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File 93923

November 10, 2017

VIA RESS FILING AND COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, Ontario M4P 1E4

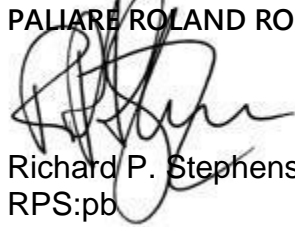
Dear Ms. Walli,

**Re: Independent Electricity System Operator 2017 Expenditure and
Revenue Requirement Submission
EB-2017-0150**

Attached please find the Power Workers' Union's Submissions with respect to the above-noted application.

Yours very truly,

PALIARE ROLAND ROSENBERG ROTHSTEIN LLP



Richard P. Stephenson
RPS:pb

Encl.

Doc 2333964 v1

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.

Submissions of the Power Workers' Union

Background

The Independent Electricity System Operator (IESO) filed an application with the Ontario Energy Board (OEB) on April 21, 2017 seeking approval for the IESO's 2017 expenditures, revenue requirement and fees.

The IESO filed a settlement proposal for OEB approval on October 3, 2017. The settlement proposal represents a settlement between the IESO and participating intervenors on all but the following two issues on the approved issues list:

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

5.1 Is the IESO's proposed Regulatory Scorecard appropriate?

The following are the submissions of the Power Workers' Union (PWU) on the two unsettled issues.

Issue 4.4: Should the IESO establish a separate Market Renewal Program (MRP) Deferral Account?

The PWU supports the creation of a separate MRP deferral account due to the magnitude and complexity of the project as well as the significant level of uncertainty

and risk involved with such an undertaking. The IESO website itself presents the MRP as:

Market Renewal is aimed at renewing the foundations of Ontario's \$17 billion annual electricity market. The initiatives within Market Renewal will address known issues with the current market design and prepare the province for the electricity sector of tomorrow.

The most recent Long Term Energy Plan (LTEP)¹ states that the MRP is a key component of the government's plan to reduce the cost of electricity:

The Independent Electricity System Operator (IESO) has begun a Market Renewal initiative to redesign the province's electricity markets. This undertaking is expected to save up to \$5.2 billion between 2021 and 2030 and forms a key component of the government's plan to bring down the cost of electricity.

The LTEP² presents the MRP as a new approach to procure supply, thereby moving away from contracting to market based solutions such as an incremental capacity auction:

Market Renewal will transform Ontario's wholesale electricity markets and ultimately result in a more competitive and flexible marketplace.

When new supply needs are identified, the IESO would use competitive mechanisms to procure new supply resources. An example of a market-based mechanism that could be used is an incremental capacity auction.

Clearly the MRP is expected to be far greater in scale, scope, and objective than the core operations of the IESO that are reviewed by the OEB through annual revenue requirements applications. In many respects, the MRP is in the league of energy policy and planning initiatives that Ontario has embarked on such as the Green Energy Plan and the LTEP. These kinds of initiatives require extensive consultation and review and their implementation spans over many years. Experience has shown that initiatives and policies that were once championed as best solutions to address Ontario's energy supply needs and environmental objectives at the lowest possible cost proved to be costly and unable to generate the benefits promised. As a result, many of such initiatives have been either modified or completely abandoned.

¹ Ontario's Long-Term Energy Plan 2017 – Delivering Fairness and Choice

² Ontario's Long-Term Energy Plan 2017 – Delivering Fairness and Choice

The IESO is considering the MRP because it has some evidence that the project has worked in other jurisdictions. The source of this evidence the study titled “*The Future of Ontario’s Electricity Market: A Benefits Case Assessment of the Market Renewal Project*” (Brattle report or Report). The Brattle report, however, notes that Ontario’s electricity sector is different from every other market due to its unique combination of policy objectives, resource mix, and market fundamentals and acknowledges that there is judgment and uncertainty involved in translating the experience from other markets to Ontario.³ The Report for example indicates that a similar reform was undertaken in Texas and it experienced significant cost overruns and delays.⁴

There is a considerable amount of risk associated with the MRP. The MRP is in the early stages of development, many implementation and design issues are not completed or finalized; there is no clear indication of how costs and benefits from the project will be allocated and whether the benefits identified in the study would remain in Ontario and not flow to other jurisdictions that trade electricity with Ontario.

