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of Ontario



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**Official Report  
of Debates  
(Hansard)**

P-20

**Journal  
des débats  
(Hansard)**

P-20

**Standing Committee on  
Public Accounts**

2017 Annual Report,  
Auditor General:

Ministry of Energy

**Comité permanent des  
comptes publics**

Rapport annuel 2017,  
vérificatrice générale :

Ministère de l'Énergie

2<sup>nd</sup> Session  
41<sup>st</sup> Parliament

Wednesday 7 March 2018

2<sup>e</sup> session  
41<sup>e</sup> législature

Mercredi 7 mars 2018

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Chair: Ernie Hardeman  
Clerk: Katch Koch

Président : Ernie Hardeman  
Greffier : Katch Koch

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

## STANDING COMMITTEE ON PUBLIC ACCOUNTS

## COMITÉ PERMANENT DES COMPTES PUBLICS

Wednesday 7 March 2018

Mercredi 7 mars 2018

*The committee met at 1234 in room 151, following a closed session.*

### 2017 ANNUAL REPORT, AUDITOR GENERAL MINISTRY OF ENERGY

Consideration of section 3.06, Independent Electricity System Operator—market oversight and cyber security.

**The Chair (Mr. Ernie Hardeman):** I call the meeting of the public accounts committee to order. We're here this afternoon to—

**Mr. Peter Tabuns:** Chair, point of order.

**The Chair (Mr. Ernie Hardeman):** Let me just reiterate the purpose of our meeting today.

**Mr. Peter Tabuns:** That's fine.

**The Chair (Mr. Ernie Hardeman):** We're here to deal with section 3.06 of the 2017 Annual Report of the Office of the Auditor General of Ontario, the Independent Electricity System Operator—market oversight and cybersecurity. We obviously have delegations here to present.

You have a comment?

**Mr. Peter Tabuns:** I have some very quick motions to table with the committee. I'll take guidance from the Clerk as to whether or not I need to read them out.

**The Clerk of the Committee (Mr. Katch Koch):** Just give the committee notice.

**The Chair (Mr. Ernie Hardeman):** Does he need to read them out?

**The Clerk of the Committee (Mr. Katch Koch):** No, just give them to me.

**The Chair (Mr. Ernie Hardeman):** Okay, just notice that you're introducing the motions.

**Mr. Peter Tabuns:** I have two motions. I'll give them to the Clerk, and they will be introduced. Thank you.

**The Chair (Mr. Ernie Hardeman):** Okay, very good. They will be dealt with at the next opportunity.

**Mr. Peter Tabuns:** Excellent.

**The Chair (Mr. Ernie Hardeman):** With that, we do have folks here from the Ministry of Energy, the Independent Electricity System Operator and the Ontario Energy Board. That would be three, and I mentioned three, so that must be right.

We thank you very much for being here this afternoon, and we do ask that, as you speak, you introduce yourself for the Hansard. You don't need to do it every time; just

when you start the first time, so that Hansard makes sure that it gets the right name.

We'll have a 20-minute presentation, or any part thereof, that you wish to make. Then we'll start with the committee asking questions and comments. I believe that we start with the New Democratic Party today. We will have 20-minute rotations—20 minutes for each caucus. When we finish the first round, I will look at the time, and we'll divide the time left to take us to 2:45 p.m. equally for the three parties, and then we'll do the second round.

With that, the floor is yours.

**Mr. Serge Imbrogno:** Thank you, Chair. Good afternoon. My name is Serge Imbrogno. I'm the Deputy Minister of Energy. Joining me today are Rosemarie Leclair, chair and chief executive officer of the Ontario Energy Board, and Peter Gregg, president and chief executive officer of the Independent Electricity System Operator.

This afternoon, we'll have the opportunity to address the 18 recommendations made by the Office of the Auditor General in chapter 3 of the latest annual report. Ontario's electricity system has layers of oversight designed to ensure that we have an efficient, cost-effective system and a reliable supply of power. In particular, the Ontario Energy Board plays a vital role in ensuring that the electricity market operates in a way that is in the best interest of ratepayers.

In distinct but interrelated ways, the ministry, the Ontario Energy Board and the Independent Electricity System Operator are continuously looking for ways to improve our electricity system. Overall, I am confident that our electricity market works efficiently and serves our residential, industrial and commercial customers well.

Today is a good opportunity for each of our organizations to speak about the mechanisms we have in place now and some of the system improvements planned for the future.

We welcome and appreciate the recommendations of the Auditor General and agree with the need for a high degree of oversight in the electricity market. In particular, we welcome the advice on the market rule review and amendment process and the enforcement of market rules. We are committed to working collaboratively in addressing these, including reviewing the Electricity Act as needed.

We welcome the auditor's recommendation on the industrial conservation initiative. We continue to monitor the impact of this program. Reducing peak demand is a significant priority of the Ministry of Energy, and the industrial conservation initiative is an essential tool in helping us achieve that. We will continue to monitor the effect of this program on all classes of electricity consumers.

I look forward to answering your questions today. I am now going to hand it over to Rosemarie Leclair, chair and CEO of the OEB, to offer some introductory thoughts. After Rosemarie, Peter Gregg, president and CEO of the IESO, will also have some introductory remarks. Thank you.

**Ms. Rosemarie Leclair:** Thank you, Deputy, and good afternoon, Chair and members of the committee.

I would like to start by introducing the members of the Ontario Energy Board who are here with me today. Glenn Leslie, the chair of the market surveillance panel, is with us, as well as Mary Anne Aldred, our chief operating officer and general counsel, and Martine Band, our associate general counsel. They'll all be available to answer questions as needed.

