

# Feedback Form

## Enforcement Modernization – May 22, 2026

### Feedback Provided by:

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Organization: Hydro One Networks Inc.

Email: [REDACTED]

Date: May 21, 2026

To promote transparency, feedback submitted will be posted on the Enforcement Modernization engagement page unless otherwise requested by the sender.

- Yes – there is confidential information, do not post**
- No – comfortable to publish to the IESO web page**

Following the May 22, 2026 Enforcement Modernization engagement webinar, the Independent Electricity System Operator (IESO) is seeking feedback from stakeholders on the items discussed. The presentation and recording can be accessed from the [Enforcement Modernization](#) page.

**Note:** The IESO will accept additional materials where it may be required to support your rationale provided below. When sending additional materials please indicate if they are confidential.

**Please submit feedback to [engagement@ieso.ca](mailto:engagement@ieso.ca) by June 15, 2026.**

## Internal Compliance Programs

<b>Item</b>	<b>Feedback</b>
Do you have any feedback on MACD's design proposal on Internal Compliance Programs?	Refer to attachment, section: MACD Proposal 1: Internal Compliance Programs.

## Removal of Ring-fencing Language

<b>Item</b>	<b>Feedback</b>
Do you have any feedback on MACD's design proposal on the Removal of Ring-fencing Language?	Refer to attachment, section: MACD Proposal 2: Removal of Ring-Fencing Language.

## Information Gathering Powers

<b>Item</b>	<b>Feedback</b>
Do you have any feedback on MACD's design proposal on Information Gathering Powers?	Refer to attachment, section: MACD Proposal 3: Information Gathering Powers.

## Information Sharing

<b>Item</b>	<b>Feedback</b>
Do you have any feedback on MACD's design proposal on Information Sharing?	Refer to attachment, section: MACD Proposal 4: Information Sharing for Enforcement Purposes.

## Investigation Process

<b>Item</b>	<b>Feedback</b>
Do you have any feedback on MACD's design proposal on the Investigation Process?	Refer to attachment, section: MACD Proposal 5: Investigation Process.

## Sanctions

<b>Item</b>	<b>Feedback</b>
Do you have any feedback on MACD's design proposal on Sanctions?	Refer to attachment, section: MACD Proposal 6: Sanctions.

## Publication of Enforcement Outputs

<b>Item</b>	<b>Feedback</b>
Do you have any feedback on MACD's design proposal on the Publication of Enforcement Outputs?	Refer to attachment, section: MACD Proposal 7: Publication of Enforcement Outputs.

## Settlements/Dispute Resolution Process

<b>Item</b>	<b>Feedback</b>
Do you have any feedback on MACD's design proposal on the Settlements/Dispute Resolution Process?	Refer to attachment, section: MACD Proposal 8: Settlements and Dispute Resolution.

## MACD Service Standards

<b>Item</b>	<b>Feedback</b>
Do you have any feedback on MACD's design proposal on MACD Service Standards?	Refer to attachment, section: MACD Proposal 9: MACD Service Standards.

## General Comments/Feedback

<b>Item</b>	<b>Feedback</b>
Do you have any additional feedback not addressed above related to the proposed design to modernize enforcement to support the efficiency, effectiveness, and clarity of the enforcement regime?	Refer to attachment, section: Conclusion.

# **Attachment**

**BY EMAIL**

May 21, 2026

Market Assessment and Compliance Division (MACD), IESO

**MACD Enforcement Framework Modernization: Initial Proposals for Stakeholder Consultation (Discussion Paper) – Hydro One Reply Submission**

Hydro One Networks Inc. (“**Hydro One**”) appreciates the opportunity to provide written feedback on the April, 2026 MACD Enforcement Modernization discussion paper (the “**Discussion Paper**”).

Hydro One supports the objectives of enhancing efficiency, improving effectiveness, and clarifying the enforcement regime. Our comments focus on ensuring the modernized framework remains predictable, procedurally fair, and defensible, while supporting the reliability, resilience, and security of the Bulk Power System.

This modernization proposal is an opportunity for MACD to play a key leadership role in strengthening the reliability, resilience, and security of the Bulk Power System. Modernization should extend beyond MACD’s three stated enforcement-driven objectives in the Discussion Paper:

1. enhancing [enforcement] efficiency;
2. improving [enforcement] effectiveness; and
3. clarifying [enforcement] scope and application.

As a NERC-registered entity subject to the IESO’s delegated compliance enforcement authority in Ontario, Hydro One encourages MACD to use this opportunity to also consider how modernization can further support NERC’s mission and objectives to ensure the reliability, resilience, and security of the Bulk Power System, as well as the partnership between MACD and the Market Participants it oversees. This is reflected in the amended and restated Memorandum of Understanding (“**MOU**”) between the IESO, NERC, and NPCC Inc. (February 5, 2010), which states:

“...compliance with reliability standards is the common objective of both the NERC/NPCC and the IESO compliance programs.”

Sincerely,

A handwritten signature in purple ink, appearing to read "Alex D. Zbarcea".

Alex D. Zbarcea, P.Eng., MBA, CGRC  
Director, Reliability Standards Compliance & Strategy

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## Overview and Guiding Principles

Hydro One would like to thank MACD for engaging in early conversations at the start of the enforcement modernization initiative. Throughout these conversations, Hydro One made several recommendations for consideration to MACD. These recommendations were framed around three guiding principles and five themes, which are summarized below.

