# IESO Technical Panel Meeting

# Minutes of Meeting

| **Date held:** February 14, 2017 | **Time held:** 9:00 am | **Location held:** IESO Office, Toronto |
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| **Invited/Attended** | **Company Name** | **Attendance Status** (A)ttended; (R)egrets |
| **Panel Members** | | |
| David Dent | Natural Gas Representative | A |
| Barbara Ellard | IESO Representative | A |
| Brian Kelly | Generator Representative | A |
| Robert Lake | Residential Consumer Rep. | Via Teleconference |
| Martin Longlade | Industrial Consumer Rep. | Via Teleconference |
| Luis Marti | Transmitter Representative | R |
| Peter Rowles | Commercial Consumer Rep. | Via Teleconference |
| Bill Wilbur | Generator Representative | A |
| Chuck Farmer | Chair | A |
| **Observers/ Presenters** | | |
| Hamlet Alexanian | IESO | A |
| Adel Ali | General Motors | Via Teleconference |
| Tyler Balding | AMP Solar Group | Via Teleconference |
| Frederic Belanger | HQ Energy | Via Teleconference |
| Jeannette Briggs | IESO | A |
| Dave Brown | OEB | A |
| Jo Chung | IESO | A |
| Robin Doolittle | RBC Capital Markets | Via Teleconference |
| Josh Duru | IESO | A |
| Margaret Kuntz | TransCanada Energy | Via Teleconference |
| Reena Goyal | IESO | A |
| Ryan King | IESO | A |
| Paul Luukkonen | AMP Solar Group | Via Teleconference |
| Anthony Martinello | IESO | A |
| Darren Matsugu | IESO | A |
| Herman Mo | OPG | A |
| Rebecca Short | IESO | A |
| Mark Tinkler | Customized Energy Solutions | A |
| Candice Trickey | IESO | A |
| Jennifer Xu | Bruce Power | Via Teleconference |
| **Secretariat** | | |
| Susan Harrison | IESO | A |
| John Rattray | IESO | A |
| Please report any corrections, additions, or deletions to these Minutes by email to engagement@ieso.ca. | | |

All meeting material is available on the Technical Panel webpage on the IESO web site.

**Agenda Item 1: Administration and Agenda**

Chair's Remarks:
The Chair welcomed participants and reminded them of the resignations of two members, Shelly Cunningham and Paul Huebener, noting that the Technical Panel will now have six vacant spots to fill: One for a generator representative, one for a distributor representative, one representing other market participants and three for non-market participants representing consumers and energy-related businesses and services. A call for nominations has taken place, and successful candidates will be presented to the IESO Board ahead of an announcement anticipated by mid-March. In response to a participant's question, the Chair said the IESO is quite encouraged by the number and mix of candidates.

Members met in camera in January to discuss the results of the Panel's self-assessment survey as well as plans for 2017 agenda items, particularly what will be expected within the Market Renewal project including education and management of proposed rule amendments. With respect to market renewal, the Chair reported that the Panel is still finalizing the benefits case and discussing governance issues with the Market Renewal Working Group. The Chair also reported that related resource requirements were included in an updated 2017 business plan that has been submitted to the Minister. Once the business plan is approved, the plan will be filed with the Ontario Energy Board.

With a number of very large rule sets coming for consideration, education will be an essential element of the market renewal engagement process. The Chair reiterated discussions in January in that members said input will likely include perspectives from other jurisdictions, enabling Panel members to share and learn from any similarities with or differences from the Ontario experience. The Stakeholder Advisory Committee has also been exploring the educational requirements for Market Renewal.

The IESO is also considering options to strengthen the flow of information between the Market Renewal Working Group and the Technical Panel, the Chair said. Julian Wu's presence on both the Technical Panel and Market Renewal Working Group will be one pathway for information-sharing.

Once the market renewal project gets under way, the Technical Panel can expect a significant flow of information, including significant sets of rule packages in 2018 or 2019. At that point, an increase in the frequency of Panel meetings to accommodate the increased volume of business may need to be considered.

