

FOR INTERNAL USE ONLY

MARKET RENEWAL FAQs

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OVERVIEW

1. What is Market Renewal?

- It is a collective effort to enhance the electricity market, address inefficiencies, increase downward pressure on electricity costs and lay a foundation that will ensure that the province is prepared to meet future electricity needs.
- It will result in a more efficient marketplace, introducing more flexibility and competition.
- There is a potential for \$3.4 billion in cost savings.

Market Renewal is a collaborative effort between the IESO and sector participants, including consumers, to pursue enhancements to Ontario's electricity market that will address known inefficiencies, put downward pressure on electricity costs, and lay a foundation that will ensure that the province is prepared to meet future electricity needs as the sector evolves.

The project will result in:

- more efficient scheduling of generators to meet demand;
- the introduction of annual capacity auctions to acquire procure resources energy more competitively and flexibly; and
- changes to help meet emerging operability needs, such as more frequent scheduling of energy imports and exports.

The draft Market Renewal benefits case report shows potential for \$3.4 billion dollars in cost savings that will be realized by both consumers and suppliers.

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2. Why hasn't the IESO implemented Market Renewal sooner?

- ◆ Incremental changes have been made since market opened in 2002
- ◆ Now with a stable supply of energy to meet needs into the 2020's, lesson learned from other ISOs that have undergone change, market inefficiencies identified by stakeholders, makes it an ideal time to undertake a more structural overhaul of the market.

Since Ontario's electricity market opened in 2002, the sector has worked together to incrementally evolve the initial design, as well as to ensure effective integration of renewable resources.

With a stable supply of electricity to meet demand into the 2020's, an understanding of the identified market inefficiencies, and the benefit of the experience of other ISOs that have undertaken such changes, now is the time to move forward with some more strategic adjustments to the marketplace.

3. When will Market Renewal be complete?

- ◆ Market Renewal work has begun
- ◆ Dates have been finalized into 2019
- ◆ Beyond that, there are tentative deadlines because much depends on ongoing stakeholder discussions and decisions made between now and then.
- ◆ Consumers can expect to start to realize savings as early as 2021.

The IESO has begun working with industry will be educating and working with stakeholders on the plan to key-design and implement concepts for the various identified Market Renewal initiatives. Since many of the planned changes are significant, it is expected throughout the work will last into 2019. 2017- Timelines beyond 2017 have yet to be finalized and are subject to change based consultations on design and implementation decisions to be made with stakeholders. However, it is expected that that consumers could begin to realize savings in 2021.

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COSTS AND BENEFITS

4. What are the benefits of Market Renewal?

- ◆ The current market is inefficient.
- ◆ Changes will ensure a more dynamic marketplace.
- ◆ There will be lower costs for consumers and more opportunities for market participants.

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- Identified \$3.4 billion in efficiencies.
- Cost savings come with – better use of existing assets, greater competition, reduced or deferred need to build new resources and a more flexible procurement process.

The design of the current electricity market is inefficient. Market Renewal is creating will address known market inefficiencies with our current market design and the foundation lay the foundation for a more dynamic environment which will lead market place in the future, leading to lower costs for consumers and new opportunities for market participants.

The draft Market Renewal benefits case report shows potential for \$3.4 billion in efficiencies that will be realized by both consumers and suppliers. Cost savings are achieved through the more effective better use utilization of existing assets, greater competition among resources, a reduced or deferred need to build new resources, and a more flexible procurement process that will better reflect system needs.

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4.5. What is the cost of the Market Renewal project?

- \$190-300 million with a net benefit of approximately \$3.4 billion from 2021-2030

The draft Market Renewal benefits case report estimates that the cost of implementing Market Renewal could be around \$190-\$300 million and would yield a net benefit of around \$3.4 billion from 2021-2030. These estimates are draft and subject to change, dependant based on the design and implementation decisions that have yet to be made with stakeholders.

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6. How much will consumers save from Market Renewal?

- \$3 billion for consumers from 2021-2030
- \$3.4 billion in total savings

The IESO expects that the efficiencies from Market Renewal would save consumers about \$3 billion dollars from 2021-2030. That's 3 billion dollars less than consumers absent of these changes would have to pay.

