

July 10, 2017



**VIA Email, Courier and RESS**

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
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**Independent Electricity System Operator**

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Dear Ms. Walli:

**Re: Independent Electricity System Operator  
2017 Expenditure and Revenue Requirement Submission  
Ontario Energy Board File No.: EB-2017-0150**

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The Independent Electricity System Operator (“IESO”) filed an application with the Ontario Energy Board (“OEB”) on April 21, 2017 under section 25(1) of the *Electricity Act, 1998*, seeking approval of the IESO’s 2017 expenditure and revenue requirements and fees. On June 22, 2017, the OEB issued Procedural Order No. 1 in which it asked intervenors and OEB staff to file written submissions by June 30, 2017 on the draft issues list that was prepared by the IESO and filed with its application. Submissions were received from four parties: APPrO, Energy Probe, OEB staff and VECC. The IESO was to file its response to the submissions of intervenors and OEB staff on the draft issues list no later than July 8, 2017. The IESO’s submission is below.

**APPrO’s submission**

APPrO’s submission is that the issues in this proceeding should include a review of the terms, conditions and costs of IESO programs which are currently collected by LDCs as part of the wholesale market service charge (“WMSC”). APPrO submits these should be treated as “fees” and reviewed by the OEB, proposing the following three additions to the draft issues list:

1. What are the amounts paid by customers for IESO programs?
2. Should these amounts be categorized as a separate IESO fee?
3. Are the terms and conditions of IESO programs, including their cost, appropriate?

For the reasons that follow, the IESO opposes APPrO’s proposed issues, including the “review of the terms and conditions of IESO programs, including their costs”.

First, the majority of the IESO’s costs that form the WMSC do not relate to IESO “programs”. In Appendix A the “IESO Administration Charge”, charge number 9990, is the charge type through which the OEB approved IESO’s fee(s) are charged and all other charges listed in Appendix A are costs of essential wholesale market services necessary to ensure the reliability of the IESO-controlled grid. These charges are used to pay Market Participants such as generators and loads for services they provide that are necessary to ensure the reliable

operation of the electricity system. These are not fees for IESO services rendered such as the registration fees for electricity supply and capacity procurements, the application fee for the FIT program, or the IESO market participation application fee – All fees in which the IESO is currently seeking Board approval on.

In addition, these WMSC are a function of number of factors that are outside of the IESO's control including: transmission system conditions, operating and physical characteristics of Market Participant facilities, Market Participant bid and offer data, wholesale electricity price etc. Based on these factors, a cost for such services as operating reserve, reactive support and voltage control, generator cost guarantee recovery, capacity based demand response, etc., are determined and then passed through to IESO market participants proportional to their consumption. These pass-through costs are not equivalent to the general costs incurred by the IESO to operate its business – general costs that are the subject of the IESO's revenue requirement and fees application to the OEB.

Second, these WMSC are not, as APPrO contends, costs “that have been passed through to customers without OEB review” and that are not otherwise subject to “open and transparent” oversight and governance. The IESO's WMSCs are inputs to the Wholesale Market Service Rate (“WMS Rate”) set by the OEB. The OEB first established the WMS Rate at market opening in 2002 and, for the purposes of setting the rate, the OEB required the IESO to provide for its review, information concerning the component service charges, including:

- a list of all recurring WMSCs;
- a list of all non-recurring WMSCs;
- the manner in which and the conditions under which the WMSCs would be billed; and
- the actual costs or forecast of costs for the WMSCs.<sup>1</sup>

Since then, the IESO has provided the OEB with updated cost information for its review at least annually, including information on any new WMSCs.<sup>2</sup>

The OEB also has the authority to review charges such as those associated with Reliability-Must-Run (“RMR”) contracts which are recovered through the WMSC. As a condition under OEB generator licences, each RMR contract must be approved by the OEB prior to being

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<sup>1</sup> See IMO Response to OEB Information Request for Review of Wholesale Market Service Rate, December 17, 2002.

