

**RP-1999-0049**

**IN THE MATTER OF** the *Ontario Energy Board Act*, 1998;

**AND IN THE MATTER OF** an Application by the Independent Electricity Market Operator for an order or orders approving its proposed expenditures and revenue requirement and fixing the fees which it may charge for the year 2000.

**DECISION WITH REASONS (phase one)**

**Introduction**

The Independent Electricity Market Operator (the “IMO”), filed an Application (the “Application”) with the Ontario Energy Board (the “Board”) dated October 29, 1999, for an order or orders approving its proposed expenditures and revenue requirement and the fees which it may charge for the year 2000. The Board assigned file number RP-1999-0049 to the Application.

On November 26, 1999, the Board issued a Notice of Application, followed by Procedural Order No. 1 dated January 13, 2000. The Board issued Procedural Order No. 2 approving an Issues List on January 27, 2000.

Procedural Order No. 3, issued by the Board on March 3, 2000, indicated that there would be a preliminary consideration of Issue E. Fee Design (phase one), prior to the consideration of the remaining issues (phase two).

On April 13, 2000, the IMO filed a letter with the Board indicating that it would require further time to finalize its updated evidence and responses to outstanding interrogatories. The IMO requested an extension until May 8, 2000, to complete its filings. Procedural Order No. 4, issued on April 19, 2000, outlined revised dates for the filing of updated and supplemental evidence, supplementary interrogatories on that evidence and responses to those supplemental interrogatories.

The Board issued Procedural Order No. 5 on June 2, 2000, setting June 9, 2000 as the date for the Settlement Conference on the Fee Design issue (phase one) and June 15, 2000 as the date to hear any unsettled issues. The Settlement Agreement, as revised, was filed on June 14, 2000 and is appended to this Decision.

On June 15, 2000 the Board accepted the Settlement Proposal and proceeded to hear the one unsettled issue. The Board issued an oral decision from the dais. This written Decision with Reasons is issued on the request of the IMO.

**Parties to the Proceeding**

Below are the parties and their representatives who actively participated in the oral hearing for phase one.

The Independent Electricity Market Operator	David Brown
The Independent Power Producers' Society of Ontario ("IPPSO")	James Fisher Robert Cary
Ontario Power Generation Inc. ("OPG")	John Rattray

The IMO called the following witnesses:

Amir Shalaby	Manager, Regulatory Affairs
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Board Staff was represented by Mr. Mike Lyle, Board Solicitor. Board Staff cross-examined but did not make submissions at the hearing.

### **The Fee Design Issue**

The IMO proposed that its usage fee be payable by wholesale participants directly linked to the IMO grid or embedded participants linked to the IMO grid through wholesale participants (collectively “market participants”) on all energy withdrawn for use or sale in Ontario.

The IMO proposed that the Allocated Quantity of Energy Withdrawn (“AQEW”), as defined in the Market Rules, be the charge determinant for the IMO usage fee. The AQEW is a substitute for interval metering thus allowing participation in the market by those without interval metering and not directly linked to the IMO-administered grid. For those participants who have interval meters and are directly connected to the IMO grid, the metered quantities and the allocated quantities will be identical.

Certain market participants may have their own generation capacity. If it is “invisible” generation, that is the total generation capacity is consumed by the market participant, the market participant is only charged for the units withdrawn from the IMO-administered grid.

The suitability of AQEW was questioned by IPPSO in the case of joint facilities, that is where the market participant’s generation may also be participating in the IMO-administered markets. In such a case, the AQEW does not permit the netting out, for AQEW purposes, of the quantities injected into the IMO grid. IPPSO suggested that the charge determinant should be defined as the “net load at the primary registered wholesale meter”. For example, if the market participant withdraws 100 units and its generation facility supplies 30 units to the IMO-administered grid, the AQEW should, according to IPPSO, apply only to 70 units. The IMO’s proposal applies the AQEW to the 100 units. A separate charge would be levied on the 30 units injected into the IMO-administered grid.