The Report states that the estimated province-wide efficiency and customer benefits of Market Renewal significantly outweigh the estimated implementation costs but it also states that there is substantial uncertainty in the estimated implementation costs given the early indicative stage of the initiative. According to the Report, the IESO will be able to update these estimates with more accurate information as the scope, timeframe, and vendor costs associated with Market Renewal are more fully established.

The IESO is asking the Board to approve \$12M in 2017 for the MRP. This is a multi-year project and the IESO will be asking the Board to approve money for the MRP for years to come.

Given that the Government is considering the MRP as the cornerstone of Ontario’s future electricity market and its energy plan for the future, there is a lot at stake, including costs, benefits and unexpected consequences. While the market design is in

³ The Future of Ontario’s Electricity Market - A Benefits Case Assessment of the Market Renewal Project. The Brattle Group. April 20, 2017

⁴ The project was originally budgeted at a cost of USD \$263 million but nearly doubled to USD \$509 million by its conclusion. Further, it was not completed until December 1, 2010, nearly two years after its originally-targeted completion date.

the IESO's mandate and the government can always issue policies, the OEB has the responsibility to ensure that the costs of the project are prudent and Ontarians are not exposed to unexpected cost hikes, therefore, the PWU submits that the creation of a separate deferral account is warranted to facilitate the scrutiny of the MRP costs and benefits going forward.

Issue 5.1: Is the IESO's proposed Regulatory Scorecard appropriate?

With respect to the issue of the Regulatory Scorecard, the PWU's comment is limited to the question of whether a transmission line loss metric needs to be included in the regulatory scorecard. The PWU supports the inclusion of a transmission line loss metric in the regulatory scorecard.

The PWU has raised the issue of line losses in many forums, including the 3rd Generation Incentive Regulation for Electricity Distributors,⁵ Renewed Regulatory Framework for Electricity Transmitters and Distributors,⁶ and the Ministry of Energy Ontario Distribution Sector Panel.

There was considerable discussion on transmission line losses during Hydro One's 2017-2018 Rate application proceeding. According to the OEB, the responsibility for managing line losses lies with the IESO in some areas (e.g. regional planning) and with Hydro One in some cases (e.g. asset refurbishment or replacement).⁷

The Board's decision in the recent Hydro One case acknowledges the magnitude of transmission line losses and the importance of dealing with this issue. The Board instructed Hydro One to work with the IESO to explore cost effective opportunities for line loss reduction, explore opportunities for economically reducing line losses and report on these initiatives at its next rate application.⁸

⁵ PWU Submissions on 3rd Generation Incentive Regulation for Electricity Distributors (EB-2007-0673)

⁶ PWU Submission on the Renewed Regulatory Framework for Electricity Transmitters and Distributors – Defining and Measuring Performance of Distributors and Transmitters (EB-2010-0379).

⁷ Decision and Order EB-2016-0160. Hydro One Networks Inc. Revised: November 1, 2017

⁸ Decision and Order EB-2016-0160. Hydro One Networks Inc. Revised: November 1, 2017

The IESO's expert consultant, Elenchus, was retained to help the IESO develop a scorecard. According to the Elenchus report:⁹

Elenchus notes that there is currently no accepted methodology for calculating this metric. Nevertheless, since system losses are important to Ontario's electricity users it is reasonable to suggest that a comprehensive metric would be a useful indicator of the performance of the industry with respect to optimizing the various types of investment and grid management opportunities that impact on transmission system losses. Further, it may be noted that responsibility for developing and annually producing a metric along these lines could be shared with transmission owners/operators.

Given the shared responsibility for line losses, the PWU submits that the IESO is in a position to start to address this issue. Scorecards serve as a guide to the organization to continually seek ways to improve their performance. Including a line loss metric in the scorecard will enable the IESO to track their performance year over year and it will serve as a guide and encourage the organization to take action to reduce line losses. The quality of the measure will improve over-time as the OEB-directed initiatives are completed and the metric is fine-tuned.

As indicated earlier, the Board has instructed Hydro One to work with the IESO to explore cost effective opportunities for line loss reduction, explore opportunities for reducing line losses and report on these initiatives at its next rate application. The PWU submits that the Board should instruct the IESO to complete and report its work on these initiatives at its next rate application.

All of which is respectfully submitted.

⁹ IESO Regulatory Scorecard, Elenchus Research Associates Inc. June 2, 2017