November 22, 2018

IESO Engagement
Independent Electricity System Operator
1600–120 Adelaide Street West
Toronto, ON M5H 1T1

Dear Mr. Grbavac:

Re: Written Comments on the proposed Single-Schedule Market ("SSM")

Alectra Utilities ("Alectra") serves nearly one million customers across 1,800 sq. km of service territory, spanning 15 communities in Ontario, including Alliston, Aurora, Barrie, Beeton, Brampton, Bradford, Hamilton, Markham, Mississauga, Penetanguishene, Richmond Hill, St. Catharines, Thornton, Tottenham and Vaughan. Alectra owns, maintains and operates approximately 6,642 km of overhead primary distribution feeders and 13,210 km of underground primary distribution circuits, as well as 339 – 4.16kV, 47 - 8.32 kV, 754 - 13.8 kV, 292 - 27.6 kV, and 132 - 44kV feeders within its service territory.

Given the large territory and the number of customers served by Alectra, as well as the significance of the commodity portion of electricity bills, Alectra is keenly interested in the issues, processes, and outcomes of the Independent Electricity System Operator's ("IESO") Market Renewal Project.

Market Renewal Project: Single-Schedule Market ("SSM")

The IESO has issued its High Level Design ("HLD") relating to the SSM as part of the Market Renewal Project ("MRP"). Alectra is pleased to offer its comments to the IESO as it undertakes this important initiative.

As a preliminary matter, Alectra would like to offer its support for IESO's efforts and initiative in transforming Ontario's electricity market. Alectra is a firm believer that innovations such as the

Market Renewal Project will be critical to the long term sustainability of a healthy and vibrant electricity sector for decades to come. Specifically, Alectra supports efforts to define and design a more efficient market structure that has the potential to result in lower prices for consumers and which establishes greater pricing transparency for all Ontarians.

Alectra understands that the MRP is a multi-faceted project that will fundamentally change the way electricity is supplied in the province. In addition to the current review of SSM, other components of the MRP will include the introduction of a Day-Ahead Market ("DAM"), an Enhanced Real-Time Unit Commitment process ("ERUC"), and the implementation of an Incremental Capacity Auction ("ICA"). While there is clearly a need to break up the market re-design effort into several more manageable components, it should be paramount that an understanding of overall context be retained. The old adage of "seeing the forest for the trees" certainly applies. That is, factors, decisions, and issues that arise within any one of the component parts must be understood in the context of impacts to the other components, as necessary. Otherwise, the alternative may create or unintended consequences or undesirable outcomes.

The current matter at hand is a review of the HLD of the SSM. Notably, the SSM would result in the establishment of zonal prices (called Locational Marginal Prices, or "LMPs") for electricity supply. These LMPs would better reflect congestion issues and transmission line losses in determining market prices. In turn, this could result in significant and material impacts on the choices generators make in determining where to locate supply in order to take advantage of opportunities that may arise due to these new pricing parameters. Importantly, the introduction of LMPs may also impact distributor operations, customer billing, and settlements between distributors and the IESO.

Such fundamental market structure changes require deep collaboration and coordination among Ontario's electricity market players. The IESO, Ontario Energy Board ("OEB"), and distributors all have important roles to play in making the MRP transition a success. Most notably, from the distributors' perspective, will be the relationship between new wholesale market prices and the Regulated Price Plan ("RPP"). This will profoundly affect how settlements as between the IESO

and distributors take place, which will be a deciding factor in the successful implementation of the SSM.

It is appropriate to raise certain issues at this juncture as they will likely inform structure or content of the upcoming Detailed Level Design ("DLD") that the IESO will undertake, beginning in early 2019. It will be crucial that LDCs play a key role identifying and working through issues and opportunities through the DLD stage.

For the purposes of providing commentary on the HLD, Alectra submits that the following areas are candidates for further analysis, insight, and dialogue:

- Establishment of Retail Prices & Supply Contracting
- Distributor Operations & Settlements
- Underlying Rationale of SSM
- Customer Education & Outreach

A discussion of each of these issue areas is provided below.

Issue Identification & Comments

Establishment of Retail Prices & Supply Contracting

Perhaps the most important point Alectra would like to make with regard to the potential introduction of the SSM in Ontario relates to the interaction between the establishment of wholesale market prices and the retail prices paid by consumers. The SSM design will impact wholesale market price formation, yet it remains unclear to Alectra whether or how these prices will flow to consumers. Distributors are the intermediary that charge retail prices to consumers and settles wholesale prices with the IESO for the procurement of supply, and therefore have a clear interest in this dynamic.