Mr. Dent asked when the education process for Market Renewal might begin. The Chair suggested a launch in Q2, 2017 and undertook to pursue the conversation within the IESO. He said the IESO already has a considerable volume of stakeholder education content on hand, as well as staff who can lead the discussion.

The Chair reminded participants that the meeting would be conducted under the Panel's new Terms of Reference and explained the small changes in process involved including the opportunity for observers to provide comment or ask questions as well as the changes to the process regarding a vote for warrants consideration.

Agenda Review:
The Panel unanimously approved the agenda.

**Agenda Item 2: Stakeholder Engagement Update**

Ms. Harrison reported that a webinar was held on January 27 within the Enabling System Flexibility engagement initiative. The webinar outlined for discussion the characteristics of flexible resources and the activities the IESO is undertaking to address them in the near term. Feedback from that discussion was invited and will be available on the IESO website.

With respect to the Market Renewal initiative, the Chair reported that the Working Group is continuing its work on structure, roles, responsibilities, and terms of reference, with a meeting scheduled for February 24 to consider incoming feedback. A broader engagement that same day will be an opportunity for the IESO to respond to incoming stakeholder feedback on the benefits case.

Mr. Wilbur requested details of the Market Renewal project approval process. The Chair said the Minister had asked the IESO to resubmit its 2017 business plan with the resources required to conduct the Market Renewal process. The revision was submitted February 1. The Chair clarified that the additional resources in the revised plan will be considered a part of the IESO's fees base.

Ms. Harrison added that upcoming Market Renewal education sessions had been scheduled for February 15 and 22.

The Conservation Framework Mid-Term Review Advisory Group had scheduled its first meeting for February 23 to discuss the scope of the review framework. The group consists of five LDC, five consumers and two service provider representatives.

The IESO launched an Interim Market Document Change (IMDC) process engagement initiative. A webinar was held on January 19 to seek input on the process. Ms. Harrison noted that initial feedback focused on the transparency and criteria used in this process. Feedback is available on the engagement webpage and the IESO will respond shortly.

The IESO's new Grid-LDC Interoperability Standing Committee is expected to hold its first meeting in early March. The committee has been established to discuss opportunities for more coordinated system operations, increase awareness of upcoming system changes at both the grid and distribution levels, build better understanding of system impacts and opportunities and identify existing capabilities that can be leveraged to maximize efficiency.

Ms. Harrison reported that the Demand Response Working Group met on January 31 to continue exploring and prioritizing opportunities related to the demand response auction. The Technical Panel will be kept up to date on these discussions.

There were no questions from Panel members or observers.

**Agenda Item 3: Prudential Support Obligations**

| **Prudential Support – Revisions to Reductions in Demand Response Prudential Support Obligations, Interest Payments on Cash Deposits (MR-00430)** | |
|---|---|
| Presenters | Anthony Martinello, Rebecca Short |
| Action | Review amendment proposal and vote to post for broader stakeholder comment |

Anthony Martinello, Senior Manager, Treasury and Pension at IESO, provided background on the prudential framework, reviewed the main topics raised through stakeholder engagement and presented recommendations for market rule changes. He recapped the three objectives behind the prudential support obligations for debtors and net debtors in the market: fairness to all market participants, balance in mitigating the costs of providing collateral, and transparency on the credit risks borne by market participants. He noted that if a loss is incurred that exceeds the available collateral then the IESO imposes default levies across the market to recover costs.

The market rules call for a triennial review of prudential support obligations. During the 2016 review, stakeholders raised questions about the use of surety bonds in lieu of letters of credit, but after in-house and external expert review the IESO concluded that the bonds would not be an acceptable form of credit for a system that must be able to count on payment upon demand.

Stakeholders also asked whether good payment history (GPH) could be placed on a par with credit ratings as a basis for collateral reductions. The IESO does provide GPH reductions for both LDC and non-LDC market participants, but declined the request for parity after determining that good payment history is not a proxy for credit ratings issued by independent third-party agencies. In at least one instance, Mr. Martinello said, the discussion prompted an LDC to obtain a credit rating for the first time - a decision that enabled it to post zero collateral with the IESO and reap other business benefits as well.

