

Chapter 3

Section 3.02

Independent Electricity System Operator—Market Oversight and Cybersecurity

Standing Committee on Public Accounts Follow-Up on Section 3.06, 2017 Annual Report

On March 7, 2018, the Standing Committee on Public Accounts (Committee) held a public hearing on our 2017 audit of the Independent Electricity System Operator (IESO). The Committee tabled a report on this hearing in the Legislature in May 2018. A link to the full report can be found at www.auditor.on.ca/en/content/standingcommittee/standingcommittee.html.

The Committee made eight recommendations and asked the IESO, the Ontario Energy Board (OEB) and the Ministry of Energy (Ministry) to

report back by September 2018. The Deputy Minister of Energy requested an extension of the deadline for itself and its agencies, which was granted. The IESO, OEB and Ministry formally responded to the Committee on November 15, 2018. A number of the issues raised by the Committee were similar to the audit observations of our 2017 audit, which we followed up on in 2019. The status of each of the Committee’s recommended actions is shown in **Figure 1**.

Figure 1: Summary Status of Actions Recommended in May 2018 Committee Report

Prepared by the Office of the Auditor General of Ontario

	# of Actions Recommended	Status of Actions Recommended				
		Fully Implemented	In the Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable
Recommendation 1	1	1				
Recommendation 2	1	1				
Recommendation 3	1		1			
Recommendation 4	2	2				
Recommendation 5	1	1				
Recommendation 6	1	1				
Recommendation 7	2	2				
Recommendation 8	1		1			
Total	10	8	2	0	0	0
%	100	80	20	0	0	0

We conducted assurance work between February 5, 2019 and August 31, 2019, and obtained written representation from IESO that effective September 27, 2019, it had provided us with a complete update of the status of the recommendations made by the Committee.

and 20% of the recommended actions were in the process of being implemented.

Overall Conclusion

As of August 31, 2019, 80% of the Committee’s recommended actions had been fully implemented

Detailed Status of Recommendations

Figure 2 shows the recommendations and status details based on responses from the Independent Electricity System Operator (IESO), the Ontario Energy Board (OEB) and the Ministry of Energy (Ministry), and our review of the information provided.

Figure 2: Committee Recommendations and Detailed Status of Actions Taken

Prepared by the Office of the Auditor General of Ontario

Committee Recommendation	Status Details
<p>Recommendation 1</p> <p>The IESO should:</p> <ul style="list-style-type: none"> provide the Committee details on the approach it takes when deciding whether or not to implement a recommendation submitted by the OEB Market Surveillance Panel. <p>Status: Fully Implemented</p>	<p>On November 15, 2018, the IESO provided details to the Committee on the approach it took when deciding whether to implement a recommendation submitted by the OEB Market Surveillance Panel.</p> <p>In the details provided to the Committee, the IESO explained that:</p> <ul style="list-style-type: none"> it carefully considered every Ontario Energy Board Market Surveillance Panel (MSP) recommendation and the MSP’s underpinning analysis, and responded to each recommendation outlining the actions it would take in a letter directed to the Chair and CEO of the OEB. it had acted on a number of the recommendations made by the MSP in the past and had made a number of market rule amendments as a result. it analyzed and assessed MSP recommendations, and considered possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network. This included considering the impact on market design, including the potential for unintended, adverse effects, and assessing the ability of the IESO and market participants to implement the change.
<p>Recommendation 2</p> <p>The OEB should:</p> <ul style="list-style-type: none"> provide the Committee with its rationale for having never revoked a market rule change. <p>Status: Fully Implemented</p>	<p>On November 15, 2018, the OEB sent a written response to the Committee to provide a rationale for never having revoked a market rule change. The OEB explained the legislative framework that applies to the marking (by the IESO) and review (by the OEB) of market rule changes. The OEB then wrote that “it has discharged its Market Rule change review mandate in a responsible manner within the parameters set by legislation, and will continue to do so as it does with all aspects of its mandate.” The OEB also wrote that it “reiterate(d) its support for the recommendations of its Market Surveillance Panel, as well as the OEB’s continued commitment to use the tools at its disposal to signal that support having regard to its own authorities and processes while respecting the mandate and responsibilities of other agencies.”</p>