Hydro One has structured this submission around these guiding principles and themes which reflect Hydro One's reliability lens, and which are intended to inform this initiative and MACD, in developing a modern, credible, and defensible enforcement framework. These guiding principles and themes are also reflected in Hydro One's proposal-by-proposal comments in this submission.

Overall, enforcement modernization should support transmission system reliability outcomes while maintaining regulatory predictability, due process, and procedural fairness. Hydro One further submits that the reliability, resilience, and security of the Bulk Power System should form the foundation of MACD's initiative.

## Guiding Principles

1. **Proportional, reliability-focused enforcement:** enforcement tools and sanctions should scale with actual or potential reliability and market impacts and should differentiate transmission reliability standards matters from market operations and misconduct;
2. **Regulatory certainty and defensibility:** Market Participants should be able to understand, anticipate, and reproduce MACD's enforcement decision-making approach and assessments based on clear criteria, published processes, and consistent application; and
3. **Collaborative, risk-based approach oversight:** mechanisms that encourage collaborative and early identification, mitigation, and learning to improve Bulk Power System outcomes more effectively than volume-driven enforcement focused on technicalities.

## Theme 1 – Governance, Independence, and Transparency

Hydro One submits that enforcement credibility depends on independence and transparent governance. These elements are foundational to the effective functioning of the overall framework and underpin stakeholder confidence in both the design and administration of enforcement activities. Hydro One recommends preserving and strengthening ring-fencing

and the functional separation between market operations and enforcement activities, supported by clear information barriers and auditable access controls.

Hydro One further recommends transparent, publicly available Key Performance Indicators (“**KPIs**”) aligned to outcome-based metrics, including self-report disposition timelines, audit closeout timelines, investigation disposition timelines, and reliability outcomes reporting. An example of this is the Ontario Energy Board (“**OEB**”) Performance Standards for Processing Applications and the public Adjudicative Reporting Dashboard.<sup>1</sup>

Hydro One notes that Ontario’s framework is unique in North America in that reliability standards are incorporated directly into Market Rules. This structural feature increases the importance of maintaining clear and robust separation between market operations and reliability compliance enforcement to preserve regulatory independence and avoid real or perceived conflicts of interest.

Hydro One submits that transparency is a critical component of this framework and should extend beyond performance metrics to include, where appropriate, greater visibility into audit planning and execution, including audit schedules and areas of focus. On the enforcement side, transparency should also include clear articulation of how MACD arrives at its conclusions, including the interpretation of applicable standards and Market Rules, and the evidentiary basis supporting those determinations. Where expert analysis forms part of the enforcement record, Hydro One recommends that such materials be included in the record, subject to appropriate confidentiality and security protections.

Hydro One further submits that a transparent, well-defined, and proportionate framework will support more effective engagement by Market Participants, enabling them to contribute constructively to compliance outcomes and reliability improvements, rather than limiting interaction due to uncertainty associated with enforcement processes.

## **Theme 2 – Enforcement Framework and Penalty Structure**

Hydro One recommends a sanctions model that differentiates transmission reliability standards matters from market trading or manipulation matters. Penalties for reliability matters should be proportionate to reliability risk and impact, with consideration given to both the severity of potential impact and the probability of occurrence, recognizing that scenarios with high theoretical impact but remote likelihood may warrant a different treatment than more probable risks; higher-deterrence tools should be reserved for intentional market misconduct and cases involving demonstrable benefit or harm.

Hydro One further recommends a transparent penalty-setting methodology, including clear treatment of violation counts, avoidance of double-counting between Market Rules and

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<sup>1</sup> <https://www.oeb.ca/applications/how-file-application/performance-standards-processing-applications>

reliability standards, and predictable pathways for low-risk issues (for example, compliance exceptions and find/fix/track-type mechanisms<sup>2</sup>, and codification of current practices such as forbearance applications).

Hydro One further submits that the design of the enforcement framework should support timely and effective operational decision-making by Market Participants in real-time conditions. The current framework enables a high degree of responsiveness and collaboration in addressing reliability issues, supported by clear obligations, established practices, and a shared focus on maintaining Bulk Power System reliability. In evolving the enforcement model, care should be taken to ensure that increased emphasis on enforcement does not inadvertently shift focus away from proactive issue identification and real-time response. A well-calibrated framework that maintains appropriate balance between accountability and operational flexibility will support continued open engagement by Market Participants and reinforce behaviours that prioritize reliability outcomes.

### Theme 3 – Modern, Risk-Based Compliance Oversight

Hydro One supports a shift to risk-driven oversight focused on Bulk Power System reliability, resilience, and security, emphasizing early risk identification and mitigation over case-driven enforcement. Hydro One recommends structured safe spaces and proactive engagement that enable Market Participants and MACD to discuss emerging risks, controls, and mitigations without automatic enforcement escalation.

Hydro One further recommends that, as part of a risk-based oversight model, MACD strengthen its upfront assessment of potential non-compliance matters prior to initiating formal enforcement action. This includes ensuring that the cited Market Rules or reliability standards were in force, applicable to the Market Participant, and appropriately scoped to the facts before issuing a Notice of Alleged Breach or similar enforcement notice.