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Let me start by saying that we were pleased to read the Auditor General's recognition that the OEB's market surveillance panel, the MSP, has been effective in monitoring and reporting on weaknesses and flaws in the design of the wholesale electricity market and on the conduct of participants in that market. Let me say that we wholeheartedly agree with that statement.

The MSP is a panel of the Ontario Energy Board. Its mandate is outlined in an OEB bylaw as well as the Electricity Act. The MSP monitors and investigates activities related to the IESO-administered markets. In this capacity, the MSP is looking for design or other flaws and inefficiencies in the rules or the design of the market, as well as anomalous conduct by market participants.

This system of oversight, we believe, creates a natural and productive tension between the market operator, the IESO, and the market monitor, the MSP. The market and ratepayers have benefited from it with recommendations that the MSP has made and that the IESO has implemented over the years.

The MSP reports on the results of its monitoring and investigations and makes recommendations, as appropriate, directly to the IESO. Under the Electricity Act, it's the IESO that is responsible for making rules that govern the electricity markets and for operating those markets. In that capacity, the IESO determines whether and how it will act on the recommendations of the MSP. The MSP does not have the legislative mandate to remedy or impose sanctions in response to market conduct or flaws in the market.

The IESO is licensed by the OEB, and since 2013, the IESO is required, as a condition of that licence, to make an annual report to the OEB on the status of outstanding MSP recommendations. In addition to that, whenever an

MSP report contains recommendations to the IESO, the OEB asks the IESO to advise on the steps that it intends to take in response to those recommendations.

Over and above, the OEB also has an important oversight role in relation to market rule amendments that are made by the IESO. The OEB can review rule amendments when they are made. When those amendments come to the OEB for review, the OEB can revoke and refer them back to the IESO for further consideration. The OEB cannot order the IESO to change the amendments or substitute those amendments for its own approach.

As noted in our response to the Auditor General's recommendations, the OEB will continue to use the tools at its disposal to signal its support for the work of the MSP while also respecting our own mandate and processes and the responsibilities of other agencies in the sector. To that end, steps are being taken to further engage the IESO on outstanding MSP recommendations on a much more timely basis.

I mentioned earlier that we've put formal processes in place to follow up with the IESO on MSP recommendations. To the extent that the MSP questions the sufficiency or clarity of the IESO's response to one of their recommendations, the MSP will now raise these questions directly with the IESO at the time of the response rather than commenting on that response only in the next available semi-annual monitoring report, as they currently do. The OEB will undertake additional follow-up, as appropriate, in the event that substantial outstanding issues remain after the initial outreach by the MSP.

We want to thank the committee for inviting us to attend today to explain the MSP's role as well as the OEB's role, and to answer any questions that you might have for follow-up.

**Mr. Peter Gregg:** Thanks, Rose. My name is Peter Gregg, president and CEO of the Independent Electricity System Operator. I want to thank the committee for inviting the IESO to be here today to discuss the 2017 Auditor General's report, as well as the Auditor General and her staff for their recommendations and their co-operation throughout the development of the report.

I'm also here today with a few people from the IESO: Leonard Kula, who is our chief operating officer and vice-president of planning, acquisition and operations; we also have Sorana Ionescu, acting vice-president of information and technology services; and Glenn McDonald, who is our director of market assessment and compliance division.

I want to say a quick word about the IESO's mandate and then I'll focus on some of the topics discussed in the Auditor General's report, specifically with respect to our role in market oversight and cyber security.

The IESO works at the heart of the electricity system in Ontario and we have a broad mandate that includes planning to meet Ontario's electricity needs in the near term and the long term. We also operate the provincial electricity system and the grid in real time. We administer the electricity market. We foster a culture of conserv-

ation and we engage with stakeholders and communities across the province to seek their input.

We also have a key role in forming and implementing policy and creating opportunities that enable innovation in the sector. Most of what we do is informed by stakeholder input. In fact, creating processes for stakeholders to provide input is a legislative requirement of ours. A set of principles guides our engagements, ensuring that they are open, transparent, inclusive and have adequate representation of the public. The final decision always lies with the IESO, but creating processes to receive public feedback indiscriminately is a key principle of ours. Stakeholder input has significantly improved the quality of our work, particularly guiding processes for market design changes. Similar to other market operators in North America, engaging with the market participants who collectively keep the system running is critical, and that's part of why stakeholder engagement is part of our DNA.

When it comes to administering Ontario's electricity market, the IESO market assessment and compliance division, a ring-fenced business unit, monitors its operations, fostering compliance with the province's market rules and North American reliability standards. Its enforcement authorities also include the ability to audit certain market programs and adjust payments from the program, similar to Canada Revenue Agency tax audits.

The IESO agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at the market assessment and compliance division, which I'll refer to often as MACD, and the process of ongoing review of priorities. Attracting staff with expertise in market roles and investigation continues to be a priority.

All of these efforts would be for nothing if we weren't able to ensure that Ontarians have the power they need. That is why maintaining the reliability of Ontario's electricity system is at the core of what the IESO does. The Auditor General's 2017 report focuses on two market functions that are critical to accomplishing this task: the Real-Time Generation Cost Guarantee program and the congestion management settlement credits. Without these programs, the reliability of Ontario's electricity system would be reduced, and North American power system reliability standards would not be met. These standards were put in place following the 2003 blackout and are mandatory in Ontario.

