

# **STIKEMAN ELLIOTT**

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**BY EMAIL & REGULAR MAIL**

March 2, 2010  
File No.: 101926.1054

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
PO Box 2319  
2300 Yonge Street  
Toronto, ON M4P 1E4

Dear Ms. Walli:

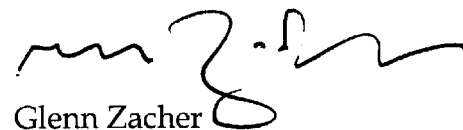
**Re: Independent Electricity System Operator — Fiscal 2010  
Fees Submission for Review: EB-2009-0377**

I enclose for filing the Settlement Proposal agreed to between the IESO and all intervenors who participated in the Settlement Conference on February 25, 2010 (the "Intervenors").

As stated in the Settlement Proposal, the IESO and Intervenors agreed to a settlement on all issues contained in the Issues List and the Intervenors agreed to the IESO's proposed revenue requirement, capital expenditures and fees.

The IESO respectfully requests that the Board accept the Settlement Proposal and approve the IESO's proposed revenue requirement, capital expenditures and fees as set out in its Fiscal Year 2010 Fees Submission for Review.

Yours truly,



Glenn Zacher

TORONTO

MONTREAL

OTTAWA

CALGARY

VANCOUVER

NEWYORK

LONDON

SYDNEY

/sc  
Encl.

cc: Board Staff  
Registered Intervenors and observers

**INDEPENDENT ELECTRICITY SYSTEM OPERATOR (IESO)**  
**FISCAL YEAR 2010 FEES SUBMISSION FOR REVIEW**  
**SETTLEMENT PROPOSAL**  
**EB-2009-0377**

This Settlement Proposal is filed with the Ontario Energy Board ("the OEB" or "Board") for consideration in the determination of the Independent Electricity System Operator ("the IESO") Fiscal Year 2010 Fees Submission for Review, EB-2009-0377 (the "IESO's 2010 Fees Submission"). A Settlement Conference was conducted on February 25, 2010 pursuant to Rule 31 of the OEB's *Rules of Practice and Procedure* (the "*Rules*") and the OEB's *Settlement Conference Guidelines*. This Settlement Proposal arises from the Settlement Conference and was prepared in accordance with Rule 32 of the Rules.

The following parties (the "Parties") participated in the Settlement Conference:

- The IESO;
- Association of Major Power Consumers in Ontario ("AMPCO");
- Energy Probe Research Foundation (Energy Probe); and
- Vulnerable Energy Consumers Coalition ("VECC").

This Settlement Proposal addresses all issues on the Board-approved issues list (the "Issues List"), namely:

1. Operating Costs
2. Capital Spending
3. Methodology for Calculating Usage Fee
4. Smart Metering Entity
5. Reliability
6. Green Energy and Green Economy Act (GEGEA) Initiatives

The Parties accept the IESO's evidence on all of the issues and have agreed to a settlement on all of the issues.

OEB Staff is not party to this Settlement Proposal and therefore takes no position on any issue.

A Technical Conference was held on January 29, 2010 and Board Staff and intervenors examined panels of IESO witnesses on the matters contained in the Issues List; the Technical Conference was transcribed. There were no undertakings for the IESO from the Technical Conference.

At the Technical Conference, OEB Staff introduced and marked as an exhibit (TC.1) questions relating to the recent MSP Monitoring Report. Prior to the Settlement Conference, the IESO filed answers to Board Staff's questions stating, inter alia, that the IESO was developing a market rule amendment to address the MSP's specific recommendation relating to CMSC payments to exporters and dispatchable loads. The IESO agrees that it will continue to update OEB Staff and intervenors on the progress of this market rule amendment.

On the basis of the IESO's 2010 Fees Submission, pre-filed evidence, and additional evidence provided at the Technical Conference, the Parties agree to the approvals sought in the IESO's 2010 Fees Submission, including, the IESO's proposed 2010 revenue requirement, capital expenditure requirement, usage fee and application fee.

In accordance with Rule 32 of the Board's Rules and the *Board's Settlement Conference Guidelines*, this Settlement Proposal outlines the Parties' agreement and provides a direct and transparent link between each issue and the evidence in the record. The Parties further agree that the evidence is sufficient to support the Settlement Proposal and that the quality and detail of this supporting evidence will allow the Board to make findings on the issues.

