

**IESO Stakeholder Advisory Committee  
Minutes of Meeting  
June 3, 2009, 9:00 am  
Toronto Congress Centre**

**Advisory Committee Members in Attendance:**

Mr. Brian Bentz, Chair (representing Distributors)  
Mr. John Witjes, Vice-Chair (representing Public Service Consumers)  
Mr. Bruce Campbell (representing IESO)  
Mr. David Collie (representing Distributors)  
Mr. Steve Dorey (representing Transmitters)  
Ms. Julie Girvan (representing Residential Consumers)  
Mr. Richard Horrobin (representing Generators)  
Mr. Mike Humphries (representing Embedded Industrial Consumers)  
Mr. Paul McMillan (representing Marketers/Brokers)  
Mr. Mark Schembri (representing Commercial Consumers)  
Ms. Ersilia Serafini (representing Environmental)  
Mr. Adam White (representing Wholesale Consumer Market Participants)  
Mr. Gary Wight (representing Marketers/Brokers)

**Advisory Committee Members Absent:**

Mr. Daniel Whyte (representing Generators)

**Presenters:**

Mr. Bruce Campbell  
Mr. Ken Kozlik  
Mr. Przemek Tomczak

**IESO Board Members in Attendance:**

Mr. James D. Hinds – Chair  
Mr. David Cassivi  
Mr. Robert Chiarelli  
Ms. Angela Ferrante  
Mr. Paul Murphy – President and CEO, IESO  
Ms. Roberta Brown  
Mr. Howard Shearer

**Introduction – Agenda Item # 2:**

Mr. Brian Bentz, Chair of the Stakeholder Advisory Committee welcomed everyone. He explained that the April meeting was cancelled because it was more appropriate to wait for more information on the Green Energy Act, which will be discussed later in the meeting. He acknowledged the attendance of the IESO Board of Directors, thanking them for their attendance.

**Agenda Item No. 3: Senior Management Update – Bruce Campbell**

(a) Action Item List

Mr. Campbell noted that there was only one item on the list that was on hold.

The Action Item list is available on the web at:

<http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Action-Item-List.pdf>

(b) Operational Issues Arising from April Surplus Generation Experience (Mr. Kozlik)

Mr. Kozlik explained the situation that has been occurring through March and April around surplus baseload generation. The reasons for it occurring over the last few months are due to drop in demand, baseload fleet performing well, windy days, spring run-off, outage at an intertie between Ontario and New York and fewer outages. The combination of these resulted in negative prices for a significant period, mostly on weekends and in overnight periods (214 hours between mid March and early April). The conclusion of this event occurring was the intertie being back in service and the vacuum building outage at Darlington. The surplus situation has returned in the last few weeks for which there has been about 25 hours of negative pricing. This concern is being address by the Embedded and Renewable Generation stakeholder initiative (SE-57).

Mr. White asked what the prescribed hydro is doing at the time of surplus baseload generation. Mr. Kozlik responded that the prescribed hydro plants were reducing to the extent that they could but keep in mind that there isn't a lot of reduction that can occur at these plants.

Mr. Wight asked if the IESO had determined where the loss in demand had occurred – whether it was industrial or more efficient use by consumers. Mr. Kozlik responded that the majority is from industrial, primarily pulp and paper, steel and the mining industries as stated in the latest 18 month outlook.

Mr. Horrobin stated his concerns over the fact that the IESO was willing to risk forced outages on nuclear units and be content to rely on imports during the Darlington vacuum building outage rather than defer the outage at the New York intertie. He noted that when nuclear units are called upon to respond, it is typically Bruce units that do the manoeuvring. He also stated that there continues to be fundamental issues associated with the price signals and with the dispatch process and he would like to see the IESO address these issues at a greater speed. His

concern was noted about commissioning units running at the same time nuclear units are being dispatched down. Mr. Kozlik answered that the schedule for the New York intertie outage was scheduled very far in advance and that the IESO will need to continue its discussions with Bruce Power to get a better understanding of the long-term reliability impact on their facilities.

Mr. Horrobin followed with a request that the IESO provide advance notice of future outages so they could either schedule work and trading around the outage. Mr. Kozlik committed to providing advance notice.

Mr. McMillan asked whether building redundant capabilities at the interties to have maximum flexibility and to deal with some of the scheduling issues, including the issue of surplus baseload generation. Mr. Kozlik commented that the new tie-line with Quebec would be in service in about two weeks and that would eventually increase the transfer capability to 1250 megawatts. Mr. Dorey added that he understood an agreement between the IESO and MISO is close to being reached that would see the Michigan/Ontario phase shifters operational and when the Caledonia line is operational this will all contribute to increasing the intertie capacity. Mr. Dorey added that the focus on interties in planning will be much larger.

Mr. McMillan also commented that enhancing the flexibility at the interties should be in the works so that the system works well in the future.

Mr. Schembri asked that since reliability is a priority with the IESO, would the nuclear units coming off and on not be considered a reliability issue and the priority of the issue be raised. Mr. Kozlik responded that the 18-month forecast is very positive and it is possible to have reduced generation and still a reliable system. He also noted that the IESO is always concerned about the degradation of facilities and the reduction in reliability and will continue to discuss this issue with Bruce Power. Mr. Campbell stated that the asset owners have the ability to set the rules around how they operate their plants but the IESO will continue to have discussions around this unusual situation.

Mr. Horrobin noted that the IESO Board should be looking at the market structure that is being created and the signals that are being sent to the market place and to accelerate the review of this issue. Mr. Kozlik responded that as the system operator, the IESO is very concerned how contracts impact operating decisions versus what should normally be market forces impacting on operating decisions. Mr. Campbell added that that the issue of surplus baseload generation and dispatch priority is being addressed at a stakeholder initiative and there is a meeting on June 16.

Mr. Bentz summarized the issues discussed and noted that these issues should be discussed at the joint session with the IESO Board on June 17.

(c) Update on Smart Metering and MDM/R

Mr. Campbell indicated the latest software has been thoroughly tested and put into production and is confident that the MDM/R provides a stable platform for the aggressive schedule that the province is adopting for the implementation of time-of-use rates.

Mr. Collie asked for clarification around whether Toronto Hydro, who announced time-of-use rates for a number of customers, would be using the MDM/R for their customers. Mr. Campbell responded that they would initially be using their own system at the start and then eventually move to the MDM/R later in the year.

The update on Smart Metering and MDM/R briefing note is available on the web at:  
[http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item3 SAC note for smart metering.pdf](http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item3_SAC_note_for_smart_metering.pdf)

(d) Consumer Forum Report

Mr. Campbell noted that the forum is a broad framework under which a number of customer facing programs are carried out.

