



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

DECISION AND ORDER

EB-2015-0275

INDEPENDENT ELECTRICITY SYSTEM OPERATOR

Application for approval of 2016 revenue requirement,
expenditures and fees

BEFORE: Cathy Spoel
Presiding Member

Christine Long
Vice Chair and Member

December 1, 2016

INTRODUCTION AND SUMMARY

The Independent Electricity System Operator (IESO) seeks approval from the Ontario Energy Board (OEB) under s. 25(1) of the *Electricity Act, 1998* for its 2016 expenditures, revenue requirement and fees. This is the first such application since the merger of the IESO and the Ontario Power Authority (OPA) on January 1, 2015.

Following a settlement conference, the IESO and the intervenors in this proceeding agreed to settle all issues except for one: the IESO's proposal for a single usage fee of \$1.13/MWh applicable to all market participants – both domestic and export customers. Electricity exporters argue that the single usage fee would be unfair to them.

For the reasons that follow, the OEB approves the settlement. On the unsettled issue, the OEB does not approve the IESO's proposal to charge a single usage fee to both domestic customers and exporters.

THE PROCESS

The Minister of Energy approved the IESO's business plan for 2016-2018 on December 9, 2015. On December 22, 2015, the OEB granted the IESO's request to continue to charge the current usage fees on an interim basis, pending the outcome of the IESO's application for 2016. The result is that today, the IESO continues to charge the pre-merger usage fees approved in 2014: the IESO usage fee of \$0.803/MWh, which is payable by all market participants, and the OPA usage fee of \$0.439/MWh, which is payable by domestic customers only.

The IESO filed its application on January 19, 2016. The OEB granted intervenor status to the following:

- Association of Major Power Consumers in Ontario (AMPCO)
- Association of Power Producers of Ontario (APPRO)
- Building Owners and Managers Association, Greater Toronto (BOMA)
- Canadian Manufacturers & Exporters (CME)
- Energy Probe Research Foundation (Energy Probe)
- HQ Energy Marketing Inc. (HQEM)
- Manitoba Hydro
- Ontario Sustainable Energy Association (OSEA)
- Ontario Power Generation (OPG)
- Power Workers' Union (PWU)
- Powerex Corp. (Powerex)
- School Energy Coalition (SEC)
- Shell Energy North America (Canada) Inc. (Shell)
- Society of Energy Professionals (Society)
- Vulnerable Energy Consumers Coalition (VECC)

The IESO updated its application on March 31, 2016 and May 13, 2016. The IESO also responded to interrogatories from the intervenors and OEB staff. After receiving written submissions from the parties, the OEB approved an issues list on June 17, 2016.

A settlement conference was held on August 17 and 18, 2016, in which 10 of the 15 intervenors, as well as OEB staff, participated. On September 7, 2016, the IESO filed a settlement proposal for the OEB's approval reflecting an agreement on all issues on the issues list except the IESO's proposal for a single usage fee. A written hearing was held on the unsettled issue. The unsettled issue, as described in the OEB-approved issues list, is:

2.0 Usage Fee

2.1 Is the IESO's proposal to eliminate the OPA Usage Fee and to charge the proposed single IESO Usage Fee to all market participants (domestic and exporter customers) appropriate?

2.2 Is the methodology used to derive the proposed IESO Usage Fee of 1.13/MWh appropriate?

2.3 Is the proposed cost allocation study in support of the proposed IESO Usage Fee appropriate?

2.4 Is the IESO's proposal to charge the proposed single IESO Usage Fee from January 1, 2016 and to refund (or charge) market participants the difference between the 2016 single Usage Fee and the interim usage fees they paid, if any, based on their proportionate quantity of energy withdrawn, which may include scheduled exports and embedded generation, in 2016, appropriate?

2.5 What would be an appropriate effective date for the Usage Fee(s) approved in this proceeding?

DECISION ON SETTLEMENT PROPOSAL

A copy of the settlement proposal filed on September 7, 2016 is attached to this Decision and Order as Schedule A. As part of the settlement proposal, the parties agreed to the IESO's applied for 2016 revenue requirement of \$182.1 million.¹ The parties also agreed, among other things, that the IESO's proposed budget for 2016 operating costs (\$182.1 million) is appropriate.

OEB staff filed a submission in support of the settlement proposal.

The OEB finds that the settlement proposal achieves an acceptable outcome from a public interest perspective, and approves the settlement proposal. The agreed upon revenue requirement of \$182.1 million is approximately 4% lower than the combined 2014 revenue requirements of the IESO (\$129.9 million) and the OPA (\$60.3 million). As noted in the settlement proposal, the merger has resulted in efficiencies including a leaner workforce (35 fewer employees) and less office space.

¹ Excluding forecast revenues of \$1 million, the net revenue requirement is \$181.1 million. The parties that participated in the settlement conference were: AMPCO, APPrO, BOMA, CME, Energy Probe, HQEM, OSEA, SEC, the Society and VECC. HQEM and APPrO took no position on the settled issues.

THE IESO'S PROPOSED SINGLE USAGE FEE

In the settlement proposal, the parties agreed that the IESO's proposed revenue requirement is reasonable. The remaining issue concerns how the IESO will recover that revenue requirement through its fees.²

Prior to the merger of the IESO and the OPA, each entity charged its own usage fee. The usage fees approved by the OEB in 2014 remain in effect, on an interim basis. The IESO fee is \$0.803/MWh; the OPA fee is \$0.439/MWh.³

The IESO usage fee is charged on a gross load basis and recovered from all market participants, whereas the OPA usage fee is charged on a net load basis and recovered exclusively from domestic customers. The methodology for estimating the charge determinant component of the usage fee also differs. The charge determinant for the IESO usage fee is derived from total Ontario demand forecast plus export volumes, plus embedded generation, less transmission line losses. The charge determinant for the OPA's usage fee is derived from the total Ontario demand forecast less transmission line losses.