<sup>2</sup> See, for example, OEB letter dated March 29, 2016 to all licensed electricity distributor *Providing Guidance on New Wholesale Market Services Accounting for Capacity Based Demand Response and New IESO Charge Type 9920*

implemented. In their review of these contracts, the OEB has explicitly examined the incentive effects of the contract and whether the financial provisions of the contract are reasonable<sup>3</sup>.

Further, the OEB has oversight of the service charges that are inputs into the WMSCs through the IESO's licence and the OEB's oversight of the market rules review process. For instance, the IESO's licence includes provisions for the IESO to enter into ancillary services contracts or procure ancillary services under the market rules. The market rules govern ancillary services as well as all other WMSCs, including line losses, congestion management, settlement charges and other charges. In addition, the OEB has oversight of the market rule review process as described in section 33 of the *Electricity Act, 1998* – the OEB may revoke a market rule amendment and refer it back to the IESO or any person may apply to the OEB for review of an amendment to the market rules.

APPrO members and other market participants have had and continue to have the opportunity to address WMSCs through the various IESO fora and processes including the Stakeholder Advisory Committee<sup>4</sup>, the Technical Panel<sup>5</sup>, and the market rule review process<sup>6</sup>. Additionally, the OEB's Market Surveillance Panel monitors how well the electricity market is working

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<sup>3</sup> Procedural Order No. 1, EB-2005-0490

[http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/45031/view/Microsoft%20Word%20-%20po1\\_opg\\_20051215.doc.PDF](http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/45031/view/Microsoft%20Word%20-%20po1_opg_20051215.doc.PDF)

<sup>4</sup> The Stakeholder Advisory Committee ("SAC") is scheduled to meet six times a year, with additional meetings as required. SAC meetings are open to all stakeholders with an interest in the electricity industry.

<sup>5</sup> All proposed market rule amendments are reviewed by the Technical Panel. Meeting materials are published to facilitate stakeholder awareness of issues and rule amendments to be discussed. The Panel's recommendations and decisions are recorded in the minutes. Technical Panel meetings can be observed by all stakeholders in person or via teleconference. The Technical Panel has representation within the following sector constituencies:

- Market Participant Generators
- Local Distribution Companies
- Other Market Participant Representative (a new category added to capture new market participant categories, for example a Demand Response Market Participant or an Energy Storage Market Participant)
- Consumers (including residential, retail and/or commercial representatives)
- Energy Related Businesses and Services (examples of representation might include financial, aggregators, innovation & research, smart grid, conservation or gas utilities)

<sup>6</sup> The IESO Board has the authority and responsibility to amend the market rules, which govern the IESO-administered markets (*Electricity Act, 1998, section 32*). To make rule amendments, the IESO uses a consultative process. The Technical Panel, comprising stakeholder representatives, supports the IESO Board in the development and consideration of amendments to the market rules. Any individual with an interest in the operation of the electricity market can request an amendment to the market rules or comment on a rule amendment under consideration. The IESO Board or Technical Panel may also initiate amendments.

including reviewing the efficiency, fairness, transparency and competitiveness of the market. The Market Surveillance Panel has the authority to provide commentary on the efficiency of these charges should it determine this was required for the reasons stated above, which it has not done to date.

APPrO has not addressed any of these WMSCs directly with the IESO pursuant to the market rules or otherwise. Nor does APPrO, in this proceeding, take issue with any of the IESO's WMSCs; indeed, it says that it "does not propose to challenge any IESO programs in this application".

Given the above, the IESO submits that there are no reasonable grounds for adding the IESO's WMSCs to the OEB's review of the IESO's 2017 fee application.

#### **OEB staff submissions**

OEB staff submitted that two additional issues be added to the issues list, which are:

- 1.7 How have productivity improvements impacted the net revenue requirements from 2016 to 2017?
- 6.2 What is the impact of Current and future Pension Liabilities on 2017 and future Revenue Requirements?