One stakeholder recommended pooling LDC risks as a way to give market participants a price break on collateral and insurance underwriting. LDCs supported the request. However, after extensive review, the IESO concluded that pooling of risk would go against the principle of market fairness by transferring risks to non-LDCs and LDCs outside the pool.

One stakeholder recommended that the IESO shift the balance between collateral and risk in a way that would reduce costs for some entities, but increase that probability of a default requiring recovery across the system. The IESO decided to maintain the current balance, recognizing that credit cycles and default rates tend to rise and fall over time.

Some market participants recommended that the IESO exempt the demand response auction participants from any requirement for collateral deposits. The IESO concluded that the practice of requiring deposits before an auction takes place is an important feature in ensuring that bidders are serious contenders, thereby mitigating the risk that auction participants might be gaming the auction. The deposit also provides an incentive for demand response providers to expedite their requirements ahead of the commitment period.

The IESO recommended a minor rule change to adapt the current demand response requirements for non-LDCs to cover any LDCs that enter demand response auctions. The IESO also recommended that the IESO eliminate interest payments on the small number of prudential deposits that market participants have provided in cash. The deposits, which were grandfathered when the IESO stopped accepting cash in 2004, total about $200,000 including about $140,000 from one early entrant that has never played an active role in the market.

Mr. Longlade asked why it was necessary to eliminate interest payments if the IESO is also collecting interest on the deposits it holds. Mr. Martinello described the administrative burden that results from collecting interest on the deposits, adding that the stakeholder process had produced no contrary feedback on the interest proposal—not even from the large depositor he had described. He said the new provision would also apply to treasury bills that are converted to cash when they mature, although market participants almost invariably renew their treasury bills when they come up.

Mr. Kelly asked for details on default levies and surety bonds. Mr. Martinello described the process the IESO follows when a market participant goes into default or enters bankruptcy: a defaulting market participant is not obligated to pay any amounts owing up to the filing date. The IESO first taps any available pre-payments from amounts owing, and then applies the participant's collateral to make up any shortfalls, before apportioning any remaining bad debt among market participants. He explained that a surety bond would take the form of a three-way contract between the IESO, the market participant, and an insurer—but just as home insurance is no guarantee that a future claim will actually be honoured, he said a surety bond could be subject to delays or adjustments that wouldn't apply to a collateral deposit. For a system that requires payment on demand as a market pillar, that's a crucial difference.

Mr. Kelly asked for details on default rates over the last five years and on the largest default the market had ever seen. Mr. Martinello said the IESO had two market participants in creditor protection at the moment, both of them large industrials with enough pre-payments to cover pre-filing amounts owing. He said the market's largest loss was in the range of $5 to $6 million. Nearly 20 market participants have faced serious financial difficulties since the financial downturn in 2008, but not all of them triggered default levies.

Mr. Lake indicated that Local Distribution Companies (LDC) had the availability to use tax rolls to recover unpaid amounts. He asked whether this had any value to the IESO. Mr. Martinello said legal counsel had advised him that the IESO has no special priority among creditors in the event that a market participant files for bankruptcy - and even if it did, it would create a new set of challenges if the IESO had to recover costs by taking over the property of a large industrial market participant as collateral. Mr. Rattray agreed that such a process would often involve brownfield sites with significant environmental concerns and liabilities. Even if the IESO had legal authority to proceed in this direction, it would not be a practical solution in the event of a default by a large industrial consumer.

Mr. Dent asked how much the IESO budgets for annual losses. Mr. Martinello explained that the system relies on a model, developed by Navigant Consulting, which presumes an average of $10 million in losses per year. In practice, that average could translate into no losses in an entire year, followed by $15 million per year over the next two. Based on actual market performance, he said, the IESO has reduced collateral requirements by $400 million since 2007.

