2018 REGISTRATION AND APPLICATION FEES, THE FORECAST VARIANCE DEFERRAL ACCOUNT AND CAPITAL EXPENSES

2018 Registration and Application Fees

The IESO proposes to continue charging the registration and application fees as previously approved by the Board and as described below:

a) Approval to continue to charge registration fees of up to $10,000 per proposal for electricity supply and capacity procurements, including conservation and load management procurements.

b) Approval to continue to charge non-refundable application fees for the Feed-in Tariff ("FIT") program of $0.50/kW of proposed Contract Capacity, having a minimum of $500 and to a maximum of $5,000.

c) Approval to continue charging $1,000 for the IESO's market participation application fee.

All fees listed above received approval through a Board decision dated December 1, 2016 (EB-2015-0275).

The IESO is not seeking to continue the Large Renewable Procurement fee in 2017.

The Forecast Variance Deferral Account

In its 2016 Revenue Requirement Submission, the IESO sought, and the Board approved, the continuation of the Forecast Variance Deferral Account ("FVDA").

The IESO requests approval to continue to use the FVDA. The IESO's revenue requirement is a fixed amount approved by the Board with the IESO usage fees determined based on a forecast of withdrawals from the IESO controlled grid, embedded generation and exports. While the IESO provides a forecast of these withdrawals, there is inherently a variance between the forecast withdrawals and actual withdrawals. Similarly, it is to be expected that there will generally be some variance between actual revenues and expenses and the Board-approved revenue requirement. The IESO proposes to continue to track these variances through the FVDA.

Retaining revenues received in 2017 above the proposed 2017 Revenue Requirement

In addition to the $10 million operating reserve, the IESO is seeking approval to retain up to $5 million in excess revenues received in 2017 to minimize fee increases as a result of the Market Renewal Program in 2018. These excess revenues would include those above the proposed 2017 net revenue requirement of $190.8 million as allocated by Elenchus to each customer, or underspent in 2017. Any retained revenues or underspend would be used to minimize potential fee increases for domestic and export usage fees in 2018. As this is not intended to result in a cross subsidy, any retained 2017 revenues or underspend would be tracked for each customer type, domestic and export, and applied only to their respective 2018 usage fee. The 2017 allocated revenue requirement for each customer class as calculated by Elenchus is shown in Table 1 below:

Table 1: 2017 Allocated Revenue Requirement by customer class

	2017 allocated revenue requirement as calculated by Elenchus
Domestic	$171.6 million
Export	$19.2 million

Any 2017 funds retained or underspent will be tracked in the FVDA and reported on in the IESO's next Revenue Requirement Submission. As stated earlier, any retained funds will be used to minimize fee increases related to the Market Renewal Program in 2018. As shown in Table 2 below, the projected operating costs for the Market Renewal Program are forecast to increase in 2018 over 2017 costs. This increase, when combined with the $3 million of 2017 Market Renewal costs the IESO is proposing to allocate from its budget for core business operations as described on page 9 of Exhibit B-1-1 equals the $5 million the IESO is proposing to be allowed to retain

Table 2: Market Renewal forecast operating costs

	2016	2017	2018	2019
Market Renewal ($ millions)	$0	$12	$14	$6

The $5 million the IESO is proposing to retain represents approximately 3% of the IESO's 2017 revenue requirement and if returned to customers would be less than $0.0001/KWh as shown in Table 3 below, which is substantially lower than the $0.001/KWh threshold the OEB has set for the clearance of LDCs Group 1 audited account balances[1]. Additionally, while the Board's filing requirements place the onus on LDCs as to why any account balance in excess of the threshold should not be disposed, there does not appear to be any provision for an LDC to clear the accounts when the balance is lower than the threshold.

1 Ontario Energy Board, Filing Requirements For Electricity Distribution Rate Applications - 2016 Edition for 2017 Rate Applications - Chapter 3, Incentive Rate-Setting Applications, Page 10, http://www.ontarioenergyboard.ca/oeb/_Documents/2017EDR/OEB_Filing_Requirements_2017Rates_Chapter03.pdf.