Mr. Wight stated that there were no updates on market evolution activities in the report where customers could see value for their particular activities. Mr. Campbell responded that the purpose of the report is to educate the broader consumer group on how to take advantage of the market by following price signals. He also stated that he would have a follow-up conversation with Mr. Wight to determine what is not being addressed in the report.

Mr. Collie stated that the IESO should continue to have the breakfast series in partnership with the local distribution companies as they also provide them the opportunity to talk about renewable energy and demand management.

The briefing note on the Consumer Forum Report is available on the web at:  
<http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Consumer-Forum-update.pdf>

The Consumer Forum report is available on the web at:  
[http://www.ieso.ca/imoweb/pubs/cf/Consumer\\_Forum\\_Report-2008.pdf](http://www.ieso.ca/imoweb/pubs/cf/Consumer_Forum_Report-2008.pdf)

(e) Public Sector RPP Extension and OPG Rebate

Mr. Campbell noted that the OPG rebate has ended and the government has extended the date the public sector is removed off the RPP to November 1, 2009 to ensure that the smaller entities had a higher level of comfort about going off the plan.

Mr. Witjes wanted to know if the IESO had any sense of whether the November 1 date will be extended and what does the government need to have in place to feel comfortable about not extending. Mr. Campbell agreed that there is a fair amount of confidence that there will not be an extension passes the November 1 date.

The briefing note on the OPG Rebate is available on the web at:

[http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item3\\_SAC\\_Update\\_OPG\\_Rebate.pdf](http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item3_SAC_Update_OPG_Rebate.pdf)

The briefing note on the Public Sector RPP extension is available on the web at:

[http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item3\\_SAC\\_Public\\_Sector-RPP.pdf](http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item3_SAC_Public_Sector-RPP.pdf)

(f) Update on Embedded Generation and Dispatch Methods (Mr. Tench)

For dispatch methods (SE-61), a consultant is being hired to provide assistance in completing the white paper which is intended to be brought forward the beginning of the summer.

Mr. Dorey noted that the 18-month Outlook referenced the growth in embedded generation and wondered if that generation was primarily combined heat and power. Mr. Kozlik stated that it's a combination of combined heat and power, gas and renewables.

Mr. Cary, a consultant for Sithe and Cardinal Power, asked whether stakeholders would be seeing the Terms of Reference that is drafted between the IESO and the consultant as this would establish confidence and transparency in the process. Mr. Campbell responded that terms of reference would be available but there would not be extensive consultation on the terms themselves.

The briefing note on Embedded and Renewable Generation is available on the web at:

[http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item3\\_Embedded\\_SE-57.pdf](http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item3_Embedded_SE-57.pdf)

The briefing note on Dispatch Methodology and Processes is available on the web at:

[http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item3\\_Dispatch-SE-61.pdf](http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item3_Dispatch-SE-61.pdf)

(g) Status Update on Market Evolution Initiatives

Mr. Campbell noted that there is a chart that lays out the projects currently being addressed by the IESO and upcoming projects. Those with lower priority are noted as being on hold. It gives a good visual picture of the current priorities.

The briefing note on Status Update on Market Evolution Initiatives is available on the web at:

[http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item3\\_Schedule\\_and\\_Status\\_of\\_Market\\_Design\\_Change.pdf](http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item3_Schedule_and_Status_of_Market_Design_Change.pdf)

**Agenda Item No. 4: Review of the Dispatch Scheduling and Optimization (DSO) Processes (Przemek Tomczak)**

Mr. Tomczak's presentation is published at [http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item4\\_SAC\\_DSO\\_Review.pdf](http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item4_SAC_DSO_Review.pdf) . The report is published at <http://www.ieso.ca/imowebpub/200904/dso-2009.pdf>

Mr. Bentz asked if having a review with negative assurance is the standard level of engagement with an audit firm used by other system operators across North America. Mr. Tomczak responded that the market rules had specified that it would be an engagement review and the accounting firm used Section 8600 (standard) of the CICA Handbook in performing the review. He also stated that based on the IESO's experience with the accounting firm, the review they conducted was fairly in-depth.

Mr. Dorey questioned whether it was unusual to cite a specific day rather than suggest that the processes are in place meet the requirements. Mr. Tomczak answered that by reviewing robust data, it was determined that the specific day would be representative of the functioning of the algorithm and would not require testing the algorithm over a much longer time period.

Mr. McMillan asked if February 12<sup>th</sup> reflected a simple day or a complex day. Mr. Tomczak noted that the selected day happened to be a relatively simple day where the system was not experiencing any significant unusual events at that time. That day was not selected for that reason. It was selected in advance because it was within the two year timeframe to have the review conducted.

Mr. McMillan followed-up by asking why a day that was not so simple not looked at since it would have put the algorithm to its maximum test. Mr. Tomczak stated that this point will be looked at (in planning) for the next review and that the previous review was conducted in the more challenging summer timeframe and no issues were found with the algorithm and the system has not changed significantly since that time.

**Agenda Item No. 5: IESO Response to the Market Surveillance Panel Report – May 2008 to October 2008 (Ken Kozlik)**

The IESO responses to the report is available at:  
[http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item5 MSP Recommendation Responses.pdf](http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item5_MSP_Recommendation_Responses.pdf)

Mr. Kozlik reviewed each recommendation on the report and then the IES O response. The responses are providing a priority or list of actions that are currently going on associated with each recommendation.

**Agenda Item No. 6: Round Table Discussion on Green Energy Act**

The briefing notes from each sector are attached in the Appendix.

Mr. Bentz began the discussion by stating that this is opportunity to get the perspective views of the constituents in the room on how the Green Energy Act impacts their sector and how the IESO can assist them with the Green Energy Act.

Mr. Campbell stated that the IESO's focus on the Act has been on the activities that are to require work from the IESO, such as performance requirements with respect to system impact assessments. The IESO has also been focussing on getting ready for the obligations of the Act to incorporate into the business plan. He also stated that the IESO's main objective for the discussion today is to find out the expectations each stakeholder has from the IESO to assist them in meeting their obligations of the Act.

Mr. Bentz then proceeded to go around the table asking each member to state their section position and the IESO actions that are required to assist them in the Green Energy Act implementation.