The IESO proposes to discontinue the OPA usage fee and adopt a single usage fee of \$1.13/MWh to be charged on a gross load basis and recovered from all market participants, both domestic and export customers. This would represent an increase for export customers of about 41% (from the current \$0.803/MWh IESO fee) and a decrease for domestic customers of about 9% (from the current \$1.242/MWh for the combined IESO and OPA fees). In its application, the IESO asked for the new usage fee to become effective on January 1, 2016, although in its reply submission filed on October 21, 2016, it suggested that the fee should not take effect until the date of the OEB's decision.

A similar issue arose in the OPA's 2011 fees application,⁴ where the OPA proposed to include export volumes in the calculation of the charge determinant and to apply the resultant usage fee to export customers as well as domestic customers. The OEB did not accept the OPA's proposal for four reasons. First, the OEB found that the statutory mandates of the OPA and the (former) IESO were different. The OEB noted that the IESO's objects under the *Electricity Act, 1998* required it to work with authorities outside Ontario, while the OPA's responsibilities emphasized work "for Ontario" and "in Ontario".

² Some fees and charges were agreed upon in the settlement proposal, for example, the application fee for the Feed-in-Tariff program (\$500 to \$5,000, depending on the contract capacity), and the market participation application fee (\$1,000).

³ EB-2013-0381 (IESO) and EB-2013-0326 (OPA).

⁴ EB-2010-0279.

Second, the OEB was “not convinced that, in executing its objectives pursuant to the *Electricity Act* that the OPA creates benefits for export customers in the manner asserted by the parties supporting the extension of the fee to exporters.” Third, the proposed usage fee was not supported by empirical evidence such as a cost allocation study. Finally, the OEB found that the OPA had not undertaken “meaningful or substantive” consultation with stakeholders.

In this proceeding, the IESO argues that none of those four concerns remains. The IESO contends that many of the objects of the IESO as set out in s. 6 of the *Electricity Act, 1998* benefit both domestic and export customers. The IESO also argues that following the merger of the two entities, the work of the IESO is integrated and interdependent. Because the work is carried out equally for the benefit of all market participants, the IESO says, both domestic and export customers should pay equally for that work. In summary, the IESO urges the OEB to take a “holistic” view of the merged entity.

To address the OEB’s concerns about the need for a cost allocation study, the IESO retained Elenchus Research Associates (Elenchus) to undertake such a study, even though the IESO maintains that, unlike a distributor, its “activities are not compatible with a methodology that seeks to allocate costs on the basis of customer ‘classes’”. Elenchus examined two different options for the 2016 IESO usage fee: one standard fee to be charged to all domestic and export customers and two separate usage fees for domestic and export customers that reflect differences in their allocated costs.⁵

In order to analyze the single fee option and the two-fee option, Elenchus developed a cost allocation model for the IESO that treats domestic and export customers as if they were two separate customer classes. Under this approach, the model allocates the total revenue requirement of the merged IESO to those classes using a fully allocated costing methodology.⁶ On this basis 90% of the IESO’s costs (\$164.1 million) were allocated to the domestic class and 10% (\$18 million) to the export class. This results in a total allocated cost per MWh of \$1.1707 for domestic customers and \$0.9603/MWh for export customers.

⁵ The IESO filed two versions of the cost allocation study. The first study, dated January 15, 2016, was prepared using 2015 forecast revenue requirement and 2014 year-end assets as the basis for the cost allocation model. The second study, dated May 10, 2016, was prepared using 2016 forecast revenue requirement and 2015 year-end assets.

⁶ For example, Elenchus allocates all of the costs associated with IESO’s First Nations and Métis Relations group to the domestic class, but splits the costs of the Legal Services group between the domestic class and the exporter class in proportion to their energy usage.

In order to assess whether it would be appropriate to charge a single rate to domestic and export customers, Elenchus measured whether the revenue-to-cost ratios for the two classes would be reasonable. The revenue-to-cost ratio is the relationship between the revenues from a particular customer class and the costs to serve that customer class. The revenue-to-cost ratio is one of the factors the OEB considers when setting rates. The goal is to have each class pay for the costs of serving it.

Using the IESO's 2015 budget as the basis for the study, Elenchus concluded that if a single usage fee were adopted, the revenue-to-cost ratios would be 98.5% and 114.3% for the domestic and export classes, respectively. Based on the IESO's 2016 budget, the revenue-to-cost ratios would be 97.9% and 119.3% for the domestic and export classes, respectively. Noting that OEB-approved revenue-to-cost ratios for many distribution customer classes range from 80% to 120%, Elenchus concluded that the single fee would be reasonable because it fell within that range.

On the matter of stakeholder consultations, the IESO states that it had consulted on the usage fee through its Stakeholder Advisory Committee.

HQEM and APPrO filed a joint submission opposing the IESO's proposal for a single usage fee for domestic and export customers. They argue that the IESO has failed to address the four concerns raised by the OEB in its decision on the OPA's application for 2011 fees. They also argue that, despite the merger, the IESO continues to perform some functions (i.e., those previously performed by the OPA) that are primarily for the benefit of domestic customers.

Only four other intervenors made submissions on this issue. All of them supported the IESO's proposal for a single usage fee. OEB staff also filed a submission in which it said it did not object to the proposed fee, arguing that "concerns about differences in costs and beneficiaries that were raised in the earlier case were predicated on a dichotomy that is no longer as identifiable as it may once have been."

Findings

The OEB will not approve the single usage fee requested by the IESO.

