



ONTARIO ENERGY BOARD

STAFF SUBMISSION ON SETTLEMENT PROPOSAL FILED ON SEPTEMBER 7, 2016

**INDEPENDENT ELECTRICITY SYSTEM OPERATOR
2016 REVENUE REQUIREMENT AND FEES APPLICATION
EB-2015-0275**

September 14, 2016

Background

The Independent Electricity System Operator (IESO) filed an application with the Ontario Energy Board (OEB) on January 20, 2016 under section 25(1) of the *Electricity Act, 1998*, seeking approval for the IESO's 2016 expenditures, revenue requirement and fees. This is the IESO's first revenue requirement and fees application since its merger with the former Ontario Power Authority (OPA).

In Procedural Order No. 3 dated June 17, 2016, the OEB scheduled a two-day Settlement Conference starting on August 17, 2016. The IESO filed a Settlement Proposal on September 7, 2016, reflecting a partial settlement.

The Settlement Proposal

The partial settlement represents a settlement on all issues except for the issues related to the introduction and implementation of the single usage fee proposal – Issues 2.1, 2.2, 2.3, 2.4 and 2.5 in the OEB-Approved Issues List. On all the other issues the parties reached a settlement. As part of the settlement, the parties accept the following aspects of the IESO's application:

- A 2016 revenue requirement of \$182.1 million and net revenue requirement of \$181.1 million.
- A \$10 million operating reserve.
- To continue to charge a non-refundable application fee for the Feed-in-Tariff program of \$0.50/kW of proposed Contract Capacity, having a minimum of \$500 and a maximum of \$5,000
- To continue to charge the Large Renewable Procurement qualification submission fee to Request for Qualification applicants.
- To continue to charge \$1,000 for the IESO's market participation application fee.
- To continue to charge Registration Fees of up to \$10,000 per proposal for electricity supply and capacity procurements, including conservation and load management procurements.
- To use amounts from the IESO's and the Ontario Power Authority's operating reserve and the amounts in the Registration Fees Deferral Account and the Forecast Variance Deferral to cover incurred merger costs.
- To rebate (or charge) any balance in the year-end 2015 Forecast Variance Deferral Account above the \$10 million operating reserve, based on the IESO's audited 2015 financial statements.

Submission

OEB staff has reviewed the Settlement Proposal and submits that the proposal represents an acceptable outcome and the accompanying explanation and rationale are adequate to support the settlement proposal. OEB staff submits that the Settlement Proposal is in the public interest and should be accepted by the OEB.

OEB staff supports the Settlement Proposal for the following reasons:

- The proposed 2016 revenue requirement of \$182.1 million is approximately 4% lower than the combined revenue requirement of \$190.2 million of the former IESO (\$129.9 million) and the former OPA (\$60.3 million).
- Merger-driven savings have resulted in efficiencies including a reduction in the workforce of 35 employees, and real estate savings from amalgamating staff into one location from two in downtown Toronto and reducing the amount of floor space at that location. The IESO proposes to build on the \$5 million in savings from 2015 and targets savings of \$10 million by 2018.
- The IESO's 2016 revenue requirement application is consistent with its 2016-2018 Business Plan that was approved by the Minister of Energy.
- The IESO has undertaken to provide more detailed information on operating and capital costs, cost drivers and employee costs and in a format similar to that of Appendices 2-AA, 2-JB, 2-JC and 2K, consistent with the cost of service filing requirements for distributors. The IESO has also agreed to track costs related to the implementation of the cap and trade program and Bill 135 initiatives for presentation in its next revenue requirement application. OEB staff is supportive of the improvements the IESO has agreed to undertake and submits that the improvements to the application will promote transparency and will result in a better review of the application.
- In EB-2013-0326, the former OPA's last fees application, the OEB had expressed its expectations regarding improvements in stakeholdering and in the setting of performance targets and metrics. As part of the settlement the IESO has agreed to better implement its enhanced Stakeholder Engagement Principles which emphasize inclusive and adequate representation. The IESO has agreed to better involve consumers and consumer groups in future stakeholdering activities. The IESO will report on how it has implemented this principle in its next application filed with the OEB. OEB staff is supportive of the IESO's efforts to improve its stakeholdering.
- In regards to improvements in the setting of performance targets and metrics, the IESO has agreed to consult with intervenors to develop a scorecard for filing in its next revenue requirement application. It is intended that this scorecard will assist

in evaluating the IESO's expenditures and revenue requirement. The IESO has also agreed to engage an expert to assist with this work. OEB staff is of the view that this work is helpful and may assist the OEB in establishing a scorecard for the IESO.

In conclusion, OEB staff submits that the OEB's acceptance of the Settlement Proposal would adequately reflect the public interest.

OEB staff also notes that the IESO has requested that the unsettled issues be heard by way of a written hearing. HQ Energy Marketing Inc. and the Association of Power Producers of Ontario wrote to the OEB on September 9, 2016 to advise that they do not oppose a written hearing. No other intervenors have taken a position on the matter of hearing. OEB staff submits that in the circumstances, a written hearing would be appropriate.

All of which is respectfully submitted.