

Revision II – February 18, 2009: Section VIII: Schedule of Activities updated

### I. Summary

A Cost Benefit Analysis (CBA) is conducted to assess the economic efficiency impacts and reliability impacts of a proposed change to market rules, design or procedures. By quantifying all costs and benefits in monetary terms, it is possible to determine the net benefits (costs) of an option in today's dollars.

CBA may not take into account all factors that bear on the social benefits of a project. An important difference between CBA and other decision rules is that, strictly speaking, CBA considers only the implications of a project for economic efficiency, while ignoring the effects of the project on wealth distribution.

The IESO is responsible for making decisions regarding changes to market rules, market design or market procedures. When making these decisions, it is often the case, that the IESO, in effect, must balance two competing objectives of the *Electricity Restructuring Act, 2004*:

1. To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service; and
2. To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry.

However, there is little judicial guidance of how to balance these objectives when they are at odds. The lack of guidance on a decision criterion can lead to delays in the decision making process, inconsistency in decisions, and a politicized decision making process.

The IESO is seeking stakeholder input on what is the appropriate decision criterion to apply when comparing the costs and benefits of proposed changes to market rules, market procedures, or market design

This stakeholder plan has been developed to define the opportunity for stakeholder involvement in the appropriate CBA decision criterion to apply to proposed changes.

### II. Introduction

In a cost benefit analysis the benefits of a given action are summed and then the costs associated with taking that action are subtracted. Cost benefit analysis only consider the economic efficiency, while ignoring the effects of the project/change on wealth distribution. Efficiency is typically not the sole

criterion for public policy decisions. An analysis of who gains and who loses can be critical to the final decision.

As a result of stakeholder input and discussions during the peak vs. average initiative, it was determined that the issue of wealth distribution needs to be addressed before moving forward with a recommendation. As this is an issue that has arisen before and will continue to rise, a decision criterion needs to be determined by the IESO so it can proceed with any substantial changes to the market.

A paper will be produced which will provide an explanation of how distributional issues can be factored into a CBA and how efficiency improvements can ultimately affect consumers.

More information on cost benefit analysis can be found at:

[http://www.ieso.ca/imoweb/pubs/mear/CRA\\_Overview-of-Cost-Benefit-Analysis.pdf](http://www.ieso.ca/imoweb/pubs/mear/CRA_Overview-of-Cost-Benefit-Analysis.pdf)

### **III. Background**

When the IESO adopted the CBA approach, it was stated that stakeholder impacts, particularly the impact of the province's consumers would be considered and factored into the IESO's final recommendations to the Board. Along with promoting economic efficiency for the sector, a key objective defined by the Electricity Restructuring Act, 2004 is "to protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service". The IESO believe it must be mindful of this objective when reviewing significant changes to the market.

### **IV. Stakeholders**

This initiative would be of interest to all market participants. We will encourage all stakeholder sectors with an interest to participate in the process.

### **V. Decision Making Process**

All stakeholder views will be provided to the IESO management. Our decisions, along with rationale will be fully communicated to stakeholders, along with an explanation of how their input was taken into account.

The IESO will consider all input in this decision and will use this input to develop options that try to address differing points of view. Any changes may require a management decision, a Board decision, rule changes, and/or policy changes.

### **VI. Goals, Objectives, and Overall Approach**

The implementation of this stakeholder engagement plan will be in accordance with the IESO's approved [stakeholder engagement principles](#). The plan will be subject to review and update as the process evolves and stakeholder comments are incorporated, and as revisions are warranted

## Goal

The goal is to seek input from stakeholders on the public policy issue of improved market efficiency and wealth re-allocation.

## Objectives

- To gather stakeholder feedback on the decision criteria in cost-benefit analysis.

## Approach

The stakeholder engagement approach will be existing stakeholder groups and web based postings. The Market Pricing Working Group and the Stakeholder Advisory Committee will be the main stakeholder groups for this initiative.

Web-based postings provide all interested stakeholders with an efficient low-cost method to be informed with the opportunity to communicate their views via e-mail to [stakeholder.engagement@ieso.ca](mailto:stakeholder.engagement@ieso.ca). All stakeholder input will be posted on the IESO website.

## **VII. IESO Sponsor**

| Name      | Title                      | Department                                 | Phone Number | E-mail            |
|-----------|----------------------------|--|--------------|-------------------|
| Don Tench | Director, Market Evolution | Corporate Relations and Market Development | 905-855-6137 | don.tench@ieso.ca |

## **VIII. Stakeholder Engagement Schedule**

| Stakeholder Engagement Schedule  |  |                                |
|--|--|--------------------------------|
| Activity   | Expected Actions                             | Target Date for Completion     |
| 1. Post discussion paper on public policy issue of market efficiency and wealth re-allocation.                               | IESO to publish discussion paper             | Completed<br>October 20, 2008  |
| 2. Discussions with the Market Pricing Working Group regarding the appropriate decision criteria in cost benefit analysis.   | Dialogue – stakeholder input                 | Completed<br>October 29, 2008  |
| 3. Discussions with the Stakeholder Advisory Committee regarding the appropriate decision criteria in cost benefit analysis. | Dialogue – stakeholder input                 | Completed<br>October 30, 2008  |
| 4. Post and communicate stakeholder engagement plan.   | Stakeholders to provide written feedback.    | Completed<br>November 6, 2008  |
| 5. Deadline for stakeholders to provide written position on appropriate decision criteria.                                   | Dialogue – IESO to post stakeholder feedback | Completed<br>November 13, 2008 |
| 6. Deadline for written input from stakeholders on the stakeholder plan.   | IESO to post feedback from stakeholders.     | Completed<br>November 20, 2008 |

| Stakeholder Engagement Schedule   |   |                                       |
|---|---|---------------------------------------|
| Activity  | Expected Actions  | Target Date for Completion            |
| 7. IESO to provide written response to comments on appropriate decision criteria.             | IESO to post written response to comments                               | <b>Completed</b><br>November 27, 2008 |
| 8. Posting of revised stakeholder plan incorporating feedback from stakeholders, if required. | IESO to publish revised stakeholder plan                                | <b>Completed</b><br>November 27, 2008 |
| 9. Post updated discussion paper.   | IESO to publish revised paper   | <b>Completed</b><br>November 27, 2008 |
| 10. Feedback from Stakeholder Advisory Committee members                                      | Deliberation –stakeholders to provide input                             | 4 <sup>th</sup> Quarter 2008          |
| 11. Final <del>decision</del> <b>outcome</b> posted and communicated.                         | IESO to post <b>and communicate final outcome</b> <del>decision</del> . | <b>February 4, 2009</b>               |