Mr. White stated that his sectors' concerns have to do with the rates and how they are determined, how costs are allocated and how prices are set as market forces are the best to provide information for decision-making. The IESO's responsibility is to make sure the hourly Ontario energy price (HOEP) is as efficient as possible. He added that there is a signal from HOEP, but most of the benefit is clawed back through the global adjustment and transmission and distribution rates that do not reward peak shifting. He concluded that the IESO should be a facilitator to a new conceptual approach to make HOEP and all of the other surcharges and levies as efficient as they can be and to look at the inefficiency in all of the price signals and correct it.

Mr. Humphries concurred with Mr. Whites' statements and added that although the Act promises new industry, the existing industry is what will be around to bring about recovery and having industrial rates should be considered. He also expressed concern that the responsibility for ensuring prudence and cost-effectiveness and sustainability of the project is leaving the OEB and going to the OPA when the OEB already has processes in place to deal with these activities. Another concern for this sector is the efficiency of spending. The IESO can assist them in making sure that all of the costs associated with the Act are properly allocated to the right places so that the price signals are there. The more energy is uncertain, the more people put a higher price on it and added that industry and manufacturing can be moved more easily than other sectors.

Mr. Horrobin stated that to determine the impact on the sector would require knowing the outcome of the Act and that is not yet know. He asked if the IESO would be undertaking any modeling to help the sector better understand the impact of the Act on supply/demand balance, on price, on global adjustment, on exports, on dispatch, and on overall efficiency of the market.

He commented that as the industry looks at the Green Energy Act, they should also be looking at the realities of the current market structure and the impact on the incumbent generators that are currently dealing with the supply/demand issues. He asked the IESO for changes that helps assess the current market structure, makes the HOEP more reflective of the true cost of power and provides the right signals for economic dispatch of clean generation, whether renewable or otherwise and the right behaviours in terms of conservation and demand shifting. He asked the IESO to revisit its operational report with respect to future operational and SPG requirements to assist generators in their planning. He also noted that the IESO needs to look at the how the implementation of the Act and the range of challenges it creates impact the IESO, and to what extent is the IESO revisiting it's plans and priorities to make sure the right resources are available to deal with the many challenges.

Mr. McMillan sees the major impacts for the marketer sector as price formation, sending the right price signals and transacting on the interties. He echoed the concern of the growing global adjustment as an additional new infrastructure cost and that the IESO should take the lead on price formation. Access to the interties is critical as they provide immediate response to deal with surplus generation or to protect the system. He added that the IESO should look into inter-hour 15-minute dispatch schedules and mandatory 60-minute bidding windows. Along with price formation, is forecasting and the IESO should be looking beyond 18 months because long term forecasting information would impact how forward prices materialize.

Mr. Wight added to Mr. McMillan's comments by stating again the issue of price formation and that the IESO needs to understand the critical nature of the issue and be proactive and take a leadership role. The role would entail bringing forward a stakeholder team to deal with the issue and put costs in the right places.

Ms. Girvan echoed some of the concerns already raised such as cost allocation and cost effectiveness but the biggest concern in the Act is taking away the powers of the OEB to protect customers. A specific concern noted was the ability of the OEB to assess distributors and transmitters to charge their customers to fund the Ministry of Energy and Infrastructure. She sees the IESO as taking the lead on smart grid, the interest of consumers and having cost effectiveness always on the table.

Mr. Witjes stated that his sector has the same concerns around the unknown costs to the consumer. Other concerns are with the lack of detail around the Act and expectations of the Act and when will the regulations actually take effect. The sector sees the Act as an opportunity to increase renewable in their area and being able to more effectively connect these to the grid with the feed-in-tariffs and streamlined approval process. On the obligation side, conservation and demand management plans will have to put in place with specific targets and reporting updates, which can be onerous and resource heavy. The IESO can help by creating awareness, a larger presence on the IESO website and more communication about the specifics of the Act to the various sections. He noted a competing demand for resources in the IESO due to deadlines for connection assessments and reporting was a concern as well.

Ms. Serafini concurred with the statements made on in developing pricing mechanisms that are appropriate and reflect all of the stakeholders. The environmental community is interested in how the use of renewable can be accelerated through the use of energy storage technologies. She added that with increased acceleration of renewable technology, the hope is to see decreasing reliance on nuclear power generation. A concern is that sufficient investment has to be made in transmission to enable distribute generation. The IESO can assist by having more effective communication, accelerating and continuing to work towards implementation of the smart grid and pricing systems that are cost based and that better reflect the true costs of generation.

Mr. Dorey stated that the Bill provides for a right to connect, subject to technical and economic tests. To achieve this reliably will require a more sophisticated operating system and a massive increase to the transmission capacity. Connection impact assessments will have to be produced in a fixed period and integrated with system impact assessment. The smart grid will also play a part in making things work along with the streamlined process for approvals. Additionally, there is a commitment towards Aboriginal energy investment. He mentioned that the IESO, Transmitters and OPA will need to work closely together, and integrating with IESO's System Impact Assessment (SIA) will be a challenge for larger projects. The IESO also has a role in working with the distributors on a smart grid to gain visibility and control down to the distribution level.

Mr. Collie stated that local distribution companies will be transitioning from a one-way distributor to a really a two-way handler of energy and a facilitator of green energy. The main area of help, which has already received assistance, is the smart grid forum and having stakeholder groups like that one is good for broader policy issues. With the introduction of system automation, smart meters in the home and display devices connected to them, the lines are blurring between the distribution company and in-home parts of the energy system. Distributors and the IESO will need to work together as the IESO will need to be able to see into the distribution system, they will need to work together on various demonstration projects, development of standards and participation in working groups.

Mr. Schembri noted that he is having difficulties engaging the grocery sector and the hard goods sector to get their feedback. The Green Energy Act is viewed as a great opportunity to get into the energy renewable sector and with the introduction of the cap and trade for carbon emissions, electricity costs will go up, so the focus will be to reduce – both from a demand side management standpoint and a demand response standpoint. The new feed-in tariffs for rooftop projects will have a positive impact on congestion issues. He added that he supports a centralized approach to energy conservation as it is more supported with his 300 stores that need to deal with differences among the distributors. He cited a good initiative is the BOMA 416 (applied to office building in area code 416) conservation initiative as an example that could be expanded to the balance of the Province. The IESO has exhibited a strong commitment to focus on reliability and over the next couple of years, reliability is going to become extremely important and diligence should be continued in this area.

Mr. Bentz sees the high priority as the ability to connect generators in the short term and to have a process in place to do so. He sees the distribution companies working with the IESO to develop technical specifications, connection assessment requirement, the process of determining what an economic connection is and how it affects dispatch. The other issue is LDCs being proponents of distributed generation which will significantly change their role in terms of cost and risk profile.