Mr. Wu asked whether the IESO has had the same experience with generators and marketers. Mr. Martinello said generators aren't immune to bankruptcy, and while he'd never seen one of them fail to pay a bill, it could happen in theory. He said the Market Renewal Working Group would be considering a new prudential framework to address issues specific to generators and the capacity market.

There were no further questions from Panel members, and none from observers.

> **The Panel voted unanimously to post the proposed rule amendments for prudential support obligations for stakeholder comment.**

**Agenda Item 4: Minor Rule Amendment Omnibus 2017**

| **Minor Amendment Omnibus 2017 (MR-00429)** | |
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| Presenters: | Peter Wiebe, Josh Duru |
| Action: | Review amendment submission, vote to determine that amendment warrants consideration; also vote to post for broader stakeholder comment |

IESO Market Rules Analyst Josh Duru presented a series of minor rule amendments, aimed at correcting cross-references and eliminating redundancies identified in the market rules.

There were no questions from Panel members or observers.

**The Panel voted unanimously that the Minor Rule amendment Omnibus for 2017 warrants consideration.**

**The Panel voted unanimously to post the Minor Rule Amendment Omnibus 2017 for stakeholder comment.**

**Agenda Item 5: Real-Time Generation Cost Guarantee Program Cost Recovery Framework**

| **Real-Time Generation Cost Guarantee – Cost Recovery Framework (MR-00425)** | |
|---|---|
| Presenters: | Candice Trickey, Jo Chung |
| Action: | Review amendment proposal and vote to post for broader stakeholder comment |

The Chair summarized the long history of this discussion item and introduced Candice Trickey, the IESO's Senior Manager, Market Settlements, for an update on the most recent discussions with stakeholders including the progress, resource-specific value development progress and changes to the rule amendments. She noted that the IESO had held two stakeholder engagement meetings since the Panel last considered the topic in September 2016, released a full draft of the market manual in October and initiated discussions on resource-specific planned maintenance values in October and December. In December, as well, the IESO presented proposals to address all open stakeholder questions, along with proposed changes to market rule language.

Ms. Trickey led Panel members through a series of specific revisions to the draft market rule amendments on costs related to cap and trade, and operations and maintenance. Market Participants seem comfortable with the changes related to cap and trade but some generators continue to have concerns with the treatment of planned maintenance costs. However, she said the IESO has received good cooperation from many of the entities. Out of 13 market participants involved in the discussion, six have had one-on-one discussions to address outstanding issues related to resource-specific values, and another three should reach that point in the next few weeks to a month. The remaining four have not yet provided sufficient data but have committed to doing so.

Mr. Wilbur asked how many generators had received IESO assessments of their resource-specific values. Ms. Trickey responded that out of thirteen companies, six have been provided their assessments and have met with the IESO, with three meetings scheduled in the next few weeks. Four companies which remain have not provided sufficient information. Mr. Wilbur asked how the IESO saw the process concluding. Ms. Trickey said the intent was to collect all the necessary cost information, verify which costs are eligible, reasonable and sufficiently substantiated and then provide a report that details this assessment and draft pre-approved values for planned maintenance costs for each facility. When the market rules and manuals needed to enable the new cost recovery framework are effective, the IESO can confirm final values for each participant. She acknowledged there might not always be full agreement on the end result and that participants may use the dispute resolution process if they disagree with any of the pre-approved values.

Ms. Trickey said the IESO had acknowledged the need to revise the draft market rule amendments to clarify the eligibility of different planned maintenance costs. The revision introduces "wear and tear" as a concept that allows for differences in the way individual market participants plan and pay for equipment maintenance. The new language is intended to address the IESO's need for market rules based on a precise determination of the costs incurred during the eligible period.

Mr. Kelly asked what the recourse mechanism was if a participant disagreed with a pre-approved value. Ms. Trickey responded that the dispute resolution process was the recourse mechanism.

