-0055 while the RRRP requirement approved in Algoma Power's 2018 Decision EB-2017-0025 was \$13.1544 million).

¹¹ \$35.223 million approved in its 2018 Decision EB-2017-0051 plus the 2018 shortfall of \$2.964 million due to the timing of the decisions (the 2018 regulatory charge Decision EB-2017-0333 ordered the IESO to pay Hydro One Remotes \$32.259 million while the RRRP requirement approved in 2018 Decision EB-2017-0051 was \$35.223 million).

variance account would be disposed within a year with a potential reduction to the RRRP charge required for January 1, 2020, if not earlier. If the OEB does not increase the RRRP charge for 2019, the forecasted balance that the IESO would carry in the variance account could exceed \$32 million as at end of 2019. The OEB finds that the charge should be increased enough so that, on balance, the accumulation in the IESO variance account is stemmed, disposition of the amount (which is significant) is commenced and that the potential for stability in the charge going forward is maximized.

The IESO RRRP variance account records the difference between the benefit amounts paid to eligible distributors and the amount collected from customers. With the increase of \$0.0002 per kilowatt-hour, the shortfall accumulated in the IESO RRRP variance is estimated to be cleared in approximately one and a half years. As noted earlier in this Decision, the OEB reviews the RRRP charge at least once annually and will consider whether any further changes to the charge should be made at the next review.

The RRRP retail charge distributors bill to their customers shall also be increased to \$0.0005 per kilowatt-hour effective with January 1, 2019 consumption.

5 ORDER

Attached to this Decision and Order as Schedules A and B are communications to the IESO regarding the RRRP, and to distributors and retailers regarding the RRRP charge and WMS rate for January 1, 2019, respectively.

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. The WMS rate used by rate-regulated distributors to bill their customers shall be \$0.0030 per kilowatt-hour, effective January 1, 2019. For Class B customers, a CBR component of \$0.0004 per kilowatt-hour shall be added to the WMS rate for a total of \$0.0034 per kilowatt-hour. This unit rate shall apply to a customer's metered energy consumption adjusted by the distributor's OEB-approved Total Loss Factor. For Class A customers, distributors shall bill the actual CBR costs to Class A customers in proportion to their contribution to peak.
2. The IESO's RRRP charge to rate-regulated distributors shall be \$0.0005 per kilowatt-hour for electricity consumed on or after January 1, 2019.
3. The RRRP charge used by rate-regulated distributors to bill their customers shall be \$0.0005 per kilowatt-hour for electricity consumed on or after January 1, 2019. This unit rate shall apply to a customer's metered energy consumption adjusted by the distributor's OEB-approved Total Loss Factor.

DATED at Toronto, December 20, 2018

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

SCHEDULE A
EB-2018-0294
COMMUNICATION TO THE IESO
DECEMBER 20, 2018

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EB-2018-0294

BY EMAIL

December 20, 2018

Tam Wagner
Senior Manager, Regulatory Affairs
Independent Electricity System Operator
120 Adelaide Street West
Suite 1600
Toronto ON M5H 1T1

Dear Ms. Wagner:

Re: Rural or Remote Electricity Rate Protection

On December 20, 2018 the Ontario Energy Board (OEB) issued its Decision and Order in proceeding EB-2018-0294 which set the Ontario Wholesale Market Service (WMS) rate and the Rural or Remote Electricity Protection (RRRP) charge effective January 1, 2019.

Amount to be charged by the IESO for RRRP

The OEB has determined that effective January 1, 2019 the RRRP charge to be used by the IESO in order to collect the approved RRRP requirement amounts for eligible distributors shall be \$0.0005 per kilowatt-hour.

Yours truly,

Original Signed By

Kirsten Walli
Board Secretary

SCHEDULE B

EB-2018-0294

COMMUNICATION TO DISTRIBUTORS AND RETAILERS

DECEMBER 20, 2018

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EB-2018-0294

BY EMAIL

December 20, 2018

To: All Licensed and Rate-Regulated Electricity Distributors
All Licensed Electricity Retailers

Re: Wholesale Market Service Rate and Rural or Remote Electricity Rate Protection Charge

On December 20, 2018 the Ontario Energy Board (OEB) issued its Decision and Order in proceeding EB-2018-0294 which set the Ontario Wholesale Market Service (WMS) rate and the Rural or Remote Electricity Protection (RRRP) charge effective January 1, 2019.

Amount to be Charged by Distributors, and Retailers with Retailer-Consolidated Billing, for WMS

Effective January 1, 2019, the amount to be charged by distributors, and retailers with retailer-consolidated billing, to their customers with respect to the WMS rate for Class A customers shall be \$0.0030 per kilowatt-hour. For Class B customers, a Capacity Based Recovery component of \$0.0004 per kilowatt-hour is added to the WMS rate for a total of \$0.0034 per kilowatt-hour.

These unit rates shall apply to a customer's metered energy consumption adjusted by the distributor's OEB-approved Total Loss Factor.

Amount to be Charged by Distributors, and Retailers with Retailer-Consolidated Billing, for RRRP

Effective January 1, 2019, the amount to be charged by distributors, and retailers with retailer-consolidated billing, to their customers with respect to the RRRP shall be \$0.0005 per kilowatt-hour.

The unit rate shall apply to a customer's metered energy consumption adjusted by the distributor's OEB-approved Total Loss Factor.

Yours truly,

Original Signed By

Kirsten Walli
Board Secretary