In their submission, OEB staff stated their support for the categories/topics submitted by the IESO and suggested the addition of the two sub-issues but did not provide an explanation of or offer reasoning as to how these additions to the issues list would assist the OEB in its review of the IESO's 2017 Revenue Requirement Submission.

- 1.7 How have productivity improvements impacted the net revenue requirements from 2016 to 2017?

The IESO does not support this suggested issue being included on the issues list. The IESO is a non-profit entity that strives to effectively and efficiently carry out its responsibilities and provide value to its ratepayers. That the IESO has succeeded can be seen in the history of the IESO's revenue requirement and fee, which have declined since inception of the Independent Electricity Market Operator ("IMO") and by the evidence in its 2016 RRS. In its decision on the IMO's 2002 fee, RP-2201-0046, a fee of \$0.959/MWh was approved post market opening. By 2010, the IESO's fee had declined to \$0.0822/MWh and by 2014 to \$0.0803/MWh. The reduced fee over this time reflects the IESO's reduced OEB-approved revenue requirement over those same years, from \$152.9 million in 2002, to \$129.1 million in 2014. In its 2016 RRS, EB-2015-0275, the IESO spoke to the baseline savings of \$5 million resulting from the merger of the IESO and Ontario Power Authority ("OPA") which took effect January 1, 2015. The IESO's 2016-2018 Business Plan stated:

The merger has driven savings including a workforce reduced by 35 employees, real estate savings and the elimination of one Board of Directors. These and other efficiencies have resulted in a decrease in annual costs of more than \$5 million.

In its December 1, 2016 Decision and Order approving the IESO 2016 revenue requirement, the OEB recognized the efficiencies the IESO had achieved for 2016, stating:

The OEB finds that the settlement proposal achieves an acceptable outcome from a public interest perspective, and approves the settlement proposal. The agreed upon revenue requirement of \$182.1 million is approximately 4% lower than the combined 2014 revenue requirements of the IESO (\$129.9 million) and the OPA (\$60.3 million). As noted in the settlement proposal, the merger has resulted in efficiencies including a leaner workforce (35 fewer employees) and less office space.

The IESO's covering letter to the Minister for its 2017-2019 Business Plan stated:

As you know, significant synergies were obtained through the January 1, 2015 merger with the Ontario Power Authority. The IESO's anticipated usage fees will continue to reflect these synergies.

These merger savings or synergies are onetime baseline savings and ongoing, resulting in savings to the IESO's ratepayers. Additionally, the IESO has multiple controls in place which provide ongoing oversight and which maximize the value for ratepayers, including budget approval requirements, performance measures, requirements to report against approved budgets, and internal procurement policies.

In this application the IESO is seeking a revenue requirement of \$179.4 million, after the Market Renewal related costs are segregated, compared to the OEB approved 2016 revenue requirement of \$182.1 million.

- 6.2 What is the impact of Current and future Pension Liabilities on 2017 and future Revenue Requirements?

The IESO does not support this suggested issue being included on the issues list as a stand-alone item.

OEB staff did not provide an explanation of or offer reasoning as to how this addition to the issues list would assist the OEB in its review of the IESO's 2017 Revenue Requirement Submission.

The impact of any pension liabilities on IESO revenue requirements is that the IESO will have to budget for an appropriate level of annual pension expense (i.e. which is part of the IESO's annual budget and therefore becomes part of the IESO's revenue requirements) in order to satisfy any pension liabilities over time. These calculations are based on general actuarial time lines which tends to smooth out the pension expenses over time.

As stated in its 2016 Annual Report:

The IESO accrues obligations under pension and other post-employment benefit (OPEB) plans and the related costs, net of plan assets. Pension and OPEB expenses and obligations are determined annually by independent actuaries using the projected benefit method and management's best estimate of expected return on plan assets, salary escalation, retirement ages of employees, mortality and expected health-care costs.

