Standing Committee on Justice Policy – Opening Statement – May 2017

- Thank you Chairman.

- Good morning. I am pleased to be here today alongside Kim Marshall, Vice-President of Corporate Services at the IESO, to speak to the IESO's role as it relates to the Ontario Fair Hydro Plan.

- I'm going to begin by talking about the IESO and our mandate. I'll then talk more specifically about how we expect to help facilitate the government's Fair Hydro Plan, and after that I'll do my best to answer any questions you have.

- The IESO has a broad mandate that includes:
  - planning to meet Ontario's electricity needs in the near- and long-term;
  - operating the provincial electricity grid;
  - administering the electricity market;
  - fostering a culture of conservation; and
  - engaging with stakeholders and communities across the province.

- Relevant to today's discussion is our role administering the electricity market. This includes a settlement function that involves facilitating the flow of money to and from market participants.

- Market participants can include generators, large consumers, energy traders, and local distribution companies, among others.

- These parties buy and sell electricity through the wholesale market and receive payment or invoices from the IESO, depending on whether they are power producers or consumers.

- As a not-for-profit entity, the IESO does not benefit from these market transactions and only facilitates them.

- To give you an idea of the scope of our settlement process, there was about 17 billion dollars of financial transactions settled by the IESO in 2016.

- Some of the costs of our electricity system are recovered through a mechanism known as the global adjustment.

- The global adjustment covers some of the costs of building electricity infrastructure as well as delivering conservation programs. These fixed costs are recovered from all electricity consumers.

- As you will know, the government's Ontario Fair Hydro Plan is proposing to spread these costs over a longer time-frame to better reflect the lifespan of the assets the global adjustment pays for.

- As the provincial organization responsible for settling electricity market transactions, including the recovery of the global adjustment, the IESO has a role to play in facilitating the government's proposed plan.

- As described in the legislation, our role would be very similar to our current role. We would continue to collect money from market participants—such as large consumers and local distribution companies— and ensure that other market participants—such as generators—are being paid what they are owed.

- This includes invoicing local distribution companies for the amount they owe based on the electricity consumed within their territory.

- However, under the proposed plan, local distribution companies will collect less from eligible consumers to ensure they are receiving the government's intended discount.

- Local distribution companies will then give the IESO the amount of funds they have collected from consumers, which will be less than what the IESO invoiced them for due to the Ontario Fair Hydro Plan`s discount.

- The remaining amount owed to the IESO will be identified and temporarily held in a variance account until it is bought by the financing entity, which will be managed by OPG.

- Holding variance accounts is not new for us and is something we already do. For example, the Ontario Energy Board sets rates based on supply and demand projections. The variance between the projections and the amount collected from consumers is held by the IESO. In March 2017 the variance was a debt of about 81 million dollars, while in May 2015 we held a surplus of almost 200 million.

- The purchase of the Fair Hydro Plan variance by the financing entity will enable the IESO to make whole all market participants for the amounts they are owed.

- I note that some of the details are still to be defined in the regulations to come, but this is the process that is being proposed by the legislation.

- The IESO will continue to work with the government to further define and clarify its role in the Fair Hydro Plan if the legislation is passed.

- I`m happy to answer any questions you may have.