The IESO's market assessment and compliance division and the Ontario Energy Board's market surveillance panel have identified inefficiencies with these programs, and the IESO has taken action to address them. Enhancements to the Real-Time Generation Cost Guarantee program include predefined costs and stricter rules that have increased transparency and efficiency. Annual program costs were \$22 million in 2017, down significantly from \$61 million in 2014. Costs claimed under the previous version of the program that could have been found to be ineligible were identified and the majority

recovered, and one generator responsible for two thirds of the costs was fined an additional \$10 million.

Regarding congestion management settlement credits, the IESO has updated more than a dozen market rules to make it more efficient. As the MSP noted in a 2016 report, many of the most problematic issues associated with the CMSC regime have been brought to an end, in large measure as a result of the panel having identified these situations and the IESO having acted to eliminate them.

In some instances, our assessments have found that implementing changes recommended by the market surveillance panel would compromise the reliability of Ontario's electricity system. This speaks to the different mandates of the MSP and the IESO. The MSP looks at our electricity system from a market efficiency standpoint, while the IESO must also consider a broader range of factors, most importantly impacts on reliability of the grid.

Ontario is in a stable supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market. These changes are being made through the IESO's market renewal program, which will result in a more efficient, competitive and transparent electricity market.

It is through the electricity market that we accept offers and bids for energy and schedule the lowest-cost resources needed to meet the province's electricity needs. In this way, the market provides the most efficient outcomes, as it does in other jurisdictions. It is through the market that we maintain a reliable system.

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Our market renewal initiative is estimated to result in up to \$5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers. This will include replacing the Real-Time Generation Cost Guarantee program with a more efficient and transparent mechanism and eliminating the congestion management settlement credits program. The OAB's market surveillance panel is supportive and is participating in the market renewal initiative.

Turning to cyber security: The Auditor General acknowledges that the IESO is adhering to North American standards but suggests that further enhancements could be made. Cyber security remains at the core of the IESO's role in maintaining the safe and reliable operation of Ontario's power grid and reliable supply of electricity of Ontarians, and we take this job very seriously.

For us, ensuring effective cyber security and the management of cyber security comes down to three main things: continually strengthening our organization's security posture; ensuring compliance while driving innovation; and establishing strategic partnerships to innovate on cyber defence.

We are in the process—the very late stages—of hiring a new chief information officer. This new chief information officer will continue to drive our enterprise-wide cyber security management program and ensure that

cyber security risk management continues to be addressed, enhanced and integrated at all levels across the organization.

To support our in-house team of cyber security specialists, the IESO is establishing a robust security operation centre to provide 24/7 real-time cyber security monitoring to assist with incident detection and response. Beyond the ongoing technical improvements the IESO is implementing to maintain and strengthen its cyber security posture, we remain committed to playing a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We bring together sector counterparts as well as leading cyber security policy experts to share best practices in addressing existing and emerging cyber security issues, to improve security within Ontario's electricity sector.

As we have seen recently, the federal government has committed significant investments in cyber threat management. I can tell you that the IESO is working with the Communications Security Establishment, or the CSE, Canada's cryptographic agency. Together we are exploring integrated information and data sharing in defending cyber attacks and working out ways to proactively address mutual cyber issues.

In closing, the IESO supports the market surveillance panel's work and acknowledges the recommendations made by the Auditor General. I look forward to answering any questions you might have today.

**The Chair (Mr. Ernie Hardeman):** Thank you very much for your presentation. As I said earlier, we will start with the third party. Mr. Tabuns.

**Mr. Peter Tabuns:** Good afternoon, everyone. I have a number of questions, but I just wanted to make an opening statement. I was quite taken aback by the report prepared by the Auditor General.

As you are all very well aware, people are quite upset with their hydro bills. With the facts that have been presented by the Auditor General, it's very clear that this is a system that has been captured by the generators, captured by those who are making a profit off it. We aren't running it anymore as much as we're trying to ride herd on a bunch of people who are making as much money as they possibly can. I think it exposes the total failure of the privatization model put forward by both Liberal and Conservative governments.

My questions start again with the deputy minister, on standby cost recovery. The OEB made recommendations to the IESO in 2010, 2011, 2014, 2015 and 2016 on the standby cost recovery program. In fact, the OEB reported that the program cost could be reduced by approximately \$30 million annually. The IESO hasn't acted on those recommendations, according to the Auditor General, and when asked for justification for failure to act did not provide adequate documentation or analysis to satisfy the Auditor General or the OEB that, in fact, their argument was valid.

Deputy Minister, you and your ministry oversee this system. Where were you on this? What have you been

doing to actually protect the interests of ratepayers in this province?

**Mr. Serge Imbrogno:** Thank you for that question. I think, as Peter was outlining in his presentation, that there are a number of different objectives that need to be met.

One of the IESO's primary objectives is ensuring reliability. When you look at these two programs, both of them are there to ensure reliability. What we want to do is make sure within that structure that the programs are run most efficiently.

When we get reports from the market surveillance panel, we'll meet with the panel to go through their recommendations. We will also meet with the IESO and discuss the panel's recommendation and the IESO response. I think the IESO is always looking to improve those programs, but the fundamental, core reason those programs are there and they need to continue to be there is to ensure reliability.

I think you need to make a distinction between the programs and the costs of those programs and then some of the issues with some of the generators. Those are the issues that the MSP and the MACD would have picked up on, but the core requirements of the program are there to ensure reliability. A lot of that is because we don't have a perfect electricity system. There are physics related to transmission constraints. There are physics related to how quickly companies can start up their operations that need to be taken into account. Those two programs are there to address some of those inefficiencies in the system.