The exact timing and magnitude of cost savings will largely depend on the final detailed design and implementation of the Market Renewal initiatives project.

Additional information:

The draft Market Renewal benefits case report estimates a baseline net savings of \$3.4 billion (net present value) over a ten year period from 2021-2030. These savings represent a net

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efficiency benefit, meaning the total commodity cost of electricity (i.e. energy, Global Adjustment and uplifts) is reduced by that amount. The majority of savings are expected to flow to consumers, while the rest would flow to other market participants.

2.7. Where will the cost savings come from? How will savings from Market Renewal be realized?

- Savings will come from:
 - Better utilization of existing assets.
 - Greater competition among resources.
 - Reduced or deferred need to build new resources.
 - More flexible procurement process.
- Half of the savings could come from capacity auctions.

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The draft Market Renewal benefits case report shows potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced or deferred need to build new resources, and a more flexible procurement process that will better reflect system needs.

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Over half of those savings would come from using capacity auctions to procure new resources, while the remainder comes from lower production costs through the energy and operability work streams.

8. When will consumers start realizing the savings from Market Renewal?

- Work on Market Renewal is moving forward.
- Design of the market changes will take until the end of 2018.
- Savings expected to be realized in 2021.

The IESO is working with stakeholders on the first step in the process, key design concepts, for the project. This work is expected to last until the end of 2018, throughout 2017, after which the IESO will have a better understanding of the timing. However, it is anticipated we expect to that consumers could begin to realize the efficiency savings as early as in 2021.

9. Why is it taking so long?

- This is a big project.
- There have been only small changes made to the market since it opened in 2002.

Commented [AW1]: New question

- IESO is working to ensure that all stakeholders have their voices heard.
- The Market Renewal project has a number of large initiatives under review. It will take some time to ensure that they are effectively designed and implemented.

This is a big project.

The current market design was developed in the late 1990's and opened in 2002. Over the last decade, the IESO and market stakeholders have made incremental changes but it is now apparent that more foundational market changes are necessary to meet the needs of a very different market and prepare for tomorrow's electricity marketplace.

The IESO is working with market stakeholders representing a broad range of interests in order to create a market that is open, flexible, transparent and cost effective. It will take some time to ensure that the initiatives that are a part of the Market Renewal plan are effectively designed and efficiently implemented to meet the needs of sector stakeholders and, ultimately, consumers.

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THE MARKET NOW

10. What are the inefficiencies with the current electricity system?

- The Market Surveillance Panel, the Electricity Market Forum, IESO studies and industry stakeholders have identified market design inefficiencies.
- Examples include a:
 - two-schedule market that doesn't reflect real costs
 - market design that doesn't support new and emerging technologies
 - day ahead commitment process that produces results that are out of alignment with the outcomes of a real-time market.
- Small changes have been made over the years.
- Changes that are more substantial are now needed to address the changes in the marketplace.
- Inefficiencies will be addressed through scheduling changes, with capacity auctions, by addressing emerging operability needs.

The Market Surveillance Panel, the Electricity Market Forum, IESO studies, and industry stakeholders have identified inefficiencies with the current market design. have been identified over the years through the work of Some of inefficiencies include:

- The current two-schedule energy market does not reflect the realities of the physical transmission grid, which introduces significant inefficiencies and often results in out-of-market payments to account for the differences between the two schedules.

- The current market design doesn't support new and emerging technologies. There is little incentive for technology research and development.
- The existing day-ahead commitment process introduces excess risk by excluding economic day-ahead export schedules and that creates results that are systematically out of alignment with predictable outcomes in the real-time market.

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While the IESO and its stakeholders have worked together over the last decade to incrementally improve different aspects of the market, more foundational market changes are with more technological and structural changes on the horizon, now is the time to make some more fundamental changes, necessary to meet the very different circumstances of today and tomorrow's electricity marketplace.

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Inefficiencies that have been identified will be addressed through changes to how we schedule resources both a day ahead and in real time, as well as through competitive capacity auctions and by addressing emerging operability needs.

