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**VIA EMAIL**

May 26, 2017

Terry Young  
Vice President, Conservation & Corporate Relations  
Independent Electricity System Operator  
120 Adelaide Street West, Suite 1600  
Toronto, ON M5H 1T1

Dear Mr. Young:

**Re: Funding of OEB Regulated Price Plan Pilot Projects  
(Board File No. EB-2016-0201)**

Further to the Minister of Energy's Direction issued to the Independent Electricity System Operator (IESO) on December 16, 2016, I am writing to confirm the roles and responsibilities of the IESO and the Ontario Energy Board (OEB) in relation to the implementation and funding of pilot projects for new pricing models and non-price tools (Pilots Projects) relating to the OEB's Regulated Price Plan (RPP).

The Direction requires the IESO to provide, through its Conservation Fund, support and funding for Pilot Projects specified by the OEB, in such amounts as determined by the OEB. The IESO is required to:

- provide Conservation Fund funding without adherence to the Conservation Fund's application process or other requirements;
- create a simplified process for enabling distributors that are delivering Pilot Projects to access Conservation Fund funding; and
- use a simplified and expedited procurement process for the purpose of entering into one or more procurement contracts with distributors selected by the OEB.

The OEB is responsible for establishing criteria for, selecting and overseeing the Pilot Projects. The OEB is also responsible for dealing with distributors that have been selected to undertake Pilot Projects in relation to all aspects of the Pilot Projects other

than settlement processes, including such progress monitoring, evaluation, measurement and verification and publication of results as the OEB considers appropriate.

The OEB acknowledges that the IESO will need to have certain information for the purposes of entering into procurement contracts with distributors that have been selected by the OEB to undertake Pilot Projects, and for the purposes of managing such contracts and providing Conservation Fund funding for those projects. The information that will be provided to the IESO in that regard is set out in Attachment A to this letter.

Pilot Projects are a key element of the OEB's efforts to have an objective basis on which to inform our future decisions about RPP pricing and the design of new tools for customers to manage their electricity usage and provide for increased system efficiency. It is therefore important that the IESO's contracting approach and its contractual relationship with distributors facilitate the smooth and timely operation of the Pilot Projects to meet the OEB's requirements. Attachment B to this letter sets out a number of important considerations in that regard.

Sincerely,



Mary Anne Aldred  
General Counsel & Vice President, Legal Services & Strategic Policy  
Ontario Energy Board

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Terry Young  
Vice President, Conservation & Corporate Relations  
Independent Electricity System Operator

## **Appendix A**

### **Information to be Provided by the OEB to the IESO**

#### **1. Information to Support Contract with a Distributor**

For each Pilot Project approved by the OEB, the OEB will provide the IESO with a letter confirming such approval that includes the following information:

- i. A reference to the Minister's December 16, 2016 Direction to the IESO
- ii. The name of the distributor(s) selected by the OEB to undertake the Pilot Project and such distributor's Pilot Project contact information
- iii. The name of the Pilot Project
- iv. The estimated maximum budget for the Pilot Project
- v. A table identifying the project milestones, and target completion dates of the project milestones that will trigger payments by the IESO to the distributor(s) from the Conservation Fund
- vi. The amount of the payment to be made on contract execution

#### **2. Information to Trigger Payments to Distributors**

For each Pilot Project approved by the OEB, the OEB will provide the IESO with letters at the appropriate time requesting the IESO to settle payment with the distributor(s). Such letters will include:

- i. Reference to the Minister's December 16, 2016 Direction to the IESO
- ii. The name of the distributor(s) selected by the OEB to undertake the Pilot Project
- iii. The name of the Pilot Project
- iv. The date of completion of the applicable project milestone (or confirmation that the payment does relate to a particular project milestone)
- v. Confirmation of the OEB's acceptance of the milestone, if applicable
- vi. The amount of the associated payment to be made by the IESO

#### **3. Information Regarding Funding Amounts, Completion or Termination of a Pilot Project**

Where the OEB has determined that a Pilot Project has been completed and that no further funding from the IESO is required, the OEB will provide the IESO with a letter requesting the IESO to settle payment with the distributor(s) (or recover prior funding from the distributor(s), if applicable) and confirming the IESO's contract with the distributor(s) may be terminated. Such letter will include:

- i. Reference to the Minister's December 16, 2016 Direction to the IESO
- ii. The name of the distributor(s) selected by the OEB to undertake the Pilot Project
- iii. The name of the Pilot Project
- iv. The date of completion of the Pilot Project
- v. Confirmation of the remaining amount to be paid by the IESO, if any, to the distributor(s), or amounts to be recovered by the IESO from distributor(s)
- vi. Confirmation that Conservation Fund funding for the Pilot Project is no longer required after payment of the amount referred to in (v)

Where the OEB has determined that a Pilot Project should be terminated before completion, the OEB will provide the IESO with a letter requesting the IESO to settle payment with the distributor(s) and confirming that the IESO's contract with the distributor(s) may be terminated. Such letter will include:

- i. Reference to the Minister's December 16, 2016 Direction to the IESO
- ii. The name of the distributor(s) selected by the OEB to undertake the Pilot Project
- iii. The name of the Pilot Project
- iv. The date of termination of the Pilot Project
- v. Confirmation of the amount to be paid by the IESO, if any, to the distributor(s), or amounts to be recovered by the IESO from distributor(s)
- vi. Confirmation that Conservation Fund funding for the Pilot Project is no longer required after payment of the amount, if any, referred to in (v)

As noted previously, the Direction requires the IESO to provide, through its Conservation Fund, support and funding for Pilot Projects specified by the OEB, in such amounts as determined by the OEB. The OEB understands that, as part of IESO's corporate governance and as recommended by a past audit of IESO funds, the IESO's Board of Directors has approved a budget maximum for funding Pilot Projects. Where the OEB determines that total funding for a Pilot Project may exceed the estimated maximum budget for such Pilot Project, the OEB will inform the IESO so that the IESO may take the necessary steps under its procurement contract for such Pilot Project to approve an increase to the maximum funding amount in the contract for such Pilot Project. Should any one or more increases to funding appear likely to cause the IESO Board of Directors' approved budget to be exceeded, IESO management will seek the necessary Board of Director approval to increase its budget for these Pilot Projects.

#### **4. General**

For each Pilot Project approved by the OEB, the OEB will provide the IESO with such information from time to time as the OEB considers appropriate for the purposes of facilitating settlement between the IESO and distributors.

The OEB will notify the IESO when the OEB anticipates that Conservation Fund funding will no longer be required for Pilot Projects.

## **Appendix B IESO Responsibilities**

The IESO will provide the OEB with the following in relation to contracts that it has entered into with distributors to provide Conservation Funding for Pilot Projects (Pilot Funding Contracts):

- i. Confirmation when a contract is entered into with an LDC following receipt of a letter from the OEB as contemplated in Appendix A
- ii. Notice upon becoming aware that funding to the IESO for the Conservation Fund is being suspended, revoked or terminated by a third party
- iii. Notice upon becoming aware of a default that could trigger termination of a Pilot Funding Contract by either party
- iv. Notice upon receiving or giving a notice to invoke the dispute resolution provisions of a Pilot Funding Contract
- v. Notice of the IESO's intention to request a distributor to provide information to the IESO with respect to the outcomes of or lessons learned from the implementation of a Pilot Project to assist the IESO in the consideration or development of its own conservation programs

The IESO will not, without first discussing with the OEB:

- i. Exercise any right it may have to terminate a Pilot Funding Contract
- ii. Amend a Pilot Funding Contract with a distributor

The IESO will not, without the consent of the OEB, exercise its right of termination under Section 7(c) of the contract.

The IESO acknowledges that the Pilot Projects are OEB-led initiatives. As such, and as between the IESO and the OEB, the OEB will have lead responsibility for all public communications relating to a Pilot Project, including communications pertaining to the OEB's approval of a Pilot Project, the progress of a Pilot Project and the results of a Pilot Project. The OEB will not include reference to the IESO's role in funding a Pilot Project without first discussing such reference with the IESO.

If the IESO wishes to make a public communication relating to a Pilot Project other than as referred to in section 13(b) of the Pilot Funding Contract, the IESO will first discuss the nature and content of that communication with the OEB. If the IESO intends to include a reference to the OEB in any publicity or publication referred to in section 13(b) of the Pilot Funding Contract, the IESO will first discuss such reference with the OEB. The IESO will also, if reasonably possible in the circumstances, provide the OEB with advance notice of its intention to share with the Ministry of Energy any non-public

information pertaining to a Pilot Project for government reporting or policy planning purposes.