



August 3, 2017

The Honourable Glenn Thibeault
Minister of Energy
900 Bay Street
Hearst Block, 4th Floor
Toronto, Ontario M7A 2E1

Independent Electricity System Operator
1600-120 Adelaide Street West
Toronto, ON M5H 1T1
T 416.967.7474
www.ieso.ca

Dear Minister Thibeault:

I am pleased to provide you with the following interim update on the IESO's business planning activities for 2018-2020. There are two important developments that will conclude this fall that will further inform our business planning activities, which I will explain shortly, but first it is important to note the context within which our organization is operating in.

Rapid technological advancement, increasing consumer engagement, growth in distributed energy resources and variable generation, and climate change policies are changing the dynamics of Ontario's electricity system and how we plan to meet future needs. These changes are creating new operating challenges in managing the bulk power system, but they are also creating new opportunities for consumers, communities and sector participants to get involved.

The IESO is working with stakeholders to not only navigate these changes, but to get ahead of them and ensure Ontario is well positioned to meet future system and customer needs. Among other activities, this includes fundamentally redesigning Ontario's electricity market, developing cost-effective solutions to address emerging operability needs, continuing to foster a culture of conservation, and maintaining rigorous internal processes to mitigate cybersecurity threats.

One of the two aforementioned developments that will further inform our business planning activities is the release of the Long-Term Energy Plan (LTEP), expected this fall. I expect the LTEP to result in new incremental undertakings for the IESO, which may impact our resourcing requirements. The IESO will subsequently release an implementation plan that will outline how it will work with stakeholders to achieve the policy objectives set out in LTEP.

The second development that may impact our business planning activities is an internal review that is underway and expected to conclude this fall. As you are aware, I assumed the role of President and Chief Executive Officer of the IESO on June 20, 2017. Since that time I have been consulting with staff across the IESO and working with my executive team to review our priorities and strategic objectives. This review may result in changes that impact the IESO's near-term activities and associated resourcing requirements.

Commented [CF1]: I think it is worth asking Peter if he wants to reference any efforts to find incremental efficiencies in this paragraph

The IESO's total operating expenses for 2018 are currently expected to be at \$192.5 million or below. However, I will provide you with another update on our 2018-2020 business plan in December, once we have more clarity around some of the uncertainties mentioned above. In the interim, please accept the following update:

Commented [IESO2]: Need to confirm and work with Business Planning team to ensure we're appropriately setting expectations.

Market Renewal

Supported by a compelling Market Renewal benefits case that estimates about \$3.4 billion in cost savings over a ten year period, the IESO is moving forward with stakeholders to fundamentally redesign Ontario's electricity markets. The additional work associated with market renewal will require a temporary increase in resources for the duration of the initiative, with the objective that at the conclusion of the project, market renewal would not have a significant impact on the staffing level of the underlying business.

Stakeholder engagements are underway to design and implement Incremental Capacity Auctions and a Single Schedule Market, two important initiatives in this multi-year program. A single schedule market will enable us to more cost-effectively schedule and dispatch resources to meet demand as it changes from hour to hour and minute to minute. Annual incremental capacity auctions will improve the way Ontario acquires supply resources to meet our medium- and long-term needs by providing a more flexible process that will better reflect changing system needs.

These and other Market Renewal initiatives will result in cost-savings through the better utilization of existing assets, greater competition among resources, a reduced or deferred need to build new resources, and changes to help meet emerging operability needs, such as more frequent scheduling of imports and exports.

Conservation and Climate Change Policy

The IESO is leading the way to help residential consumers and businesses of all sizes manage their electricity costs and participate in the sector through conservation and energy efficiency. New and enhanced opportunities are being driven by technological advances, better utilization of data, and innovative pilot programs.

Conservation is the most cost-effective supply resource available, at less than four cents per kilowatt-hour, providing value to the broader system while also helping consumers to manage their electricity costs. The IESO continues to foster a culture of conservation by creating easier access to new and enhanced conservation programs designed to have an enduring impact on consumer behaviour. The IESO is also leading market transformation by fostering the development of innovative, market-based solutions for energy efficiency through investment in research and development to inform the IESO's existing mandate and energy efficiency in Ontario beyond 2020.

Conservation First Framework results from 2015 and 2016 demonstrate positive progress being made, with LDCs achieving 38% of the 7 TWh target. The IESO is ensuring that all LDCs, customers, channel partners, consumer groups, associations, and other interested parties have meaningful opportunities to provide feedback on the successes and challenges of the

Conservation First Framework and Industrial Accelerator Program through the mid-term review, which is now underway.

The IESO also continues to work with the Ministry of the Environment and Climate Change to support the Ontario Climate Change Solutions Deployment Corporation (Green Ontario Fund). This work is now evolving in response to your August 4, 2017, directive and will include the design and delivery of Green Ontario Fund programs. Programs will focus on reducing greenhouse gas emissions associated with energy usage and energy sources from Ontario residences and businesses. Although the costs associated with this work will be recovered through the Greenhouse Gas Reduction Account, the IESO continues to assess the resourcing implications of this additional responsibility.

The IESO will ensure that Green Ontario Fund programs complement and build on the success of its existing conservation and energy efficiency programs. The organization's experience will ensure a customer-focused approach and should result in efficiencies.

Cybersecurity

Maintaining the reliable operation of Ontario's electricity system is at the heart of what the IESO does. In order to keep the lights on for Ontarians, today and into the future, the IESO is constantly assessing potential threats to reliability and communicating with neighbouring jurisdictions. A growing threat, both in Ontario and globally, pertains to cybersecurity.

The IESO has developed rigorous internal practices aimed at mitigating cyber threats, adheres to continent-wide cybersecurity standards, and works closely with industry peers and government agencies to share information on cyber events and best practices. Work is underway to increase the IESO's internal cybersecurity capabilities by implementing an advanced malware technology solution and completing cyber security process enhancements.

As cybersecurity threats grow in sophistication and complexity, and the frequency of attacks that must be neutralized increases, the time and resourcing required to maintain the reliability of Ontario's electricity system may increase correspondingly. The IESO will continue to monitor these developments and ensure all due diligence is being taken.

Long-Term Energy Plan

The IESO anticipates that the LTEP will result in new initiatives for the IESO to implement, impacting our near-term priorities and resourcing. This may include transmission procurement, enhancing the regional planning process, and new assessments or reports that look at emerging trends or new opportunities within the sector. Most, if not all, of the IESO initiatives to stem from LTEP will likely require outreach to stakeholders to make sure outcomes are informed by impacted sector participants.

Community and Stakeholder Engagement

In planning Ontario's electricity needs, the IESO engages with stakeholders, communities and customers to ensure that both province-wide energy needs and community-level requirements are being met. The IESO strives to provide information that is timely, relevant and available to all and encourages participation from all interested parties. As the sector evolves to create increasing opportunities for consumers and communities, the IESO is committed to continuing to engage these audiences to facilitate informed decision-making and customer choice.

The evolution of Ontario's electricity system is presenting both challenges and opportunities for the sector. This is causing the IESO to expand some of its efforts and to take on new responsibilities, such as the Green Ontario Fund and implementation of LTP initiatives, and putting pressure on the organization's resourcing. The IESO will continue to work internally to define its priorities, engage the broader sector as it moves forward on its 2018-2020 business planning activities, and report back to you later this year.

Sincerely,

Peter Gregg

c: Tim O'Neill, Chair, IESO