3.11 The Market Surveillance Panel says there has been gaming of the market. Has there been gaming?

- Only two out of almost 30 reports have identified gaming activities.
- In both cases, IESO took immediate action to recover funds and in one case, penalize the company involved.
- The IESO's Market Assessment and Compliance Division monitors the electricity market and works to ensure compliance with the market rules.
- The compliance and enforcement function was strengthened in 2014 with new market rules, and the IESO has beefed up its enforcement staff accordingly.

Of all of the Market Surveillance Reports that have been released over the years—and there have been close to 30 released to date—only two have identified gaming activities. In both cases, the IESO took the appropriate action to recover funds and in one case to penalize the company responsible.

Commented [AW2]: More specific

In addition to supporting the work of the Market Surveillance Panel, the IESO's Market Assessment and Compliance Division monitors Ontario's electricity market on an ongoing basis, and works to ensure compliance with the market rules. That compliance and enforcement function was strengthened in 2014 with new market rules, and the IESO has beefed up its enforcement staff accordingly.

4.12. If Ontario benefits from a robust supply situation, why is the IESO procuring more resources (FIT-5)?

- * Yes, we have a stable supply. However, incremental supply needs are expected to emerge in the early 2020s even with the resources gained with the greater use of renewable energy sources such as wind, solar and biogas.
- * Getting new sources of energy online takes time so...

Ontario ~~does~~ currently benefit from a stable and reliable supply situation, but incremental supply needs are expected to emerge in the early 2020s, ~~despite and that's including the~~ resources gained through the current ~~Feed-in-Tariff procurement~~. Procuring and building new resources takes time, and our current stable supply situation will help maintain reliability in the short-term until new supply needs arise.

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Commented [AW4]: The rest is a bit repetitive

Background:

In September 2016 at the direction of government, The IESO suspended the Large Renewable Procurement II last September and in December of that year directed in December ceased accepting applications under the Feed-in-Tariff program ~~et.~~ These decisions have reduced Ontario's forecasted supply and the province now expects incremental supply needs to emerge in the early 2020s.

13. Why don't we cancel existing contracts since we have so much supply?

- * There is a stable supply situation that is expected to last into the early 2020's.
- * It takes time to get new sources of electricity online so...

Ontario currently benefits from a stable supply situation but incremental supply needs are expected to emerge in the early 2020s. However, Procuring and building new resources takes time and our current stable supply situation will help maintain reliability in the short-term until new supply needs arise.

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THE NEW ELECTRICITY MARKETPLACE

5.14. How will the Market Renewal ensure ~~What do you mean by~~ more efficient scheduling of resources?

- * For example, a financially binding day-ahead market would lock in resources a day ahead of need.
- * A day-ahead market would create a more certainty in the ability to meet resource needs and for market participants in the operation of their assets.

- * Currently, the many resources are scheduled closer to real-time which can be inefficient.

As an example, One Market Renewal initiative involves implementing a financially-binding day-ahead market. This would lock-in more resources a day-ahead of need, creating more certainty for the IESO in the operation of the grid and for market participants in the operation of their assets.

Currently, many of our resources are scheduled closer to real-time, which can lead to inefficient outcomes when we must react to real-time system changes, such as larger than expected fluctuations in supply and demand. This can be inefficient if, for example, we need to start up and compensate a generator for longer than it is needed.

15. Will Market Renewal ~~Does this mean more foreign private sector companies will be in Ontario's electricity marketplace in Ontario?~~

- * ~~foreign~~ Not necessarily.
- * IESO deals with private and public companies.
- * The changes would maintain the level playing field that currently exists.

The changes that IESO is implementing ~~we are looking at~~ don't favour either the public or private sector. ~~The IESO~~ We deals with private or public companies on a regular basis ~~and doesn't~~ ~~We don't~~ play favourites. The new rules would maintain the level playing field we currently have.

16. If Ontario is going ~~not going to choose one form of energy over another, to be technology agnostic,~~ doesn't that mean we could see the return of coal?