Mr. Bentz also mentioned the joint meeting on the IESO Board and the Committee and that a discussion around this issue should be on the agenda for that meeting.

#### **Agenda Item No. 7 Other Business**

Mr. Heaton representing TransCanada noted that a number of real-time issues were brought up in EDAC (working group) sessions and the IESO responded quickly to in identifying that they needed attention and setting up a working group. He encourages the IESO to put forth the appropriate resources for the working group so that these issues can be dealt with quickly. In addition, he thanked those involved and highlighted Jeannette Briggs at the IESO.

Mr. Martin from TransCanada stated their concern that the day-ahead generator cost guarantees could result in artificially depressed hourly energy prices. The concern stems from the interaction between the day-ahead cost guarantees and the Clean Energy Supply (CES) contracts issued by the OPA. Gas generators are exposed to the least amount of risk under the CES contracts when HOEP is below the variable cost to operate. TransCanada asserted that gas generators with day ahead cost guarantees could enter into the real-time market with energy offers below their variable cost to operate simultaneously placing downward pressure on HOEP. They would do so in order to optimize their financial position under the contracts. These comments will be followed by a letter to the IESO Board further elaborating on these concepts in more detail.

#### **Agenda Item No. 7 - Wrap Up**

Mr. Bentz advised members the next meeting is scheduled for August 26, 2009, at the Metro Toronto Convention Centre.

The meeting was adjourned.

## Appendix

### Sector Briefing Note

To: Stakeholder Advisory Committee  
From: John Witjes – Public Service Consumers  
Date: June 3, 2009  
Subject: **GREEN ENERGY ACT**

Item for table discussion

Each Stakeholder Advisory Committee member has been asked to provide this briefing note to address two questions:

**a. How do you see the Green Energy Act impacting your sector?**

The Green Energy Act presents opportunities for the Public Service Sector and our members are steadily increasing their awareness of the potential benefits. We are looking forward to seeing the details of the Act as information around supporting regulations becomes available.

The following points are of particular interest to our members

- The Act promotes and facilitates the development of renewable energies which, in the past, may have had marginal economics and substantial approvals processes to overcome. Improved support on these two issues may encourage members to pursue renewable energies more vigorously. The sector is particularly encouraged by the economic potential associated with renewable energy and the Act's promise of an accelerated connection approval process and associated infrastructure accommodation.
- The Act may allow municipalities to own electricity generation facilities that do not exceed 10 MW. This may be of interest to some of our members in the local promotion of renewable energy and also for economic benefit.
- The introduction of the Smart Grid will enable use of renewable energy and also increase the potential for our members to exercise demand response opportunities to help reduce costs and provincial demand.
- Within the legislation, public agencies will be asked to develop energy conservation and demand management plans and to update these on a regular basis. Within these plans the sector will be asked to establish and meet energy targets and this will raise the profile of energy management beyond existing levels for our members.

**b. Are there specific actions the IESO should consider to assist your sector in Green Energy Act implementation?**

- The Act will mandate that the IESO meet specific regulatory deadlines for connection assessments and regular reporting. Depending on the 'uptake' and interest in renewable energies within the province and the ability of various provincial agencies to communicate and cooperate effectively, this may put strain on current resources levels within the IESO.
- The IESO could help with implementation by providing increased awareness of the Act and the various sector implications. This could be done in a number of ways including more visible reference to the Green Energy Act on the IESO website.

## Sector Briefing Note

To: Stakeholder Advisory Committee  
From: Mike Humphries - Embedded Industrial Consumers  
Date: June 3, 2009  
Subject: **GREEN ENERGY ACT**

Item for table discussion

Each Stakeholder Advisory Committee member has been asked to provide this briefing note to address two questions:

**a. How do you see the Green Energy Act impacting your sector?**

See attached letter from the Canadian Manufacturers & Exporters to Minister Smitherman, dated May 19, 2009

**b. Are there specific actions the IESO should consider to assist your sector in Green Energy Act implementation?**



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May 21, 2009

Hon. George Smitherman  
Minister of Energy & Infrastructure, and Deputy Premier - THE EXECUTIVE COUNCIL  
OF ONTARIO  
Hearst Block  
4th Flr  
900 Bay St  
Toronto ON M7A2E1

Dear Minister Smitherman,

On behalf of Canadian Manufacturers & Exporters (CME) I am writing to provide input on Bill 150, the Green Energy and Green Economy Act, 2009 (GEA or Bill 150). I hope that you will find this input useful.

Canadian Manufacturers & Exporters (CME) is Canada's leading trade and industry association and the voice of manufacturing and global business in Canada.

The association directly represents more than 10,000 leading companies nationwide. More than 85% of CME's members are small and medium-sized enterprises. As Canada's leading business network, CME, through various initiatives including the establishment of the Canadian Manufacturing Coalition, touches more than 100,000 companies from coast to coast, engaged in manufacturing, global business and service-related industries.

CME's membership network accounts for an estimated 82% of total manufacturing production and 90% of Canada's exports.

CME supports the intent of the GEA to create opportunities for manufacturers and exporters and improve the environment. We recognize the opportunities that this legislation may present for many manufacturers and we all benefit from a cleaner environment.

CME members also rely on a competitively priced and reliable supply of electricity in Ontario. It is therefore imperative to our members that this legislation achieves the stated objectives without compromising the fundamental tenants of cost effectiveness and reliability of supply. Therefore, we offer the following recommendations to enhance the legislation with these tenants in mind.

**The economic imperative:**

Section 4 of Bill 150 currently requires transmitters to connect new renewable power generation subject only to criteria that is loosely defined in the legislation. This is a dramatic departure from the current model, which requires detailed scrutiny by the



Ontario Energy Board (OEB) as to the economic prudence and cost effectiveness of the undertaking. CME feels that such scrutiny of renewable projects is necessary to ensure that the benefits are truly sustainable. We recognize that the Ontario Power Authority (OPA) is currently developing such criteria; however, the economic imperative must be clearly defined in the legislation in order to give businesses confidence that rates will remain competitive.

***CME recommends that Bill 150 be amended to include requirements on the part of renewable generators to demonstrate to the OEB, economic prudence and cost effectiveness with respect to their grid connectivity. This will ensure that only truly sustainable projects are undertaken.***

#### **Electricity Rate implications:**

Bill 150 establishes a Feed In Tariff (FIT) payment for renewable power generation. This has proven to dramatically increase the installation of renewable power in the jurisdictions where it has been adopted. However, countries that have adopted a FIT also exhibit significantly higher rates for electricity. For example, of the 43 jurisdictions that have adopted a Feed In Tariff (FIT) model, the two that are often cited as leaders are Spain and Germany. In both cases, electricity rates are considerably higher and have broader differentiation between residential and manufacturing rates. In Germany, for example, manufacturers pay around \$0.14 per kWh (EuroStats, 2008) while residential consumers pay \$0.21 per kWh. Given the significantly higher rates being offered for renewable power, it is inevitable that there will be upward pressure on Ontario rates. CME is concerned that this will further exacerbate the current trend towards uncompetitive rates in Ontario.

