



Independent Electricity System Operator

1600-120 Adelaide Street West
Toronto, ON M5H 1T1
t 416.967.7474

www.ieso.ca

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Glenn McDonald
Director, Market Assessment & Compliance
Independent Electricity System Operator

Dear Glenn,

Delegation of Enforcement Authorities

Introduction

This is to confirm the understanding under which the IESO has operated since the opening of the IESO-administered markets, May 1, 2002, regarding the delegation to you and your predecessors of certain powers and duties assigned to the IESO in the market rules.

Both the IESO and market participants are bound to comply with the market rules and the IESO is empowered to enforce the rules in various ways set out in the rules. These enforcement powers and procedures do not apply against the IESO and the *Electricity Act, 1998* does not authorize the imposition of sanctions against the IESO for failure to comply with the rules. However, the company has voluntarily accepted since market opening that it should be treated as if it were a market participant for these purposes.

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. Since January 1, 2018, as head of MACD, you have a reporting relationship with the Human Resources and Governance Committee of the IESO’s Board of Directors on a functional basis in order to mitigate a potential conflict of interest when investigating compliance matters that may involve conduct by the IESO either acting alone or with market participants. This reporting relationship has switched to the Markets Committee. You have continued to report to me on an administrative basis, continuing the practice that has been in place since market opening.

The IESO's Board of Directors will receive independent reports on enforcement activities, provide oversight related to sufficiency of resources, independence, organizational structure and other matters integral to the efficacy of the enforcement function. In respect of specific functional responsibilities, you have been delegated to act on behalf of the IESO in the areas and in the manner specified below.

Instrument of Delegation

In your position as Director, MACD, you are delegated the authority to act on behalf of the IESO (but subject to the overriding authority of the IESO Board to manage or supervise the management of the IESO's business and affairs) and to make all determinations and exercise all authorities accorded the IESO in the following provisions of the market rules:

- Chapter 3, Section 6.1.2- Monitoring of compliance with the market rules
- Chapter 3, Section 6.2- "Procedures Concerning Alleged Breaches of the Market Rules"
- Chapter 3, Section 6.6 "Non-compliance Letters and Financial Penalties".

In addition, the IESO Reliability Compliance Enforcement Policy establishes delegated accountability for the Director of MACD in the area of reliability standards, as follows: "Accountabilities include all aspects of the development and execution of the Reliability Compliance Enforcement Policy, ranging from prevention and detection, through to investigation and enforcement." This policy also sets out the scope and manner of partnership and delegation between MACD and other IESO business units in respect of these delegations.

Other enforcement authorities that you have been delegated to exercise on behalf of the IESO pertain to the market rule provisions related to: Local Market Power; Generation Cost Guarantee overpayments; Congestion Management Settlement Credits ("CMSC") related to Safety, Equipment, and Legal reasons ("SEAL"); Operating Reserve Activation and Standby Failures; Intertie Transaction Failures; and, Dispatchable Load CMSC Clawbacks. Further details related to these authorities are set out in the IESO's Enterprise Process Catalogue.

In respect of each of these enforcement authorities, these delegations will extend to decisions made in the IESO's dispute resolution process to the extent that disputes arise from enforcement of these provisions. In this capacity, you will inform and consult with the IESO's General Counsel.

In discharging this responsibility, we have agreed that you will exercise your judgement on when and how to keep me apprised of matters arising under these provisions. In particular, we agreed that you would brief me on matters:

- of a broad, strategic importance;
- likely to establish an important precedent;
- likely to be contested by, or controversial among, market participants and stakeholders;
- requiring significant resources;
- likely to attract media or stakeholder attention;
- potentially having an impact on government policy; and
- involving conduct by, or relations with, other jurisdictions.

In the case of any MACD investigative or enforcement actions conducted or contemplated relating to the IESO's obligations to comply with the market rules, a Protocol governing the rules of engagement for such matters will be established.

Glenn, we agree that adherence by the market participants and the IESO to the comprehensive set of obligations contained in the market rules is essential to the successful operation of Ontario's electricity system and the IESO-administered markets. I am confident that the arrangements that we have set in place will assure a fair and effective application of the rules to the benefit of all market participants and the public at large.

Yours truly,



Peter Gregg
President & CEO
IESO