- * No.
- * It has been illegal to use coal to generate electricity since 2015
- Any use of coal would require legislative change.

Commented [AW6]: I may have changed the meaning

In 2015, the Ontario legislature passed legislation banning the use of coal to generate electricity in the province. Any use of coal would require a change in the law.

6.17. If Ontario is ~~not going to choose one form of energy over another, But could it mean we could see more natural gas plants?~~

- * Ontario now benefits from a stable supply situation that is expected to continue until at least the early 2030s.
- * We don't need any more generating capacity for the moment.

Commented [AW7]: See comment above

- * When that time comes, we can say what type of resources would be a part of the market.
- * A capacity auction would operate within the policy requirement in place at that time.

As I said before, we The IESO doesn't don't expect to need any additional generating capacity until the early 2020s and it is too early to say what resources would participate. And to be clear, a capacity auction – one of the Market Renewal initiatives – would operate within whatever policy constraints were in place at that time.

For example, a cap-and-trade emissions trading system is in place that has put a price on emissions. So, any natural gas facilities will have to pay for any greenhouse gas (GHG) GHGs they emit, and the government's Climate Change Action Plan commits the province to gradually reduce overall emissions of GHGs in the future.

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Capacity Auctions

18. How will capacity auctions help improve the market?

- * Capacity auctions will help create a level playing field.
- * They will ensure a more dynamic market, increased transparency, and allow for greater innovation.
- * Right now, capacity is secured with long-term contracts. While it provides for reliability, it doesn't provide the flexibility needed for changing demand.
- * Capacity auctions allow:
 - System operators to efficiently respond to changes in demand year over year.
 - Suppliers to operate in an environment where there is a stable and transparent mechanism to provide revenue.
 - System operators to secure resources at the lowest cost.

Annual capacity auctions would establish an endorsing mechanism that creates a level playing field for all stakeholders resources to compete to make ensure Ontario has the supply resources it needs to meet demand all year round. Capacity auctions result in a more dynamic market, increased transparency around the cost of capacity, and allow for greater innovation in the electricity sector.

Additional information:

The province currently secures capacity by signing long-term contracts with generators. This approach has been instrumental in changing our supply mix and ensuring reliability over the

years. However, long-term contracts alone cannot provide the flexibility needed to match changes in demand and supply year over year.

Jurisdictions around the world have implemented open auctions that allow all types of resources to compete and meet the year round demand for capacity – and with much success. In these markets, system operators typically secure resource needs for shorter periods and in a more flexible manner than long-term contracts. This approach provides more flexibility allowing system operators to efficiently respond to changes in demand year over year. For suppliers, it means there is a stable and transparent mechanism in which to operate their businesses to provide revenues, to meet Ontario's needs. For consumers, it ensures that resources are being secured at lowest cost.

19. How will capacity auctions be implemented?

- * Starts with demand response auctions
- *
- * The demand response auction was first introduced in 2016 and successively produced lower costs XX
- * Supports include: included high-volume, transmission-connected industrial, commercial and institutional users; local distribution companies; and, consumers whose facilities are connected to low-voltage distribution systems and whose contributions are managed by an aggregator.
- *

Commented [AW8]: FYI, this answer was originally part of the question – “Why hasn’t the IESO implemented MR sooner?” It didn’t really add anything to the answer to the original question but it made for a good new question.

The IESO recently introduced an annual demand response auctions, which as a is really a precursor to a capacity auctions. The IESO worked with demand response providers to transition them from contracts into the market to help drive down costs and better integrate demand response into our resource mix.

The first auction took place in 2015 and was a very successful, with great participation and low-cost results. The prices for the second auction in 2016 were 12 to 17 per cent lower than those achieved in 2015.

Proponents included high-volume, transmission-connected industrial, commercial and institutional users, as well as local distribution companies and consumers whose facilities are connected to low-voltage distribution systems and whose contributions are managed by an aggregator.

For the first time, residential homeowners, participating through an aggregator were eligible to take part in the auction and were successful in being selected.

20. Could you use capacity auctions to replace nuclear plants?

Commented [AW9]: Questions and answers don't match

- * Unlikely. Capacity auctions are about...
- * Nuclear facilities already have long-term contracts or are regulated by the OEB and wouldn't likely participate.

