

IESO Response to Stakeholder Feedback

Cost Recovery for Integrating System Changes – September 30, 2021

Following the July 22, 2021 Cost Recovery for Integrating System Changes stakeholder engagement webinar, the IESO invited stakeholders to provide comments and feedback on the materials presented by August 12, 2021.

The IESO received written feedback submissions from:

1. Ontario Power Generation (OPG)
2. Power Workers Union (PWU)

The presentation materials and stakeholder feedback submissions have been posted on the IESO stakeholder [engagement webpage](#) for this engagement. Please reference the material for specific feedback as the below information provides excerpts and/or a summary only.

For context, the topics below are taken from slide 17 from the July 22, 2021 [presentation](#) posted on the [engagement webpage](#).

Topic 1 - Are there any factors the IESO should consider when deciding on how to apply fees for various types of activities (e.g., fixed rate vs. hourly rate)?

Feedback

- OPG: The costs associated with the new Reliable Integration activities should be based on the scope of the changes requested. Some work (often submitted as part of a “blanket SIA”) has little or no impact on grid reliability (e.g., like-for-like replacement of breakers, disconnect switches, or transformers that undergo regular maintenance), and the fixed rate may be more costly than an hourly one. Participants should have the option to choose between hourly and fixed billing, based on estimates provided by the IESO prior to the initiation of the task.
- PWU: Yes, ensure that ratepayers are not being charged for any integration activities performed by proponents. See recommendations #1, #2, and #4.

IESO Response

Given that the overall effort required to integrate a change is highly dependent on the complexity of the project, the quality of data provided to the IESO, and other factors, as presented during the engagement session, the IESO intends to apply hourly rates for all subject activities. Currently there is not sufficient information available to accurately determine what activities could be transferred to fixed rates while keeping true to the principle of reduced cross-subsidization. In the future, if some integration activities are found to fall within a sufficiently narrow price range irrespective of the proponent, type of project or type of equipment, the IESO may consider converting those activities to fixed rates.

Topic 2 – What invoice timing (e.g., end of each work phase vs. periodically) would be most appropriate?

Feedback

- OPG: OPG would prefer to receive invoices at the end of each phase for validity/traceability and planning purposes.
- PWU: Invoice should be upfront before project has been built so proponents are aware of full cost before making decisions. See recommendation #3.

IESO Response

The IESO agrees that, for validity/traceability, invoices should be sent at the end of each phase; for projects that require an SIA the IESO will continue to send the invoice at the end of the connection assessment phase, after the final SIA package is issued. For projects that undergo the integration phase, the invoice will be sent when the integration phase is finalized. Proponents have the option to request updates for the cost accumulated for their project at any time during the process.

For both SIA and integration, the final cost is known only after all work is complete, therefore invoices cannot be issued in advance.

Topic 3 – Are there any specific considerations that should be incorporated into the implementation approach for the new fees?

Feedback

- OPG: In the event that the IESO requires changes to existing equipment, participants should not be charged under “Reliability Integration” for any required RANs or updates to IESO databases and tools. As an example, registration changes required to comply with new Market.
- PWU: Yes, ensure that all system impacts of new/modified connections are accounted for, including the impacts of small connections (DER) on aggregate. See recommendation #1.

IESO Response

The IESO intends to perform certain “bulk updates” to support the implementation of the Market Renewal Project. Given that these updates are not directly related to changes being requested by proponents, the IESO will not seek to recover these costs from individual proponents. The IESO does however intent to recover costs associated with integrating discretionary changes to existing equipment related to complying with the Market Rules and applicable reliability standards.

The proposed cost recovery will apply to all proponents consistently. As is the case today, the IESO will continue to assess the potential impact of Distributed Energy Resources (DERs) on the reliability of the integrated power system and where integration work is required, the costs will be recovered from the market or program participant that caused or enabled the change. Aggregation of small connections that intend to provide services on the wholesale markets will be treated like any other resource and will be subject to cost recovery.

Topic 4 – Do any special considerations exist for specific groups of proponents?

Feedback

- OPG: The cost recovery of assessments should be based on the framework applicable at the time the task was initiated. That is, tasks initiated or in progress prior to the implementation date of the new cost recovery framework should be charged according to the current framework.
- PWU: No, the IESO should ensure all proponents pay the full cost for their integration activities.

IESO Response

The IESO intends to charge for integration activities that are initiated after the market manual is approved. Inflight activities at the time of the market manual changes will continue under the existing framework.

General Comments/Feedback

PWU provided the following additional recommendations:

PWU Recommendation #1: Consider the cost implications of system integration beyond the identified Reliable Integration activities.

IESO Response: This engagement is related to the defined scope that was presented. The potential to recover cost for other activities may be considered in the future.

PWU Recommendation #2: Consider raising the administration fee to address materiality concerns.

