



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

DECISION AND ORDER

EB-2019-0278

**In the matter of regulatory charges effective January 1, 2020, for
the Wholesale Market Services rate and the Rural or Remote
Electricity Rate Protection charge**

BY DELEGATION, BEFORE: Theodore Antonopoulos

DECEMBER 17, 2019

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1 INTRODUCTION AND SUMMARY

Every year, the Ontario Energy Board (OEB) sets the rates that all rate-regulated Ontario electricity distributors (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 distributors to charge their customers in order to recover the related 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 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 is \$0.0034 per kilowatt-hour.¹

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 is \$0.0005 per kilowatt-hour.²

¹ 2018 Regulatory Charges Decision and Order EB-2018-0294, issued December 20, 2018, reduced the WMS rate from \$0.0036 to \$0.0034 per kilowatt-hour.

² 2018 Regulatory Charges Decision and Order EB-2018-0294, issued December 20, 2018, increased the RRRP rate from \$0.0003 to \$0.0005 per kilowatt-hour.

This Decision and Order establishes the WMS rate (including Capacity Based Recovery (CBR)) at \$0.0034 per kilowatt-hour, which is the same as the current level and the RRRP charge at \$0.0005 per kilowatt-hour, which is also the same as the current level. As a result, there will be no impact on customer bills.

These charges appear on the tariffs of rates and charges of all 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 WMS rate and the RRRP charge established by this Decision and Order will be effective January 1, 2020.

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 administer 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 in the distributors' books. Any audited balances within Account 1580 are generally considered for disposition in the distributor's next rate application.³

Determining the WMS Rate

In its last decision regarding the WMS rate⁴, the OEB reduced the WMS rate from the level of \$0.0036 per kilowatt-hour to the level of \$0.0034 per kilowatt-hour effective January 1, 2019, 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, 2019 to October 31, 2019 has fluctuated from month to month, the weighted average WMS charge including CBR⁵ for the period is \$0.00347 per kilowatt-hour (the weighted

³ 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.

⁴ Decision and Order in the matter of regulatory charges, EB-2018-0294, December 20, 2018.

⁵ 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.

average CBR charge is \$0.0003 per kilowatt-hour). The previous decision on the WMS charge⁶ stated that the weighted average WMS charge including CBR for January 1, 2018 to October 31, 2018 to be \$0.0037 per kilowatt-hour. If the WMS charges in November and December 2018 were included, the weighted average WMS charge including CBR for 2018 would decline to \$0.0033 per kilowatt-hour. This decrease is mainly attributable to the negative WMS charge in November 2018, which was mostly due to market rebates and adjustments. The IESO's 2020 forecasted consumption in Ontario has increased slightly from the 2019 forecast of 135.6 to 135.9 terawatt-hours, including transmission line losses.⁷

A review of the WMS charges for the period from 2011 to 2019 indicates the following over/under-collection of the WMS costs in the sector:

Table 1: Under- / (Over-) Collection of WMS Costs (2011-2019)

In millions (\$)	2011	2012	2013	2014	2015	2016	2017	2018	2019 (January to October)
Under/(Over) Collection of WMS Costs⁸	(142)	(210)	(99)	22	(251)	(128)	(119)	(31)	14

Table 2, below, sets out the accumulated balances in Account 1580 as at year ends of 2013 to 2018 inclusive, each of which is a credit.

⁶ Decision and Order in the matter of regulatory charges, EB-2018-0294, December 20, 2018.

⁷ 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.

⁸ The under/(over)-collection of the WMS cost for the year is calculated as sum of monthly under/(over)-collection of the WMS costs in the year. The monthly under/(over)-collections of the WMS costs are calculated as the Ontario monthly demand multiplied by the variance between monthly WMS charge posted by the IESO and the WMS rate posted by the OEB.

Table 2: Account 1580 Balances (2013-2018)

In millions (\$)	2013	2014	2015	2016	2017	2018
Accumulated Balance as at Dec 31 of each year	-341	-280	-386	-482	-358	-271

A review of the distributors' deferral and variance accounts (DVAs) continuity schedules filed in the 2019 and 2020 rate applications indicates that the large credit balance accumulated as at the year ends may not represent an accurate picture of the over/under-collection of the WMS costs by all distributors in the sector. Table 3 below shows the approximate net transactions in Account 1580 from the review for the years of 2016 to 2018⁹:

Table 3: Account 1580 Net Transactions (2016-2018)

In Millions (\$)	2016	2017	2018
Net Transactions in Account 1580 (Per DVA continuity schedules)	-136	-137	-34

There are two principal reasons for the large differences between the accumulated balance as at December 31 of each year and Account 1580 net transactions. First, some distributors may not have transferred out the disposed balances in Account 1580 due to the reporting time of the balances. Second, some distributors may not have disposed the prior years' balances in Account 1580 – because either their net DVA balances did not meet the disposition threshold set by the OEB or there was a need for further review (or audit) of the balances.

The OEB has reduced the WMS rate three times in the past. In its 2014 regulatory charge decision¹⁰, 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

⁹ The net transactions in Account 1580 for the years of 2016 to 2018 are summarized based on the review of the DVAs continuity schedules filed in the distributors' 2020 rate applications, if available, and the DVAs continuity schedules approved in the 2019 decisions and orders. The amounts are approximate because certain assumptions have to be made regarding the transfer of the disposed amounts in Account 1580.

