

**RP-2001-0046**

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

**AND IN THE MATTER OF** a Submission 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 2002.

**BEFORE:** Paul Vlahos  
Vice Chair and Presiding Member

Bob Betts  
Member

Ken McCann  
Member

**DECISION WITH REASONS**

January 28, 2002

## Introduction

The Independent Electricity Market Operator ("the IMO") has filed a Submission dated October 19, 2001 ("the Application") with the Ontario Energy Board ("the Board") for an order or orders approving its proposed expenditure and revenue requirements and fixing the fees which it may charge for the year 2002. The Board has assigned file number RP-2001-0046 to this Application. A Notice of Application was issued October 26, 2001.

The IMO sought Board approval for:

- a revenue requirement of \$153.9 million for 2002
- capital expenditures of \$66.3 million for 2002
- using the \$8.8 million 2001 deferral account surplus to reduce the 2002 IMO fee
- a monthly revenue of \$12.03 million under the Transitional Revenue Allocation Agreement for each month prior to market opening
- a usage fee of \$0.959/MWh to be paid post-market opening by all wholesale customers or market participants on all energy withdrawn for use or sale in Ontario and on all export scheduled out of Ontario.

On December 12, 2001, the IMO filed with the Board a draft Settlement Agreement. There were no outstanding matters and the IMO informed the Board that all of the registered intervenors agreed with the settlement proposal.

A conference was held on December 19, 2001, to offer all parties an opportunity to review the draft Settlement Agreement before it is provided to the Board. No concerns were raised regarding the draft Settlement Agreement. The IMO re-filed the Settlement Agreement with the Board on December 20, 2001.

Intervenors accepted the IMO's proposals. The Settlement Agreement is included as Appendix A to this Decision.

The parties to the Settlement Agreement were the IMO, Aegent Energy Advisors Inc., the Association of Major Power Consumers of Ontario ("AMPCO"), Electricity Distributors Association, Energy Cost Management Inc., Guelph Hydro-Electric Systems Inc., Hydro One Networks Inc., Hydro-Quebec, Natural Resource Gas Ltd., Ontario Association of Schools Business Officials, Ontario Federation of Agriculture, Ontario Power Generation Inc., Power Workers Union, the Society of Energy Professionals, Toronto Hydro-Electric System Ltd., TransCanada Energy Ltd. and Vulnerable Energy Consumers Coalition. While Board Staff participated in the Conference, it was not a party to the proposed Settlement Agreement.

Copies of the IMO's Application and other material filed in this proceeding are available at the Board's offices. The Board has chosen to refer to such material as necessary to explain its findings.

### **Board Findings**

In considering the IMO's revenue requirement and related proposals, the Board takes comfort that such proposals are first scrutinized by the IMO Board, which is a stakeholder board. In considering the results of the Settlement Agreement, the Board also takes comfort that there were many parties to the proceeding representing a wide array of interests.

The Board has reviewed the Settlement Agreement and the supporting documentation. Before ruling on the Settlement Agreement, the Board notes the following two items.

First, the Board has identified certain arithmetic errors in Table 8.2 of the IMO's Submission. While the Board is satisfied that these are transcription errors, the IMO must re-submit this table.

Second, in RP-2000-0134 Decision, the Board stated that it expected the IMO to provide the estimate of the benchmarking study, prior to undertaking such study. The Board has not received this information prior to the study being undertaken. The Board trusts that this was an oversight. As a result of this, the Board has not been able to *a priori* ascertain the reasonableness of this expenditure.

The Board accepts as reasonable, and approves for 2002, a revenue requirement of \$153.9 million, capital expenditures of \$66.3 million, the use of the \$8.8 million 2001 deferral account surplus (which includes \$1.2 million carried from 2000) to reduce IMO's 2002 fee, a monthly revenue of \$12.03 million under the Transitional Revenue Allocation Agreement for each month prior to market opening, and an IMO usage fee of \$0.959/MWh to wholesale customers and market participants on energy withdrawals upon market opening.

In doing so, the Board has noted that the IMO's proposals were based on the assumption of a market opening date of March 1, 2001. The Ontario Government announced on December 18, 2001 that the market will open on May 1, 2002. The Board notes that this market opening date was known to the parties when they met on December 19, 2001 to review the Settlement Agreement before it was submitted to the Board. The Board deduced that the parties had no concerns about the revenue requirement and related impacts of a two month delay to the date of market opening from the date assumed in the IMO's filing. Having considered this matter, the Board has accepted the results of the Settlement Agreement to be reasonable for a market opening date of May 1, 2001.

The IMO provided additional detail regarding potential capital projects for 2002 of \$8.7 million (attached as Schedule A to the Settlement Agreement). The IMO indicated that it would review and select projects on a priority basis and undertook to report the actual disposition of the \$8.7 million capital dollars when preparing the capital expenditure budget for the 2003 Fees Submission. The Board recognizes that given the developmental phase of the IMO's operations, a more precise determination of capital projects for 2002 may have been difficult. However, as the IMO will begin operations in 2002, the Board expects that capital requirements in the future will be better defined so that a substantially lower portion of the total capital expenditure requirement would be viewed as contingency.

AMPCO requested the Board "to give due consideration to the recommendation and comments concerning the IMO's incorporation of benchmarking". AMPCO argues that the IMO could further integrate benchmarking into its budget decision process. The Board recognizes the value of benchmarking. However, the Board considers benchmarking to be one tool of many in determining a reasonable level of revenue requirement. Given the embryonic stage and dynamic nature of market restructuring, the differences in market characteristics and functions of the independent operators, and the IMO's undertakings related to Performance Management as set out in the Settlement Agreement, the Board is not persuaded that the IMO should be directed or expected at this time to go beyond its commitment set out in the Settlement Agreement, which reads as follows:

*The IMO reaffirmed its commitment to continuing to learn from comparable organizations and to benchmark the IMO's performance. The IMO will continue to collect and analyze such information and continue to work with Stakeholders, during fiscal year 2002.*

Intervenors eligible for a cost award shall file their cost statements within 15 business days from the date of this Decision. The Board will address the matter of costs in a separate decision.

DATED AT Toronto, January 28, 2002.

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Paul Vlahos  
Vice Chair and Presiding Member

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Bob Betts  
Member

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Ken McCann  
Member