Committee Recommendation	Status Details
<p>Recommendation 3</p> <p>The Ministry of Energy should:</p> <ul style="list-style-type: none"> provide the Committee, when available, the results of its review of the <i>Electricity Act, 1998</i> concerning the market rule amendment process and the legislative authority of the Ontario Energy Board (OEB). <p>Status: In the Process of Being Implemented</p> 	<p>The Ministry's review of the OEB's legislative authority was ongoing, and was being undertaken in consultation with the OEB and the IESO. This work would also be informed by the broader work of the OEB Modernization Panel.</p> <p>The Panel initially operated from December 2017 to June 2018 when it was concluded as part of the post-election transition, as the new government had ended the work of previously appointed special advisors. All ministers were asked to consider whether the work of special advisors should continue, and if so, in what form. Consequently, the Minister of Energy determined that it would be beneficial to receive the Panel's perspective on the mandate, role and structure of the OEB, and sought and obtained approval to have the Panel re-constituted in August 2018. The Panel's work was completed and its final report was submitted to the Minister in October 2018.</p> <p>On March 21, 2019, the Ministry introduced the <i>Fixing the Hydro Mess Act, 2019</i>, which included a proposed overhaul of the OEB to make the regulatory system more efficient and accountable while continuing to protect consumers. The proposed overhaul of the OEB was informed by recommendations from the OEB Modernization Panel, stakeholders and regulatory experts.</p> <p>As part of the ongoing efforts to modernize the OEB, the Ministry was developing options for the government's consideration related to the market rule amendment process. The Ministry committed to reporting to the Committee in the second half of 2019 on progress on its review of electricity market oversight and OEB authority.</p>
<p>Recommendation 4</p> <p>The IESO should:</p> <ul style="list-style-type: none"> describe its new cost recovery framework for the Standby Cost Recovery Program <p>Status: Fully Implemented</p> <ul style="list-style-type: none"> provide the Committee with the total costs of the Standby Cost Recovery Program in 2017. <p>Status: Fully Implemented</p>	<p>On November 15, 2018, the IESO described its new cost recovery framework for the Standby Cost Recovery Program to the Committee.</p> <p>The IESO informed the Committee that it had implemented a new cost recovery framework for the Standby Cost Recovery Program on August 1, 2017. Under this new framework, the values for 14 of the 15 eligible costs are now set and approved for each program participant in advance of participating in the program. This change introduced transparency for program participants while eliminating overpayments and almost all after-the-fact audits of participant cost submissions. One of the 15 eligible costs, the quantity of gas or other fuel consumed during the eligible period, is still subject to audit as it cannot be pre-approved.</p> <p>The IESO provided the Committee with the total costs of the Standby Cost Recovery Program in the 2017 calendar year, which amounted to \$27.5 million.</p>
<p>Recommendation 5</p> <p>The IESO should:</p> <ul style="list-style-type: none"> provide a rationale for the continued usage of the Standby Cost Recovery Program. <p>Status: Fully Implemented</p>	<p>On November 15, 2018, the IESO provided the Committee with its rationale for the continued usage of the Standby Cost Recovery Program.</p> <p>The IESO explained to the Committee that it needed to continue to use the Standby Cost Recovery Program because:</p> <ul style="list-style-type: none"> It had to be prepared for changes, both expected and unexpected, to the electricity system to maintain reliability. Having generators readily available allows the IESO to meet demand effectively without reducing reliability.