In the long-term, with economic prudence consideration by the OEB in place, Ontario will likely benefit from additional installed renewable capacity. However, the transition period of higher cost electricity is likely to result in further erosion of our industrial and manufacturing base without action to mitigate the rate impact of the GEA.

CME has been consistently opposed to using the rate base to achieve societal objectives in the past. CME has maintained that the role of the Ontario Energy Board (OEB) should be to ensure reliable power at affordable rates. Bill 150 reflects the government's desire to achieve environmental and societal objectives through legislated changes to the role of the OEB. CME asserts that the government must then balance these objectives with provisions that will ensure a viable manufacturing and industrial base.



***CME recommends that the government take action to mitigate the impact of the GEA on manufacturers to ensure rates remain competitive.***

There are a variety of ways in which rate impact mitigation can be achieved. Examples include, but are not limited to:

- Implementation of differential rates. Many jurisdictions that have implemented a FIT model have differential rates that are lower for large volume consumers relative to residential rates including Germany and Spain.
- The government could wave any further recovery of Payments in Lieu of Taxes (PILs) and stranded debt charges by ratepayers as a condition of passage of this legislation
- CME also believes that the traditional principle of cost causality in electricity rate making should be extended to the costs associated with FIT-driven generation. Loosely put, this principle says, those that benefit should be those that pay. In the case of FIT-driven generation; if FIT-driven generation is only available to the grid in certain seasons (perhaps in the case of some hydro-electric sources) or at certain time of day (like solar energy), then the costs should only be added to the rate base at such times as these forms of generation are supplying power to the grid. So, taking the example of solar energy, the uplift cost associated with this form of energy would only be recovered from those electricity users that use electricity in mid-day daylight hours.

CME is confident that the aforementioned actions will ensure that the GEA can truly realize the objectives of creating opportunities for manufacturers and improving the environment without further compromising the competitiveness of Ontario's manufacturing and exporting sector.

Thank you for your consideration of these recommendations. We would be pleased to meet with you at your convenience to discuss the GEA further.

Yours truly,

Ian Howcroft  
Vice President,  
CME Ontario

## Sector Briefing Note

To: Stakeholder Advisory Committee  
From: Mark Schembri – Commercial Consumers  
Date: June 3, 2009  
Subject: **GREEN ENERGY ACT**

Item for table discussion

### *Commercial Sector*

- *Sector Outreach Process*
- *Renewable Energy Feed In Tariffs*
  - *Roof Top PV*
    - *Proposed size tranche FIT*
    - *100 – 500 KW @ 53.9 ¢/KWh*
    - *> 500KW @ 63.5 ¢/KWh*
  - *FIT should reflect benefit to system*
- *Impact on Global Adjustment*
  - *Cost*
  - *Coverage*
- *Conservation Delivery Agent*
  - *Commercial sector consumers are located in multiple LDC location*
  - *Programs should be consistently applied*
  - *Central management*

## Sector Briefing Note

To: Stakeholder Advisory Committee

From: Julie Girvan – Residential Sector

Date: June 3, 2009

**Subject: GREEN ENERGY ACT**

Item for table discussion

Each Stakeholder Advisory Committee member has been asked to provide this briefing note to address two questions:

**a. How do you see the Green Energy Act impacting your sector?**

It is unclear at this point what all of the implications are for electricity consumers arising from the passage of the GEA. The GEA gives the Minister broad new authority to issue directives in a number of areas. Impacts on consumers cannot be assessed until we have further details regarding these directives and any other regulations issued under the Act. For residential consumers all components of the bill are expected to rise including commodity costs, distribution costs and transmission costs in order to facilitate the intent of the GEA. Although not an exhaustive list the reasons why we see the GEA increasing overall rates are the following:

- Electricity from renewable generation is inherently more expensive than other sources of power. The feed-in tariff (FIT) program will be paying renewable generators prices significantly above market for terms of 20 years (and in some cases 40 years);
- In order to facilitate the development of renewable power as envisioned by the GEA distribution and transmission facilities will have to be enhanced and expanded;
- Independent regulatory oversight of the OEB has been diminished by the GEA by permitting the Minister to specify conditions for the OEB when considering the construction, expansion or reinforcement of transmission and distribution facilities related to renewable energy connections;
- Independent oversight of the OPA has been diminished by permitting the Minister to prescribe conditions for the OPA to consider when procuring power;
- New conservation and demand management programs may not be subject to cost-effectiveness tests in the same way they are under the existing framework;

- The GEA now allows for the generation costs to be allocated in different ways to different customer “classes”. This could potentially result in residential consumers paying a larger portion, or all of the global adjustment;
- Provisions in the GEA may result in reducing the power of the OEB to protect consumers with respect to prices. Other objectives may conflict with this one currently in the Ontario Energy Board Act;
- The GEA includes a provision that could have the costs incurred by the Ministry of Energy and Infrastructure related to conservation programs recovered through electricity rates.

**b. Are there specific actions the IESO should consider to assist your sector in Green Energy Act implementation?**

Given the IESO does not directly deal with residential consumers, there are no specific recommendations we have for the IESO regarding the GEA. The IESO may have a major role in the development of the smart grid in Ontario. If that is the case it is important for the IESO to ensure that it proceeds in a way that represents the most cost-effective approach for Ontario consumers. Until more detailed proposals come from the Ministry of Energy and Infrastructure regarding implementation of the GEA it is difficult to assess the potential role of the IESO regarding the implementation of the Act.

## Sector Briefing Note

To: Stakeholder Advisory Committee  
From: Ersilia Serafini – Environmental Sector  
Date: June 3, 2009  
Subject: **GREEN ENERGY ACT**

Item for table discussion

Each Stakeholder Advisory Committee member has been asked to provide this briefing note to address two questions:

**a. How do you see the Green Energy Act impacting your sector?**

**A)** Increased use of renewable energy made possible through the use of energy storage technologies **B)** Increased use of renewable energy made possible through the transmission investment required to facilitate distributed generation **C)** Future decisions related to nuclear power generation.