IESO Response: The IESO will consider reviewing the applicability and magnitude of the administration fee in light of the broader changes being made to the cost recovery framework, taking into account the magnitude and other administrative considerations.

PWU Recommendation #3: Increase the cost certainty of the process by providing higher upfront average process costs.

IESO Response: For costs related to integration, the IESO does not intend to require deposits, instead invoices will be issued upon completion of each major phase of the integration process.

PWU Recommendation #4: Embed deregistration fees in the upfront costs.

IESO Response: It is not practical to include estimated deregistration costs upfront as they have the potential to unreasonably increase the cost of integration. The deregistration costs are unknown because the studies required to ensure grid reliability upon deregistration of an asset are dependent on the system conditions at the time the deregistration request is received, that can be significantly different from when the same asset was integrated. Plus, a majority of assets (hydroelectric generation, transmission equipment, transformer stations supplying cities, etc.) have very long life spans, so the money paid upfront will not be used for a very long time. Related to that, by including deregistration fees in the integration cost some long-lived projects are likely to end up paying for their own deregistration multiple times as they undergo expansions, upgrades and refurbishments.

Questions

Stakeholders also asked several questions as part of the feedback, as follows:

1. At the July 22nd stakeholder webinar, in response to a market participant question, IESO staff stated that the IESO would be liable for any errors and omissions made during the assessment process, but that the IESO does not currently have an insurance policy covering such errors. Chapter 1 Section 13.1 of the Market Rules was recently amended to state that the IESO is liable only for errors and omissions of gross negligence (previous Market Rules Cost Recovery for Integrating System Changes 22/July/2021 included liability for general negligence) in order for the IESO to match its liability to available insurance policies. In light of the above, and in the context of professional services, could the IESO please clarify the following:

- a) Can the IESO confirm it is liable for errors and omissions related to only gross negligence and not general negligence?
- b) Does the IESO currently have insurance for errors and omissions related to gross negligence; if not, what is the IESO's approach of funding claims against the IESO, if successful.
- c) When the IESO was unable to find general errors and omissions insurance in 2020 (as stated in stakeholder engagement materials), did the IESO pursue general errors and omissions insurance specific to professional services?

IESO Response: The IESO does have an Errors & Omissions/Professional Liability insurance policy that provides coverage to the IESO in respect of gross negligence. Please note that this question relates directly to a recent stakeholder engagement called [Options to Address Uninsured Liability Risk](#), which has concluded and a final engagement summary report is available. As you will see from those materials, the IESO Board of Directors adopted the proposal to amend Ch.1, Section 13.1 of the market rules to limit the IESO indemnity to losses caused by gross negligence (rather than negligence). The amendment took effect on May 3, 2021 and professional services provided by the IESO are included in scope. As stated in this prior engagement initiative, the IESO conducted an exhaustive and rigorous search for insurance options in 2020.

2. Please define the following terms used in the slide deck:

- d) "Small generation facility" and "Large generation facility". Are there specific thresholds that define whether a facility is small or large? Are these terms related to the Market Rules defined terms small generation facility, minor generation facility, significant generation facility, or major generation facility?

IESO Response: For the purpose of providing the estimates presented in the slide deck, the threshold between "small generation facility" and "large generation facility" was established based on the additional testing that needs to be done according to categories 7 and 8 of Appendix 4.2 of the market rules: generation facilities that contain synchronous machines greater than 20 MVA or any synchronous machines within generation facilities greater than 75 MVA would be considered "large" while those not meeting these conditions are "small".

- e) Congested versus Non-Congested Area. Please identify the criteria that will be used to determine whether a facility is in a Congested or Non-Congested area. Following Market Renewal go-live, will the congestion component of Locational Marginal Prices be used to define these terms?

IESO Response: In general, a congested area is an area where operating security limits (OSLs) are restricting the amount of power that could flow in or out of the area. For the purpose of recovering the integration cost, the IESO does not contemplate determining if a proposed change is located in a

congested or a non-congested area, rather, given that the IESO will charge proponents on an hourly basis, the cost will directly reflect the effort required to integrate the proposed change.

3. Slide 14 lists factors that will influence proponents' costs. What criteria will be used to measure the "quality of information provided to the IESO"?

IESO Response: The IESO does not intend to measure the "quality of information provided to the IESO" for the purpose of determining the cost of integration, rather, given that the IESO will charge proponents on an hourly basis, the cost will directly reflect the effort required to integrate the proposed changes. Missing or incorrect information supplied to the IESO will likely require more effort to correct, which will ultimately be reflected in the total cost of integration charged to the proponent.

4. Does the IESO intend to recover costs associated with changes required to comply with the Market Renewal Program from individual proponents?

IESO Response: The IESO intends to perform certain "bulk updates" to support the implementation of the Market Renewal Project. Given that these updates are not directly related to changes being requested by proponents, the IESO will not seek to recover these costs from individual proponents.

Concluding Remarks

The IESO would like to thank all stakeholders who submitted comments.

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