The IESO intends to implement a capacity auction for incremental needs that may arise in the early 2020s. [REDACTED]

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Contracts

21. The government has said that it will refinance the global adjustment over 30 years to more accurately reflect the lifespan of generating assets. Should the we extend contracts be extended as well in conjunction?

- * Such a move would not benefit consumers.
- * While Ontario is currently in a good position with respect to supply, future needs are uncertain.
- * Locking in well ahead of time may appear to have some benefits; it may come at a cost to consumers.
- * Locking in resources will stifle market innovation and impact savings that will come with the more flexible market system, an outcome of Market Renewal.

A recent IESO evaluation determined that extending contracts would result in an overall loss of value to ratepayers. Ontario currently benefits from adequate supply, but future needs are uncertain. Locking in resources for the long-term and ahead of when they are needed can appear to initially provide reliability benefits and planning certainty, but may actually come at a cost to the consumer. Locking in resources will not only stifle innovation in the sector for years to come but also will result in foregoing cost savings that arise from meeting our system needs in a more flexible manner through greater competition.

Additional information

The IESO is currently working with stakeholders to design and implement a capacity auction to meet Ontario's future incremental capacity needs. Capacity auctions have been implemented by many jurisdictions around the world with much success, allowing all types of suppliers to

compete to provide capacity. ~~and with much success.~~ In these markets, system operators typically secure capacity for shorter periods relative to long-term contracts. This approach provides more flexibility to respond to changes in demand. For suppliers it means there is an enduring and transparent mechanism to get paid for capacity they can supply to the market. For consumers it ensures that capacity is secured at lowest cost.

8.22. Should we have extended contracts *instead of* refinancing the global adjustment?

Would that have allowed the costs to be shared by future ratepayers while costing less overall?

Same answer as above.

8.23. So there would be no cost savings if contracts were extended?

- ♦ ~~There would be negligible cost savings while there would be significant risks.~~

Based on existing experience ~~through with contract negotiations, preliminary IESO analysis,~~ current forecasts of system need, and the evaluation of current drivers of electricity system costs, ~~the IESO analysis has found that finds there costs savings would be negligible negligible cost savings while the risks and future opportunity loss would be significant.~~

If pressed to provide more detail on our analysis:

The IESO's analysis included a number of assumptions and estimates. However, results indicated the potential cost reduction would be around 1-2 per cent%, or \$10 ~~to~~ \$20 million per year ~~but the impacts on the overall operation of the marketplace and could likely increase overall total cost to consumers.~~

Commented [AW10]: May have changed the meaning here.

24. Why would there be no savings if contracts are extended?

- * ~~Market stakeholders would not likely be~~

~~Market participants would be~~ Counterparties would likely ~~unlikely~~ not entertain any proposal unless there is additional value beyond what is already provided in the contracts. After factoring in negotiating costs the potential savings would be negligible and likely increase overall total cost to consumers.

25. Is there a chance we will be paying for resources twice? Wouldn't that happen if at the same time as a generator's contract expires they are then successful in capacity auctions, while we are also still paying through the refinancing of the global adjustment.

Current global adjustment costs that are being refinanced include the cost of establishing the clean and reliable system we have today as well as the cost of establishing a culture of conservation in the province. New, clean generation needed to be built and suppliers were compensated accordingly. The culture of conservation we have established will similarly continue to pay dividends into the future.

Ontario now benefits from a stable supply situation that is expected to continue until at least the early 2020s. Eventually, capacity auctions will provide a transparent, enduring and competitive platform for all resources to compete to meet Ontario's incremental capacity needs. For example, these needs could be met by new entrants, demand response, storage, imports, better utilization of existing assets, or traditional resources. It is too early to speculate the timing of future resource needs and which resources will meet those needs.

If pressed:

Current global adjustment costs and future capacity auction costs are for two different things. The global adjustment currently reflects the costs required to incent new, clean generation to be built, in addition to fuel and operating and maintenance costs. Global adjustment costs will now be paid for over a longer period of time. It also reflects investments made to establish a culture of conservation in the province.