Mr. Kelly asked for more details on the "wear and tear" definition, and asked where it came from. Ms. Trickey confirmed that the new language was introduced at the December 15 stakeholder session and the IESO drafted the definition with its external technical consultants and has since made some edits based on stakeholder feedback. Feedback from stakeholders also led to a revision that replaced "damage" with "useful life consumption". The IESO welcomes feedback on the latest round of drafting.

The other market rule amendment defines generators' eligible costs related to Ontario's new carbon cap and trade program.

Ms. Trickey said the IESO was recommending that the Technical Panel post the latest draft of the market rule for stakeholder comment while discussions with individual generators continue. At the Panel's March 21 meeting, pending stakeholder feedback, the IESO expects to bring this back for a vote to recommend the market rule amendment to the Board. If the amendment receives Board approval, staff will discuss next steps with stakeholders, ahead of implementation and in coordination with the Market Manual and IT release schedules in June 2017.

Mr. Dent asked why the IESO had received only partial information from some generators. Ms. Trickey acknowledged the effort required from generators and noted that the flow of incoming information had accelerated in recent weeks.

Mr. Dent asked whether the definition of wear and tear during start-up would include costs incurred during another time period. Ms. Trickey said the overall intent was to replace the existing process—in which generators submitted their costs, then the IESO assessed them—with an approach that anticipates costs and sets a per-start-up value, so that generators can routinely claim allowable expenses based on a common definition.

Mr. Kelly said he had sensed frustration from the generating community around the transparency of the IESO's methodology for arriving at its cost formula and what percentage was associated with start-up versus operations. Ms. Trickey acknowledged the complexity of the process, adding that IESO staff has been working hard to answer questions and give generators a clear, specific view of the calculations behind their final formulae during the one-on-one meetings. During the development, the IESO offered generators a choice of two calculation methodologies to maximize flexibility as the parties move to a standardized system. The IESO's commitment to transparency includes publishing the report from Hatch that served as a technical reference for the calculations.

Mr. Kelly asked whether generators are receiving full details on the way "wear and tear" related the start-up cost formulae were derived. Ms. Trickey said the IESO is sharing the numbers behind the formulae with individual entities and is being clear and transparent about the way in which the calculations are applied.

Mr. Wilbur commented that companies without a CSA are being disadvantaged due to the way the IESO is determining incremental costs where labour costs cannot be recovered.

Mr. Wilbur asked whether the interpretation of start-up costs would put generators at a disadvantage and listed three critical elements in finalizing this process: the market rule language, the market manual language, and the results of the discussions with generators. While he acknowledged progress in those discussions, he said the one-on-one process should conclude before the draft market rule is posted for stakeholder comment. Mr. Kelly said that following the previous vote in September, the IESO has introduced the concept of "wear and tear" and is now meeting with generators one-on-one. Progress is being made and the IESO is doing the right thing by meeting with individual generators, and noted that the generators feel that discussions are just beginning and have not yet concluded.

There were no further comments from Panel members, and no comments from observers.

> **Panel members voted in favour, by majority, to post the proposed market rule language for broader stakeholder comment,** as follows:
> For: Mr. Dent, Ms. Ellard, Mr. Lake, Mr. Longlade, Mr. Marti, Mr. Rowles
> Against: Mr. Kelly, Mr. Wilbur
> Abstention: Mr. Wu

Mr. Wu explained that he had abstained on the vote because it was not directly pertinent to his stakeholder community, and because given this was his first meeting as a Panel member he didn`t feel prepared for the issue.

**Agenda Item 6: Other Business**

Mr. Lake expressed concern about audibility of the session for remote participants, noting that the teleconferencing system was picking up random sound from the meeting room.

The meeting adjourned at 10:45 AM.

**Next Panel Meeting:** Tuesday, March 21, 2017

| Action Item Summary | | | | |
|---|---|---|---|---|
| # | Date | Action | Status | Comments |
| AI 294-1 | December 1, 2015 | The IESO will provide an update to the Panel regarding the potential timelines and impacts of changing the reference to the OPA within Chapter 1 of the General Conduct Rule. | Open | |