### Theme 4 – Audit Process Modernization

Hydro One recommends risk-based audits aligned with established Electric Reliability Organization (“**ERO**”) and NPCC approaches, including alignment to establish ERO sampling methodologies and a focus on control effectiveness and outcomes rather than volume-driven document review. Hydro One further recommends publishing an audit framework and addressing actual or perceived conflicts of interest of MACD auditors through clear governance controls.

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<sup>2</sup> NERC Compliance Monitoring and Enforcement Program, Appendix 4C to the Rules of Procedure, May 19, 2022

## Theme 5 – MACD Engagement and Outreach

Hydro One recommends that MACD adopt a partner-first posture through proactive outreach, practical guidance, and regular engagement with Market Participants on current and emerging risks, and controls design, testing, and implementation. Transparent guidance processes and regular lessons-learned communications can improve compliance outcomes while maintaining enforcement credibility.

# Hydro One Reply Submission

## MACD Proposal 1: Internal Compliance Programs

### Summary of MACD's Design Proposal

- 1.1 Create a new Market Rule requirement that all Market Participants have an internal compliance program (“**ICP**”);
- 1.2 Non-prescriptive approach: MACD will not dictate ICP design or required elements, preserving flexibility for size and circumstances;
- 1.3 MACD will continue to assess ICP “quality” when determining penalty amounts and will update its Statement of Approach (“**SOA**”); and
- 1.4 MACD is considering a 6-month grace period for existing Market Participants (from effective date) and new Market Participants (from registration).

### Hydro One's Reply Submission

Related Themes/Principles:

- Theme 2 (predictable penalty methodology);
- Theme 3 (risk-based oversight); and
- Theme 5 (guidance and enablement).

Hydro One **supports** mandating that all Market Participants have an ICP. Hydro One also recognizes that not all Market Participants may have the resources or ability to design, implement, and maintain an ICP and to do so in 6 months.

Hydro One recommends that MACD adopt a transition approach that is proportionate to Market Participant size and complexity, including consideration of an extended grace period for existing Market Participants (for example, 12 months) and clear expectations for new registrations (for example, an ICP must be in-place at registration).

MACD should explain and document the mechanism and the quantum for how the ICP factors into penalty assessments.

Hydro One further recommends that MACD publish, and consult with Market Participants on, the updated SOA and any assessment criteria for ICP “quality” before enforcing an ICP mandate, to provide regulatory certainty and allow Market Participants to align programs accordingly.

Hydro One recommends that MACD define “quality” using objective, auditable criteria and recognize credible third-party assessments of ICPs undertaken by Market Participants where appropriate and timely, for efficiency and to avoid subjective or inconsistent penalty treatment.

In doing so, it will be important for MACD to provide clarity on how it intends to operationalize ICP “quality” assessments. Hydro One’s view is that ICP considerations may appropriately inform compliance oversight, including as contextual input within existing reliability standards audit processes; however, ICPs themselves should not be subject to separate or standalone audit assessments. Any approach should maintain clear alignment with the established scope and intent of reliability standards compliance, and avoid introducing additional assessment layers that could influence audit outcomes without a defined regulatory basis.

## MACD Proposal 2: Removal of Ring-Fencing Language

### Summary of MACD’s Design Proposal

2.1 Create a Market Rule clarifying that the IESO has delegated Market Rule enforcement to MACD and that MACD independently exercises that authority with respect to Market Participants and the IESO.

2.2 Update Market Manual 2.6 to replace ring-fencing language with descriptions of existing relationship features (segregated files; shared common services; reporting to IESO Board, including functional reporting to Markets Committee and administrative reporting to IESO CEO).

### Hydro One’s Reply Submission

Related Themes/Principles:

- Theme 1 (independence and transparency); and
- Guiding Principle (regulatory certainty).

Hydro One **does not support** removing the ring-fencing language. Hydro One recommends preserving and strengthening ring-fencing and functional separation safeguards to maintain enforcement credibility and stakeholder trust.

Hydro One notes that similar concerns were raised in Hydro One’s 2023 submission where proposed changes would have removed explicit information-barrier language and increased perceived conflicts of interest.

Hydro One recommends retaining explicit language that MACD investigative files and information are accessible only to MACD staff, supported by documented controls and auditability.

Hydro One further recommends that any material changes that could be perceived as weakening arm’s-length operation be accompanied by updated governance documentation made available for stakeholder review, including any required updates to the IESO’s Delegation of Enforcement Authorities letter (October 15, 2019) (the “**Delegation Letter**”) and to the amended and restated MOU between the IESO, NERC, and NPCC (February 5, 2010).

The Delegation Letter clearly outlines the necessity and importance of maintain a strong separation between the IESO and MACD, including separation of responsibilities and staff (i.e. shared common resources), by stating:

“in order to ensure that enforcement is carried out fairly and impartially, the IESO has organized its staff so as to segregate the management and responsibilities of those involved in enforcement from other employees of the IESO. Accordingly, the Market Assessment and Compliance Division (“MACD”) has operated as a business unit separate from other IESO functions since market opening.”

Likewise, the language and intent in the MOU regarding the separation of the IESO and MACD is clear, stating:

“MACD operates at arm’s length from the IESO business units.”