The post-merger IESO continues to do some work that was formerly done by the OPA and that exclusively benefits domestic customers. The result is that the costs of servicing domestic customers are greater than the costs of servicing export customers. It is only logical that export customers pay less than domestic customers.

Although the Elenchus cost allocation study for 2016 found that under the IESO's proposed fee of \$1.13/MWh, the revenue-to-cost ratio for the exporter "class" would be 119.3%, which is just below the high end of the normally acceptable range in the

distribution context, that does not mean the proposed single usage fee is fair. The goal is a revenue-to-cost ratio of 100%, meaning that each class pays no more and no less than the costs it causes – subject of course to rate design principles, such as the avoidance of rate shock.⁷ In an initial cost allocation exercise, the starting point for the IESO should be a revenue-to-cost ratio for exporters of close to 100%, not 119.3%. There is no reason in principle exporters should pay for costs they did not cause.

No party asked to cross-examine Elenchus, and no party filed any competing expert evidence on cost allocation. Elenchus's evidence indicates that if a 100% revenue-to-cost ratio were applied to both classes, the fee for domestic customers would be \$1.1707/MWh for domestic customers and \$0.9603/MWh for export customers. Compared to the current approved fees, that would represent a decrease of about 7 cents or 6% for domestic customers and an increase of about 16 cents or 20% for export customers.

Elenchus suggests that another key consideration in determining whether the IESO should charge one usage fee or two is administrative simplicity. This argument would have been more compelling had the impact on exporters of the IESO's proposal been less drastic. Any benefits to the IESO in terms of administrative simplicity would be moderate. The IESO has managed to charge dual usage fees since the merger. The administrative convenience does not justify imposing a 41% rate increase and a 119% cost-allocation ratio on exporters.

Moreover, the IESO has not demonstrated that it consulted enough with export customers on its proposal to significantly increase their fees. In the OEB's decision on the OPA's 2011 fees, where it denied the OPA's request to collect the usage fee from export customers as well as domestic customers, the OEB said, "Should the OPA choose to reintroduce this approach now or in the future, the Board expects the OPA to have engaged the stakeholder community in a relevant and substantive manner and will require that evidence of this consultation be filed in conjunction with the associated revenue requirement and fees application." The evidence filed in this case shows that there was very limited discussion about the single usage fee at meetings of the Stakeholder Advisory Committee before the application was filed, and that the IESO did not specifically seek the views of export customers. This does not count as "relevant and substantive" consultation.

⁷ Elenchus was not asked by the IESO to consider such rate design principles.

Recommendations

Under s. 25(4) of the *Electricity Act, 1998*, “The Board may approve the proposed expenditure and revenue requirements and the proposed fees or may refer them back to the IESO for further consideration with the Board’s recommendations.” The OEB has approved the proposed expenditure and revenue requirements, but not the proposed single usage fee. The OEB refers the matter of the usage fee back to the IESO for further consideration, and recommends the following:

1. The IESO should submit a revised proposal to the OEB to recover its approved revenue requirement through two separate usage fees, one for domestic customers and one for export customers.
2. Each usage fee should represent a revenue-to-cost ratio of 100%, based on the Elenchus cost allocation evidence.

ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. The settlement proposal attached as Schedule A to this Decision and Order is approved.
2. The IESO's proposal for a single usage fee of \$1.23/MWh is not approved. The IESO shall reconsider the proposal in light of the recommendations set out in this Decision and Order and submit a revised proposal no later than **December 15, 2016**.

DATED at Toronto December 1, 2016

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

SCHEDULE A

TO DECISION AND ORDER

INDEPENDENT ELECTRICITY SYSTEM OPERATOR

EB-2015-0275

DECEMBER 1, 2016

The Settlement Proposal

SETTLEMENT PROPOSAL
Independent Electricity System Operator
2016 Submission for Review

September 7, 2016

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PREAMBLE

This Settlement Proposal is filed with the Ontario Energy Board (the "OEB" or the "Board") in connection with the Submission by the Independent Electricity System Operator ("IESO") for the review of its proposed expenditure and revenue requirements for the fiscal year 2016 and the fees that it proposes to charge during the fiscal year 2016. A decision by the Board approving fees on an interim basis, effective January 1, 2016, was issued on December 22, 2015.

In Procedural Order No. 3, dated June 17, 2016, the Board established the process to address the Submission for Review, up to and including a Settlement Conference and associated activities.

In accordance with Procedural Order No. 3, a Settlement Conference was held on August 17 and 18, 2016. Jennifer Webster acted as facilitator for the Settlement Conference. This Settlement Proposal arises from the Settlement Conference.

The IESO and the following intervenors, as well as Ontario Energy Board technical staff ("OEB Staff"), participated in the Settlement Conference:

- Association of Major Power Consumers in Ontario ("AMPCO")
- Association of Power Producers of Ontario ("APPrO")
- Building Owners and Managers Association Toronto ("BOMA")
- Canadian Manufacturers & Exporters ("CME")
- Energy Probe Research Foundation ("Energy Probe")
- HQ Energy Marketing Inc. ("HQEM")
- Ontario Sustainable Energy Association ("OSEA")
- School Energy Coalition ("SEC")
- The Society of Energy Professionals ("Society")
- Vulnerable Energy Consumers Coalition ("VECC")

The Settlement Proposal deals with all of the relief sought in this proceeding. As set out in more detail below, a full settlement has been reached on all issues, except for certain issues relating to the IESO's proposal for a single usage fee to be charged to all market participants based on energy withdrawn from the IESO-controlled grid, including scheduled exports.

The IESO and all intervenors listed above except HQEM and APPrO have agreed to the settlement described on the following pages, HQEM and APPrO take no position on the settled issues. Any reference to "Parties" in this Settlement Proposal is intended to refer to the IESO and the intervenors listed above and the positions stated in the prior sentence.

