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EMAIL AND COURIER

February 2, 2011
File No.: 101926.1056

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Yonge-Eglinton Centre
P.O. Box 2319, Suite 2700
2300 Yonge Street
Toronto ON M4P 1E4


Dear Ms. Walli:

**Re: Independent and Electricity System Operator - Fiscal 2011 Fees
Submission for Review: EB-2010-0046**

Please find enclosed in PDF searchable electronic form the IESO's amended 2011 Fees Submission for Review (clean and blacklined versions enclosed). The IESO has amended section 4(e) of the Fees Submission to confirm that it is only seeking approval to retain the initially projected \$13.1 million of the 2010 accumulated surplus and to rebate the balance to market participants. Also enclosed is a 2010 Financial Update.

This letter and the enclosed documents will be filed through RESS and the requisite number of paper copies will follow by courier.

Yours truly,


for: Glenn Zacher

/sc
Encl.

cc: All Registered Intervenors

TORONTO
MONTREAL
OTTAWA
CALGARY
VANCOUVER
NEW YORK
LONDON
SYDNEY

ONTARIO ENERGY BOARD

IN THE MATTER OF sections 18 and 19 of the *Electricity Act, 1998*;

AND IN THE MATTER OF a Submission by the Independent Electricity System Operator to the Ontario Energy Board for the review of its proposed expenditure and revenue requirements and the fees which it proposes to charge for the year 2011 in connection with the IESO-controlled grid and IESO-administered markets.

SUBMISSION FOR REVIEW

1. The Board of Directors of the Independent Electricity System Operator (respectively the "IESO Board" and the "IESO") approved the IESO's Business Plan for the fiscal years 2011 - 2013 (the "Business Plan").
2. The IESO submitted its Business Plan to the Minister of Energy and Infrastructure for approval pursuant to section 19.1 of the *Electricity Act, 1998* (the "Act") and the Minister approved the Business Plan.
3. The IESO hereby submits its proposed expenditure and revenue requirements and proposed fees for 2011 to the Board for review and approval pursuant to section 19(1) of the Act.
4. Under section 19(2) of the Act, the IESO is seeking the following approvals from the Board:
 - (a) Approval of its proposed 2011 revenue requirement of \$126 million;
 - (b) Approval of its proposed 2011 capital expenditure envelope of \$21.5 million for capital plans;
 - (c) Approval for the continuation of the \$1,000.00 application fee;

- (d) Approval of a usage fee of \$0.822/MWh to be paid commencing January 1, 2011. The IESO usage fee is paid by all market participants on energy withdrawn from the IESO controlled grid (including scheduled exports). If necessary, pending approval, the IESO proposes to continue to charge the 2010 usage fee (\$0.822/MWh) to market participants from January 1, 2011 until the end of the month in which Board approval is received for the 2011 usage fee, and seeks authorization to charge (or rebate to) market participants the difference between the 2010 and 2011 usage fee, if any, based on their proportionate quantity of energy withdrawn (including scheduled exports) for that period, directing such charges (or rebates) to market participants in the next billing cycle following the month in which that approval is received; and
- (e) Approval to: (i) retain \$13.1 million of the accumulated surplus from the 2010 fiscal year to assist in rate stabilization and to address the higher than normal risk that energy volumes will be lower than assumed over the planning period; and (ii) rebate, in 2011, the balance of the accumulated surplus in excess of \$13.1 million from the 2010 fiscal year. The IESO will rebate the balance of the accumulated surplus, based on the IESO's audited 2010 financial statements as approved by the IESO Board, to market participants based on each market participant's proportionate quantity of energy withdrawn from the IESO controlled grid (including scheduled exports) for 2010.

5. Smart Metering Entity ("SME") costs, including both IESO internal and contracted expenses, will be recovered through a separate regulatory mechanism from the IESO usage fee that is charged to wholesale market participants. The IESO is

therefore not seeking to recover any costs relating to performing its role as the SME in this proceeding.

6. Supporting this Submission is the IESO's pre-filed evidence which includes:

- i) The Business Plan;
- ii) Supplemental financial information on projected 2010 financial results and the financial outlook for 2011-2013;
- iii) Methodology for calculating the 2011 usage fee and proposal for treatment of accumulated surpluses;
- iv) Status report on the Enhanced Day-Ahead Commitment project;
- v) Status of Undertakings

7. The Business Plan sets out the strategic business objectives and priorities for the IESO over the planning period, including:

- Deliver and maintain electricity service in a manner that balances reliability and costs;
- Reliably and efficiently integrate unprecedented increases of renewable resources into Ontario's power system;
- Develop, re-design and adapt tools and processes to efficiently facilitate the province's green energy policy and respond to the fundamental changes this policy introduces to the power system;
- Continue to operate efficiently and look for and implement new efficiencies through organizational and business process re-design;

- Develop a “market road map” that identifies market changes that would benefit Ontario’s market structure and support the province’s green energy objectives; and
- Continue to promote and maintain effective relationships with customers and stakeholders.