The IESO believes the appropriate issue with regard to pensions, in the context of the 2017 Revenue Requirement Submission, is captured within Issue 1.4 with the additions suggested by Energy Probe, which reads as follows:

1.4 Are the IESO's projected staffing levels, *salaries and wages/compensation* appropriate and reasonable?

#### **Energy Probe's submissions**

Energy Probe submitted that one issue be revised and two additional issues added to the draft issues list, which are shown below with the revisions in bold:

- 1.4 Are the IESO's projected staffing levels, *salaries and wages/compensation* appropriate and reasonable?
- 1.6 Are the cost consequences, scope and timing of the Market Renewal Program appropriate?
- 4.4 Should the IESO establish a separate Market Renewal Program Deferral Account?
- 1.4 Are the IESO's projected staffing levels, *salaries and wages/compensation* appropriate and reasonable?

The IESO does not take issue with the revision suggested by Energy Probe and suggests that with this revision, the additional issues suggested by VECC (Issue 1.4) and OEB staff (Issue 6.2) are not required.

- 1.6 Are the cost consequences, scope and timing of the Market Renewal Program appropriate?

The IESO believes that the breadth of issues open to examination under this proposed issue as written is broader than is practical at this time as:

- In this application, the IESO is applying for and the OEB is examining and rendering its decision only on fiscal year 2017 expenditures, revenue requirement and fees as required by sections 25(1) and 25(4) of the *Electricity Act, 1998*. 2018 and future years are not within the scope of this application.
- The benefits case for the Market Renewal Program ("MRP"), which provides a projection of costs and benefits based on an assumed timeline, was prepared by an

outside consultant with substantial stakeholder input and issued in April 20, 2017<sup>7</sup> and with this being published work began on the next stages of development.

- Key components of the MRP, such as the Incremental Capacity Auction and the Single Schedule Market, are in the early stage of development with design options being examined now or beginning this fall and continuing into Q1 2018 and design decisions not targeted to be completed until later in 2018.<sup>8</sup>
- The IESO is working closely with its stakeholders to develop a work plan for the MRP. The work plan will set out specific market design changes to be implemented over the coming years and will define target timelines for completing the work. The plan will allow the IESO and stakeholders to address known challenges with the existing design while also laying a solid foundation for a more dynamic energy market to meet future needs.
- The IESO has also established a Market Renewal Working Group to guide, advise and inform the IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative. The Market Renewal Working Group is a representative stakeholder forum and is comprised of 23 members external to the IESO.
- With stakeholder input, the IESO continues to work through key design elements for the various elements of the project, as well as a more detailed project plan for the overall program.

Given these circumstances, the IESO submits that it is more appropriate that Issue 1.7 of the draft issues list provided by the IESO be revised as follows:

1.7 Are the IESO's forecast 2017 operational costs and timing for the Market Renewal Program appropriate?

- 4.4 Should the IESO establish a separate Market Renewal Program Deferral Account?

The IESO does not support this suggested issue being included on the issues list. The IESO has proposed to retain up to \$5 million in addition to the \$10 million operating reserve it has historically been approved to retain in its Forecast Variance Deferral Account ("FVDA"). This \$5 million will be collected and tracked in the same manner as funds above the approved revenue requirement will be collected and tracked in the FVDA, and the IESO has proposed that this \$5 million will be used to mitigate impacts of changes in timing of various MRP components.

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<sup>7</sup>The benefits case is available at: <http://www.ieso.ca/-/media/files/ieso/document-library/engage/me/benefits-case-assessment-marketrenewal-project-clean-20170420.pdf?la=en>.