**Mr. Peter Tabuns:** So what did you do, what did your ministry do, to protect the public interest? The OEB was making it very clear that there were substantial problems here. They weren't being addressed. They were raised numerous times. You and your ministry are responsible for oversight. Did you just say, "Well, I've got this report received. I don't think any action is necessary"? Did you actually question both of these bodies? Did you take action to protect the ratepayers?

**Mr. Serge Imbrogno:** Well, as I said, each time an MSP report would have come out, we would have had a meeting with the MSP and been presented, and we would have had a meeting with IESO. The IESO would have outlined why the program is necessary, what they are doing to address the MSP recommendations.

I don't know, Peter, if you want to expand a bit, but from our perspective, it was the IESO taking action that was appropriate. But I think you have to put that in the context of maintaining reliability in the system. So if you move too much in one direction, you risk reliability. I think it's the IESO's judgment call as a system operator where they wanted to put that—I guess the weight of that was always on reliability.

**Mr. Peter Tabuns:** So you were always satisfied with the explanations you were given. You didn't ask for action beyond what the OEB had recommended, and now the Auditor General comes out and points out substantial flaws. You didn't actually act on the information that was provided to you. You let the situation continue.



**Mr. Serge Imbrogno:** No. The IESO would have made changes as appropriate, and we would have been satisfied that they made those changes, balancing the need for reliability with the other objectives.

**Mr. Peter Tabuns:** Well, then, let's go on to some of the other information that was provided by the Auditor General. She notes that \$260 million was paid out under the standby cost recovery program and \$168 million was recovered. So we gave out a lot of money and, on examination, that money was not justifiable. It shouldn't have been paid out. Years went by; people were paid tens of millions of dollars. Your own people find it was indefensible; the Auditor General points it out. Why didn't you act sooner?

**Mr. Serge Imbrogno:** Given that Peter is here, he can probably respond to that.

**Mr. Peter Gregg:** Yes, thank you. A few facts I think I'd start with there: Referencing the Auditor General's report, there is the figure of \$260 million. That figure did come from our staff. But to put some context around it, that was a figure that, when our staff in the market assessment and compliance division looked at the totality of what might be at question, it could be as large as 260. We did some further analysis on that, and obviously in these areas there would be differences of opinion and areas of dispute that are there. We believe the number to be closer to \$200 million. So if you think about shades of grey, I would say the grey between 200 and 260 is quite pronounced, and if you get closer to the \$200 million, you're starting to get a bit of a darker shade of grey.

Where we ended up is we actually recovered \$168 million of that. Why we did that is we looked at the strength of our arguments. We looked at potential areas of dispute between that 168 and 200. In our judgment we looked at things like litigation risk, the time and the cost that could be expended to go down that path. It was in our judgment that we decided to recover \$168 million, 85% of that \$200 million.

**Mr. Peter Tabuns:** I'm going to go a bit further on this, because the Auditor General reports that the OEB panel released a public report regarding Goreway Power Station in 2017. Goreway claimed \$17 million in costs for which it could provide no supporting records. That's not a difference of opinion, to me. If you're charging someone \$17 million and you don't have any supporting records, this is not shades of grey; this is black and white.

**1300**  
Goreway claimed ineligible costs that included \$6.5 million for gas to fuel a steam turbine that does not consume any gas. Did you call in the fraud squad? You have a company claiming six and a half million bucks for an operation that doesn't exist. That's not just cheating. That's not gaming. You're talking about a very substantial chunk of money stolen from the ratepayers. Did you call in the police?

**Mr. Peter Gregg:** To answer your question directly, we did not call in the police.

**Mr. Peter Tabuns:** Why?

**Mr. Peter Gregg:** We look at our powers and our responsibilities. We do have an obligation to look at costs

submitted. Through our audits, we did identify issues that we didn't think were eligible costs. Through our efforts, as I said before, we recovered \$168 million. We did levy fines in situations. There was the one situation I mentioned earlier where we did levy a \$10-million fine. That's part of our mandate, and we did that.

At no point, when we looked at this, did we identify issues that would have led us to call the police.

**Mr. Peter Tabuns:** Deputy Minister, were you satisfied with that?

**Mr. Serge Imbrogno:** We have in place the requirements for IESO to review its market rules and to impose whatever penalty they feel is appropriate. They have the MACD. It has that authority to do that, and that's the purpose of it.

**Mr. Peter Tabuns:** So when someone gets \$6.5 million from ratepayers for gas for a turbine when that turbine doesn't burn gas, you think it's all right to recover it? You don't consider that fraud?

**Mr. Serge Imbrogno:** Once again, we left it to the IESO and their MACD. That's the body that looks at these. The ministry doesn't direct the MACD to investigate. MACD came to the conclusion that it was in the best interests of the ratepayers at that point to impose that \$10-million fine and recover the remaining costs.

**Mr. Peter Tabuns:** The standby cost recovery program is still going on; correct?

**Mr. Peter Gregg:** I just want to be clear to say that the actual name of the program is—

**Mr. Peter Tabuns:** I know it has a different name.

**Mr. Peter Gregg:** Okay. I just wanted to avoid confusion.

**Mr. Peter Tabuns:** I appreciate that. The Auditor General put forward a term that's easier for most people to grasp.

**Mr. Peter Gregg:** It is in place. I mentioned in my opening remarks that we have engaged in a market renewal program. When we seek to fully develop that program, we will look to use market refinements to continue to refine that program.