All intervenors listed above participated in the Settlement Conference and subsequent discussions. OEB Staff is not a party to the Settlement Proposal. Although it is not a party to the Settlement Proposal, once the Settlement Proposal is filed, OEB Staff will file a submission commenting on two aspects of the settlement: whether the settlement represents an acceptable outcome from a public interest perspective, and whether the accompanying explanation and rationale is adequate to support the settlement. Also, as

noted in the Practice Direction on Settlement Conferences, OEB Staff who participated in the Settlement Conference are bound by the same confidentiality and privilege rules that apply to the Parties to the proceeding.

This document is called a “Settlement Proposal” because it is a proposal by the Parties to the Board to settle the issues in this proceeding. It is termed a proposal as between the Parties and the Board. However, as between the Parties, and subject only to the Board’s approval of this Settlement Proposal, this document is intended to be a legal agreement, creating mutual obligations, and binding and enforceable in accordance with its terms. As set forth below, this Settlement Proposal is subject to a condition subsequent, that if it is not accepted by the Board in its entirety, then unless amended by the Parties it is null and void and of no further effect. In entering into this agreement, the Parties understand and agree that, pursuant to the Ontario Energy Board Act, 1998, the Board has exclusive jurisdiction with respect to the interpretation or enforcement of the terms hereof.

Best efforts have been made to identify all of the evidence that relates to each settled issue. The supporting evidence for each settled issue is identified individually by reference to its exhibit number in an abbreviated format; for example, Exhibit B, Tab 3, Schedule 1 is referred to as B-3-1. The identification and listing of the evidence that relates to each settled issue is provided to assist the Board.

The Settlement Proposal describes the agreements reached on the issues. The Settlement Proposal provides a direct link between each settled issue and the supporting evidence in the record to date. In this regard, the Parties are of the view that the evidence provided is sufficient to support the Settlement Proposal in relation to the settled issues and, moreover, that the quality and detail of the supporting evidence, together with the corresponding rationale, will allow the Board to make findings agreeing with the proposed resolution of the settled issues. In the event that the Board does not accept the proposed settlement of any issue, then subject to the Parties’ agreement on non-severability set out in the final paragraph below, further evidence may be required on the issue for the Board to consider it fully.

None of the Parties can withdraw from the Settlement Proposal except in accordance with Rule 30 of the Ontario Energy Board Rules of Practice and Procedure. Further, unless stated otherwise, a settlement of any particular issue in this proceeding is without prejudice to the positions Parties might take with respect to the same issue in future proceedings.

The Parties acknowledge that this Settlement Conference (including subsequent related discussions) is confidential in accordance with the Board’s Practice Direction on Settlement Conferences. The Parties understand that confidentiality in that context does not have the same meaning as confidentiality in the Board’s Practice Direction on Confidential Filings, and the rules of that latter document do not apply. Instead, in this Settlement Conference, and in this Settlement Proposal, the Parties have interpreted “confidential” to mean that the documents and other information provided during the course of the Settlement Conference, the discussion of each issue, the offers and counter-offers, and the negotiations leading to the settlement – or not – of each issue during the Settlement Conference are strictly privileged and without prejudice. None of the foregoing is admissible as evidence in this proceeding, or otherwise, with one

exception, the need to resolve a subsequent dispute over the interpretation of any provision of this Settlement Proposal. Further, the Parties shall not disclose those documents or other information to persons who were not attendees at the Settlement Conference. However, the Parties agree that “attendees” is deemed to include, in this context, persons who were not physically in attendance at the Settlement Conference but were a) any persons or entities that the Parties engage to assist them with the settlement conference, and b) any persons or entities from whom they seek instructions with respect to the negotiations; in each case provided that any such persons or entities have agreed to be bound by the same confidentiality provisions.

It is fundamental to the agreement of the Parties that none of the provisions of this Settlement Proposal are severable. If the Board does not, prior to the commencement of the hearing of the evidence in this proceeding, accept the provisions of the Settlement Proposal in their entirety, there is no Settlement Proposal (unless the Parties agree that any portion of the Settlement Proposal that the Board does accept may continue as a valid Settlement Proposal).

OVERVIEW

The Parties have reached a package settlement of issues in this proceeding (the “Package Settlement”), although, as noted below, certain Parties do not take any position in respect of the settled issues. The Package Settlement does not include certain issues (the “Unsettled Issues”) relating to the IESO’s proposal for a single usage fee to be charged to all market participants based on energy withdrawn from the IESO-controlled grid, including scheduled exports. More specifically, the Unsettled Issues not included in the Package Settlement are Issues 2.1, 2.2, 2.3, 2.4 and 2.5 in the Board-approved Issues List that is attached as Schedule A to Procedural Order No. 3.

As part of the Package Settlement, the IESO has agreed to settlement terms described more particularly under Issues 1.1, 6.1 and 6.2, below. Given the IESO’s agreement to these settlement terms, the Package Settlement includes acceptance of the IESO’s proposals in respect of all issues other than the Unsettled Issues. The Unsettled Issues remain to be determined by the Board.

THE ISSUES

1.1 Is the IESO’s Fiscal Year 2016 net revenue requirement of \$182.1 million appropriate?

Parties note that the IESO’s proposed 2016 revenue requirement of \$182.1 million, and a net revenue requirement of \$181.1 million, is lower than the Board approved \$190.2 million combined 2014 revenue requirements of the IESO (\$129.9 million) and OPA (\$60.3 million). Parties also note that the merger resulted in ongoing savings from a workforce reduced by 35 employees, real estate savings from amalgamating staff into one location from two in downtown Toronto, and reducing the amount of floor space

under lease at that location by utilizing the space more efficiently, as well as the elimination of one Board of Directors.