<sup>8</sup> See IESO webpages on Market Renewal - Incremental Capacity Auction, <http://www.ieso.ca/en/sector-participants/market-renewal/market-renewal-incremental-capacity-auction>, and Market Renewal – Single Schedule Market, <http://www.ieso.ca/en/sector-participants/market-renewal/market-renewal-single-schedule-market>

The MRP is one of many projects the IESO undertakes. As the MRP is larger in scope, cost and profile than most projects it is being treated as cost centre and will have the costs of staff and external resources dedicated to it tracked and reported against planned costs and resources. The IESO will regularly review the planned MRP work and reprioritize work where required to ensure maximum value results from the investment in the MRP. The IESO recognizes that the MRP is and will continue to be subject to a greater level of review than most of its projects and will continue to work with stakeholders on the project in an open and transparent manner as described in its evidence.

As the MRP's costs are being tracked as described above, the IESO suggests that the establishment of a deferral account for the MRP is neither required nor useful.

### **VECC's Submissions**

VECC submitted that one issue be revised and that four additional issues be added to the draft issues list:

- 1.4 Are the IESO's projected compensation costs appropriate and reasonable?
- 1.7 (new) Is the IESO proposed Market Renewal Program within the mandate of the IESO and, if so, does the program provide sufficient probable benefits to justify its costs?
- 1.8 (new) Are the forecast energy volumes used to calculate the usage fees reasonable and appropriate?
- 1.9 (new) Is the allocation of energy volumes and costs as between domestic and export markets used to derive the proposed usage fees reasonable?
- 7.0 (new) Are the filing requirements for IESO Fees sufficient?

- 1.4 Are the IESO's projected compensation costs appropriate and reasonable?

The IESO believes the suggested revision to this issue is made redundant if the OEB includes Energy Probe's suggested changes to Issue 1.4 as discussed earlier.

- 1.7 Is the IESO proposed Market Renewal Program within the mandate of the IESO and, if so, does the program provide sufficient probable benefits to justify its costs?

The IESO does not support this suggested issue being included on the issues list.

On the first part of this issue "is the Market Renewal Program within the mandate of the IESO", the MRP clearly falls within the IESO's scope of responsibilities as set out in the *Electricity Act, 1998* (the "Act"). The IESO's objects as set out in the Act expressly include operating the IESO-administered markets to promote the purposes of the Act<sup>9</sup> which include but are not limited to the following:

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<sup>9</sup> *Electricity Act, 1998* S 6(1)(g)



- (a) to ensure the adequacy, safety, sustainability and reliability of electricity supply in Ontario through responsible planning and management of electricity resources, supply and demand;
- (b) to protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service; and
- (c) to promote economic efficiency and sustainability in the generation, transmission, distribution and sale of electricity.

The Act also clearly sets out that the IESO has the authority to make rules, including rules for<sup>10</sup>:

- (a) governing the IESO-controlled grid;
- (b) establishing and governing markets related to electricity and ancillary services; and that
- (c) A market rule may be general or particular in its application.

The IESO's Board of Directors and Executive team considered the IESO's objects in developing the IESO's 2016-2020 Strategic Plan<sup>11</sup> which includes the IESO's Vision statement of **Powering a reliable and sustainable energy future for Ontario** and that the IESO will fulfill this vision by multiple actions including:

- o Operating and shaping the electricity system and market in an effective and transparent manner, and
- o Planning for and competitively procuring the resources.

Additionally, the IESO believes that this proposed issue suggests that the Minister has approved the IESO to perform work beyond its obligations as set out in the *Electricity Act, 1998* and which has not been required through a Directive. The IESO does not support VECC's suggestion that the OEB needs to determine whether the "MRP is allowed under the IESO's legislative mandate" when the Minister has expressly supported the IESO's work on the MRP in his response letter to the IESO approving its 2017-2019 Business Plan.

The IESO strongly believes that it is clear that the development of the MRP falls within the mandate of the IESO and submits that there are no reasonable grounds for adding this proposed issue to the issues list.

The second part of the suggested issue, "does the program provide sufficient probable benefits to justify its costs", are more properly covered under Energy Probe's suggested Issue 1.6 which was discussed earlier.

- 1.8 Are the forecast energy volumes used to calculate the usage fees reasonable and appropriate?