I want to say that if you look to other IESOs across North America, you would see very similar programs in place to do the exact same thing, which is ensuring that we have a stable supply available to us to maintain reliability.

**Mr. Peter Tabuns:** When is the new program going to be in effect?

**Mr. Peter Gregg:** We're at the design stage now—the high-level design stage on the various work streams. It should be complete this year, with an eye to having programs in place in 2020.

**Mr. Peter Tabuns:** In 2020?

**Mr. Peter Gregg:** Yes.

**Mr. Peter Tabuns:** So a number of years from now.

**Mr. Peter Gregg:** I would also add that if you look back over 2014, related to this program, we had \$61 million in costs. If you look back, last year it was \$22 million. The refinements we've made to the program and the clearer definitions we've made to the program have had

an impact. We always look to make sure we're operating programs that are as effective and efficient as possible, so tweaking those programs on an ongoing basis is important. And we'll continue to do that.

**Mr. Peter Tabuns:** Back to the deputy minister: I gather from the Auditor General that the IESO wasn't able to provide an analysis of this that was satisfactory to the OEB. Were you aware of that?

**Mr. Serge Imbrogno:** I think the IESO would respond to the market surveillance panel reports. Whether the market surveillance panel felt that that was adequate, I don't know. I think the IESO, as we've tried to say, has a different perspective in terms of not just looking at market efficiency but reliability. So there may have been a response that we need these programs for reliability and we're making these changes. Whether that was sufficient for the MSP—I think in some cases it wasn't; in other cases, over time, it was.

**Mr. Peter Tabuns:** So that wasn't a concern to you?

**Mr. Serge Imbrogno:** Our concern is, we depend on the IESO to tell us what they need to do to maintain system reliability and, at the same time, what they can do to make sure these programs are run as efficiently and effectively as possible, so those two have to go together.

**Mr. Peter Tabuns:** And if, in fact, the OEB, according to the Auditor General, has said that the information provided by the IESO was not sufficient to justify the position they took—you were fine with that?

**Mr. Serge Imbrogno:** We would have had our own discussions with the IESO. They would have provided the analysis to us as well.

**Mr. Peter Tabuns:** And did you—

**Mr. Serge Imbrogno:** And they would have provided that analysis to the MSP. We were satisfied that the IESO needed these programs, and they still need these programs, given the way the system operates. Until we move to market renewal, these programs are needed for reliability. I think we looked at the IESO to ensure reliability, and so that's what we did.

**Mr. Peter Tabuns:** The lost profit recovery program—I gather problems were identified as far back as 2002. There was a potential for problems, or actual problems encountered, for a very long time. I gather OEB recommendations to take action weren't acted on. So, Deputy Minister, why?

**Mr. Serge Imbrogno:** I think the IESO has taken action on that program. We can go through the actions that they took. This program relates to transmission constraints that are in the system. If you really want to make the system as efficient as possible, you probably have to make huge investments in transmission, and that's not in the best interest of the ratepayer, so these are second-best programs that try and make the system as efficient as possible. The IESO did make changes over time to try and address some of those issues. But the program itself is required, given the way we run our market.

**Mr. Peter Tabuns:** So as long as we have the market that we have, we're going to have the potential for people to cheat the system. That's what you're telling me?

**Mr. Serge Imbrogno:** No, I didn't say that. I said those programs are there to address some market imperfections related to transmission constraints. It's the role of the IESO and its MACD to make sure that nobody takes advantage of those programs. I think you have to distinguish between the necessity of the program itself, and whether there has been some abuse by some players of those programs.

**Mr. Peter Tabuns:** One of the recommendations from the Auditor General was, "We recommend that the [IESO] implement the recommendations of the [OEB] market surveillance panel ... regarding this program." Is that going to go forward?

**Mr. Serge Imbrogno:** Maybe I'll let Peter talk about the specifics. I think they have done a lot.

**Mr. Peter Gregg:** Yes, we have. We've made more than a dozen market rule amendments since 2003, since the program was introduced. Many of those are responsive to the market surveillance panel recommendations, so I think we have been responsive. I would also note that in its December 2016 market surveillance panel report, the quotation is: "Many of the most problematic issues associated with the CMSC"—I'll call it the congestion management settlement credits—"regime have been brought to an end—in large measure as a result of the panel having identified these situations, and the IESO having acted to eliminate them."

So it has been an area where we've had, I think, good dialogue between the MSP and us. I believe we've been responsive to address the issues and, as the MSP has stated, we have addressed the bulk of those issues.

**Mr. Peter Tabuns:** And yet the Auditor General finds that she has to make a recommendation that you need to go forward and implement the MSP recommendations. That would indicate to me she feels they aren't in place.

**Mr. Peter Gregg:** Again, I would repeat that I think we have done a lot. Market renewal is another opportunity to continue to refine this. But, again, it's a program that you would see in similar jurisdictions that does, as the deputy mentioned, address transmission constraints in the system. There are certain costs in our \$17-billion annual market that need to be incurred to ensure that reliability is there.

**Mr. Peter Tabuns:** Well, I'm sure that there are costs that we will incur, but I would say, speaking for my constituents, the idea that people could cheat the system and that we could continue to be losing dollars on that is not something that they would find acceptable.