Committee Recommendation	Status Details
	<ul style="list-style-type: none"> Gas generators are flexible and dispatchable units that are often called on to meet changes in Ontario’s electricity demand. They can, however, take several hours to start up and synchronize to the grid. During this start-up period, these generators incur costs in order to be available. In instances when they do not recover those costs through market revenues, the generators can recover certain costs through the Standby Cost Recovery Program. Without this program, the IESO would be unable to ensure that generators are online and available to maintain electricity system reliability for Ontario and its neighbours. Higher costs would also result. <p>The IESO acknowledged to the Committee that there were issues with the current Standby Cost Recovery Program, and committed to replace it as part of its ongoing work to fundamentally overhaul Ontario’s electricity market. The replacement of the Standby Cost Recovery Program with a new more cost-effective program is scheduled for March 2023.</p>
<p>Recommendation 6</p> <p>The IESO should:</p> <ul style="list-style-type: none"> provide a rationale for the continued usage of the Lost Profit Recovery Program. <p>Status: Fully Implemented</p>	<p>On November 15, 2018, the IESO provided the Committee with its rationale for the continued usage of the Lost Profit Recovery Program.</p> <p>The IESO explained to the Committee that it needed to continue to operate the Lost Profit Recovery Program to maintain the reliability of Ontario’s electricity system. In some instances, the IESO might require market participants, like generators and some large consumers, to consume or inject electricity at a financial loss. This would typically be required due to system constraints such as transmission line limits. This program allowed market participants to recover their financial losses, providing an incentive for them to comply with IESO dispatch instructions to maintain system reliability.</p> <p>The IESO also informed the Committee that the Single Schedule Market initiative (SSM), which the IESO planned to implement as part of its fundamental overhaul of Ontario’s electricity market, would eliminate the need for the Lost Profit Recovery Program by 2023.</p>
<p>Recommendation 7</p> <p>The IESO should:</p> <ul style="list-style-type: none"> provide the Committee with a description of the Oversight Division’s new computer system and the expected date for full implementation. <p>Status: Fully Implemented</p>	<p>On November 15, 2018, the IESO provided the Committee with a description of their Oversight Division’s new computer system.</p> <p>The IESO informed the Committee that the Oversight Division had procured and had started to use a new case management workflow tool for enforcement. By December 2017, the case management workflow tool was in use for all market enforcement investigations. The Oversight Division also had a Litigation Support Tool in use during our audit, enabling analysis and storage of evidence when enforcement cases were appealed.</p> <p>These workflow tools were similar to those used by a variety of sophisticated investigative and adjudicative organizations, such as the Ontario Securities Commission and the Federal Court. The contractor that developed the tools and was assisting the Oversight Division in using them also worked in the same capacity with those organizations.</p>

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<ul style="list-style-type: none"> provide a summary of its plans for providing IT support on the new system. <p>Status: Fully Implemented</p>	<p>The IESO provided a summary of its plans for IT support with the new system.</p> <p>The IESO's IT department had been providing support to the Oversight Division as it worked with its contractor to customize the newly purchased IT system. Once customization was finished, the new system would be supported by the IESO's IT group.</p>
<p>Recommendation 8</p> <p>The Ministry of Energy should:</p> <ul style="list-style-type: none"> provide an analysis of the expected long-term impact of the expansion of the Industrial Conservation Initiative (ICI) on residential and small-business ratepayers. <p>Status: In the Process of Being Implemented</p>	<p>The Ministry had previously provided the Committee with a forecast of the long-term cost shift to residential and small-business ratepayers, as requested in the Committee's May 1, 2018 report.</p> <p>In the 2018 Fall Economic Statement, the government announced a consultation to be held in 2019. As part of the industrial electricity prices consultation, the Ministry would be assessing the Industrial Conservation Initiative and its impacts, and would be considering alternative rate structures. The Ministry expected that the results of this consultation would inform the future of the Initiative.</p> <p>On March 21, 2019, the Ministry introduced the <i>Fixing the Hydro Mess Act, 2019</i>. As part of the announcement, the government confirmed that it would undertake a stakeholder consultation on industrial electricity prices.</p>