As part of the Package Settlement, the Parties accept that the IESO's fiscal 2016 net revenue requirement of \$182.1 million is appropriate, subject to the following terms:

- 1) Intervenors believe that benchmarking of some or all of the IESO's activities would also be beneficial in informing the Parties and the Board with regard to the reasonableness of the IESO's proposed expenditures and requested fees. The IESO agrees to consider the issue of undertaking cost benchmarking of its activities, and to file with its next Revenue Requirement Submission filed with the Board either benchmarking information, or a rationale for why the IESO believes that benchmarking is not possible or appropriate.

- 2) To promote increased transparency and to encourage a better review of future expenditures and revenue requirement approval requests, in its next Revenue Requirement Submission filed with the Board the IESO will file information in the format of the following Chapter 2 Appendices issued by the Board for the purposes of electricity distributors 2017 Cost of Service applications, modified as necessary or appropriate to reflect the particular circumstances of the IESO:
 - (a) Appendix 2-AA (capital projects);
 - (b) Appendix 2-JB (OM&A cost drivers);
 - (c) Appendix 2-JC (OM&A programs); and
 - (d) Appendix -2K (employee costs).

Prior to filing this information in its in its next Revenue Requirement Submission filed with the Board, the IESO will consult with intervenors to develop the Appendices listed above, modified as necessary and appropriate to reflect the particular circumstances of the IESO.

- 3) The IESO will use its best efforts to estimate its costs and savings, if any, associated with the Ontario government's greenhouse gas cap-and-trade initiative and any new or changing requirements arising from Bill 135 (the Energy Statute Law Amendment Act, 2016 given Royal assent on June 9, 2016). The IESO agrees to provide a reasonable estimate for internal costs or savings, and actual costs or savings for external costs associated with each of these initiatives in its next Revenue Requirement Submission filed with the Board.

- 4) The IESO will provide the following information to intervenors by November 1, 2016:
 - (a) An analysis that will identify which conservation programs have been 100% per cent fully meter-measured as part of the IESO's EM&V process and that will indicate, in addition to the number of programs, the dollar value of these programs that are fully meter-measured. Also, the analysis will show the total number of industrial, commercial and institutional programs that are meter measured as a

percentage of the full program portfolio, both in terms of dollar value and in terms of the number of programs.

(b) The estimated useful lives for each conservation measure that the IESO supports.

Evidence: The evidence in relation to this issue includes the following:

Exhibit A-2-1 - IESO's Letter to the Minister Requesting Approval of the 2016-2018 Business Plan - November 16, 2015

Exhibit A-2-2 - 2016-2018 Business Plan

Exhibit A-2-3 - Minister's Letter Approving the IESO 2016-2018 Business Plan – December 9, 2015

Exhibit A-3-1 - 2014 IESO Annual Report

Exhibit A-3-2 - IESO 2014 Audited Financial Statements Exhibit A-3-3 - OPA 2014 Audited Financial Statements

Exhibit A-3-3 - OPA 2014 Audited Financial Statements

Exhibit A-3-4 - 2015 IESO Annual Report

Exhibit B-1-1 - 2016 Revenue Requirement and Usage Fee Methodology (and Attachments)

Exhibit B-2-1 - 2016 Registration Fees and Deferral and Variance Accounts

Exhibit B-3-1 - Treatment of IESO & OPA Merger Costs and Operating Reserves

Exhibit B-3-2 - 2015 Year-end Financial Update

Interrogatories:

Exhibit I, Tab 1.0, ENERGY PROBE 5.01 to 5.07

Exhibit I, Tab 1.0, BOMA 3.04 to 3.18

Exhibit I, Tab 1.0, SEC 8.01 to 8.08

Exhibit I, Tab 1.0, VECC 10.01 to 10.06

Exhibit I, Tab 1.0, BOMA 3.02

1.2 Is the IESO's Operating Costs budget of \$182.1 million for Fiscal Year 2016 appropriate?

As part of the Package Settlement, and subject to the settlement terms agreed to by the IESO set out under Issue 1.1, the Parties accept that the IESO's operating costs budget of \$182.1 million for fiscal year 2016 is appropriate.

Evidence: The evidence in relation to this issue includes the following:

Exhibit A-2-1 - IESO's Letter to the Minister Requesting Approval of the 2016-2018 Business Plan - November 16, 2015

Exhibit A-2-2 - 2016-2018 Business Plan

Exhibit A-2-3 - Minister's Letter Approving the IESO 2016-2018 Business Plan – December 9, 2015

Exhibit A-3-1 - 2014 IESO Annual Report

Exhibit A-3-2 - IESO 2014 Audited Financial Statements Exhibit A-3-3 - OPA 2014 Audited Financial Statements

Exhibit A-3-3 - OPA 2014 Audited Financial Statements

Exhibit A-3-4 - 2015 IESO Annual Report
Exhibit B-1-1 - 2016 Revenue Requirement and Usage Fee Methodology (and Attachments)
Exhibit B-2-1 - 2016 Registration Fees and Deferral and Variance Accounts
Exhibit B-3-1 - Treatment of IESO & OPA Merger Costs and Operating Reserves
Exhibit B-3-2 - 2015 Year-end Financial Update

Interrogatories:

Exhibit I, Tab 1.2, AMPCO 2.01 to 7.07
Exhibit I, Tab 1.2, OSEA 7.01

1.3 Are the IESO's proposed compensation costs and staffing levels appropriate and reasonable?

As part of the Package Settlement, and subject to the settlement terms agreed to by the IESO set out under Issue 1, the Parties accept that the IESO's proposed compensation costs and staffing levels are appropriate.