Currently, the OEB has jurisdiction in setting the retail price formation that consumers pay through the RPP. As such, there needs to be a coordinated, organized review of the proposed market structure and wholesale price setting in conjunction with the regulatory instruments that

will be used to interface with customers to ensure transparency and operational clarity. It is not clear to Alectra what, if any, input the OEB has had in informing the HLD for the SSM, or what the OEB may have in mind for the RPP. In any event, given that they are both government agencies, the OEB and the IESO should be highly coordinated in planning and implementation.

Specific issues to be addressed necessarily include, but may not be limited to, the following:

- As a result of the SSM, would there be a change to RPP?
- If so, when would this change take place?
- How will it be implemented?

As above, these issues are fundamental to distributors and therefore fundamental to the success or failure of the MRP broadly, and the SSM specifically. As the entity responsible for customer billing and for settling upstream commodity costs, distributors play a critical role in implementation. Depending on what changes may be required for RPP, this may have implications for distributor systems and processes, which can take significant time and resources to plan, test, and implement.

Just as the interplay between wholesale and retail prices will be essential to success, how this interplay takes place will be also critically important. Distributors will need to be apprised of how and when supply contracts may change so that distribution functions can operate accordingly. Further, distributors will be signatories to contracts with embedded generators, and will therefore need a greater understanding for the approach and outcomes that the SSM will entail.

Establishment of Retail Prices & Supply Contracting

Key Messages:

Engagement with the OEB and distributors will be critical for successful planning and implementation.

Distributors need to be kept informed regarding supply contract changes to understand implications for distribution operations and planning

Distributor Operations & Settlements

The introduction of zonal pricing may fundamentally impact distributor operations. For example, distributors may re-route power flows to achieve operational or

economic outcomes. As differentiated pricing may create opportunities or risks in distributor decision making, distributors will need to know what expectations, or limitations, may be placed on them in terms of how they conduct their business. As distributors make these decisions it may necessarily impact the opportunities for other distributors within or near a geographic region. This may result in transferring commodity pricing opportunities or risks as between distributors or customers. Further, if there are specific rules or limitations placed on distributors, then this could impact cash flows or risk profile, requiring increases to the cost of capital. The impact of these choices and outcomes will necessarily affect customer bills as well. Rules, limitations, opportunities, risks, and expectations must all be well known and tested in advance of implementation.

As above, with policy setting and supply contracting in place, distributors will be the entities to carry out the facilitation of customer billing and payments for supply. This interaction will create variances for both commodity and Global Adjustment ("GA") charges that will need to be measured, monitored, tracked, and cleared periodically. The processes used to carry out this clearing of accounts will directly impact the SSM. For example, the current process of clearing deferral and variance accounts ("D/VAs") on an annual basis may require changes which would impact distributor and supplier cash flows, and which may create financing requirement changes for one or the other. For SSM to succeed, this needs to be planned for at the outset rather than after the SSM has been implemented.

A particular issue arises for distributors, such as Alectra, who may have customers in multiple zones. Alectra is in a relatively unique position in that it will provide distribution services across several (likely four) different LMP zones, which will create significant complexities regarding customer billing and IESO settlements. The level and nature of the complexity will, of course, be a function of the final SSM design and the OEB's plan for the establishment of the RPP. It may be that major system changes are required to support customer billing.

For example, the calculation of variances across the system using uniform supply pricing is one thing, however, calculating variances for specific zonal rates and variances will be quite another undertaking. Furthermore, while Alectra maintains separate tariffs across multiple rate zones (corresponding to pre-merger legacy utilities), the tariffs do not vary within these rate zones. Any

required system changes to accommodate the proper functioning of customer billing and IESO settlements will be a critical success factor. Once the DLD is known, Alectra will assess the related impact on systems and resources for timing, costs and cost recovery before implementation of the SSM can begin.

Notably, in addition to the variances created as between the retail and wholesale prices, a new type of variance, which the IESO refers to as "residuals" will also be created as a function of the SSM. The IESO defines residuals as, "the difference between the amount paid for losses by loads and the amount paid for losses to the generators"[1]. In the HLD, the IESO envisions the residuals being distributed back to consumers within a certain time period such that the price responsive features of the LMP can be retained, but also so that there is some relief to higher zonal prices. This also raises a series of issues and questions in regard to distributor operations and the ensuing customer impacts.

Distributor Operations & Settlements

Key Messages:

Distributors need to understand rules, limitations, risks, opportunities and the consequences of operational decisions.

All parties need clarity on how settlement processes may change, and the resulting customer bill impacts.

The DLD must specifically consider distributors whose operations cross multiple zones.

In addition to commodity and GA variances, a concrete plan for the disbursement of residuals needs to be formulated.

For one, the question of how residuals will actually be distributed is not clear. The current process for distributors is to clear D/VAs on an annual basis; however, this may conflict with the IESO's vision for the disbursement of residual balances. Alternatively, the current process could affect the achievement of the objectives for the SSM. It may be that the IESO has not contemplated these issues, or that alternative formats may exist, such as incorporating residuals into a net commodity price for settlement purposes, but these remain vital issues to resolve. Alectra expects these

[1] Independent Electricity System Operator, Single Schedule Market High Level Design, September, 2018, p. 6

issues to be addressed, in conjunction with the OEB, through the DLD phase.

