

1 are not closely related to the normal cost allocation classification factors of demand, energy
2 and customers.

3 Despite the challenges identified above, Elenchus developed a methodology that would
4 allow the IESO's costs to be parsed in the manner required to conduct a cost allocation
5 study. As IESO departments are typically based on the function they perform,
6 departmental costs were allocated based on whether the department's functions were seen
7 to be triggered by domestic customers, export customers, or both. The IESO and Elenchus
8 recognize that this method is not what is used for a traditional cost allocation study where
9 assets are typically allocated to the various customer classes based on causality.

10 Nevertheless, the work was completed in order to be responsive to previous guidance from
11 the Board in its decision of August 10, 2011 (EB-2010-0279).

12 As provided in Exhibit B-1-1, Attachment 4, the Elenchus cost allocation model was rerun
13 with forecast 2016 volumes and the IESO's 2016 budget. The IESO expected the outputs of
14 the model for 2016 to be similar to those from 2015 as the work to be performed by the
15 IESO is not expected to change dramatically in 2016. However, the outputs were
16 significantly different from those produced using 2015 figures. Specifically, a 1% change in
17 exports as a percentage of domestic volumes between 2015 and 2016 resulted in a
18 5% change in the resulting revenue to cost ratio. This clearly demonstrates that slight
19 variations in exports as a percentage of total withdrawals, have a disproportionate impact
20 on the results from the model. The IESO and Elenchus recognize that sensitivity to year-
21 over-year changes in forecast energy volumes, including volumes that are driven primarily
22 by the value of electricity in neighboring markets, illustrates that the model used by
23 Elenchus to produce the IESO's cost allocation study is not robust. Variances in Ontario
24 demand or export volumes, such as those captured in the forecast change between 2015

1 and 2016, do not impact the IESO's work or costs. The IESO's activities do not fluctuate in
2 the short run or the long run based on domestic and export volumes, and there is no
3 discernible link between domestic and export volumes and work levels/expenditures at the
4 IESO. For example, the number of staff in the control room does not increase or decrease
5 based on the forecast volume of exports. For clarity, the IESO focuses its efforts on
6 ensuring efficient trade for the overall benefit of the market. This role involves essentially
7 fixed costs that are an overhead for the Ontario electricity system.

8 While the results of the updated cost allocation study indicate that the revenue to cost
9 ratios are within the range approved by the Board for electricity distributors, the IESO
10 continues to believe that a traditional cost allocation model should not be relied on as a
11 basis for setting the IESO fee. The IESO does not believe a traditional cost allocation model
12 is the appropriate tool to examine or support how the IESO fee is set as it is not
13 representative of cost causality within the IESO.

14 To summarize, the IESO does not believe a traditional cost allocation model is appropriate
15 for the IESO as:

- 16 • Small changes to the inputs result in dramatically different outputs when the
17 amount and type of work performed by the IESO has not altered. This indicates
18 there is a lack of cost causality between the model and the operations of the IESO.
- 19 • All costs for the IESO had to be allocated by department based strictly on judgment
20 rather than based on the customer class the assets served (as an LDC would do with
21 the majority of its costs).

22 The IESO continues to believe that it is appropriate to move to a single IESO usage fee to be
23 charged equally to all market participants, and that this proposal should be accepted on its
24 own merits. As both domestic and export customers benefit from the work that the IESO
25 carries out, and the IESO performs its work equally for the benefit of all market

1 participants, both domestic and export customers should pay equally for the work
2 performed by the IESO. The work planned for and performed by the IESO is not
3 dependent or related to the participation level of an individual market participant or a
4 'class' or type of market participant, and this work serves all types of customers. The
5 Ontario electricity system is not designed or operated for one particular market participant
6 type. The IESO cannot accept the premise that if the system was not specifically built for
7 one particular class of customer, they shouldn't pay for it. The Ontario electricity system,
8 planned and operated by the IESO, is an integrated framework – it includes multiple
9 resources with different operating characteristics – demand response, nuclear generation,
10 wind generation, gas generation, etc. - transmission lines, interconnections, and the control
11 centre. Given the integrated nature of the system, the IESO's costs cannot be separated in
12 an accurate or administratively simple manner, and therefore, the IESO believes it is
13 appropriate to charge all market participants one fee on a similar basis to how the IESO has
14 historically charged its fee.