**A)** The Green Energy Act identifies ‘energy storage’ technologies within the Bill, but does not clearly indicate the manner in which these technologies will be integrated and encouraged as critical components of our energy infrastructure.

Distributed energy storage systems store cooling energy at night, when electricity generation is cleaner, less expensive and more abundant, by freezing water within an insulated storage tank to create and store cooling capacity for the next day. As daytime temperatures rise and the building requires cooling, cooling is provided to a building by ice melt and a low-wattage fan, instead of air conditioning.

In addition to addressing peak demand, since renewable energy technologies are often variable or not always on-peak when power is most valuable, energy storage plays a critical role in helping renewables succeed by maximizing their value and ensuring optimal integration into the power grid. However, there are still a number of outstanding issues that need to be addressed to enable the deployment of this technology.

**B)** Renewable energy is distributed by nature, and needs a support network to make the investment viable for generators. A sufficient investment must be made in the transmission system to enable distributed generation to be a viable alternative to centralized, large scale generation.

C) In an ideal scenario the increased use of renewable energy combined with energy storage technology made possible through the Green Energy Act would result in decisions being made regarding decreasing reliance on nuclear power generation.

**b. Are there specific actions the IESO should consider to assist your sector in Green Energy Act implementation?**

**A) Smart Grid Implementation B) Pricing Systems**

**A)** In order to effectively and efficiently see the roll-out of many aspects of the Green Energy Act, the implementation of a Smart Grid is necessary. IESO can assist by maintaining momentum on work already completed by the Smart Grid Forum.

**B)** Pricing systems that are cost based and better reflect the true cost of generation including environmental impacts, capital costs and societal costs both during peak and off-peak hours will assist in increasing the implementation of renewable energy technology. The IESO can assist by continuing to assess pricing systems through its Market Pricing Working Group.

## Sector Briefing Note

To: Stakeholder Advisory Committee

From: Brian Bentz – Distributors’ Sector

Date: June 3, 2009

**Subject: GREEN ENERGY ACT**

Item for table discussion

Each Stakeholder Advisory Committee member has been asked to provide this briefing note to address two questions:

**a. How do you see the Green Energy Act impacting your sector?**

**Key Issues**

- **Renewable Generation Projects by Other Proponents**
  - i. Pace of Implementation
  - ii. Proponent Experience
  - iii. Locational distribution of projects
  - iv. Socialization of costs
  - v. Connection assessment requirements & timing
- **Operational Issues**
  - i. Self-scheduling & Dispatch
  - ii. Worker & Customer Safety & operating protocols
  - iii. Integration with other System Infrastructure
  - iv. Green Energy Backup Supply requirements
- **LDC Generation Projects**
  - i. Core Expertise & Resource Scarcity
  - ii. Project Scope Management
  - iii. Manufacturing Capability – Critical Path
- **LDC Capital Program Funding Requirements**
  - i. Availability & Cost of borrowing
  - ii. Stakeholder Participation
- **Lifecycle Asset Management**
  - i. Renewable Generation asset life expectancy
  - ii. Stranding of Assets
- **Regulatory Priorities**
  - i. Clarity of Technical Specifications
  - ii. Prudency Requirements
  - iii. Certainty & Efficiency of Cost Recovery e.g. CWIP
  - iv. Appropriate Regulatory Incentives

- b. Are there specific actions the IESO should consider to assist your sector in Green Energy Act implementation?**

**Supportive IESO Actions**

- Assist with ensuring the clarity of Technical Specifications
- Assist with Standardization & Clarity of the Connection Assessment Requirements
- Assist with development of Operational Safety Protocols
- Assist with process to determine Backup Supply requirements for Green Energy Generation
- Work collaboratively with LDC's to establish system demarcation criteria and interfaces
- Lend support with regards to certainty of Regulatory Cost Recovery

## Sector Briefing Note

To: Stakeholder Advisory Committee

From: Steve Dorey – Transmitters

Date: June 3, 2009

**Subject: GREEN ENERGY ACT**

Item for table discussion

### Implications of GEA for Transmitters

The precise impacts of the new legislation on transmitters in Ontario will depend to a large extent on still-to-be-developed regulations, codes and practices.

However, a number of impacts are clear:

**1. “As a right” Connection**

Subject to economic and technical feasibility, renewable energy generators will have a right to connect to the grid across the province. This is expected to lead to a large expansion of the core transmission system and to substantial investment in technology that will enhance our ability to incorporate additional renewable power, while maintaining reliability.

The extent of the investment transmitters make will depend to a substantial degree on the delineation between “shallow” connection costs, to be borne by generation proponents, and “deep” network investments in support of renewable energy development.

**2. Service Guarantees**

The legislation requires transmitters to complete Connection Impact Assessments within a time period to be determined by regulation. The IESO will also be required to complete System Impact Assessments within a defined period. Transmitters will need to ensure they have internal or external resources to meet these timeframes, particularly if there is an initial surge of applications and will need to coordinate closely with the IESO SIA process.

**3. Smart Grid**

Transmitters and distributors will be expected to develop smart grid plans and make incremental investments to increase the intelligence and responsiveness of the system. The recent Smart Grid Forum report estimated total smart grid investment by transmitters and distributors at \$360 million per year.

**4. Streamlined Approvals**

The legislation provides for renewable energy projects and associated transmission connections to gain planning approval through joint Ministry of Environment/Ministry of Natural Resource certificates within six months of a completed application. This does not apply to major transmission projects.

For major transmission projects, we expect some streamlining to ensure that need and alternatives to proposed projects is undertaken once, not multiple times, under OEB and MOE approvals processes.

**5. Conservation**

LDCs will have increased responsibility for delivering conservation programs to their customers. It is unclear what role transmitters will be expected to play with their customers.

**6. Aboriginal Energy Investment**

The Act provides encouragement and support for aboriginal participation in renewable energy projects and the transmission and distribution projects need to enable renewable energy.

## Sector Briefing Note

To: Stakeholder Advisory Committee  
From: Paul McMillan, Gary Wight – Retailers and Marketers  
Date: June 3, 2009  
Subject: **GREEN ENERGY ACT**

Item for table discussion

**Each Stakeholder Advisory Committee member has been asked to provide this briefing note to address two questions:**

**(a) How do you see the Green Energy Act impacting your sector?**

The following are the key impacts to retailers and marketers:

1. Disconnect between HOEP Price and Feed in Tariffs Rates (“FIT Tariff”)

With the introduction of the FIT Tariff, it is expected that this will lead to a continued increase of higher priced “non-flexible” generation which must be scheduled onto the integrated system and which costs would be absorbed by the Global Adjustment account. If these prices remain to be the highest in the overall portfolio of supply to the Province, then there remains a possibility that costs associated with those found in uplift may exceed the marginal market clearing price. This could result in a phenomenon where the future price for electricity as measured by Hourly Ontario Energy Price (“HOEP”) will decrease as the level of production from renewable resources (particularly wind generation) increases. This will have an impact on the forward price values for electricity

2. Meaningful Commodity Exposure Management

Many wholesale, retail and industrial customers who have entered into proactive energy financial or physical arrangements to manage adverse impacts in their commodity costs are faced with having to absorb the impacts of a negative Global Adjustment related to Ontario Power Authority supported asset investments. The Global Adjustment is not an instrument which can be cleanly hedged.