Hydro One also notes that elements of **Proposal 2**, particularly those describing internal organizational relationships and administrative structures, may be more appropriately addressed through a review of the foundational governance agreements and MOUs, rather than through the Market Rules. Market Rules should focus on enforceable obligations and rights, whereas governance documents may be better suited to describe roles, including the role of the NPCC, responsibilities, and reporting structures. In this context, Hydro One recommends that MACD provide clarity on how it has engaged with and considered the role of the NPCC in developing this proposal, including alignment with existing MOU arrangements, to ensure consistency with established governance frameworks.

Hydro One welcomes this opportunity for MACD to clarify what it understands to be the “existing features of the relationship between MACD and the IESO”, including how MACD makes investigative determinations through regular reviews of IESO information and documentation. This will allow Market Participants to be better informed in assessing the proposed Market Rule and Market Manual changes.

In any event, Hydro One welcomes a review of the proposed changes to the ring-fencing provisions in the Market Rules and Market Manuals and expects that changes that will be contrary to the MOU and the Delegation Letter will trigger revisions by the parties to the MOU and a revised Delegation Letter, both being available for stakeholder review and feedback prior to enforcement.

MACD has not provided any evidence, benchmarking, or studies supporting the need for changes to the ring-fencing provisions.

Conversely, Hydro One recommends MACD further its independence from IESO. The integrated nature of the market and the enforcement of the market rules, especially as it pertains to the enforcement of NERC reliability standards stands in contrast to every other established wholesale power market in North America.

Hydro One recommends and will support an independent and separate NERC CEA. This approach would better align with other markets and promote independence, transparency, and credibility. Additionally, this independent CEA requires a stable funding mechanism. This is typically accomplished through apportionment by net energy for load to the end users. Penalties collected by the CEA are typically held in trust and released to offset the following year's budget.

## MACD Proposal 3: Information Gathering Powers

### Summary of MACD's Design Proposal

3.1 Create a Market Rule explicitly confirming MACD authority to request information from any persons, at any time including Market Participants and the IESO, in support of its enforcement activities.

3.2 Clarify consequences of non-compliance, including potential rule breach, associated sanctions, and ability for MACD to draw an adverse inference from failure to provide information.

3.3 Update Market Rules to include examples of monitoring and investigative activities (event monitoring; review of self-reports; self-certifications; spot-checks; audits; third-party reports; document production; written inquiries; interviews of employees, contractors, former employees, and contractors).

### Hydro One's Reply Submission

Related Themes / Principles:

- Theme 1 (governance and transparency);
- Theme 2 (predictability and proportionality); and
- Guiding Principle (procedural fairness).

Hydro One **does not support** Proposal 3 as currently described. The proposal is overly broad and lacks the definitions, thresholds, and safeguards necessary to ensure predictability, proportionality, and procedural fairness.

Hydro One acknowledges that enhanced information-gathering powers may be appropriate in specific contexts, particularly in relation to market operations or potential manipulation where distinguishing between operator and market participant actions is critical. However, consideration should be given to ensuring that such powers are applied in a targeted and proportionate manner and remain aligned with clearly defined enforcement scenarios. In the context of reliability standards compliance, where obligations, evidence, and audit frameworks are already well-established, the need for expanded information-gathering authorities is less clear.

Hydro One recommends that MACD define key terms (including “any person” and “information”), specify the stages of the enforcement lifecycle where powers may be exercised, and articulate objective criteria for when requests are reasonable and necessary.

Hydro One recommends that the “any adverse inference” concept be tightly constrained and accompanied by clear notice, an opportunity to respond, and explicit recognition of legal privilege and confidentiality obligations.

Hydro One is concerned with references to former employees or contractors. Hydro One recommends explicit safeguards to prevent conflicts of interest and to ensure reliability, integrity, and independence of evidence, including clear protocols and documentation standards.

Hydro One acknowledges that engaging external experts or third parties may be appropriate in certain circumstances; however, where such information is relied upon in the enforcement process, it should be fully disclosed to the affected Market Participant, subject to appropriate confidentiality protections, to ensure transparency, fairness, and the ability to meaningfully respond.

Hydro One is further concerned with the lack of due process safeguards as part of this process. MACD should establish and follow clear publicly available guidelines about how “any person” may be asked, the obligations of such a “person,” clear timelines for response or objection, and a record of the process for each such request. Further, Hydro One recommends that MACD acknowledge, in alignment with other comments herein regarding independence, that any such requests to IESO follow the same process of those for other persons or organizations.

Hydro One further submits that the same principles governing independence and procedural fairness should apply to information gathering from the IESO as from Market Participants. Any access to IESO information should be subject to formalized processes, defined scope, and appropriate safeguards to ensure consistency, transparency, and auditability of MACD’s investigative activities.

## MACD Proposal 4: Information Sharing for Enforcement Purposes

### Summary of MACD's Design Proposal

4.1 Amend confidentiality provisions to allow MACD to share confidential information with third parties for enforcement purposes only.

4.2 Publish guidance on use and safeguards, including: protect sensitive commercial information; minimal disclosure; marking materials confidential; reminders of confidentiality obligations; and potential confidentiality agreements where appropriate

### Hydro One's Reply Submission

Related Themes/Principles:

- Theme 1 (transparency);
- Theme 2 (predictability and proportionality); and
- Theme 5 (guidance).