Evidence: The evidence in relation to this issue includes the following:

Exhibit A-2-1 - IESO's Letter to the Minister Requesting Approval of the 2016-2018 Business Plan - November 16, 2015
Exhibit A-2-2 - 2016-2018 Business Plan
Exhibit A-2-3 - Minister's Letter Approving the IESO 2016-2018 Business Plan – December 9, 2015
Exhibit A-3-1 - 2014 IESO Annual Report
Exhibit A-3-2 - IESO 2014 Audited Financial Statements Exhibit A-3-3 - OPA 2014 Audited Financial Statements
Exhibit A-3-3 - OPA 2014 Audited Financial Statements
Exhibit A-3-4 - 2015 IESO Annual Report
Exhibit B-1-1 - 2016 Revenue Requirement and Usage Fee Methodology (and Attachments)
Exhibit B-2-1 - 2016 Registration Fees and Deferral and Variance Accounts
Exhibit B-3-1 - Treatment of IESO & OPA Merger Costs and Operating Reserves
Exhibit B-3-2 - 2015 Year-end Financial Update

Interrogatories:

Exhibit I, Tab 1.3, AMPCO 2.08 to 2.14
Exhibit I, Tab 1.3, SOCIETY 9.01 to 9.03

1.4 Is the IESO's Registration Fees revenue forecast of \$1.0 million for Fiscal Year 2016 appropriate?

As part of the Package Settlement, the Parties accept that the IESO's revenue forecast of \$1.0 million for registration fees in fiscal year 2016 is appropriate.

Evidence: The evidence in relation to this issue includes the following:
Exhibit A-2-1 - IESO's Letter to the Minister Requesting Approval of the 2016-2018 Business Plan - November 16, 2015
Exhibit A-2-2 - 2016-2018 Business Plan
Exhibit A-2-3 - Minister's Letter Approving the IESO 2016-2018 Business Plan – December 9, 2015
Exhibit A-3-1 - 2014 IESO Annual Report
Exhibit A-3-2 - IESO 2014 Audited Financial Statements Exhibit A-3-3 - OPA 2014 Audited Financial Statements
Exhibit A-3-3 - OPA 2014 Audited Financial Statements
Exhibit A-3-4 - 2015 IESO Annual Report
Exhibit B-1-1 - 2016 Revenue Requirement and Usage Fee Methodology (and Attachments)
Exhibit B-2-1 - 2016 Registration Fees and Deferral and Variance Accounts
Exhibit B-3-1 - Treatment of IESO & OPA Merger Costs and Operating Reserves
Exhibit B-3-2 - 2015 Year-end Financial Update

Interrogatories:

Exhibit I, Tab 1.4, OSEA 7.02

1.5 Is the IESO's capital expenditure budget for Fiscal Year 2016 appropriate?

As part of the Package Settlement, and subject to the settlement terms agreed to by the IESO set out under Issue 1.1, the Parties accept that the IESO's capital expenditure budget for fiscal year 2016 is appropriate.

Evidence: The evidence in relation to this issue includes the following:
Exhibit A-2-1 - IESO's Letter to the Minister Requesting Approval of the 2016-2018 Business Plan - November 16, 2015
Exhibit A-2-2 - 2016-2018 Business Plan
Exhibit A-2-3 - Minister's Letter Approving the IESO 2016-2018 Business Plan – December 9, 2015
Exhibit A-3-1 - 2014 IESO Annual Report
Exhibit A-3-2 - IESO 2014 Audited Financial Statements Exhibit A-3-3 - OPA 2014 Audited Financial Statements
Exhibit A-3-3 - OPA 2014 Audited Financial Statements
Exhibit A-3-4 - 2015 IESO Annual Report
Exhibit B-1-1 - 2016 Revenue Requirement and Usage Fee Methodology (and Attachments)
Exhibit B-2-1 - 2016 Registration Fees and Deferral and Variance Accounts
Exhibit B-3-1 - Treatment of IESO & OPA Merger Costs and Operating Reserves
Exhibit B-3-2 - 2015 Year-end Financial Update

Interrogatories:

Exhibit I, Tab 1.5, AMPCO 2.15

2.0 Usage Fee

The Parties have not agreed upon Issue 2.0 or any of the associated sub-issues.

2.1 Is the IESO's proposal to eliminate the OPA Usage Fee and to charge the proposed single IESO Usage Fee to all market participants (domestic and exporter customers) appropriate?

This is an Unsettled Issue. It is not part of the Package Settlement.

2.2 Is the methodology used to derive the proposed IESO Usage Fee of 1.13/MWh appropriate?

This is an Unsettled Issue. It is not part of the Package Settlement.

2.3 Is the proposed cost allocation study in support of the proposed IESO Usage Fee appropriate?

This is an Unsettled Issue. It is not part of the Package Settlement.

2.4 Is the IESO's proposal to charge the proposed single IESO Usage Fee from January 1, 2016 and to refund (or charge) market participants the difference between the 2016 single Usage Fee and the interim usage fees they paid, if any, based on their proportionate quantity of energy withdrawn, which may include scheduled exports and embedded generation, in 2016, appropriate?

This is an Unsettled Issue. It is not part of the Package Settlement.

2.5 What would be an appropriate effective date for the Usage Fee(s) approved in this proceeding?

This is an Unsettled Issue. It is not part of the Package Settlement.

3.1 Are the registration fees of up to \$10,000 per proposal for electricity supply and capacity procurements, including conservation and load management procurements appropriate?

As part of the Package Settlement, the Parties accept that the IESO's registration fees of up to \$10,000 per proposal for electricity supply and capacity procurements, including conservation and load management procurements are appropriate.