3. Excess Base Load Generation and Intertie Access

Over the last six weeks with the significant change in load demand experienced in the Province, Excess Base Load Generation has become very significant as access to intertie markets has not been able overcome generation which is prepared to bid negative HOEP prices to maintain stable generation levels. These kinds of events are likely only to increase as a result of the impact of the Green Energy Act and could result in distorted

signals for future prices and will require the IESO to find mechanisms to enhance dispatch scheduling and place greater emphasis on Inter-tie access and commerce. The lack of dispatchable resources results in inappropriate clearing prices for assets which have the ability to respond stabilize the system.

### **Are there specific actions the IESO should consider to assist your sector in Green Energy Act implementation?**

The following actions should be considered by the IESO:

#### 1. Price Formation

The IESO should consider taking a lead role to lead work related to in working with others (OEB, OPA and Ministry of Energy) in developing and implementing structural changes that would allow the HOEP to reflect the true “all in” price of energy so that there is a greater likelihood that decisions by all consumers are made in a manner which reflects the full cost associated with the Province’s portfolio of supply, including the cost of energy attributable to the FIT which is absorbed by the Global Adjustment.

#### 2. Intertie Scheduling

Under the current supply dynamics the ability to transact at the Intertie of various markets becomes more important. With the likely of greater intermittent generation on the system, then being able to adjust to markets which can respond in a timely manner will be valuable. The IESO should review and assess with the stakeholders the need to introduce inter-hour (15 minute) dispatch schedules and 60 minute mandatory bidding windows. These adjustments would better accommodate the variability associated with green energy.

#### 3. Criticality of Forecasts

Forward price development over the next three years will be quite uncertain as the level of incremental new energy and the implementation of a “cap and trade” will affect discovery. The IESO will need to assist in developing better price transparency by being responsible for the development of a geographic specific centralized wind forecasts, determining levels of curtailment and excess base load generation, and develop meaningful forecast of the impact of the FIT Tariff.

This includes extending its forecast of supply and reliability to time frames of at least 36 months in duration along with a full disclosure of the assumptions upon which its predictions are formed.

#### 4. Consider Its Role In A “Cap and Trade” Market Environment

The IESO should consider the impact of green credits and the implementation of “Cap and Trade” on price formation and its impact to HOEP.

On February 23, Hon. George Smitherman, Minister of Energy and Infrastructure and Deputy Premier of Ontario, tabled for first reading Bill 150 - *An Act to Enact the Green Energy Act, 2009 And to Build a Green Economy, to Repeal the Energy Conservation Leadership Act, 2006 and the Energy Efficiency Act and to Amend Other Statutes*. The Act is complicated, amending no fewer than 21 statutes and making sweeping changes to Ontario's energy legislation and the responsibilities of its agencies, government Ministries, municipalities, and electricity transmitters and distributors.

On tabling the bill for first reading, the Minister said the government is "raising the bar" on its energy and environment agenda by increasing incentives and removing impediments to accelerate development of renewable energy, and promoting a culture of conservation in Ontario.

### HIGHLIGHTS

- The Act does not undo the fundamental market reforms of the Energy Competition Act, 1998, and makes only incremental changes to the legal framework enacted in the Energy Restructuring Act, 2004.
- The IESO-administered market is largely unaffected. While not perfect, the Ontario market provides opportunities for consumers who can shift consumption from high to low-price periods and confers advantages generally on consumers with better-than-average load factors.
- The objectives of the OEB (to protect consumers, to promote efficiency, etc.) remain intact. The Act contains nothing to change or undermine the basic decision-making criteria of the board with respect to setting rates that are just and reasonable. If anything, the increased emphasis on efficient demand management should provide impetus to the Board's considerations on reforming transmission and distribution rates.
- The Act proposes new instruments for the government and its agencies to develop programs and improve incentives for conservation and demand management, including directing procurements by the OPA and entering into agreements directly with consumers.
- The Act provides additional flexibility to the government in regulating which costs are recovered from which classes of customers, for example, with respect to the allocation of the Global Adjustment.
- The Act, in a number of areas, creates broad new powers for government and its agencies and imposes new obligations that, while not necessarily intended to do so, could add a significant cost and regulatory burden for business consumers. Only when regulations are developed will the intent of these provisions be clear.

### **Increasing incentives and removing impediments for renewable energy investments**

With a "feed-in tariff" (modeled after those in Denmark, Germany and Spain), the consolidation and stream-lining of permitting and approval processes into a single "renewable energy permit" and "service-time guarantees", the government aims to provide greater certainty for investors and developers of renewable power. The Act speaks to a new approach to grid infrastructure, accelerating investment in the transmission system and imposing on transmitters and distributors an obligation-to-connect for new renewable generation.

Feed in tariffs—the details of which are already under development by the Ontario Power Authority—would be available for defined renewable generating facilities: up to 10 MW for solar PV, 50 MW for

waterpower and unlimited capacity for other renewable fuels. The OPA's draft program rules propose an "economic connection test" to ensure that connection costs that borne by rate-payers are reasonable in light of the best available information regarding confirmed transmission developments and other proposed generating facilities.

As part of its stream-lining, the Province proposes to up-load municipal responsibilities for regulating such matters as "set-backs" from houses and sensitive areas for new renewable projects. The establishment of a Renewable Energy Facilitation Office is proposed to further assist investors and developers. The Act proposes a "domestic content requirement" for renewable energy and conservation products to ensure that the jobs and economic activity created by the anticipated surge in investment remain in Ontario.