Hydro One **does not support** Proposal 4 as described. Hydro One raised similar concerns in 2023 regarding broad confidentiality exceptions that could bypass existing protections without a clear, constrained framework.

Hydro One recommends that MACD first demonstrate the specific enforcement gaps that cannot be addressed using existing Market Rule exceptions and processes, and that MACD publish draft guidance and safeguards for stakeholder review before pursuing Market Rule amendments.

At a minimum, Hydro One recommends safeguards that include:

1. necessity and minimal disclosure tests;
2. enforceable confidentiality agreements for non-Market Participants;
3. clear record-keeping of disclosures including retention policies that require return and / or destruction of information; and
4. notice to affected Market Participants where practicable without compromising integrity of the investigation.

Hydro One further recommends an explicit process for Market Participants to make submissions on proposed disclosure scope, redactions, and proportionality, and for MACD to document its decision rationale.

Hydro One therefore submits that additional clarity is required to demonstrate that MACD's current enforcement capabilities are materially constrained or "hindered".

## MACD Proposal 5: Investigation Process

### Summary of MACD’s Design Proposal

5.1 Create consequential rule changes in Chapter 3 to support new elements such as information gathering changes and settlement opportunities at any point in the process.

5.2 Improve clarity by relocating certain notice content (for example, remedy timelines currently referenced in notice provisions) into sanctions-related provisions.

5.3 For complex matters, add procedural rights such as moving the meeting later in the process and providing a report to the Market Participant prior to determination.

5.4 Greater procedural rights for MPs in complex matters, including the option to have a meeting later in the investigative process.

5.5 For less complex matters, introduce two process streams: (1) specified penalties regime for pre-determined breaches with fixed sanctions up to \$200,000 (see Table 1); and (2) simplified investigations for matters where only lowest-tier penalties are sought, with written representations and no meeting, followed by right to dispute.

**Table 1 – Reproduction of MACD’s Design Proposal 5 Penalty Table**

Category	Market Rule/ Reliability Standard	Min (\$)	Max (\$)
Standard FAC-003-5 Transmission Vegetation Management	RS	10,000	200,000
Failure to comply with Operating Reserve Activation (ORA)	MR	10,000	150,000
Failure to comply with dispatch instructions/directions from IESO	MR	10,000	100,000
Standard CIP-002-5.1a — Cyber Security — BES Cyber System Categorization	RS	10,000	100,000
Standard PRC-005-6 – Protection System, Automatic Reclosing, and Sudden Pressure Relaying Maintenance	RS	5,000	50,000
Failure to maintain revenue meter (repair, replace, inspect, and test)	MR	5,000	50,000

### Hydro One’s Reply Submission

Related Themes/Principles:

- Theme 3 (risk-based oversight);
- Theme 2 (proportional enforcement); and
- Guiding Principle (procedural fairness).

Hydro One **supports** Proposal 5 in principle, particularly measures that improve clarity and procedural rights in complex matters.

Hydro One recommends that MACD clearly define “complex” versus “less complex” matters and publish criteria for selecting the applicable process stream to ensure predictability and avoid inconsistent treatment.

Hydro One recommends additional procedural safeguards that reinforce due process, including an explicit pre-notice applicability assessment (in-force requirement, applicability to the Market Participant, and scoping to facts) and reasonable limitation periods for initiating enforcement action. This should include the introduction of a two-year limitation period for the initiation of enforcement actions in respect of non-compliance matters, including those arising from MACD audits, as well as a defined historical period for the consideration of compliance history in the assessment of fines and sanctions.

In Hydro One’s view, any historical period for compliance history should, where possible, align with the evidence retention requirements set out in the applicable NERC reliability standards (for example, Part C1.2 of individual NERC standards documents), except where MACD has explicitly directed additional retention requirements. Aligning with established evidence retention periods would improve consistency, predictability, and administrative efficiency for compliance related matters.

Hydro One further recommends that MACD establish clear service standards or target timelines for key stages of the investigation process, including timelines for initiating investigations, issuing draft notice(s), and reaching final determinations. In Hydro One’s experience, extended timelines for progressing investigations (for example, multiple years to develop draft notices of non-compliance or close-out audits) can introduce uncertainty and reduce the effectiveness of the enforcement process.

Hydro One recommends that MACD consider adopting target timelines, supported by periodic public reporting on performance against those targets, consistent with the approach contemplated under **Proposal 9**. This would support transparency, accountability, and overall efficiency in the enforcement framework.

Hydro One **does not support** a specified penalties “parking ticket” approach for transmission reliability standards matters. Hydro One recommends risk-based, learning-oriented mechanisms for low-risk reliability issues (for example, compliance exceptions or find/fix/track-type pathways) rather than immediate breach determinations with fixed sanctions.

Additionally, Hydro One recommends that MACD provide further clarity on the application of the proposed specified penalty table (Table 1), including clear expectations regarding how penalties will be determined within any minimum and maximum ranges. In particular, where MACD intends to assess penalties outside of the stated ranges, it should be required to provide a clear, documented rationale explaining why such a determination is appropriate in the circumstances.

Hydro One further questions whether the inclusion of a minimum penalty is necessary for transmission reliability standards matters in general, particularly where low-risk or administrative non-compliances may be more appropriately addressed through risk-based or learning-oriented mechanisms.