8. The Business Plan further identifies the opportunities and challenges that lie ahead and the initiatives the IESO has planned to meet these opportunities and challenges and facilitate its strategic objectives.

9. The IESO may amend its pre-filed evidence from time to time, prior to and during the course of the Board’s proceeding. In particular, should the IESO identify a material change to its 2011 fees Submission the IESO will update its pre-filed evidence and may also amend its Submission to update the requested usage fee. Furthermore, the IESO may seek to have additional meetings with Board Staff and intervenors in order to identify and address any further issues arising from this Submission, with a view to an early settlement and disposition of this proceeding.

10. The IESO proposes the following title for this proceeding: *Independent Electricity System Operator Fiscal Year 2011 Fees Submission for Review*.

11. The persons affected by this Submission are all market participants as defined in Chapter 2, section 2.1.1 of the *Market Rules for the Ontario Electricity Market*, who participate in the electricity markets administered by the IESO. The IESO communicates regularly with its participants by way of the IESO’s website and e-mail. Consistent with the means of notification requested and approved by the Board for the IESO’s 2008 to 2010 fee Submissions, the IESO proposes that notice of this application be given by the following means:

- i) Posting this application, including the pre-filed evidence on the IESO's website on the "Regulatory Affairs" pages;
- ii) Posting an announcement, in English and French, on the "Participant News" page, which will be e-mailed to all market participants and interested parties who are registered to receive IESO news and other communiqués; and
- iii) Delivering an electronic copy of this Submission, including the pre-filed evidence to all registered observers and intervenors in the IESO's 2009 and 2010 Fees Submission for Review.

12. The IESO requests that a copy of all documents filed with the Board by each party to this proceeding be served on the IESO and the IESO's counsel in this proceeding, as follows:

(a) The IESO: Mr. Brian Rivard
Manager, Regulatory Affairs and Sector Policy
Analysis
Independent Electricity System Operator

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Toronto, Ontario M5G 2K4

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Telephone: (905) 855-6135
Fax: (905) 855-6129
E-mail: brian.rivard@ieso.ca

(b) The IESO: Mr. Biju Gopi
Senior Regulatory Analyst, Regulatory Affairs
Independent Electricity System Operator

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Fax: (416) 506-2843
E-mail: biju.gopi@ieso.ca

(c) The IESO's counsel: Mr. Glenn Zacher
Stikeman Elliott LLP

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Telephone: (416) 869-5688
Fax: (416) 947-0866
E-mail: gzacher@stikeman.com

DATED at Toronto, Ontario, this 2nd day of November, 2010.

INDEPENDENT ELECTRICITY SYSTEM
OPERATOR

Original Signed

By its counsel in this proceeding
Glenn Zacher

ONTARIO ENERGY BOARD

IN THE MATTER OF sections 18 and 19 of the *Electricity Act, 1998*;

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DATED at Toronto, Ontario, this 2nd day of November, 2010.

INDEPENDENT ELECTRICITY SYSTEM
OPERATOR

Original Signed

By its counsel in this proceeding
Glenn Zacher

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Document 2 ID	PowerDocs://SETOR1/5737375/5
Description	SETOR1-#5737375-v5-IESO_-_2011_Fees_Case_-_Application_2011
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Total changes	12

IESO Financial Update

Actual 2010 Financial Results (unaudited)

The following table outlines the IESO's 2010 actual results. As these figures are not yet audited, they are subject to change.

(\$ millions)	2010 Actual Unaudited	2010 Budget	Variance
Usage Fees	127.1	122.8	4.3
Cost Recovery for Service	2.9	2.0	0.9
Total Revenues	130.0	124.8	5.2
OM&A Program Costs	85.3	91.5	6.2
OM&A Pension Expense	13.0	11.2	(1.8)
Amortization	13.9	21.0	7.0
Net Interest	(0.5)	1.0	1.4
Total Costs	111.7	124.7	13.0
Operating Surplus/(Deficit)	18.3	-	18.3
Accumulated Operating Surplus (opening balance)	5.0	5.0	-
Rebates to Market Participants	(10.2)	-	10.2
Accumulated Operating Surplus (closing balance)	13.1	5.0	8.1

The initial filing (Exhibit B, Tab 1, Schedule 1, pages 8-11 and Exhibit B, Tab 2, Schedule 1) included projected 2010 results and included explanations for those projected variances. The following table details the variances from the actual 2010 results (unaudited) and the projected 2010 results included in the IESO 2011-2013 Business Plan.

