



EB-2013-0381

IN THE MATTER OF Sections 18 and 19 of the
Electricity Act, 1998;

AND IN THE MATTER OF the Independent Electricity
System Operator Fiscal Year 2014 Fees Submission
for Review.

BEFORE: Christine Long
Presiding Member

Paula Conboy
Member

DECISION AND ORDER
May 22, 2014

Background

On November 4, 2013, the Independent Electricity System Operator (the "IESO") filed its fiscal 2014 proposed revenue requirements, expenditures and fees for review by the Ontario Energy Board (the "Board") pursuant to sections 18 and 19 of the *Electricity Act, 1998* (the "Application"). The Board has assigned file number EB-2013-0381 to the Application.

The Board issued its Notice of Application and Written Hearing (the "Notice") on January 3, 2014. A draft issues list, prepared by the IESO, was attached to the Notice, and potential intervenors were provided the opportunity to comment on it.

On January 31, 2014, the Board issued Procedural Order No. 1, in which, among other things, the Board indicated that it would proceed by way of a written hearing, confirmed the intervenors in the proceeding, and established a schedule for the proceeding. Procedural Order No. 1 also included the Board-approved issues list.

A settlement conference was held on April 30, 2014. The following parties participated in the settlement conference: the IESO, Energy Probe Research Foundation, Canadian Manufacturers and Exporters, Vulnerable Energy Consumers Coalition and the Building Owners and Managers Association Toronto (collectively, the “Parties”). The Parties agreed to a settlement on all issues on the Board-approved issues list. On May 1, 2014, the settlement proposal attached as Appendix A to this Decision and Order (the “Settlement Proposal”) was filed with the Board for consideration.

The Board accepts the Settlement Proposal as filed.

Board Findings

The Parties agreed to a settlement on all issues including:

- The IESO’s proposed 2014 revenue requirement of \$129.9 million;
- The IESO’s proposed 2014 capital expenditure envelope of \$24 million;
- Continuation of the \$1,000 application fee;
- The IESO’s proposed 2014 usage fee of \$0.803/MWh commencing January 1, 2014;
- The IESO retaining \$5 million of the accumulated surplus and returning the remaining accumulated surplus of \$25.7 million from 2011, 2012 and 2013 to market participants; and that
- The Board should approve the Interim Usage Fee as the final usage fee for each of the 2012 and 2013 fiscal years.

The Settlement Proposal outlines the Parties' agreement and references the evidence on all issues. Overall, the Board finds the evidence sufficient to support the Settlement Proposal and accordingly accepts the Settlement Proposal as filed.

For further clarity, the Board will address certain elements of the IESO’s evidence.

The IESO’s proposed 2014 revenue requirement of \$129.9 million includes \$111.1 million for OM&A costs and \$18.8 million for amortization and interest costs. Approximately \$3.3 million of this cost will be recovered from other sources leaving a revenue requirement of \$126.6 million to be recovered through the IESO usage fee. The Board notes that the proposed 2014 OM&A budget represents a 7% increase over the IESO’s 2013 actual OM&A costs. The Board finds that the IESO evidence sufficiently

addresses this increase. According to the IESO, staff costs are the largest contributor to the year-over-year increases which continue in 2014. On page 11 of its 2014-2016 Business Plan, the IESO specifically states that “these cost increases are largely the result of the lower projected staff costs in 2013 due to delays in hiring to budgeted levels in the first half of the year”. The evidence further explains that the reason for the hiring delay was to provide flexibility for the merger with the Ontario Power Authority, anticipated at that time. However the merger did not proceed and the IESO started hiring in key areas including: support of renewable integration and market development, compliance activities and increased effort focused on refreshing/replacing existing information technology systems. In addition, the IESO states that costs for contract services and consultants are expected to increase as a result of increased effort in analysis and implementation of market initiatives.