As the foregoing discussion illustrates, distributor input will be critical to defining the DLD. Distributors must have the confidence of the Board's support for these changes; understand the IESO's expectations for settlement processes, appropriate time for planning, testing, and implementation of system changes, and the knowledge of cost recovery for this initiative to ultimately be successful.

Underlying Rationale of SSM

The key point to be made about the SSM proposal lies in the proposition that the creation of LMPs and zonal pricing will result in accurate reflections for the cost of congestion or transmission line losses throughout Ontario's electricity system. If this is accurate, then it is plain to see how this could have a positive impact on supply-side decision making. That is, siting future generation projects to take advantage of pricing opportunities (where congestion or line losses present themselves) can benefit a specific zone's pricing. More supply in that area could have the impact of reducing congestion or line losses.

It is not entirely clear, however, what impact may prevail on price responsive demand. The IESO indicates that higher local prices have the potential to induce reduced demand, however, no sound evidence of this conclusion has been provided.

> *Locational pricing is not just a cornerstone of a more dynamic and active marketplace; it also help ensure that consumers' energy consumption decisions are linked to actual system needs, leading to greater operational and economic efficiencies. For example, accurate price signals can encourage price-sensitive loads to reduce consumption when local prices are high, reducing demand and putting downward pressure on prices in a relatively high-priced region and, ultimately, enabling cost reductions for the responding loads and other loads in the region.*[2]

[2] Independent Electricity System Operator, Single Schedule Market High Level Design, September, 2018, p. 6

To be clear, Alectra does not oppose this proposition, however, Alectra would like to ensure that the business case and expectations going forward are clear and sound. It is not clear to Alectra what impact this hypothesis has on the expectation for lower prices going forward, and evidence or detailed analysis to this effect should be produced as it is critical to all consumers and market players. In short, embarking upon such a profound shift in market fundamentals requires a clear understanding of goals and expectations. This will form the basis for measuring success in the future.

In the interest and spirit of transparency in policy making and market development, Alectra would also like the appropriate agencies (IESO, Ontario Energy Board, Government, Industry, etc.) to ensure customers have a clear understanding of what to expect. Most notably, the introduction of zonal pricing will, by definition, introduce geographic differences in pricing. While zones may be differentiated on the basis of electricity infrastructure properties, the result will be geographically dispersed pricing. As a result, customers and market players will need to be braced for the result that their suppliers, competitors, colleagues or neighbors may be subject to different pricing levels. This in turn may impact competitiveness, disposable income, job creation, or standard of living.

In Alectra's view, such fundamental market impacts should consider the impact to local economic conditions in advance of implementation. Participation and consultation with local governments, agencies, businesses, and customers, should afford the opportunity or transparency as well as the time to make any market adjustments in advance of zonal pricing so that the impact of the transition to SSM may be mitigated or absorbed.

Underlying Rationale of SSM

Key Messages:

Provide detailed economic analyses or business case assumptions to test / measure the expectation for lower commodity prices.

Involve local governments, agencies, businesses, and consumers so that they may have the opportunity to prepare for geographically dispersed pricing outcomes.

Customer Education & Outreach

A key objective for any market structure re-design effort should be to maintain principles of good and fair rate making and regulatory processes. To this end, distributors should be held whole for changes in the wholesale electricity market re-design. Furthermore, a key principle must be that customers be well informed of changes that will take place, and how their bills may be impacted. As above, the IESO and OEB should be working hand-in-hand to develop a coordinated approach.

As the distributors will be the key intermediaries between the IESO (i.e. suppliers) and customers, and are the face of the industry to the customer, distributors will need time and resources to provide customer support and education. Customers will necessarily be interested in when and by how much SSM will impact their bills. Larger customers and businesses will have a specific interest in the impact and expectations for the GA.

Conclusion

The opportunity for finding efficiencies in the design of Ontario's wholesale electricity market represents a tremendous opportunity to lower electricity costs for consumers across the province. Alectra looks forward to engaging with the IESO and the OEB in the transformation of the electricity market structure in Ontario.

In order to ensure consistent policy making and implementation across the sector, the OEB's input will be critical to the successful development and implementation of the MRP. Similarly, as the face of the electricity industry to consumers in the province, the engagement of the distributor community in detailed level design is essential. There is an opportunity to work collaboratively to address the many issues that have or will arise as a result of the MRP, and Alectra looks forward to participating.

If you have any questions with respect to any of the above, please feel free to contact Alectra at your earliest convenience.

Sincerely,

Original signed by Indy J. Butany-DeSouza

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Alectra Utilities Corporation