

Ontario Energy Board

IN THE MATTER OF subsection 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 2017 and the fees it proposes to charge during the fiscal year 2017.

Comments on Proposed Issues List – Part 2

Energy Probe Research Foundation

July 27, 2017

EB-2017-0150 IESO 2017 Fees Application

Energy Probe Comments on IESO Proposed Issues List - Part 2

Energy Probe will focus its comments on the Market Renewal Program (MRP) and its role in IESO's 2017 fees application. Our main concern regards the report prepared for IESO by the Brattle Group, "The Future of Ontario's Electricity Market: A benefits Case Assessment of the Market Renewal Project." In that report, which is not included in IESO's application and evidence, Brattle comes to a number of conclusions, which in Energy Probe's opinion, are material to IESO's current and future fees application. These conclusions include:

- The MRP will produce a monetary "benefit" to Ontario of \$3.4 billion between 2021 and 2030, although Brattle estimates that the value of benefits over that time could range from \$2.2 billion to \$5.2 billion.
- The MRP will produce "benefits" under three buckets: energy, operability and capacity.
- The energy market reforms will include a move to a single-market with location-based marginal pricing, as well as a financially binding day-ahead market. The value of the benefits from these reforms, according to Brattle, is \$510 million.
- The operability reforms include greater utilization of interties with neighbouring electricity markets in an effort to reduce or better monetize the province's surplus baseload generation. Brattle estimates these reforms will produce \$580 million in savings.
- The biggest reform proposed by the MRP is the introduction of a capacity market, which will, according to Brattle, "improve" the procurement of new generation in a manner that "stimulates competition" in a "technology neutral" manner. The capacity market is expected to produce \$2.5 billion in benefits for Ontario.
- The report concludes that the MRP will cost \$200 million, which includes a 20% contingency amount. The report notes that similar reforms undertaken in other markets have faced significant cost overruns and delays.¹

If implemented in its entirety, the MRP will usher in one of the most significant and wide-ranging reforms of the province's electricity sector since the market was opened in 2002. Energy Probe is fully supportive of many of these reforms, particularly those that introduce greater competition in the electricity sector. As we have argued many times before the Board, we believe a competitive sector will lower costs and increase choice for electricity customers, both large and small.

¹ Page 90 of the report

But we remain concerned that the Brattle study, and subsequent IESO and provincial press releases that will inevitably (and have already started) to cite its findings, may potentially oversell the benefits, which accrue in the distant future, and undersell the costs that must be approved in the near-term. As a ratepayer organization, Energy Probe is dedicated to ensuring that electricity customers are fully informed of the costs and benefits of any changes in the electricity sector, particularly one as significant as the MRP.

The cost of the MRP will be included in IESO's fee applications for years to come. The 2017 cost of the MRP totalling \$12 million is just the tip of the iceberg.² Furthermore, once this Board approves the 2017 cost for the MRP it is, in essence, approving the entirety of the MRP, as IESO has not provided any evidence that it will abandon the project if the costs become too great, implementation too difficult or the benefits fail to materialize.

IESO has also stated that the costs and benefits of the MRP will accrue equally to all market participants and customers, but has provided no evidence to support this claim. IESO made a similar argument in a previous fees application regarding fees for domestic and export customers and, ultimately, concluded that a single fee was appropriate. The Board disagreed and noted that "costs of servicing domestic customers are greater than the costs of servicing export customers."³

Energy Probe is concerned that the forecasted benefits from the MRP may face a similar situation, in which some customers may benefit more than others. For example, the Global Adjustment (GA) is not paid equally by all customers, meaning any MRP policies that lower GA costs will inherently benefit some customers more than others. For this reason, Energy Probe believes the costs of the MRP should flow through a deferral account where they can be accurately tracked and, when cleared, the costs can be apportioned to the appropriate beneficiaries, which may not be uniform, as IESO and Brattle forecast.

Ultimately, Energy Probe believes that before this Board approves the costs for MRP, the evidence supporting it – done by the Brattle Group – should be tested in the same manner as evidence in other rate applications. We don't take a position on how that should be done – whether through written interrogatories to Brattle, a technical conference or an oral hearing on the MRP – but do believe it will provide value to the Board and ratepayers across the province that will be paying for the MRP for years to come.

We have also attached Brattle's report for any parties that may not have received it, as it was not included in IESO's application.

² Eb-2017-0150, Exhibit A-2-2, page 12

³ EB-2015-0275, December 1, 2016 Decision