Hydro One recommends that dispute rights not be chilled by the punitive “risk [of] ultimately higher penalties” merely for exercising appeal or dispute mechanisms.

Hydro One fully agrees that enforcement processes should be tailored to the different purposes for which they are intended. This reinforces Hydro One’s position that penalties and sanctions should be proportionate and risk-based, with a higher-deterrence approach applied to matters related to market operations and a differentiated, proportionate framework applied to compliance matters related to transmission reliability standards.

Hydro One submits that non-compliances with transmission reliability standards are generally not intentional in nature and do not typically, or ever, result in financial gain or benefit to the Market Participant. As such, applying a uniform high-deterrence penalty model designed for market misconduct to reliability standards compliance matters would not be proportionate to the nature of those issues and may not support improved compliance outcomes or Bulk Power System reliability.

In Hydro One’s view, the absence of financial gain in transmission reliability standards non-compliances further supports a differentiated enforcement approach, where penalties are calibrated to reliability risk, impact, probability, and control effectiveness rather than deterrence for economic misconduct.

## MACD Proposal 6: Sanctions

### Summary of MACD’s Design Proposal

- 6.1 Update maximum fixed penalty from \$1,000,000 per breach to \$1,500,000 per breach, per day, and index penalties to inflation.
- 6.2 Create a maximum variable penalty based on quantified benefit received and/or harm caused plus 10% and define maximum penalty as the greater of fixed and variable penalties.
- 6.3 Move to a single penalty table with low, medium, and high tiers: \$0–\$200,000; \$200,000–\$700,000; and \$700,000–maximum penalty.
- 6.4 Simplify sanctioning factors, including impact, intent, compliance history, cooperation and commitment to compliance (including ICP quality), deterrence, and other matters MACD considers appropriate.
- 6.5 Clarify and update non-financial sanctions, including cease orders, enhanced record-keeping and reporting, mitigation plans, and specified improvements to ICPs; and allow urgent orders without prior notice with ability to apply to vary or rescind within 10 days (or additional permitted time).

6.5 Introduce specified penalties regime and simplified investigation process for simple matters (as cross-referenced in investigation proposal).

6.6 For urgent matters, MACD proposed the ability to issue orders without prior notice, directing Market Participants to cease an activity or practice.

### Hydro One's Reply Submission

Related Themes/Principles:

- Theme 1 (defensibility and transparency); and
- Theme 2 (penalty structure and proportionality).

Hydro One **does not support** Proposal 6 as written. Hydro One supports enforcement modernization in principle, but MACD has not provided sufficient evidence, methodology, or implementation detail to evaluate the proposed penalty architecture.

Consistent with Hydro One's 2023 submission, Hydro One recommends that MACD provide transparent benchmarking methodology and the rationale for proposed penalty levels, including how penalties will be set within ranges, how per-day elements will be applied, and how benefit or harm will be assessed and quantified.

Hydro One notes that the Discussion Paper states that Ontario is "lagging behind its closest comparators in terms of maximum financial sanctions." Hydro One seeks to better understand the basis for this statement, including the jurisdictions used for comparison, the methodology applied, and how those comparators align with the Ontario framework. In particular, Hydro One requests that any benchmarking analysis clearly distinguish between penalties associated with NERC reliability standards compliance and those associated with market rule enforcement, as these regimes are fundamentally different in purpose and design.

Absent this level of detail, it is difficult to assess whether the proposed increases are necessary or proportionate, particularly in the context of transmission reliability standards compliance, where enforcement approaches across the NERC footprint are generally risk-based and not structured around high-deterrence monetary penalties.

Hydro One reiterates its recommendation for a differentiated approach: proportional penalties for transmission reliability standards matters, and higher-deterrence tools for intentional market misconduct or cases involving intentional demonstrable benefit received or harm.

Hydro One recommends that any inflation indexing be accompanied by transparent governance, periodic review, and safeguards to ensure proportionality and predictability.

Hydro One supports clarifying sanctioning factors and methodology to improve repeatability but recommends that MACD prioritize publishing a clear penalty-setting methodology that Market Participants can understand, apply, and replicate. The penalty assessment process requires simplification, clarification, and must be understood and repeatable not just by MACD but also by Market Participants. Additionally, Hydro One requests clarity on how the "actual or

potential impacts,” especially the potential impacts will be assessed. Such potential impacts should be tightly bound to real-world scenarios reasonably likely to occur.

Hydro One further notes that the proposed increase in penalties, combined with the proposed removal of ring-fencing and the expansion of information gathering and information sharing powers (MACD Proposals 2, 3, and 4 respectively), may not support the common objective set out in the MOU, namely compliance with reliability standards for the Bulk Power System. Hydro One submits that these proposals should be considered collectively, as their cumulative effect has implications for regulatory independence, proportionality, and stakeholder confidence in the enforcement framework.

Based on the IESO’s annual reports, it appears that over the 2016 to 2025 period, Market Sanctions & Payment Adjustments have largely tracked customer education and market enforcement expenses (including O&A, professional fees, and compensation & benefits) (Figure 1); however, Hydro One recognizes that its interpretation is based on the level of detail currently disclosed in the IESO’s annual reports, and may not reflect the full context or underlying methodology. Hydro One invites MACD to clarify the interpretation of these data, including how Market Sanctions and Payment Adjustments are applied relative to customer education and market enforcement expenses, including compensation & benefits.