Evidence: The evidence in relation to this issue includes the following:
Exhibit B-2-1 - 2016 Registration Fees and Deferral and Variance Accounts

Interrogatories:

Exhibit I, Tab 3.0, OSEA 7.03

3.2 Are the non-refundable application fees for standard offer programs, such as the Feed-in-Tariff ("FIT") program of \$0.50/kW of proposed Contract Capacity, having a minimum of \$500 and a maximum of \$5,000, appropriate?

As part of the Package Settlement, the Parties accept that the non-refundable application fees for standard offer programs, such as the Feed-in-Tariff ("FIT") program of \$0.50/kW of proposed Contract Capacity, having a minimum of \$500 and a maximum of \$5,000, are appropriate.

Evidence: The evidence in relation to this issue includes the following:
Exhibit B-2-1 - 2016 Registration Fees and Deferral and Variance Accounts

Interrogatories:

Exhibit I, Tab 3.0, OSEA 7.03

3.3 Is the Large Renewable Procurement qualification submission fee from RFQ applicants appropriate? Which is the sum of:

- a) The greater of: (a) \$2,000 for the first (or only, if only one renewable fuel is proposed) proposed renewable fuel submitted; or (b) \$1.00 per kW of estimated contract capacity for all large renewable projects to a maximum amount of \$30,000; plus
- b) \$2,000 for each additional renewable fuel proposed.

As part of the Package Settlement, the Parties accept that the Large Renewable Procurement qualification submission fee from RFQ applicants is appropriate.

Evidence: The evidence in relation to this issue includes the following:
Exhibit B-2-1 - 2016 Registration Fees and Deferral and Variance Accounts

Interrogatories:

Exhibit I, Tab 3.0, OSEA 7.03

3.4 Is the \$1,000 application fee for market participation appropriate?

As part of the Package Settlement, the Parties accept that the \$1,000 application fee for market participation is appropriate.

Evidence: The evidence in relation to this issue includes the following:
Exhibit B-2-1 - 2016 Registration Fees and Deferral and Variance Accounts

Interrogatories:

Exhibit I, Tab 3.0, OSEA 7.03

4.1 Is the IESO's proposal with respect to the Government Procurement Costs Deferral Account appropriate?

As part of the Package Settlement, the Parties accept that the IESO's proposal with respect to the Government Procurement Costs Deferral Account is appropriate.

Evidence: The evidence in relation to this issue includes the following:
Exhibit B-2-1 - 2016 Registration Fees and Deferral and Variance Accounts

Interrogatories:

Exhibit I, Tab 4.0, ENERGY PROBE 5.11

4.2 Is the IESO's proposal with respect to the Registration Fees Deferral Account appropriate?

As part of the Package Settlement, the Parties accept that the IESO's proposal with respect to the Registration Fees Deferral Account is appropriate.

Evidence: The evidence in relation to this issue includes the following:
Exhibit B-2-1 - 2016 Registration Fees and Deferral and Variance Accounts

4.3 Is the IESO's proposal to continue the Forecast Variance Deferral Account to track variances between actual and OEB-approved revenues and costs appropriate?

As part of the Package Settlement, the Parties accept that the IESO's proposal to continue the Forecast Variance Deferral Account to track variances between actual and OEB-approved revenues and costs is appropriate..

Evidence: The evidence in relation to this issue includes the following:
Exhibit B-2-1 - 2016 Registration Fees and Deferral and Variance Accounts
Exhibit B-3-1 - Treatment of IESO & OPA Merger Costs and Operating Reserves

4.4 Is the IESO's proposal to retain an Operating Reserve of \$10 million in the Forecast Variance Deferral Account appropriate?

As part of the Package Settlement, the Parties accept that the IESO's proposal to retain an Operating Reserve of \$10 million in the Forecast Variance Deferral Account is appropriate.

Evidence: The evidence in relation to this issue includes the following:
Exhibit B-1-1 - 2016 Revenue Requirement and Usage Fee Methodology
Exhibit B-2-1 - 2016 Registration Fees and Deferral and Variance Accounts
Exhibit B-3-1 - Treatment of IESO & OPA Merger Costs and Operating Reserves

Interrogatories:

Exhibit I, Tab 4.4, CME 4.02

4.5 Is the IESO's proposal to clear 2015 Year-End balances in the Forecast Variance Deferral Account that are in excess of the \$10 million operating reserve appropriate?

As part of the Package Settlement, the Parties accept that the IESO's proposal to clear 2015 Year-End balances in the Forecast Variance Deferral Account that are in excess of the \$10 million operating reserve is appropriate.

Evidence: The evidence in relation to this issue includes the following:

Exhibit B-1-1 - 2016 Revenue Requirement and Usage Fee Methodology

Exhibit B-2-1 - 2016 Registration Fees and Deferral and Variance Accounts

Exhibit B-3-1 - Treatment of IESO & OPA Merger Costs and Operating Reserves

5.1 Are the merger costs of \$5.6 million incurred by the OPA and \$5.3 million incurred by the IESO appropriate?

As part of the Package Settlement, the Parties accept that the merger costs of \$5.6 million incurred by the OPA and \$5.3 million incurred by the IESO are appropriate.

Evidence: The evidence in relation to this issue includes the following:

Exhibit B-1-1 - 2016 Revenue Requirement and Usage Fee Methodology

Exhibit B-2-1 - 2016 Registration Fees and Deferral and Variance Accounts

Exhibit B-3-1 - Treatment of IESO & OPA Merger Costs and Operating Reserves

Interrogatories:

Exhibit I, Tab 5.0, CME 4.01 and 4.03

Exhibit I, Tab 5.0, ENERGY PROBE 5.12 to 5.14

Exhibit I, Tab 5.0, OSEA 7.04

Exhibit I, Tab 5.0, AMPCO 2.16

Exhibit I, Tab 5.0, AMPCO 2.17 to 2.24

Exhibit I, Tab 5.1, SEC 8.10 to 8.11

5.2 Is the IESO's proposal to use the 2014 balances in the Registration Fees Deferral Account and the Forecast Variance Deferral Account (which includes the OPA's Operating Reserve) to cover the OPA's merger costs of \$5.6 million appropriate?