### **IESO 2010 Revenue Requirement, Proposed Expenditures and Fees**

The Parties agree to the IESO's 2010 proposed revenue requirement of \$122.8 million and proposed 2010 capital expenditures of \$21.6 million.

The Parties agree to the continuation of the \$1,000 application fee and proposed IESO usage fee of \$0.822/MWh commencing January 1, 2010 (to be charged in the manner provided in the IESO's 2010 Fees Submission).

The following general evidence, in addition to the specific evidence cited under the issues below, supports this agreement:

- Exhibit A, Tab 1, Schedule 1, IESO's 2010 Fees Submission
- Exhibit B, Tab 1, Schedule 1, 2010-2012 Business Plan
- Exhibit B, Tab 2, Schedule 1, Letter to Minister of Energy and Infrastructure dated October 01, 2009
- Exhibit TC.3, Letter from Minister of Energy and Infrastructure dated November 16, 2009
- Exhibit B, Tab 3, Schedule 1, Supplemental Financial Information
- Exhibit B, Tab 4, Schedule 1, Methodology for Calculating 2010 Usage Fee and Process for Rebating any Revenue Surplus
- Exhibit TC.2, Updated Financial Evidence
- Final Transcript for January 29, 2010 Technical Conference

## **1.0 Operating Cost**

### **1.1 Are the IESO's projected OM&A Costs appropriate and reasonable?**

The Parties accept that the evidence set out below supports the IESO's projected OM & A costs as being appropriate and reasonable:

- Exhibit B, Tab 1, Schedule 1, 2010-2012 Business Plan, pages 10-17, 20-27
- Exhibit B, Tab 3, Schedule 1, Supplemental Financial Information
- Exhibit TC.2, Updated Financial Evidence
- Exhibit TC.6, Answers by IESO to pre-filed Questions of OEB and VECC
- Final Transcript for January 29, 2010 Technical Conference, pages 11-19

### **1.2 Are the IESO's projected staff costs and strategy for setting compensation levels appropriate and reasonable?**

The Parties accept that the evidence set out below supports the IESO's projected staff costs and strategy for setting compensation levels as being appropriate and reasonable:

- Exhibit B, Tab 1, Schedule 1, 2010-2012 Business Plan, page 15
- Exhibit B, Tab 3, Schedule 1, Supplemental Financial Information, page 11
- Exhibit TC.2, Updated Financial Evidence
- Exhibit TC.5, Table of Average Wage Costs
- Exhibit TC.6, Answers by IESO to pre-filed Questions of OEB and VECC
- Exhibit TC.7, IESO Organization Pre-reorganization Chart
- Exhibit TC.8, Current IESO Organization Chart
- Final Transcript for January 29, 2010 Technical Conference, pages 20-33, 44-54

1.3 What are the financial consequences of the IESO's investments in ABCP on the IESO's operating costs and its 2010 revenue requirements and have these costs been appropriately incorporated in the 2010 fees submission?

1.4 Is the IESO's policy for treatment of ABCP investments going forward appropriate and reasonable?

With regards to Issues 1.3 and 1.4, the Parties accept that the evidence set out below confirms that: (i) the financial consequences of the IESO's investments in ABCP on the IESO's operating costs and its 2010 revenue requirements have been appropriately incorporated in the IESO's 2010 fees submission; and (ii) the IESO's policy for treatment of ABCP investments going forward is appropriate and reasonable:

- Exhibit B, Tab 1, Schedule 1, 2010-2012 Business Plan, pages 11 and 13
- Exhibit B, Tab 3, Schedule 1, Supplemental Financial Information, pages 2 and 3
- Exhibit B, Tab 6, Schedule 1, Asset Backed Commercial Paper
- Exhibit TC.6, Answers by IESO to pre-filed Questions of OEB and VECC
- Final Transcript for January 29, 2010 Technical Conference, pages 33-43

## **2.0 Capital Spending**

2.1 Are the IESO's proposed 2010 capital expenditures on the enhanced day-ahead commitment (EDAC) project reasonable?

2.2 Is the EDAC project on budget and schedule?

With regards to Issues 2.1 and 2.2, the Parties accept that the evidence set out below confirms that: (i) the IESO's proposed 2010 capital expenditures on the enhanced day-ahead commitment (EDAC) project are reasonable; and (ii) the EDAC project is on budget and schedule:

- Exhibit B, Tab 1, Schedule 1, 2010-2012 Business Plan, pages 11, 16, 23 and 25
- Exhibit B, Tab 3, Schedule 1, Supplemental Financial Information, pages 16 and 17