Going on to the concern noted by the Auditor General, that market participants benefiting from market flaws are involved in changing market rules and market design—that I find quite extraordinary. It makes sense to me that the IESO, the OEB, under the supervision of the Ministry of Energy, would address problems in the system, reshape design and then ask for commentary from participants. But it's amazing to me that you have so many people in the process who are generators, market participants, who have so much influence on the rules.

**1310**

You have a 23-member working group on strategic policy and market design issues, and a number of the members of that group are currently being investigated for or were found to have misused market rules. Why on earth are you letting people who are being investigated or who have broken the rules set the new rules?

**Mr. Peter Gregg:** As I mentioned in my introductory comments, part of the legislative mandate of the IESO is to consult with stakeholders broadly to receive their input. We have a very robust program around that. But I also said that we at the IESO retain the right to make the decisions. I don't want to leave the impression that we've got a group of participants who are making the rules. They don't; we do.

It's important to understand what their comments are, what their input is. They are market participants. They do participate in the market, and as we make changes to it, we believe it's appropriate to receive their input. But I want to make it clear that it's the IESO that ultimately holds the decision-making power.

**The Chair (Mr. Ernie Hardeman):** We'll have to stop there for this round. That concludes your 20 minutes.

**Mr. Peter Tabuns:** Oh, Chair. Chair, come on—

**The Chair (Mr. Ernie Hardeman):** You were just getting rolling, I know.

We now go to the government. Mr. Fraser.

**Mr. John Fraser:** Deputy Minister Imbrogno, I have a question. I want to talk about ICI, but I've got a question about supply. We're in a bit of a state of what people describe as oversupply right now. But in terms of managing the electricity system, and given that we're doing some refurbishment—it's difficult to plan for these things, because once you take a reactor offline, that has an impact on the system. Can you explain a little bit about that to me, just so I understand? You don't have to dive into the details.

**Mr. Serge Imbrogno:** Sure. I guess I'd describe our supply situation as robust at this point. When you plan the electricity system, it's hard to forecast exactly what the demand is going to be. If you build too much supply initially, then you'll get into a situation where you might be in a situation of oversupply for a period of time.

We have a situation in Ontario where Pickering is going to come offline in 2024. That's 3,000 megawatts that are going to come off. So a lot of the surplus that you see today will be diminished over time, and as we bring units off for refurbishment, that's going to diminish it as well.

We're still in a good supply situation between now and then. Then, with market renewal, we're building to the point where we'll be in a position where, if we need more supply, we can acquire it through this auction mechanism. If demand doesn't materialize, then we don't have to build supply today to meet a demand that might not be there. So I think we're in a really good situation from a system perspective because we don't have to build

new supply. We have time and we can see what happens to demand.

**Mr. John Fraser:** Thank you. That leads into my next question, which is about the industrial conservation initiative, which is another part that affects supply. I've been trying to get my head around it for a while, and I have something more specific about it I'd like to ask as a follow-up, but can you just explain ICI? I know that the fair hydro plan has had an impact subsequent to this report being done, where the deltas are different now, but I don't understand how it works. It does impact some people in my community. I'll follow up after you—

**Mr. Serge Imbrogno:** Sure. I brought Steen Hume, who's the ADM of the division that focuses on the ICI. I'll just ask Steen to come up.

It is really a conservation initiative that's aimed at reducing our peak demand. Peak demand is usually driven by large industrial customers, so this provides them with an incentive to reduce peak demand. That means we don't have to build peaking plants in the future, and that benefits all consumers, whether you're industrial, commercial or residential.

I'll let Steen go through the details. I think it's a program that has delivered a lot of benefits to the system. It's an important program for a lot of the industrial customers as well. I'll let Steen walk you through the ICI.

**Mr. Steen Hume:** Thank you, Deputy Minister. My name is Steen Hume. I'm the assistant deputy minister of energy supply policy in the Ministry of Energy.

In terms of your question about a bit more of the details about ICI, and building on what the deputy had to say, the industrial conservation program is both a demand response program and also a cost-allocation mechanism. It's been in place since 2011. The industrial conservation initiative allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, which is important. It also benefits the electricity system by reducing the need for peaking generation, as the deputy mentioned, which reduces system costs that would otherwise have to be recovered by all Ontario ratepayers.

The industrial conservation program is a voluntary program, and eligible consumers are able to opt in or opt out in June of each year. Today there are about 1,100 companies enrolled in the program across a variety of sectors, such as large manufacturing, mining, forestry, data companies, greenhouses etc.

Through the program, the consumers who contribute the least to peak demand pay a smaller portion of the cost associated with electricity generation, conservation and the demand management programs. In other words, ICI participants are charged global adjustment in apportion to their contribution to the top five system peaks in each year.

Before I go further, I would like to talk a little bit about global adjustment and give you a brief overview, because it's important to the understanding of the ICI program and how it works.

The global adjustment is a mechanism that recovers certain electricity system costs. Global adjustment is calculated by the Independent Electricity System Operator based on the differences between market price for electricity and amounts owed to generators to ensure that they can recover their fixed costs.

The global adjustment, or the GA, also recovers the costs of running conservation programs in the province. The market price for electricity, known as the hourly Ontario energy price, or the HOEP, is calculated each hour and represents the marginal costs of producing power at that time. If the hourly Ontario energy price, or the HOEP, is lower than a generator's regulated or contracted rate, the global adjustment makes up the difference. When market prices exceed their contracted or regulated costs, suppliers have to pay back the difference. As a result, the global adjustment varies from month to month, responding to changes in the HOEP. Generally speaking, when the HOEP is lower, GA is higher, and vice versa. The global adjustment is also impacted when new projects come into service, contract payments take effect, or as a result of changes in demand.