Table 3: $5 million represented as IESO usage fee/KWh

	Proposed usage Fee/KWh	3% of the proposed fee/KWh
Domestic	$ 0.001220	$ 0.00003660
Export	$ 0.000990	$ 0.00002970

The IESO recognizes that this request is unusual. However, as described in Exhibit B-1-1, in the IESO's approved 2017-2019 Business Plan and on the IESO's website, the Market Renewal Program is a multi-year project benefitting all customers with a net efficiency benefit of up to $3.4 billion from 2021 to 2030, including $3.0 billion net consumer benefit, as explained below. Given the long-term benefits that are forecast to result from the Market Renewal Program, the IESO believes it is efficient and fair to customers to retain funds received in 2017 in order to minimize rate increases in 2018. As the IESO is proposing that a limited amount of any excess revenues collected or any underspend in one year be used to minimize an increase in usage fees in only the following year, the IESO believes that this proposal does not represent rate inequity and will not create subsidization between customer classes.

As discussed more thoroughly in Exhibit B-1-1 the Market Renewal Program is anticipated to benefit domestic and export customers. Early findings show potential for cost savings that are expected to be realized by both consumers and suppliers from the Market Renewal Program, with a baseline estimate of $3.4 billion over the 2021-2030 period. The Market Renewal Program is also expected to reduce inefficiencies which currently exist, an example being the non-market day-ahead commitment process which does not incorporate appropriate incentives for exports to be scheduled on a day-ahead basis.

Capital Expenses

The IESO is seeking approval of its proposed 2017 capital expenditure envelope of $25 million for capital projects. A summary of capital spending and associated project descriptions is included in Appendix 4 of the IESO's approved 2017–2019 Business Plan and the forecast 2017 capital envelope compared to 2015 and 2016 is shown in Table 4 below:

Table 4: 2017 Capital Envelope compared to 2015 and 2016[2]

Planned Projects ($ millions)	2015	2016	2017
Total Capital Projects	29.4	28.4	25.0

The IESO utilizes the four strategic goals described in its 2016 – 2020 Strategic Plan[3] to determine capital project priorities. The IESO's four strategic goals are:

- Deliver superior reliability performance in a changing environment
- Drive to a more efficient and sustainable marketplace
- Be recognized as a trusted advisor, informed by engagement
- Invest in our people and processes to meet the needs of the sector

Accounting Change

The IESO has made changes to its accounting policies to increase transparency and to report certain costs as regulated assets, consistent with the accounting policies of other regulated entities in North America. These changes are reflected in Note 3 on page 13 of

[2] 2015 and 2016 information taken from the IESO 2016-2018 Business Plan: EB-2015-0275, Exhibit A-2-2, Page 13 of 20.
[3] http://www.ieso.ca/sector-participants/ieso-news/2016/06/ieso-releases-its-2016-2020-strategic-plan.

the IESO's 2016 Annual Report, which is filed as Exhibit A-3-1. The changes include the recognition of rate regulated assets as well as the recognition of market accounts assets and liabilities on the statement of financial positions.

The IESO operates and settles the electricity market, where sums of money are constantly flowing to and from market participants, such as consumers and generators. The IESO is not party to these market transactions but facilitates them, which requires it to temporarily hold and move funds. These financial transactions in no way impact the IESO's accumulated deficit or revenues and expenses. After a review of its accounting practices, the IESO decided to include year-end market account balances on its financial statements in an effort to increase transparency.

Additionally, the IESO has changed its accounting policy to report certain costs as regulated assets, specifically unrecovered smart metering expenses and unrecovered PSAB transition items, to be consistent with the accounting policies of other regulated entities in North America. These are costs that are being recovered through Board-approved fees and it is common practice among regulated entities to treat such costs as regulatory assets for accounting purposes. It is important to note that no matter which way the IESO reports these costs, the cost and the impact on ratepayers does not change. These costs have been in the IESO's publicly issued audited financial statements for years and the decision to move to the new accounting policy was made to better reflect the nature of these costs. The reporting of these costs has always been public and the new reporting is simply a function of change in accounting policy.