## **The IMO Position**

In support of its views that the proposed AQEW is a reasonable proposal and the IPPSO proposal is problematic, the IMO noted the following:

- The Market Rules with respect to this issue, that is the separate registration of the withdrawal and injection activities, were still developing. In the IMO's view, the two activities should be viewed and treated separately from the perspective of IMO services. The IMO also advised that the current market design efforts lean towards the IMO's views, not IPPSO's views.
- The AQEW is not a concept that was designed specifically for recovery of the IMO fee. The concept is found in the Market Rules and in the software design to implement the Rules.
- IPPSO's proposal of charging at the primary meter would involve additional issues to the host wholesale market participant regarding cost recovery from embedded market participants, some of whom may also have generation. The issue would have to be resolved in some forum, most likely in the Retail Settlement Code.
- The AQEW issue is derivative to the wider issues associated with facilities registration, currently being addressed by the Technical Panel of the IMO, and thus should be left in that forum.
- Under the IPPSO proposal, the IMO would lose a "billing relationship" with market participants thereby limiting the future evolution of fee design, evolution being an expectation of market participants.

- The IPPSO proposal would be an inconvenience to an aggregator who would wish to render one bill to a customer for all locations in the service territory.
- The IMO's proposal is consistent with the practice of the Central Market Operator, the predecessor to the IMO.

### **The IPPSO Position**

In support of its proposal, IPPSO noted the following:

- Leaving the resolution of the issue to the IMO Technical Panel has the risk of the Technical Panel being influenced by issues other than fee design.
- The IMO proposal represents some cost shifting to loads that are served by existing self-generation and creates possible disincentives for generating facilities to register their facilities.

### **The OPG Position**

OPG recommended that the IMO proposal be adopted. In support of its position, OPG noted the following:

- The IMO's proposal was supported by a broad range of stakeholder interests that participated in the Settlement Agreement, except IPPSO.
- IPPSO's "net load at the primary registered wholesale meter" was not presently a defined term under the Market Rules. Adoption of IPPSO's proposal would require additional delay, debate and revision of the developed software.

- Given the IMO's commitment in the Settlement Agreement to review this issue after some experience has been gained, IPPSO will have an opportunity to revisit this issue at that time.

### **Board Findings**

At the conclusion of the oral hearing, the Board ruled in favour of the IMO's proposal. In rendering its ruling the Board considered the following:

- IPPSO did not dispute the fact that the AQEW concept was not designed specifically for the IMO usage fee. It was a concept that has been used in the Market Rules for other purposes of settlement. It appeared that there was some certainty on the concept of AQEW; the uncertainty appeared to arise as to what input amount would be used in the calculation of the AQEW.
- IPPSO did not challenge the IMO's testimony that the number of market participants and total self-generating capacity possibly affected by this issue were not significant or that the potential impact on the IMO usage fee would be immaterial. Also, IPPSO did not substantiate to the Board's satisfaction its claim that the IMO's proposal would result in cost shifting to load served also by self generation or creation of disincentives for generators to register their facilities.
- The IMO's testimony that the Technical Panel of the IMO was actively considering the broader issue of joint facilities and the requirements for registration was not disputed by IPPSO. The concerns that IPPSO raised may be resolved to IPPSO's satisfaction by the Technical Panel. Mr. Cary, IPPSO's consultant at the hearing, is a member of the Technical Panel. It would have been imprudent for the Board

to upset the current process and progress made by the Technical Panel and to possibly redirect the development of the software in light of the limited evidence and apparently more narrow scope of the AQEW issue as related to the IMO usage fee than the “larger debate” on registration issues reportedly visited by the Technical Panel.

- All five other parties named in the Settlement Agreement accepted the IMO’s proposal.
- The Settlement Agreement contained a provision that this issue would be revisited in the future, after some experience was gained with the operation of the market.

The above were the main reasons for the Board concluding that the IMO proposal should be adopted.

DATED AT Toronto on July 21, 2000

Signed on behalf of the Board Panel of Mr. P. Vlahos (Presiding Member) and Mr. A. Birchenough (Member),

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Paul Vlahos  
Vice Chair and Presiding Member