The combination of HOEP and GA represents the total commodity cost of electricity. All consumers pay global adjustment, but there is variation in how different types of customers are charged. Most customers—that is, anyone not enrolled in the industrial conservation initiative—pay a volumetric charge. This means that they pay the same GA rate on every kilowatt consumed. If you're a typical residential consumer, for example, the GA is built into the price of kilowatt hour of power that you see on your bill. In some cases, the GA shows up in a separate line item on other bills.

However, participants in the ICI program are charged global adjustment based on the portion of their electricity demand compared to the total provincial electricity demand in the top five system peak hours in a year. If a consumer is assessed to be responsible for 1% of Ontario's peak demand in those five highest hours, they will be charged for 1% of the total GA cost each month through the next year.

Peak hours depend on a number of factors, such as time of day, time of year, and weather.

ICI participants manage their GA costs by consuming less during peak hours. So they work to forecast when system peaks will occur and then work to reduce consumption during those hours. They can respond using a number of strategies, such as changing operational profile or equipment.

Some of the benefits of the ICI, or the industrial conservation initiative, that we don't want to lose sight of—the industrial conservation initiative provides a number of system benefits.

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First, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build additional peaking generation facilities in the longer term, reducing costs for all ratepayers across the province. That includes residential, commercial and industrial. By keeping peak

system demand as low as we can, we are making the system more cost-effective for all ratepayers into the future.

Second, it better aligns consumer prices with consumer contribution to the total system cost. Consumers who are drawing electricity from the system at a time of peak demand in the province pay a larger portion of the cost. Simply put, ICI is fairer because it is designed to match each consumer's share of costs with a contribution to those costs.

Lastly, the lower industrial prices in ICI work to retain manufacturing load in the province, meaning that those manufacturers continue to contribute towards fixed system costs that would otherwise be borne by remaining consumers, i.e. an avoidance of stranded assets into the future.

The ICI also helps industrial consumers lower their electricity prices by one third on average, and in helping that, they remain competitive and are focused on creating jobs within the province. So we see a dual function of system benefits by avoiding future electricity costs being borne by ratepayers, but then the companies that participate are more competitive because their electricity rates are lower.

Thanks in part to the ICI, industrial electricity prices in Ontario are lower than the average price in the rest of the Great Lakes region, according to a recent US Energy Information Administration study.

We have also been taking steps to make sure that Ontario businesses are aware of the program and how it can help them improve their competitiveness and keep providing additional jobs. We've recently partnered with the Ontario Chamber of Commerce and the Canadian Manufacturers and Exporters to offer outreach programs that remind companies throughout the province of the different programs available to them that allow them to lower their electricity rates within a business context. That includes ICI but also our conservation programs targeted at business.

In terms of the history of the industrial conservation initiative and its expansion: As mentioned, ICI has been in place since 2011, but since 2011 it has gone through a number of changes to respond specifically to customer demand. At first, ICI was available to customers with a peak demand of about five megawatts. In July 2015, this was extended to consumers operating in select sectors with an average monthly peak demand greater than three megawatts. These sectors included things like mining, refrigerating warehousing and data processing.

In January 2017, we further expanded the program to include more than 1,000 customers with monthly peak demands greater than one megawatt. In addition, sector restrictions were removed for smaller industrial, institutional and commercial businesses, where eligible to participate.

Again in 2017, as part of the Ontario fair hydro plan, the ICI has been expanded again to include smaller manufacturers and specifically greenhouses with peak demand between 500 kilowatts and one megawatt. Newly

eligible participants have begun to see the impacts of their participation in the program on their bills as we speak.

Prior to the 2017 expansions, there were approximately 300 ICI participants. As mentioned, right now we have approximately 1,100 participants, many of which would not have been able to be previously eligible had we not made the changes that we've made. Expanding participation in the ICI program has reduced electricity demand during peak hours and it has reduced electricity bills for ICI participants who are able to reduce their electricity demand during those peak periods.

The effectiveness and the results of ICI, as I've highlighted, have been quite good. The ICI has been very successful at reducing peak electricity demand, which is important to our system operator. In fact, our system operator estimates that the program has reduced peak demand by 1,300 megawatts as of 2016. That's about 6% of Ontario's peak electricity demand and is the equivalent of the peak electricity demand of a city the size of Mississauga. It's also about twice as much as the output of the Halton Hills Generating Station west of the greater Toronto area.

The Ministry of Energy is focused on both meeting demand for electricity and taking costs out of the system wherever possible, as we've mentioned. Reducing peak demand has played an important role in both of these objectives.

Thanks in part to lowering peak demand, I would also note that contracts for several non-utility generators or, as we call them in our world, NUGs—these facilities have recently ended their contracts. We didn't need to re-contract these facilities, which again was a saving to ratepayers.

In addition, the second round of the Large Renewable Procurement process, LRP II, and the Energy-from-Waste Standard Offer Program have also been suspended, as we previously acknowledged, through the fair hydro plan, which is expected to save up to about \$3.8 billion in electricity system costs relative to the 2013 forecast.

Further expected reductions in peak demand due to the ICI are also factored into the cost forecasts included in our recent 2017 long-term energy plan.

The industrial conservation initiative is about fairness for all consumers, large and small. We've made the policy decision that it makes sense for electricity consumers to pay for electricity system costs proportional to their contribution to the incurrence of those costs. Further, the ICI program will continue to play an important role in helping us bring down total system costs, which will put downward pressure on electricity bills for everyone moving forward.

