

Memorandum

To: THE AUDIT COMMITTEE
of the Independent Electricity System Operator

From: Tam Wagner
Senior Manager, Regulatory Affairs

Date: August 29, 2017

Re: 2017 Revenue Requirement Update

On April 21, 2017, pursuant to section 25(1) of the *Electricity Act*, 1998, the IESO filed with the Ontario Energy Board (OEB) its proposed 2017 expenditure and revenue requirement and the fees it proposes to charge (2017 Revenue Requirement Submission) for the OEB's review and approval. This was following the Minister of Energy's approval of our 2017-2019 Business Plan on March 21, 2017. This memorandum provides an update on the regulatory proceeding.

Issues List

As is typical of regulatory proceedings, the OEB sought intervenor input to the draft issues list proposed by the IESO; the issues list effectively defines the scope of the regulatory process. Of significance, intervenors sought to (1) increase the scope of review of the Market Renewal Program, and (2) review the terms of conditions of IESO programs, including their cost, with a specific request to review costs that make up the IESO's wholesale market service charge. These issues would significantly increase the scope of the proceeding and, from the IESO's perspective, would be inconsistent with legislative requirements under the *Electricity Act*, 1998. The proposed review of the wholesale market service charge, if adopted, would result in governance issues being addressed in the revenue requirement proceeding.

Scope of Review of the Market Renewal Program (MRP)

The Vulnerable Energy Consumers Coalition (VECC) questioned whether the MRP is within the mandate of the IESO while several other intervenors suggested the OEB's examination of the MRP be broadened in this proceeding (the IESO's proposed issue related to the MRP was "Are the IESO's Market Renewal Program 2017 operational costs appropriate?").

OEB Decision: Given the IESO's broad powers under the *Electricity Act*, 1998 to make rules that govern the electricity market, the OEB is satisfied that the MRP is within the mandate of the IESO and will not be including VECC's proposed issue in the issues list. With regards to the broader review of the MRP in this proceeding, the OEB rendered that "it is appropriate to assess the costs in 2017 in the context of the overall MRP, a multi-year project". However, in making

this determination, the OEB also highlighted that “it is the 2017 operational costs that are the subject of approval in this proceeding”.

This decision is a good outcome for the IESO, reflects the broad mandate of the IESO, and is consistent with the legislative requirement for the IESO to seek approval of its *annual* expenditure and revenue requirement.

Proposed Review of Wholesale Market Service Charge (WM SC)

The Association of Power Producers of Ontario (APPRO) proposed an issue should be included to review the terms of conditions of IESO programs, including their cost. APPRO specifically asked for a review of costs that make up the IESO’s WM SC and referenced the need for “open and transparent governance in the electricity sector” and that “in the United States, system operators are treated as utilities offering services at “just and reasonable rates””.

OEB Decision: The OEB did not add APPRO’s proposed issues to the issues list. In coming to this decision, the OEB referenced the definitions of “fees”¹ vs “charges”² in the *Electricity Act, 1998* and that section 25 of the *Electricity Act, 1998* provides the OEB with the authority to review and approve IESO’s fees, but not its charges. This determination is also consistent with OEB decisions on previous Ontario Power Authority fees cases.

Given the Board’s decision, APPRO has withdrawn from the IESO’s proceeding and have indicated that they will seek other avenues to address their concerns over lack of independent oversight of the IESO.

Next Steps

Intervenors filed interrogatories on August 17th and the IESO has until September 7th to file its responses. A settlement conference has been scheduled for September 14th.

Tam Wagner

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Cc: IESO Records

¹ In the *Electricity Act, 1998*, “fees” means, with respect to the IESO, amounts charged by the IESO, or by a predecessor within the meaning of section 4, to recover its own operations.

² In the *Electricity Act, 1998*, “charges” means, with respect to the IESO, amounts charged by the IESO or by a predecessor within the meaning of section 4, to recover amounts paid or payable by the IESO or the predecessor to another person with respect to electricity.