### **Promoting conservation and demand management**

The Act sets out a framework to promote greater conservation by energy consumers. The Act proposes new powers for the Minister, the government and its agencies to promote conservation and demand management. The Minister would acquire the power to direct distribution companies and other licensees<sup>1</sup> to meet conservation and demand management targets. The Act would create regulatory powers to require prescribed consumers to prepare energy conservation and demand management plans, to prescribe requirements for those plans and event to require that the plans be implemented.<sup>2</sup> The Minister would obtain the authority to contract or otherwise enter into agreements to promote energy conservation.<sup>3</sup> The Minister would acquire the power the direct the OPA to undertake procurements in relation to reductions in electricity demand or measures related to conservation or the management of electricity demand, including via competitive or a non-competitive processes.<sup>4</sup>

The Act would require amendments to the Ontario Building Code, require regular reviews in future to incorporate new energy efficiency standards and provisions and create a Building Code Energy Advisory Council.

### **Increasing electricity costs**

Electricity costs to customers are likely to increase substantially in the next few years. The Act itself is not necessarily the primary cause for this. Policies to limit carbon emissions, subsidize renewable forms of energy and promote conservation are not unique to Ontario; they are a common feature in the United States and Europe. In addition much of Ontario's electricity infrastructure is—or soon will be—in need of replacement. New supplies are more expensive than existing supplies.

The question is whether the Act will cause the costs of reducing carbon emissions, increasing renewable energy production and promoting conservation to be higher in Ontario than they might be otherwise. Another question is whether the regulatory infrastructure which the Act, and the many regulations, rules, codes and directives that will flow from it, will serve to protect the interests of consumers by managing the implementation of the government's policy agenda in a way which achieves its objectives at the lowest possible cost and in the most efficient manner.

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<sup>1</sup> The Green Energy Act, 2009, Schedule D, Section 7. This provision would apply equally to all the persons set out in the Ontario Energy Board Act, 1998, Part V, Section 57, including those who "purchase electricity or ancillary services through the IESO-administered markets or directly from a generator", i.e., wholesale consumers.

<sup>2</sup> The Green Energy Act, 2009, Schedule A, Section 5.

<sup>3</sup> The Green Energy Act, 2009, Schedule A, Section 8.

<sup>4</sup> The Green Energy Act, 2009, Schedule B, Section 2.

While the Act itself does not answer these questions, the Minister's comments at first reading clarified that "Because all energy consumers would reap the benefits of an improved energy system, we want to recognize that our investments ... would be borne through energy rates." In other words, and unlike some other jurisdictions, the cost burden for the government's social and environmental objectives will not be shared with taxpayers. Premier McGuinty has acknowledged that "energy prices will most certainly increase", in part because of U.S. President Obama's stated commitment to limit carbon emissions through a cap and trade program.<sup>5</sup>

### **Protecting the interests of consumers**

While the Act proposes broad changes to Ontario's electricity law and regulation, the Act does not undo the fundamental reforms affected over the past decade and a half: breaking up Ontario Hydro and dealing with its accumulated debt, creating regulated open-access transmission and distribution systems, introducing competition in generation, and establishing an independently administered wholesale power pool. Even with its flaws, Ontario's electricity market is vastly superior to the system it replaced or any alternative which might replace it. As a price signal, the Hourly Ontario Energy Price provides an effective index of the real-time cost of supplying energy demand.<sup>6</sup>

The Act proposes to amend the objectives of the Ontario Energy Board, by adding "to promote the conservation of electricity", "to facilitate the implementation of a smart grid" and "to promote the use and generation of electricity from renewable energy sources".

The Act does not remove the objectives of the Board "to protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service" or "to promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity". These objectives—fundamentally important principles for the oversight and regulation of the electricity sector—remain intact.

Decisions of the Ontario Energy Board affect between 15 and 25 percent of a customer's bill, depending whether that customer is directly connected to the transmission grid, or takes delivery from a distribution company. The Act does not change the basic power of the Board to order just and reasonable rates. The Act does, however, increase the scope for costs incurred by regulated parties that would be subject to Board oversight, including costs related to smart grid implementation, conservation and demand management programs of distribution companies, and "such other activity as may be prescribed"<sup>7</sup>.

Industrial customers concerns' about the inequities and inefficiencies embedded in electricity rates are not new and should be familiar to many in government, its agencies and the electricity sector: (1) transmission rates currently are designed to reduce incentives for efficient demand management, to over-charge customers who shift consumption from peak to off-peak hours, and to subsidize customers who choose not to do so; (2) distribution rates contain systemic cross subsidies from industrial consumers to residential and other low-volume consumers. The Ontario Energy Board should move more swiftly to reform the allocation of costs and rates for industrial customers. At its current pace, it will take decades to achieve parity for industrial customers.

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<sup>5</sup> In a speech on February 7, 2009, to the Ottawa Chamber of Commerce.

<sup>6</sup> By obscuring these prices, the Regulated Price Plan administered by the Ontario Energy Board serves as the single largest impediment to efficient demand management for most consumers.

<sup>7</sup> The Green Energy Act, 2009, Schedule D, Section 12(1).

In AMPCO's view, the onus on the Ontario Energy Board to pursue remedies to these problems not only is unchanged by the Act but should be given additional impetus by the increasing emphasis on promoting efficiency and effectiveness in demand management.

### **The Global Adjustment**

The commodity price (the Hourly Ontario Energy Price established in the IESO-administered market) represents approximately 60 percent of a customer's bill. The balance of the bill is taken up by a variety of uplifts, surcharges and taxes, the most significant of which is the Global Adjustment.

The Global Adjustment is the difference between the total payments made to certain contracted or regulated generators and demand management projects, and any offsetting market revenues. The Global Adjustment operates like a contract for differences between contract prices and the Hourly Ontario Energy Price.

The single biggest impediment to efficient demand management at present is the regulation prescribing how the Global Adjustment is recovered from customers. Ontario Regulation 429/04 prescribes, by way of direction to the IESO, the formula to calculate the monthly Global Adjustment. The amount to be recovered from each customer is based on that customer's consumption in the month, regardless of when that consumption takes place or the cost of supplying that customer at that time. This approach runs counter to the objective of providing efficient price signals to customers and fairly allocating the costs of energy to those customers that cause them.

The Act proposes significant changes to provisions of the Electricity Act, 1998, which require the IESO, distributors and retailers to make adjustments, through billing and settlement systems, that ensure that electricity pricing reflects the cost of electricity. The proposed amendments would replace "payments by consumers" with "payments by classes of consumers in Ontario that are prescribed by regulation".<sup>8</sup> Although it is not specific, the proposed amendment offers the prospect that the government might fix the problem with the Global Adjustment by making a regulation that prescribed different payments or payment mechanisms for different classes of customers.

For more information:

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<sup>8</sup> The Green Energy Act, 2009, Schedule B, Section 6(1), amending the Electricity Act, 1998, Part II2, Section 25.33.