- Exhibit B, Tab 5, Schedule 1, Status of Enhanced Day-Ahead Commitment Project
- Exhibit TC.9, Written Response to OEB pre-filed Question 17
- Final Transcript for January 29, 2010 Technical Conference, pages 54-62, 64-65

**2.3** Are the IESO's proposed capital expenditures, other than EDAC, appropriate and reasonable?

The Parties accept that the evidence set out below supports the IESO's proposed capital expenditures, other than EDAC, as being appropriate and reasonable:

- Exhibit B, Tab 1, Schedule 1, 2010-2012 Business Plan, pages 16, 23-27
- Exhibit B, Tab 3, Schedule 1, Supplemental Financial Information. Pages 7-10
- Exhibit TC.2, Updated Financial Evidence
- Final Transcript for January 29, 2010 Technical Conference, pages 62-72

### **3.0 Methodology for Calculating Usage Fee**

**3.1** Are the methodologies for calculating the 2010 usage fee and process for rebating surpluses appropriate and reasonable?

The Parties accept that the evidence set out below supports the IESO's methodologies for calculating the 2010 usage fee and process for rebating surpluses as being appropriate and reasonable:

- Exhibit B, Tab 1, Schedule 1, 2010-2012 Business Plan, pages 10-13
- Exhibit B, Tab 4, Schedule 1, Methodology for Calculating 2010 Usage Fee and Process for Rebating any Revenue Surplus
- Exhibit B, Tab 3, Schedule 1, Page 1, Supplemental Financial Information
- Exhibit TC.2, Updated Financial Evidence
- Final Transcript for January 29, 2010 Technical Conference, pages 7, 10-11

3.2 Is the forecast Market Demand and methodology appropriate and have the impact of Conservation or Demand Management initiatives been suitably reflected?

The Parties accept that the evidence set out below confirms that the IESO's forecast Market Demand and methodology are appropriate and that the impact of Conservation and Demand Management initiatives have been suitably reflected:

- Final Transcript for January 29, 2010 Technical Conference, pages 6-11

#### **4.0 Smart Metering Entity**

4.1 Is the IESO's process for separating costs associated with its role as the Smart Metering Entity from costs associated with its role in operation of the provincial electricity grid and managing the wholesale electricity market reasonable?

4.2 Is the IESO's proposal and timing for recovery of its smart metering costs through a separate regulatory mechanism appropriate and reasonable?

4.3 Has the IESO in its role as the Smart Metering Entity, received Ontario Energy Board approval of a fee mechanism to recover Smart Metering Entity costs incurred, and has the Smart Metering Entity filed a separate fees submission to recover these costs?

With regards to Issues 4.1, 4.2, and 4.3, the Parties accept that the evidence set out below confirms that: (i) the IESO's process for separating costs associated with its role as the Smart Metering Entity from costs associated with its role in operation of the provincial electricity grid and managing the wholesale electricity market are reasonable; (ii) the IESO's proposal and timing for recovery of its smart metering costs through a separate regulatory mechanism is appropriate and reasonable; and (iii) the IESO is preparing applications, including an SME fee proposal, and intends to file these applications with the OEB by the end of the first quarter of 2010:

- Exhibit B, Tab 1, Schedule 1, 2010-2012 Business Plan, pages 9, 18-19, 28-30
- Final Transcript for January 29, 2010 Technical Conference, pages 74-76

#### **5.0 Reliability**

5.1 Are the IESO's proposed 2010 measures to address reliability appropriate and cost-effective?



The Parties accept that the evidence set out below supports the IESO's proposed 2010 measures to address reliability as being appropriate and cost-effective:

- Exhibit B, Tab 1, Schedule 1, 2010-2012 Business Plan, pages 1-2, 5, 23-27
- Final Transcript for January 29, 2010 Technical Conference, pages 77-92

## **6.0 Green Energy and Green Economy Act (GEGEA) Initiatives**

6.1 Is the IESO proposal to address GEGEA initiatives appropriate and cost-effective?

The Parties accept that the evidence set out below supports the IESO's proposal to address GEGEA initiatives as being appropriate and cost-effective:

- Exhibit B, Tab 1, Schedule 1, 2010-2012 Business Plan, pages 1-9, 23-27
- Exhibit TC.7, IESO Organization Pre-reorganization Chart
- Exhibit TC.8, Current IESO Organization Chart
- Final Transcript for January 29, 2010 Technical Conference, pages 93-99