One of the issues in this proceeding is the IESO’s proposal to change the methodology by which it levies its fee. The IESO proposes to calculate its fee based on total energy withdrawals, which will now include an amount equal to the output from embedded generation. Currently, distributors collect IESO usage fees from all of their customers based on their total loads but then only remit to the IESO based on the distributor net load which is reduced by embedded generation. The amount of embedded generation is expected to continue to increase in materiality. The IESO submits that the proposed change in methodology more fairly reflects the changing nature of the grid, including the need for the IESO to establish and maintain visibility of embedded generation and to forecast its impact on bulk system requirements. The IESO’s proposed usage fee for 2014 of \$0.803 per MWh represents a 2.3% reduction from the current fee of \$0.822/MWh. The Board notes that the IESO presented and discussed the proposed change with stakeholders and that stakeholder questions and concerns were addressed by the IESO prior to the filing of this Application. This stakeholder engagement was an important factor in the Board’s acceptance of this change in the IESO’s fee structure.

Cost Awards

A decision regarding cost awards will be issued later. However, filings related to cost awards shall be made in accordance with the schedule set out below.

THE BOARD ORDERS THAT:

1. The IESO's proposed 2014 revenue requirement of \$129.9 million is approved.
2. The IESO's proposed 2014 capital expenditure envelope of \$24 million is approved.
3. The application fee is set at \$1,000.
4. The IESO's proposed 2014 usage fee of \$0.803/MWh commencing January 1, 2014 by all market participants based on energy withdrawn from the IESO-controlled grid, including scheduled exports and embedded generation, to be charged in the manner proposed in section 3 of the Settlement Proposal, is approved.
5. The IESO's request to rely on and use the information provided to the IESO by electricity distributors on the amount of embedded generation in their service territory under Ontario Regulation 429/04 in calculating the total usage fee to be billed to each electricity distributor each billing period is approved.
6. The Interim Usage Fee is approved as the final usage fee for each of the 2012 and 2013 fiscal years.
7. The IESO's proposal to retain \$5 million of the accumulated surplus from the 2011, 2012 and 2013 fiscal years and return the remaining accumulated surplus of \$25.7 million to market participants, in the manner proposed in the Settlement Proposal, is approved.
8. Eligible intervenors shall file with the Board and forward to the IESO their respective cost claims on or before **June 2, 2014**.
9. The IESO shall file with the Board and forward to the intervenors any objections to the claimed costs of the intervenors on or before **June 9, 2014**.
10. Intervenors shall file with the Board and forward to the IESO any responses to any objections for cost claims on or before **June 16, 2014**.
11. The IESO shall pay the Board's costs of, and incidental to, this proceeding immediately upon receipt of the Board's invoice.

All filings to the Board must quote the file number, EB-2013-0381, be made through the Board's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/>, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <http://www.ontarioenergyboard.ca/OEB/Industry>. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Gona Jaff at gona.jaff@ontarioenergyboard.ca and Board Counsel, Ljuba Djurdjevic at ljuba.djurdjevic@ontarioenergyboard.ca.

ADDRESS

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
Attention: Board Secretary

E-mail: boardsec@ontarioenergyboard.ca
Tel: 1-888-632-6273 (Toll free)
Fax: 416-440-7656

DATED at Toronto **May 22, 2014**

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

Appendix "A"

To Decision and Order

**INDEPENDENT ELECTRICITY SYSTEM OPERATOR
FISCAL 2014 FEES SUBMISSION FOR REVIEW**

Board File No: EB-2013-0381

SETTLEMENT PROPOSAL

Dated: May 22, 2014

**INDEPENDENT ELECTRICITY SYSTEM OPERATOR (IESO)
FISCAL YEAR 2014 FEES SUBMISSION FOR REVIEW
SETTLEMENT PROPOSAL
EB-2013-0381**

This Settlement Proposal is filed with the Ontario Energy Board ("the OEB" or "Board") for consideration in the determination of the Independent Electricity System Operator ("the IESO") Fiscal Year 2014 Fees Submission for Review, EB-2013-0138 (the "IESO's 2014 Fees Submission").