10.26. Did the IESO consider extending contracts as part of the government's rate mitigation effort?

Yes, the IESO provided its analysis to the government.

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Commented [AW11]: And?

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MARKET RENEWAL AND GOVERNMENT

27. How does Market Renewal relate to the government's current efforts to reduce electricity prices with Ontario's Fair Hydro Plan?

- They are not at all related.
- One is short-term time frame for cost saving for consumers while the other is about making systemic changes that will benefit consumers in the long-term, beginning in approximately 2021.

Commented [AW12]: New question

They are not related at all. The government has made a strategic decision to temporarily reduce electricity bills for residential customers, small businesses and farms by an average of 25 per cent, as of July 1, 2017. Prices will not increase beyond the rate of inflation for four years.

The IESO's Market Renewal is about making fundamental systemic changes that will result in an electricity marketplace that will be able to meet system and stakeholder needs at the lowest cost for consumers. The impact of the changes is expected to be realized as early as 2021 and while the cost benefits study looked at 10 year time frame for savings, consumers are expected to benefit well past 2030.

28. What do stakeholders mean when they say they want less political interference?

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- Stakeholders want greater transparency and more certainty when making business decisions.
- Stakeholders want government to commit to capacity auctions.

Stakeholders and their investors have expressed that they want greater transparency and more certainty when making business decisions. Market Renewal ~~be~~ will include evolving the wholesale electricity market and adopting new procurement practices through the introduction of an incremental capacity auction to competitively and efficiently acquire resources. Stakeholders have suggested that they are looking for commitment from ~~g~~Government to ~~using~~ support capacity auctions as an enduring mechanism. This provides them with more certainty as they make investment decisions.

At the same time, annual auctions provide greater flexibility in meeting system needs and help avoid the cost and risk of locking in resources for extensive periods when they might not be required.

Commented [AW13]: Doesn't really answer the question.

29. Has the government's procurement methods under the Green Energy Act been a failure?

- The electricity marketplace was designed in the late 1990's and introduced in 2002 at a time when the electricity landscape looked very different from today.
- The Green Energy Act helped change that electricity marketplace with elimination of coal, integration of renewables, increase distributed resources, and evolution of the role of the consumer.

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The Green Energy Act was one of several key policy measures that helped eliminate coal, integrate renewables, increase distributed resources, and evolved the role of the consumer. These policies have dramatically changed the dynamics of Ontario's electricity system.

Ontario is now in a stable supply situation that is expected to continue until the beginning of the next decade, making this an opportune time to evolve the way we procure resources to drive the best value for consumers.

30. Is Market Renewal the result of government direction?

- * No. The Market Renewal is an initiative of the IESO, along with sector participants, to address inefficiencies and put downward pressure on electricity costs.

No. Market Renewal is an IESO initiative to prepare Ontario for the electricity sector of tomorrow. To accomplish this, the IESO and its stakeholders are pursuing fundamental and enduring changes to Ontario's electricity market that will address known inefficiencies and put downward pressure on electricity costs.

Background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel, IESO studies, and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the beginning of the next decade, making this an opportune time to consider and implement needed market design changes.

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In the past, there was some concern about the planning and implementation of large energy infrastructure projects, including **uncompetitive pricing and the integration of heightened community concerns?**

Commented [AW14]: Is this still an issue? It's from 2013. Does it need to be included here?

(What does the Minister mean when he said there was sub-optimal siting and uncompetitive pricing and heightened community concern?)

At the request of the Minister of Energy, the IESO made – and the government accepted – 18 recommendations that would increase the community involvement in the siting and planning of energy facilities. The IESO report stressed the need for:

- * Strengthening processes for early and sustained engagement with local governments and the public
- * Providing local governments and communities a greater voice and responsibility in planning and siting
- * Ensuring that ministries involved in planning are well coordinated. I don't want to speak on behalf of the Minister. But in a report the IESO did in 2013, we made several recommendations that would increase the community involvement in the siting and planning of energy facilities, and the government accepted all of our recommendations.