As part of the Package Settlement, the Parties accept that the IESO's proposal to use the 2014 balances in the Registration Fees Deferral Account and the Forecast Variance Deferral Account (which includes the OPA's Operating Reserve) to cover the OPA's merger costs of \$5.6 million is appropriate.

Evidence: The evidence in relation to this issue includes the following:
Exhibit B-1-1 - 2016 Revenue Requirement and Usage Fee Methodology
Exhibit B-2-1 - 2016 Registration Fees and Deferral and Variance Accounts
Exhibit B-3-1 - Treatment of IESO & OPA Merger Costs and Operating Reserves

Interrogatories:
Exhibit I, Tab 5.2, VECC 10.15

5.3 Is the IESO's proposal to fund its share of the merger costs of \$5.3 million using the 2014 year-end Operating Reserve of \$8.3 million appropriate?

As part of the Package Settlement, the Parties accept that the IESO's proposal to fund its share of the merger costs of \$5.3 million using the 2014 year-end Operating Reserve of \$8.3 million is appropriate.

Evidence: The evidence in relation to this issue includes the following:
Exhibit B-1-1 - 2016 Revenue Requirement and Usage Fee Methodology
Exhibit B-2-1 - 2016 Registration Fees and Deferral and Variance Accounts
Exhibit B-3-1 - Treatment of IESO & OPA Merger Costs and Operating Reserves

5.4 Has the IESO appropriately reflected in its 2016 Fiscal Year revenue requirement the synergies and cost savings arising from the merger of the IESO and the OPA?

As part of the Package Settlement, the Parties accept that the IESO has appropriately reflected in its 2016 Fiscal Year revenue requirement the synergies and cost savings arising from the merger of the IESO and the OPA.

Evidence: The evidence in relation to this issue includes the following:
Exhibit A-2-2 - 2016-2018 Business Plan
Exhibit B-1-1 - 2016 Revenue Requirement and Usage Fee Methodology
Exhibit B-2-1 - 2016 Registration Fees and Deferral and Variance Accounts
Exhibit B-3-1 - Treatment of IESO & OPA Merger Costs and Operating Reserves

6.1 Has the IESO responded appropriately to OEB decisions in EB-2013-0326 and EB-2013-0381?

As part of the Package Settlement and with the conditions described below, Parties accept that Issue 6.1 is settled:

- 1) The Board stated its expectations regarding stakeholder consultation in the EB-2013-0326 Decision and Order. Intervenors are concerned that, aside from the IESO's Stakeholder Advisory Committee, there are few if any consumer or consumer group participation in the IESO's working groups and stakeholder engagement initiatives. The IESO's current Stakeholder Engagement Principles include the principle of

inclusive and adequate representation,¹ which includes consumers and consumer groups. To address intervenors' concern, the IESO commits to the implementation of the principle of inclusive and adequate representation, including from consumers and consumer groups, in all of its stakeholder engagement activities and working groups. The IESO will report on how it has implemented this principle in its next Revenue Requirement Submission filed with the Board.

- 2) See also Issue 6.2 below, regarding the Board's expectations, as set out in the EB-2013-0326 Decision and Order, with respect to performance targets and metrics.

Evidence: The evidence in relation to this issue includes the following:
Exhibit A-2-2 - 2016-2018 Business Plan

Interrogatories:

Exhibit I, Tab 6.1, OEB STAFF 1.05

Exhibit I, Tab 6.1, AMPCO 2.23

6.2 Are the IESO's corporate performance measures for 2016 appropriate and reasonable, and do they contain metrics so as to allow Parties and the OEB to assess the extent to which they will have been realized?

As part of the Package Settlement and with the conditions described below, the Parties accept that Issue 6.2 is settled:

The Board stated its expectations regarding annual performance targets and metrics in the EB-2013-0326 Decision and Order. Intervenors continue to have concerns about the current metrics and targets (Corporate Performance Measures) used by the IESO are inadequate for the specific purposes of measuring whether the IESO is "achieving a reasonable standard of effectiveness and efficiency in performing the functions it is mandated to undertake."² In addition, intervenors are concerned that some of the Corporate Performance Measures are not sufficiently detailed and transparent for the Parties and the Board to determine whether they have been met. The achievement of these targets is an input into executive team's compensation, and the intervenors believe the issue is of considerable importance. However, due to the fact that the 2016 year is two-thirds over, intervenors accept that it would be impractical to amend the 2016 Corporate Performance Measures at this time. Intervenors intend to scrutinize and, if necessary, propose changes to the Corporate Performance Measures in their review of the 2017 Revenue Requirement Submission,

The IESO agrees to consult with intervenors to develop a scorecard for filing in its next Revenue Requirement Submission filed with the Board. It is intended that this scorecard will be a tool for the Board and intervenors to use in evaluating the IESO's proposed expenditure and revenue requirement. The IESO will engage an expert to assist with this work.

¹ <http://www.ieso.ca/Documents/consult/IESO-Engagement-Principles.pdf>

² EB-2013-0326 Decision and Order, p.9

Evidence: The evidence in relation to this issue includes the following:
Exhibit A-2-2 - 2016-2018 Business Plan

Interrogatories:

Exhibit I, Tab 6.2, OEB STAFF 1.06 to 1.08

Exhibit I, Tab 6.2, AMPCO 2.24

Exhibit I, Tab 6.2, BOMA 3.01, 3.03, 3.19 and 3.20