The Settlement Proposal arises from a Settlement Conference that was conducted on April 30, 2014 pursuant to Rule 31 of the OEB's *Rules of Practice and Procedure* (the "*Rules*") and the OEB's *Practice Direction on Settlement Conferences*. This Settlement Proposal was prepared in accordance with Rule 32 of the *Rules* and the *Settlement Conference Guidelines*.

The following parties participated in the Settlement Conference:

- The IESO;
- Energy Probe Research Foundation ("Energy Probe");
- Canadian Manufacturers and Exporters ("CME");
- Vulnerable Energy Consumers Coalition ("VECC") and
- The Building Owners and Managers Association Toronto ("BOMA").

OEB Staff are not a party to this Settlement Proposal and therefore take no position on any issue.

The IESO, Energy Probe, CME, VECC and BOMA, the parties to the Settlement Proposal, are hereinafter collectively referred to as the "Parties". The Parties are satisfied with the IESO's evidence on all issues and have agreed to a settlement on all issues. The Settlement Proposal therefore covers all issues on the Board-approved Issues List (attached hereto as Schedule "A").

In accordance with Rule 32 of the Board's *Rules* and *Settlement Conference Guidelines*, this Settlement Proposal outlines the Parties' agreement and provides a direct and transparent link between the issues and the evidence in the record. The Parties further agree that the evidence is sufficient to support the Settlement Proposal in respect of the

settled issues and that the quality and detail of the supporting evidence will allow the Board to make findings on the settled issues.

The following general evidence, in addition to the specific evidence cited under the issues below, supports this agreement:

- Exhibit A, Tab 1, Schedule 1, IESO's 2014 Fees Submission;
- Exhibit B, Tab 1, Schedule 1, 2013-2016 Business Plan;
- Exhibit B, Tab 1, Schedule 2, Letter from the Minister of Energy to IESO and dated October 22, 2013;
- Exhibit B, Tab 3, Schedule 1, Methodology for Calculating 2014 Usage Fee and Proposal for Treatment of Accumulated Surplus;
- Exhibit B, Tab 4, Schedule 1, Elenchus Review of IESO Fees Billing Determinant;
- Exhibit C, Tab 1, Schedule 1, Supplemental Financial Information – IESO Financial Update, Actual 2013 Financial Results.

IESO 2014 Revenue Requirement, Proposed Capital Envelope and Surplus

The Parties agree to the IESO's 2014 proposed revenue requirement of \$129.9 million and proposed capital expenditure envelope of \$24 million. The Parties agree to the continuation of the \$1,000 application fee and proposed IESO usage fee of \$0.803/MWh to be charged as set out in section 3.0 herein. The Parties agree to the IESO retaining \$5 million of the accumulated surplus and returning the remaining accumulated surplus of \$25.7 million from 2011, 2012 and 2013 to market participants based on their respective yearly proportionate quantity of energy withdrawn from the grid (including exports). The rebate to market participants will be processed within two billing cycles of the approval being received. The parties agree that the return of any accumulated surplus in future years should be based on the same methodology as the fee was collected. The Parties agree to the Approval of the Interim Usage Fee as the final usage fee for each of the 2012 and 2013 fiscal years.