Hydro One notes that, absent further clarification of this apparent relationship, the proposed increased, inflation indexed penalty levels and the proposed removal of existing structural safeguards, may give rise to a perception that sanctions outcomes are linked to the overall enforcement operating cost structure, rather than to the nature and severity of the underlying non-compliance, and could create a perception of misalignment between enforcement outcomes and the shared objective of reliability standards compliance.

Hydro One therefore recommends that any changes to the sanctions framework be accompanied by clear safeguards, transparency regarding penalty-setting methodology, and governance measures that reinforce alignment between enforcement outcomes and the core objective of supporting the reliability, resilience, and security of the Bulk Power System.

### IESO Market Sanctions and Total Operating Expenses (\$ thousands, actuals)

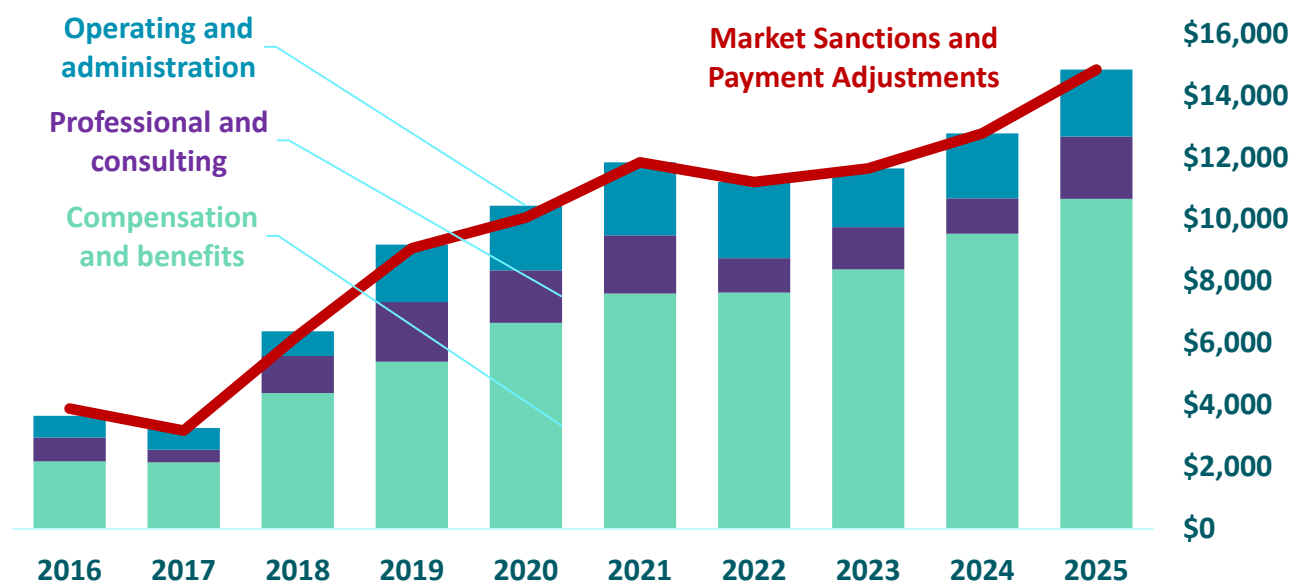


Figure 1 – IESO Market Sanctions and Expenses

## MACD Proposal 7: Publication of Enforcement Outputs

### Summary of MACD’s Design Proposal

7.1 Publish all final enforcement outputs, including notices and letters of non-compliance, financial penalties, and settlement agreements, with discretion to withhold or redact where disclosure is not in the public interest.

7.2 Withhold documents relating to NERC CIP violations from publication in their entirety due to system security requirements.

7.3 Generally withhold investigative-stage documents like notices of investigation, subject to public interest discretion to publish in limited circumstances.

7.4 Create a rule establishing a publication framework (outputs, timelines, process steps for confidential information) and discretionary authority to withhold, redact, or publish notices of investigation in limited circumstances.

### Hydro One’s Reply Submission

Related Themes/Principles:

- Theme 1 (transparency with safeguards); and
- Guiding Principle (procedural fairness).

Hydro One **supports** transparency in principle but recommends clear safeguards to prevent premature or disproportionate reputational impacts, particularly where matters are disputed or not final.

Hydro One recommends reinstating or codifying a publication stay concept for enforcement outputs that are subject to dispute, except in narrowly defined public interest circumstances, to preserve fairness and avoid irreversible market impacts.<sup>3</sup> Hydro One raised similar concerns in 2023 regarding publication timing.

Hydro One supports withholding publication of NERC CIP-related enforcement outputs for system security reasons.

Hydro One recommends that MACD publish a clear publication framework that includes timelines, redaction processes, criteria for public interest determinations, and an opportunity for affected parties to provide submissions on confidentiality and security.

With respect to the proposed ability to publish notices of investigation in limited public interest circumstances, Hydro One submits that such instances should be rare and supported by clearly defined and narrowly applied criteria. Where such publication is deemed necessary, the content of any published notice should be high-level, factual, and non-accusatory in nature, and should avoid prejudging findings prior to the completion of the investigative and adjudicative process. This is necessary to preserve procedural fairness and to mitigate the risk of undue reputational harm prior to any final determination.