¹⁰ EB-2013-0067, March 21, 2013.

significant over-collection. In its 2016 regulatory charge decision¹¹, the OEB reduced the WMS rate from \$0.0044 per kilowatt-hour to \$0.0036 per kilowatt-hour, effective January 1, 2016. In its last year's regulatory charges decision¹², the OEB reduced the WMS rate from \$0.0036 per kilowatt-hour to \$0.0034 per kilowatt-hour.

Findings

The weighted average WMS charges in 2018 (\$0.0033 per kilowatt-hour) and in ten months of 2019 (\$0.00347 per kilowatt-hour) are very close to the current WMS rate (\$0.0034 per kilowatt-hour) charged to customers by electricity distributors. Given the OEB just reduced the WMS rate in its last regulatory charge decision¹³ and the likelihood of a further reduction of the 2019 weighted WMS charge after a market rebate that typically incurs toward the end of the year, the OEB finds that the WMS rate effective January 1, 2020 shall remain the same. 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 (paid to the IESO) and the amount collected from their customers at the approved WMS rate. The December 31, 2019 balances in this account will be filed by the distributors with the OEB by April 30, 2020. The OEB will monitor the balances and net transactions in Account 1580 as well as the WMS charges by the IESO to evaluate if an adjustment to the WMS rate is warranted in future.

¹¹ EB-2015-0294, November 19, 2015.

¹² EB-2018-0294, December 20, 2018.

¹³ *Ibid.*

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 (RRRP-eligible 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 their customers for distribution service.

The OEB approves the RRRP requirement amounts, set out in Table 4 below, for the RRRP-eligible distributors 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 \$0.0005 per kilowatt-hour¹⁴, effective January 1, 2019 to December 31, 2019, on December 20, 2018 for both the IESO and retail charges.

The RRRP requirement for 2020 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.

Table 4: Calculation of RRRP Requirement for 2020

Inputs for 2020 RRRP Requirement	In Millions (\$)
IESO Estimated under collection (in 2019)	7.0778
Hydro One Networks Inc.	-
First Nations (O. Reg. 442/01, schedule 1)	1.6
Algoma Power ¹⁵	13.9615
Hydro One Remote Communities Inc. ¹⁶	35.2230
2020 RRRP Requirement Total	57.8623

¹⁴ EB-2018-0294, December 20, 2018.

¹⁵ Algoma Power 2020 Cost of Service Decision and Order EB-2019-0019, Draft Rate Order, November 7, 2019, page 12. The draft rate order was confirmed in the final rate order issued on December 5, 2019.

¹⁶ Hydro One Remote 2018 Cost of Service EB-2017-0051, Final Rate Order, April 13, 2018.

Determining the January 1, 2020 RRRP charge

The RRRP amount required to be collected from ratepayers for 2020 is \$57.8623 million. The IESO's full-year 2020 energy forecast excluding the transmission line losses is 132.9 terawatt-hours. The resulting RRRP charge would be \$0.00044 per kilowatt-hour or \$0.0004 when rounded to the standard four decimal places.

Any over- or under-recovery of the total RRRP amount recovered in 2020 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 2020.

Findings

The OEB finds that, for electricity consumed on or after January 1, 2020, the RRRP charge will remain the same at \$0.0005 per kilowatt-hour. The 2020 RRRP charge will be higher than the calculated (rounded) RRRP amount of \$0.0004 per kilowatt-hour. If the OEB were to set the charge at \$0.0004 per kilowatt-hour (i.e. reduce the current RRRP charge by \$0.0001 per kilowatt-hour), the balance in the IESO variance account would have a small shortfall of approximately \$5 million. If the OEB does not reduce the RRRP charge for 2020, the forecasted balance in the IESO variance account would be a small surplus of \$8 million as at the end of 2020. The OEB finds that the charge should not be reduced at this time so 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 RRRP-eligible distributors and the amount collected from customers. As noted earlier in this Decision and Order, 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 that distributors bill to their customers shall also remain the same at \$0.0005 per kilowatt-hour effective with January 1, 2020 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, 2020, 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, 2020. 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. These unit rates 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, 2020.
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, 2020. 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 17, 2019

ONTARIO ENERGY BOARD

Original signed by

Christine E. Long
Registrar and Board Secretary

SCHEDULE A
EB-2019-0278
COMMUNICATION TO THE IESO
DECEMBER 17, 2019

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Board**
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EB-2019-0278

BY EMAIL

December 17, 2019

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

Dear Mr. Huber:

Re: Rural or Remote Electricity Rate Protection

On December 17, 2019 the Ontario Energy Board (OEB) issued its Decision and Order in proceeding EB-2019-0278 which set the Ontario Wholesale Market Service rate and the Rural or Remote Electricity Rate Protection (RRRP) charge, effective January 1, 2020.

Amount to be charged by the IESO for RRRP

The OEB has determined that, effective January 1, 2020, the RRRP charge to be used by the IESO in order to collect the approved RRRP requirement amounts for eligible distributors shall remain at \$0.0005 per kilowatt-hour.

Yours truly,

Christine E. Long
Registrar and Board Secretary

SCHEDULE B

EB-2019-0278

COMMUNICATION TO DISTRIBUTORS AND RETAILERS

DECEMBER 17, 2019

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EB-2019-0278

BY EMAIL

December 17, 2019

To: Rate-Regulated Electricity Distributors
Electricity Retailers

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

On December 17, 2019 the Ontario Energy Board (OEB) issued its Decision and Order in proceeding EB-2019-0278 which set the Ontario Wholesale Market Service (WMS) rate and the Rural or Remote Electricity Rate Protection (RRRP) charge, effective January 1, 2020.

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

Effective January 1, 2020, 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, 2020, 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,

Christine E. Long
Registrar and Board Secretary