1.0 Operating Costs

1.1 Are the IESO's projected OM&A Costs appropriate and reasonable?

The Parties accept that the evidence set out below supports the appropriateness and reasonableness of the IESO's projected OM&A costs:

- Exhibit B, Tab 1, Schedule 1, 2013-2016 Business Plan pages 9, 11 & 16
- IESO responses to the following Interrogatories: Board Staff 1.1.1, 1.1.2, 1.1.3, 1.1.4, 1.1.5, 1.1.6, 1.1.7, 1.1.8 & 1.1.9; Energy Probe 2 a) & 2 b); VECC 1 d) & 2 b)

1.2 Are the IESO's projected staffing levels appropriate and reasonable?

The Parties accept that the evidence set out below supports the appropriateness and reasonableness of the IESO's projected staffing levels:

- Exhibit A, Tab 1, Schedule 1, IESO's 2014 Fees Submission page 4
- Exhibit B, Tab 1, Schedule 1, 2013-2016 Business Plan pages 5 & 11
- IESO responses to the following Interrogatories: Board Staff 1.2.1, 1.2.3, 1.2.4, 1.2.5, 1.2.7 a), 1.2.7 b), 1.2.7 c), 1.2.8 & 1.2.9; BOMA 3 a), 3 b) & 3 c); VECC 2 a) & 2 c)

2.0 Capital Spending

2.1 Are the IESO's proposed 2014 capital expenditures appropriate and reasonable?

The Parties accept that the evidence set out below supports the appropriateness and reasonableness of the IESO's proposed capital expenditure envelope of \$24 million for 2014:

- Exhibit A, Tab 1, Schedule 1, IESO's 2014 Fees Submission page 4
- Exhibit B, Tab 1, Schedule 1, 2013-2016 Business Plan pages 3 – 6, 12 – 13 & 19 - 21
- IESO responses to the following Interrogatories: Board Staff 2.1.1, 2.1.3, 2.1.4, 2.1.5 a), 2.1.5 b), 2.1.5 c), 2.1.5 d), 2.1.5 e), 2.1.5 f), 2.1.5 g), 2.1.5 h), 2.1.5 i) & 2.1.6; Energy Probe 3 a) & 3 b)

3.0 The IESO Usage Fee

3.1 Is the move to gross billing from net billing appropriate?

The Parties accept that the evidence set out below supports the appropriateness and reasonableness of the IESO's proposed usage fee of \$0.803/MWh to be paid by all

market participants based on energy withdrawn from the IESO-controlled grid (including exports) and embedded generation commencing January 1, 2014; and, the parties agree to the IESO relying on and using the information provided to the IESO by Local Distribution Companies (LDCs) on the amount of embedded generation in their service territory under O.Reg 429/04 in calculating the total usage fee to be billed to each LDC for each billing period commencing January 1, 2014. The Parties agree to the IESO charging (or rebating to) market participants the difference between the Interim Usage Fee and the 2014 Approved Usage Fee with such charges, or rebates, being processed within two billing cycles of the approval being received.

- Exhibit A, Tab 1, Schedule 1, IESO's 2014 Fees Submission pages 5 - 6
- Exhibit B, Tab 1, Schedule 1, 2013-2016 Business Plan pages 6 & 9 - 10
- Exhibit B, Tab 3, Schedule 1, Methodology for Calculating 2014 Usage Fee and Proposal for Treatment of Accumulated Surplus;
- Exhibit B, Tab 4, Schedule 1, Elenchus Review of IESO Fees Billing Determinant
- IESO responses to the following Interrogatories: Board Staff 3.1.1, 3.1.2, 3.1.3, 3.1.4, 3.1.5 & 3.1.6; BOMA 1 & 5; CME 3 a) & 3 b); Energy Probe 4 a) & 4 b); VECC 3 d)

Schedule "A"

**INDEPENDENT ELECTRICITY SYSTEM OPERATOR ("IESO")
FISCAL 2014 FEES SUBMISSION FOR REVIEW
ISSUES LIST
EB-2014-0381**

1.0 Operating Costs

1.1 Are the IESO's projected OM&A Costs appropriate and reasonable?

1.2 Are the IESO's projected staffing levels appropriate and reasonable?

2.0 Capital Spending

2.1 Are the IESO's proposed 2014 capital expenditures appropriate and reasonable?

3.0 The IESO Usage Fee

3.1 Is the move to gross billing from net billing appropriate?