Standing Committee on Justice Policy – Opening Statement – May 2017

- I'd first like to thank the Chair and the Committee for the opportunity to speak to the IESO's role as it relates to the Ontario Fair Hydro Plan.

- With me is Kimberley Marshall – Kim is Chief Financial Officer and Vice-President of Corporate Services at the IESO.

- In my opening remarks I'm going to begin by outlining the mandate of the IESO, and in particular the role we already play in settling electricity market transactions, and in managing the financial variances that invariably arise between forecasts and actual revenues over time. I'll also address the similar role anticipated for the IESO under Bill 132.

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

- Our role administering the electricity market is particularly relevant to this discussion. This includes our settlement function that involves managing the flow of funds as between market participants and to fund, for example, the suite of conservation programs delivered by the Local Distribution Companies.

- On the one hand we invoice and collect payment for the electricity delivered and consumed through the LDCs and by large consumers; using those funds we then pay suppliers, including generators who provide generating capacity and produce energy, the transmitters who deliver that energy; and we fund various programs including conservation programs.

- As a not-for-profit entity, our role is to efficiently manage and facilitate these market transactions.

- Sounds simple, but to give you an idea of the scope of our settlement process, in 2016 we settled about 17 billion dollars of financial transactions.

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

- The global adjustment covers some of the costs of 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 a portion of these costs over a longer time-frame.

- 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 implementing the Fair Hydro Plan.

- As described in Bill 132, 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.

- However, under the Fair Hydro Plan, local distribution companies will collect less from eligible consumers – overall 25% less – which will reduce the remittances to the IESO.

- Obviously this leaves a shortfall for the Global Adjustment payments - the amounts the IESO has to pay to cover what we owe to the generators and others.

- This difference will be identified, temporarily held in an IESO variance account, and then purchased by the financing entity too be created 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. These variances are reported to the OEB and taken into account by the OEB when it next establishes consumer rates.

- Under Bill 132, 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 under the Bill.

- And assuming Bill 132 is passed, the IESO will continue to work with the government to further define and clarify our role in the Fair Hydro Plan.

- That concludes my remarks -- Kim and I will be happy to address any questions you may have.