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October 14, 2016

VIA E-MAIL

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge St.  
Toronto, ON  
M4P 1E4

Dear Ms. Walli:

**Re: EB-2015-0275 –Independent Electricity System Operator (IESO)  
Final Submissions of Vulnerable Energy Consumers Coalition (VECC)**

Pursuant to Procedural Order No. 4 please find enclosed the Final Submissions of VECC with respect to the above-noted proceeding. Please note we have also directed a copy of the same to the Applicant and their Counsel as well as all registered Intervenorors via email.

Yours truly,

A handwritten signature in black ink, appearing to read 'Michael Janigan', is written over a light blue horizontal line.

Michael Janigan  
Counsel for VECC

IESO - Miriam Heinz - [miriam.heinz@ieso.ca](mailto:miriam.heinz@ieso.ca)  
Counsel – Fred Cass – [fcass@airdberlis.com](mailto:fcass@airdberlis.com)

**IN THE MATTER OF** section 25. (1) 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 for the fiscal year 2016 and the fees it proposes to charge during the fiscal year 2016.

### **Final Submissions of the Vulnerable Energy Consumers Coalition (VECC)**

#### **Introduction**

1. The Vulnerable Energy Consumers Coalition (VECC) has been a intervenor participant in this proceeding and a signatory to the Settlement Proposal filed with the Board.
2. Pursuant to Procedural Order No. 4 of September 28, 2016, the Board provided for submissions from the Applicant, Independent Electricity System Operator (IESO) and the intervenors on the remaining issue of the single usage fee charged to all market participants including scheduled exports.
3. VECC has reviewed the Argument in Chief (AIC) of the IESO filed October and is in substantial agreement with the statements and conclusions set out therein. VECC has some additional submissions in support of the IESO proposal concerning the single usage fee.

## Desirability of a Single Fee

4. The IESO AIC sets out the history of the proposal that is now before the Board associated with the assessment of a single fee. It is, of course, intertwined with the efforts to assess a usage fee to exports for the activities of the former OPA.
5. In its Decision EB-2010-0279, the Board rejected the OPA's request to assess a fee to exports based on the perceived differences in the governing legislation of the IESO and the OPA , as well doubts concerning the benefits that were conferred by the OPA's activities to export customers.
6. The Board is now dealing with a single entity in the IESO and the AIC sets out the relevant aspects of its statutory duties that touch upon services that are supportive of, or facilitate, export sales.<sup>1</sup>
7. In an effort to furnish additional empirical evidence of the appropriateness of the proposed usage fee to exporter customers, the IESO commissioned Elenchus to do a cost allocation study. The study attempted to allocate IESO costs that were primarily of the A&G variety to domestic and export customers using the IESO 2015 budget as the model.
8. While the model developed produced acceptable revenue- to-cost ratios for the export class based on the 2015 inputs, the 2016 numbers disclosed that the model produced much larger variances in the revenue-to-cost model than were explained by changes in volume.
9. VECC suggests that the problems associated with the design of a perfect cost allocation model stems from the nature of the costs themselves.

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<sup>1</sup> AIC, para 15

10. The issue of allocation of utility costs identified as common or joint presents difficulties long recognized by regulatory economists. J.C. Bonbright was of the view that while cost analysis was an essential part of rate-making, the only meaningful empirical allocation exercise involved marginal or incremental costs. For him, the allocation of common or joint costs usually involved some compromise formula of apportionment based on the desirable rate structure.<sup>2</sup>

11. Public utilities, by their nature, supply multiple products and services with the same facilities. In the case of joint services, costs may be produced in fixed proportions, without any genuine incremental component. In that case, while there is an objective cost reality (i.e. costs are really being incurred), it may be that the cost allocation formula for those costs may only achieve a rule of thumb approximation to the actual costs of the service being rendered.<sup>3</sup>

12. The IESO has described the reality of cost incurrence in its evidence as follows:

“As both domestic and export customers benefit from the work that the IESO carries out, and the IESO performs its work equally for the benefit of all market participants, both domestic and export customers should pay equally for the work performed by the IESO. The work planned for and performed by the IESO is not dependent or related to the participation level of an individual market participant or a ‘class’ or type of market participant, and this work serves all types of customers. The Ontario electricity system is not designed or operated for one particular market participant type.”<sup>4</sup>

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<sup>2</sup> Bonbright, James C., *Principles of Public Utility Rates*, Columbia University Press, New York, 1961, pp. 367,368

<sup>3</sup> Kahn, Alfred E., *The Economics of Regulation: Principles and Institutions*, MIT Press Vol pp77-79

<sup>4</sup> Exhibit B, Tab 1, Schedule 2, p.4

13. In this case, the overarching principle of rate fairness compels the use of what is described as the “best indicator possible”<sup>5</sup> to impose a single usage fee on all market participants. In an integrated system, where the costs are joint, and difficult to allocate by function rendered to a particular participant, the method proposed is both administratively reasonable and produces a result that ensures no one group of customers is unduly subsidizing or being burdened by the other.

14. In the result, VECC urges the Board approve the 2016 usage fee as proposed by the IESO.

### **Costs**

15. VECC requests that it be awarded its costs of participation in this proceeding as it submits that its participation was responsible and intended to be of assistance to the Board.

**All of which is respectfully submitted this 14<sup>th</sup> day of October 2016**

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<sup>5</sup> AIC, para 28