

**INDEPENDENT ELECTRICITY SYSTEM OPERATOR (IESO)**  
**FISCAL YEAR 2008 FEES SUBMISSION FOR REVIEW**  
**SETTLEMENT PROPOSAL**  
**EB-2007-0816**

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") 2008 Fees Submission for Review (EB-2007-0816). A Settlement Conference was conducted on February 26<sup>th</sup>, 2008, in accordance with Rule 31 of the OEB's *Rules of Practice and Procedure* and the OEB's *Settlement Conference Guidelines*. The Settlement Proposal, prepared in accordance with Rule 32 of the *Rules of Practice and Procedure*, arises from the Settlement Conference.

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

- The IESO;
- Association of Power Producers of Ontario (APPrO);
- Energy Probe Research Foundation (Energy Probe);
- Ontario Power Generation (OPG);
- Power Workers' Union (PWU);
- Society of Energy Professionals (SEP); and
- Vulnerable Energy Consumers Coalition (VECC)

This Settlement Proposal deals with all issues on the Board-approved Issues List:

1. Operating Cost
2. Capital Spending
3. Smart Metering Initiative
4. Benchmarking
5. Reliability
6. Undertakings from 2007 Fees Submission

The Parties have settled all issues.

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

On February 11, 2008, a Technical Conference was held and Board Staff and intervenors examined a panel of IESO witnesses on matters within the Issues List; this Technical Conference was transcribed. The IESO answered undertakings arising from the Technical Conference and circulated and filed these answers with the Board on February 15, 2008.

On the basis of the IESO's pre-filed evidence, evidence provided at the Technical Conference and responses to undertakings from the Technical Conference, the Parties agree, with the exceptions noted below, with the IESO's 2008 Fees Submission for review, including, *inter alia*, the IESO's proposed 2008 revenue requirement, inclusive of the revenue requirement associated with the proposed capital expenditures amount, usage fee and application fee.

This Settlement Proposal outlines the Parties' positions and provides a direct and transparent link between each issue and the supporting evidence in the record. The Parties agree, with the exceptions set out below, that the IESO's Fees Submission for Review, evidence given at the Technical Conference, and responses to undertakings as cited, is sufficient to support the Settlement Proposal. Moreover, the quality and the detail of the supporting evidence will allow the Board to make findings on the issues.

### **IESO 2008 Revenue Requirement, Expenditures and Fees**

The Parties, with the exception of Energy Probe which takes no position on this matter, reached agreement on the IESO's 2008 proposed revenue requirement of \$135.5 million and proposed 2008 capital expenditures of \$20 million.

The Parties agreed to the reduced IESO usage fee of \$0.799/MWh commencing January 1, 2008, as per the OEB Interim Fees Order of December 17, 2007, and to the continuation of the \$1,000 application fee.

The following evidence supports this agreement:

Exhibit A, Tab 1, Schedule 1, Fees Submission For Review

Exhibit B, Tab 1, Schedule 1, 2008-2010 Business Plan, Pages 30-34, 41-44, 48-49.

Final Transcript for February 11, 2008 Technical Conference.

### **1.0 Operating Cost**

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

The Parties are satisfied with the evidence set out below, with the exception of Energy Probe which takes no position on Exhibit B, Tab 1, Schedule 1, 2008-2010 Business Plan, Pages 52-54, and the Final Transcript for February 11, 2008 Technical Conference, Pages 46-52.

Exhibit B, Tab 1, Schedule 1, 2008-2010 Business Plan, Pages 35-40, 52-54.

Final Transcript for February 11, 2008 Technical Conference, Pages 32-35, 46-52.

IESO Answers to Undertakings, filed February 15, 2008, JT4.

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

The Parties are satisfied with the evidence set out below.

Exhibit B, Tab 1, Schedule 1, 2008-2010 Business Plan, Pages 35-40.

Exhibit B, Tab 3, Schedule 1, Status Report on the Obligations and Undertakings Arising Out of the IESO's 2007 Fees Submission for Review, Appendix 1, Pages 7-11.

Final Transcript for February 11, 2008 Technical Conference, Pages 4-22, 34-46, 53-54.

IESO Answers to Undertakings, filed February 15, 2008, JT1, JT2, JT3.

1.3 The IESO's third quarter 2007 financial statements indicate that the IESO holds \$23.1 million of illiquid Asset-Backed Commercial Paper on which neither principal nor interest has been paid. What are the implications of this ABCP for the IESO's 2008 revenue requirement?

The Parties, with the exception of Energy Probe, which takes no position on Exhibit B, Tab 1, Schedule 1, 2008-2010 Business Plan, Page 49, are satisfied with the evidence set out below.

Exhibit B, Tab 1, Schedule 1, 2008-2010 Business Plan, Page 49.

Final Transcript for February 11, 2008 Technical Conference, Pages 23-30.

## 2.0 Capital Spending

2.1 Are the projected expenditures including \$8 million in 2008 and \$8 million in 2009 on Day-Ahead Market ("DAM") appropriate and reasonable?

2.2 What is the level of IESO commitment to DAM and is this sufficient for funding approval?

2.3 Is the proposed schedule for the DAM initiative reasonable? (Approval of DAM by the IESO Board by late 2007 or early 2008, capital work to start in 2008 and DAM to be operational in 2009).

The Parties are satisfied with the evidence set out below.

Exhibit B, Tab 1, Schedule 1, 2008-2010 Business Plan, Pages 13, 41-42, 55.

Final Transcript for February 11, 2008 Technical Conference, Pages 54-64

IESO Answers to Undertakings, filed February 15, 2008, JT5.

### **3.0 Smart Metering Initiative**

3.1 Is the IESO's process for separating of costs associated with its role as the Smart Metering Entity from costs incurred as the System Operator appropriate?

The Parties, with the exception of Energy Probe, which takes no position on this matter, are satisfied with the evidence set out below.

Exhibit B, Tab 1, Schedule 1, 2008-2010 Business Plan, Pages 12, 50-51.

Final Transcript for February 11, 2008 Technical Conference, Pages 65-70.

### **4.0 Benchmarking**

4.1 Are the IESO's proposed cost categories for comparison to its peers appropriate for improving operational efficiency?

The Parties, with the exception of Energy Probe, which takes no position on this matter, are satisfied with the evidence set out below.

Exhibit B, Tab 3, Schedule 1, Status Report on the Obligations and Undertakings Arising Out of the IESO's 2007 Fee Submission for Review, Page 3, and Appendix II, Page 12.

Final Transcript for February 11, 2008 Technical Conference, Pages 70-73.

## 5.0 Reliability

5.1 Are the IESO's proposed 2008 measures to address reliability appropriate and cost effective?

The Parties are satisfied with the evidence set out below.

Exhibit B, Tab 1, Schedule 1, 2008-2010 Business Plan, Pages 4, 6-7, 27-29, 42-43.

Final Transcript for February 11, 2008 Technical Conference, Pages 76-82.

## 6.0 Undertakings from 2007 Fees Submission

6.1 Has the IESO complied with its undertakings and obligations?

6.2 Do any of the IESO's actions described in its November 2, 2007 Status Report on obligations and undertakings have implications for 2008 fees which should be reviewed in the current proceeding?

The Parties, with the exception of Energy Probe which takes no position on the Final Transcript for February 11, 2008 Technical Conference: Pages 73-75, are satisfied with the evidence set out below.

Exhibit B, Tab 3, Schedule 1, Status Report on the Obligations and Undertakings Arising Out of the IESO's 2007 Fee Submission for Review.

Final Transcript for February 11, 2008 Technical Conference: Pages 61, 64, 73-75.

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