(\$ millions)	2010 Actual Unaudited	2010 Projected in 2011-13 B/Plan	Variance
Usage Fees	127.1	124.4	2.7
Cost Recovery for Service	2.9	3.1	(0.2)
Total Revenues	130.0	127.5	2.5
OM&A Program Costs	85.3	89.9	4.6
OM&A Pension Expense	13.0	14.8	1.8
Amortization	13.9	14.0	0.1
Net Interest	(0.5)	0.7	1.2
Total Costs	111.7	119.4	7.7
Operating Surplus	18.3	8.1	10.2
Accumulated Operating Surplus (opening balance)	5.0	5.0	-
Rebates to Market Participants	(10.2)	-	(10.2)
Accumulated Operating Surplus (closing balance)	13.1	13.1	-

Revenues from cost recovery for service, and amortization were largely consistent with the 2010 projected results in the IESO 2011-2013 Business Plan.

Usage Fees

Actual usage fee revenues for 2010 are \$127.1 million, approximately \$2.7 million higher than the 2010 projection included in the 2011-2013 Business Plan. The positive variance was the result of higher than forecast domestic demand and exports. The following table details the variance in terawatt hours (TWh).

TWh	2010 Actual Unaudited	2010 Projected in 2011-13 B/Plan	Variance
Ontario Demand (net of line losses)	139.4	137.8	1.6
Exports	15.2	13.5	1.7
Total	154.6	151.3	3.3

OM&A Program Costs

(\$ millions)	2010 Actual Unaudited	2010 Projected in 2011-13 B/Plan	Variance
Staff Costs	61.6	62.4	0.8
Computer Support, Maintenance & Equipment	8.0	8.8	0.8
Contract Service & Consultants	5.8	7.9	2.1
Administration	7.2	7.5	0.3
Telecommunications	2.7	3.3	0.6
Total OM&A Program Costs	85.3	89.9	4.6

Forecast staff costs were lower than projected by \$0.8 million primarily due to staff vacancies and lower spending associated with staff expenses and training.

OM&A program costs related to computer support, maintenance & equipment were also \$0.8 million lower than projected largely due to the allocation of support and maintenance resources to capital and lower than expected usage for computer leases and consumables.

Contract services and consultants were \$2.1 million below the projected cost level as a result of projects being completed in-house or being deferred until 2011.

Telecommunications was \$0.6 million below the project cost level largely as a result of lower than expected usage.

Administration was largely consistent with the 2010 projections included in the 2011-2013 Business Plan.

OM&A Pension Expense

(\$ millions)	2010 Actual Unaudited	2010 Projected in 2011-13 B/Plan	Variance
Pension Costs	15.7	15.7	-
Capitalized Pension	(0.7)	(0.5)	0.2
SERP Investment Income	(2.0)	(0.4)	1.6
OM&A Pension Expense (net)	13.0	14.8	1.8

OM&A pension expense was \$1.6 million lower than the 2010 projection mainly as a result of higher than expected income on the SERP investment. The actual returns on the investment in 2010 were approximately 10.7%.

Net Interest

(\$ millions)	2010 Actual Unaudited	2010 Projected in 2011-13 B/Plan	Variance
Interest on Debt	0.3	0.3	-
Financing Charges	0.6	0.6	-
Investment/Other Income	(1.3)	(0.1)	1.2
Capitalized Interest	(0.1)	(0.1)	-
Net Interest	(0.5)	0.7	1.2

Net interest was \$1.2 million lower than the 2010 projection as a result of: the write-off of an outstanding accrued payable related to an out-of-service asset (\$0.7 million); the divestment of asset-backed commercial paper (ABCP) investment (\$0.3 million); and foreign exchange gains of \$0.2 associated with the forward purchases of US dollars.

Rebate to Market Participants

The initial filing (Exhibit B, Tab 3, Schedule 1, page 3) stated that the IESO was projecting a surplus for 2010 of \$8.1 million which, when added to the \$5.0 million surplus in the IESO's deferral account, would result in an accumulated surplus of \$13.1 million to the end of 2010. The IESO proposed that this accumulated surplus be retained in order to assist in rate stabilization and to address the higher than normal risk that energy volumes will be lower than assumed over the planning period (2011- 2013).

The 2010 actual operating surplus of \$18.3 million is \$10.2 million higher than projected. Accordingly, the IESO is proposing to retain \$13.1 million for the reasons stated above and to rebate the balance of approximately \$10.2 million to market participants, following approval of the audited 2010 financial statements by the IESO Board of Directors.

2011 Financial Outlook

The 2011 financial outlook currently remains unchanged from that included in the 2011-2013 Business Plan.