

October 6, 2016

Mr. David Butters
President & CEO
APPrO
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Re: Generation Cost Guarantee Market Rule Amendment

Thank you for your letters dated July 18, September 6 and September 20, 2016 expressing the concerns of your membership related to the proposed rule changes clarifying the framework for the recovery of certain incremental start-up costs that meet the eligibility criteria under the Real-Time Generation Cost Guarantee (RT-GCG) program.

As you know, there have been active discussions with your members and other interested stakeholders stretching back over that period – and considerably earlier – and throughout IESO staff have been attempting to address the issues raised in the course of that process. However, with apologies for not formally responding earlier on behalf of Dr. O’Neill and myself, I would like to address some of the specific issues you have raised in your correspondence. In particular, I take issue with your characterization that the IESO has acted in a manner that “lacks transparency and is misleading.”

Purpose of Engagement

The IESO has been clear from the outset that the purpose of the RT-GCG stakeholder engagement and associated market rule amendments is to create a better understanding of the incremental costs eligible to be submitted for recovery under the program and reduce the scope and frequency of audits for those participating in it. The drivers for these changes were clearly outlined to all stakeholders in the October 1, 2015 Stakeholder Engagement Plan for this initiative. In that document, the IESO noted:

“Over time, the RT-GCG program has been the subject of several Market Surveillance Panel (“MSP”) reports relating to cost submissions and payments and recently the IESO has carried out a number of audits in this area. Based upon findings in these audits, feedback from program participants and past recommendations from the MSP, the IESO is proposing changes to elements of the RT-GCG program.”

Proposed Changes

The current program relies on after-the-fact cost submissions and subsequent auditing to verify cost. This framework has been found to be burdensome for both the participants and the IESO. The IESO has also identified that it is unclear to participants at times as to what types and allocation of costs are eligible for recovery under the RT-GCG program.

The objective of this initiative is to develop a more clearly defined and transparent cost-recovery framework; one that also reduces the scope and frequency of audits related to this program. The IESO intends to achieve this by:

- *Further defining costs that are eligible for recovery through the RT-GCG program.*
- *Determining specific pre-approved values for each incremental cost component, for each resource, where reasonably possible.*
- *Establishing an approved methodology to be used by program participants when calculating and submitting incremental costs, where pre-approved values cannot be established.*
- *Defining cost components that are subject to audit.*
- *Defining a strategy that ensures a fair transition when the cost recovery framework is changed.”¹*

The essence of the changes being pursued through the process have remained clear and consistent, as evidenced by the following excerpts from the MR-00425 Real-Time Generation Cost Guarantee Market Rule Amendment Proposal recently reviewed by the Technical Panel:

Summary

The IESO proposed to amend the market rules to enable a new cost recovery framework for the real-time generation cost guarantee (RT-GCG) program. The changes are expected to increase the transparency of costs eligible to be submitted by market participants for recovery under the program, as well as reduce the scope and frequency of audits.

This proposal is based on the RT-GCG Program Cost Recovery Framework stakeholder engagement.

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Discussion

The objective of this amendment is to establish a transparent cost recovery mechanism that reduces the scope and frequency of audits related to the RT-GCG program. Through stakeholder engagement and consulting with independent industry experts, the IESO has determined that the objective will be achieved by implementing either universal or facility-specific, pre-approved cost values and methodologies in order to calculate the incremental costs eligible for recovery under the RT-GCG program.

¹ <http://www.ieso.ca/Documents/consult/RTGCG/RTGCG-20160114-Stakeholder-Engagement-Plan-Final.pdf> p.2

The GCG audit program referred to clearly demonstrated that certain RT-GCG program participants have submitted and recovered on an interim basis, pending the completion of audits, ineligible costs. The amounts in question are not trivial, with substantial recovery from RT-GCG program participants for cost submissions that were not eligible under the program. Additional audits remain on-going and the IESO will continue its efforts to secure ratepayer value by ensuring that only eligible costs are retained by program participants. The Market Rule and the associated Market Manual are intended to alleviate that audit burden going forward by bringing better definition to the scope of costs eligible for reimbursement.

The IESO has made a concerted and deliberate effort to ensure all viewpoints are heard, considered and responded to in evolving the revised GCG framework. While I understand that your members may believe that a higher or broader scope of costs should be eligible, the IESO's goal has simply been to re-establish the cost framework on which the program was based, and implement a clear and administratively efficient process for its administration. As has always been the case, for those who feel the eligible costs are not sufficient, participation in the program is optional.

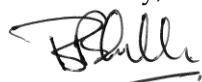
Next Steps

I recognize the concerns raised in respect of the development of the Market Manuals. As indicated at the September 13 Technical Panel meeting, the IESO has now scheduled a stakeholder engagement meeting for next week to review and discuss the draft market manuals prior to further discussion of the market rule amendment at the Technical Panel.

I am also aware that Generator representatives on the Technical Panel have expressed concerns about the determination of resource-specific values under the framework. The IESO will continue to meet with registered RT-GCG participants on a one-on-one basis as they come forward with their individual completed cost submissions. However, determining the specific values will take some time to finalize and should not preclude the development of market rules. To that end, the IESO expects to take the rule amendment back to Technical Panel for further discussion at a future meeting. We are satisfied that the proposed market rule amendments are within the established authorities of the IESO, and will update the Board on this matter at its October meeting.

In closing, both Dr. O'Neill and I would like to acknowledge the participation of your members in addressing these issues, and we have instructed IESO staff to bring this item forward for discussion at the next Stakeholder Advisory Committee meeting on October 19. In that regard, your letters and this response will be included in the materials posted to support the SAC discussion.

Yours truly,



Bruce B. Campbell

c: Dr. Timothy O'Neill