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<sup>10</sup> *Electricity Act, 1998* S 32(1) & 32(3)

<sup>11</sup> The IESO's Strategic Plan 2016-2020 is available on the IESO's website at:

The IESO does not support this suggested issue being included on the issues list. In their submission, VECC states that this proposed issue has been suggested to add clarity to the elements of the charge determinant but has not explained how this issue will add clarity or assist the OEB in its decision making.

The IESO is required by the *Electricity Act, 1998* to forecast the electricity demand and the adequacy and reliability of electricity resources for Ontario for the short term, medium term and long term<sup>12</sup>. The forecast energy volumes used in the IESO's RRS applications are consistent with the IESO's 18-Month Outlook and, as described on the IESO's website, the IESO regularly publishes an 18-Month Outlook, which presents the IESO's assessment of the reliability of the Ontario electricity system over the short term. This quarterly publication assesses whether the existing and proposed generation and transmission facilities are adequate to meet Ontario's needs. The IESO also publishes additional documents which provide more detail about the 18-month forecast of electricity demand for Ontario, specific details on the transmission system, including the major internal transmission interfaces and interconnections with neighbouring jurisdictions and information regarding the methodology used to perform the demand forecast, resource adequacy assessments, and transmission adequacy assessments in the 18-month Outlook report. These documents are all publicly available through the IESO website at: <http://www.ieso.ca/sector-participants/planning-and-forecasting/18-month-outlook>.

For these reasons, the IESO submits that there are no reasonable grounds for adding this proposed issue to the OEB's review of the IESO's 2017 fee application.

- 1.9 Is the allocation of energy volumes and costs as between domestic and export markets used to derive the proposed usage fees reasonable?

The IESO does not support this suggested issue being included on the issues list. There are two parts to this issue which the IESO will address individually:

- the allocation of energy volumes, and
- the allocation of costs between domestic and export customers.

The allocation of energy volumes is based on the IESO forecast, which is addressed in response to VECC's proposed Issue 1.8 above.

The allocation of costs was addressed in the IESO's 2016 RRS, EB-2015-0275. In that application, Elenchus prepared a report on Cost Allocation and Rate Design for the 2016 IESO Usage Fee which was submitted as part of the IESO's evidence in support of its 2016 RRS. The Elenchus report, the cost allocation model filed with it, and the resulting cost allocation between domestic

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<sup>12</sup> *Electricity Act, 1998* S 6(1)(k)

and export customers were extensively examined during the proceeding and ultimately used by the OEB in setting the IESO's 2016 fees in its December 31, 2016 Decision. As the IESO is not proposing any alteration to the cost allocation as set out in the report, the IESO submits that there are no reasonable grounds for adding this proposed issue to the OEB's review of the IESO's 2017 fee application.

- 7.0 Are the filing requirements for IESO Fees sufficient?

The IESO does not support this suggested issue being included on the issues list.

The IESO's filing of its Revenue Requirement Submission is based on the requirements of the *Electricity Act, 1998* that the IESO shall submit its proposed expenditure and revenue requirements for the fiscal year and the fees it proposes to charge during the fiscal year to the OEB for review after its Business Plan has been approved by the Minister. The filings made by the IESO each year have evolved over time and VECC has acknowledged that, in this Application, the IESO has taken a number of positive steps to address their concerns. While VECC states that they and others have made submissions with respect to the adequacy of the financial information filed for the purpose of fee determination, the IESO believes that it has been responsive to these submissions. The IESO also believes that it is reasonable for the information filed by the IESO in support of its RRS to continue to evolve, as it has in this application pursuant to the settlement agreement reached in the 2016 RRS, and supports this continued evolution rather than the development of filing requirements by the OEB.

Yours truly,



Tam Wagner  
Senior Manager, Regulatory Affairs

cc: Mr. Fred Cass, Aird & Berlis (email)  
Intervenors to EB-2017-0150 (email)