## MACD Proposal 8: Settlements and Dispute Resolution

### Summary of MACD's Design Proposal

- 8.1 Create a distinct dispute resolution process tailored to enforcement disputes.
- 8.2 Shorten the period to file a dispute from two years to 20 business days.
- 8.3 Remove mandatory mediation and allow optional mediation only.
- 8.4 Move good faith negotiations (“**GFN**”) and optional mediation to the pre-determination stage, with a clear mechanism to terminate GFN after a 30-day minimum period (seven days written notice).
- 8.5 Clarify triggering events for the 30-day period and initiation of GFN.
- 8.6 Where the matter was proceeding by way of a specified penalty or simplified investigation, parties would not have recourse to GFN or mediation. These could only be disputed by way of arbitration.
- 8.6 Codify MACD settlement authority and outline an approval process whereby MACD staff receives and presents settlement offers to the VP of MACD for approval if in the public interest, and publish settlements.

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<sup>3</sup> Minutes of the IESO Technical Panel Meeting, September 12, 2023, Other Business.

## Hydro One's Reply Submission

Related Themes/Principles:

- Theme 2 (procedural fairness and deterrence); and
- Theme 3 (efficient resolution).

Hydro One **supports** Proposal 8 in principle, including a tailored enforcement dispute process and earlier settlement opportunities.

Hydro One recommends that the proposed 20 business day dispute filing period be reconsidered as insufficient for internal governance, fact gathering, and legal preparation in complex matters.

Hydro One **supports** moving GFN earlier in the process, provided that the process preserves procedural fairness, access to evidence, and the ability to meaningfully assess positions prior to settlement decisions.

Hydro One **does not support** removing access to GFN or mediation solely because a matter is processed through specified penalties or simplified investigations, particularly where those processes may be applied at MACD discretion.

## MACD Proposal 9: MACD Service Standards

### Summary of MACD's Design Proposal

9.1 The services standards would not result in Market Rule amendments.

9.2 Introduce service standards as target timeframes (not limiting MACD ability to extend where required), informed by benchmarking.

9.3 Examples include acknowledging self-reports and inquiries within 1 to 3 business days (90 percent target), status updates at least once every six months (70 percent target), processing self-certifications within 6 months (70 percent target).

## Hydro One's Reply Submission

Related Themes/Principles:

- Theme 1 (transparency); and
- Theme 5 (engagement and reporting).

Hydro One **supports** Proposal 9 on service standards.

Hydro One recommends that MACD service standards be formalized through transparent reporting and publication of performance results, and that MACD consider codifying key service standards in the Market Rules to strengthen accountability and predictability.

Hydro One recommends expanding beyond activity metrics to outcome-based KPIs (for example, disposition timelines and closure quality) and aligning public reporting with OEB-style performance dashboards and transparency.

KPIs should measure critical outcomes, not activities, including but not limited to:

- Self-Report Processing and Disposition Within a Standard Target;
- Audit Closeout and Disposition Within a Standard Target;
- Investigation Initiation, Progression, and Final Disposition Within Defined Timeline Targets;
- Enforcements Disposition Withing a Standard Target; and
- Long-term Bulk Power System Reliability Assessment

Hydro One further recommends that MACD extend the application of service standards to key stages of the investigation process, consistent with Hydro One’s comments under **Proposal 5** regarding the need for enhanced procedural safeguards and clearer expectations for investigation timelines. This includes establishing target timelines for initiating investigations, issuing draft notices of non-compliance, and reaching final determinations, and incorporating these timelines as formal performance KPIs subject to public reporting.

As noted under **Proposal 5**, extended timelines for progressing investigations can introduce uncertainty for Market Participants and reduce the effectiveness and proportionality of the enforcement process. Incorporating investigation-related service standards under **Proposal 9** would help address these concerns by providing greater predictability and reinforcing a more efficient, risk-based approach to enforcement.

Hydro One recommends that such timelines be supported by regular public reporting on performance against targets, consistent with the broader objectives of **Proposal 9**. This would further enhance transparency, accountability, and alignment with outcome-based performance measurement across the enforcement framework.

While these proposed Activities in the Discussion Paper should form part of the MACD Services Standards, MACD is already meeting or exceeding these metrics. Hydro One submits that the next step in advancing service standards is to expand performance measurement to areas where timelines are less clearly defined, particularly investigations and enforcement decision-making, to ensure that the overall framework delivers timely and predictable outcomes for Market Participants.

## Conclusion

Hydro One thanks MACD for the opportunity to engage in early conversation on this matter, which is of utmost importance to the reliability, resilience, and security of the Bulk Power System and which is instrumental in shaping the future of MACD as Ontario's delegated compliance enforcement authority for transmission reliability standards.

Hydro One looks forward to continued engagement and recommends that MACD:

1. strengthen independence and transparency safeguards to support credibility and stakeholder confidence;
2. adopt proportional, risk-based approaches that distinguish between market misconduct and transmission reliability standards compliance;
3. publish clear methodologies, guidance, and supporting evidence to ensure predictability and regulatory defensibility prior to implementation; and
4. preserve due process and procedural fairness, including transparent timelines and safeguards, to support regulatory certainty for Market Participants.