To wrap up and in conclusion, the industrial conservation program benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more electricity peaking capacity in the long term. Our electricity system demand is planned to ensure we have enough generation to meet peak demand. By

keeping peak system demand as low as we can, we are avoiding the need to build additional generation. This makes the system more cost-effective for all ratepayers. Our system operator estimates that the program, as I've mentioned, has reduced peak demand by 1,300 megawatts. That's important.

The ministry will continue to monitor and report on the impact of the ICI program on the electricity system, including the reduction of peak demand and the impact on all classes. The results of the ICI program can be seen monthly through the Independent Electricity System Operator reports and through the quarterly energy report from the ministry.

**Mr. John Fraser:** That's great. Thank you very much. I want to clearly establish the fact that the ICI program is a conservation program but it's also an industrial retention program as well. It's industrial policy, which is not uncommon in this province. Pre-2000, we artificially kept the price of electricity down in order to generate industry in the province. This is two steps; it helps conserve, it gives people the opportunity to conserve, but at the same time, it helps to retain industries here.

I have one comment about the ICI program. I know that there are some large grocery retailers that are part of the ICI program. I just want to mention this because I want to put on the record that I've said this to you. There is a group of operators who are small businesses but high users. They don't get captured by the fair hydro plan and they don't get captured by the ICI. They're kind of in between.

I have one in my riding, or a couple in my riding, actually, and I know that probably all members, especially members who have rural components—it's a real pressure that's in there. I think it's something that needs to be looked at.

I'll turn the floor over to Han unless somebody wants to respond.

**Mr. Serge Imbrogno:** Maybe a few comments. We recognize that there is a category in the class B that doesn't benefit from the 8% or it doesn't benefit from ICI. They will benefit on April 1. The debt retirement charge is coming off, so that will be a benefit for all the commercial and industrial. For the residential, it has already come off. That will be a 6% or 7% benefit to them. We also took the costs of the electricity system as part of the fair hydro plan, and that's about a 2% to 3% benefit. Those two together will provide some relief coming forward.

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And then we are focusing a lot on conservation programs aimed at commercial companies as well, and we're trying to get out there. We have a program with the independent grocers to try and get that message out as well. We're trying as much as we can to help people reduce their consumption and then benefit from reduced prices through these other initiatives.

**Mr. John Fraser:** Thanks very much.

*Interjection.*

**The Chair (Mr. Ernie Hardeman):** Two minutes.

**Mr. Han Dong:** I'm not sure if you have enough time to answer my question in full, but we can always continue if we get a chance to go a second round.

My question is around the market renewal program. I heard it mentioned a couple of times. It also was in the briefing this morning. I think one of the recommendations was—that was the subject. Can you tell us what that does and how that ensures reliability of our energy sector in Ontario?

**Mr. Serge Imbrogno:** I'll pass it over to Peter.

**Mr. Peter Gregg:** As I mentioned before, the market renewal program is essentially—a bit of background: When we opened the market in 2002, it was the first time we opened the market. We've been essentially living with that market structure, those programs in place, with tweaks over the years, for the last 15 or 16 years.

As the deputy minister mentioned in response to an earlier question, we find ourselves in a fairly stable supply situation. But we've also seen over the last decade a fairly substantial move. Where we used to see large-scale generation and one-way flows of power to consumers, now we've seen multiple smaller-scale, renewable generation and multiple flows of power. So it does speak to a need for new market mechanisms to make sure we're getting the most efficient cost and being as effective as possible running a reliable system.

So we embarked on a market renewal program. It's got two broad goals. One is to ensure that we procure energy in the best and most efficient way, but also to procure capacity should we need it, and capacity really in the form of new supply. We don't need the new supply now but, as the deputy mentioned earlier, when we get into the 2024 period with Pickering coming off line, we start to see our supply situation potentially being lower and we may need to procure new capacity into the system, and we would do that through an incremental capacity auction that is currently being designed now.

Other elements of the market renewal also look to replace what we had in 2002, a two-schedule market, down to a single schedule. We've been looking at implementing a day-ahead market as well. There are four broad streams that we're doing high-level design on this year.

**The Chair (Mr. Ernie Hardeman):** We'll have to stop you there. That concludes the time for the government side.

Before we go any further, I just want to point out and ask the committee to try and stick to the questions in the report so the delegation can speak—

**Mr. Han Dong:** I was—

**The Chair (Mr. Ernie Hardeman):** I'm not speaking to any individual, just generally, to keep it so that at the end of this we will have talked about the auditor's report as it relates to this issue.

With that, we'll go to the opposition side.

**Mr. Randy Hillier:** Thank you, Chair, and I will heed your advice concisely. I'll also be sharing my time with my colleague Mr. Smith.

Thank you for being here. My first question is to Ms. Leclair. The OEB has provided numerous reports and numerous recommendations over the years to the IESO which haven't been implemented. So my question to you, Ms. Leclair, is, are your recommendations and your reports technically sound, do they have merit, are they justified, are they feasible and practical to implement?

**Ms. Rosemarie Leclair:** I'm going to invite the chair of the market surveillance panel—

**Mr. Randy Hillier:** No, I'd like you to answer. Do you stand behind the recommendations of the OEB to the IESO?

**Ms. Rosemarie Leclair:** The market surveillance panel is a panel of the OEB and it acts under the auspices of the OEB. The members of that panel are selected for their competence and they're assisted by—

**Mr. Randy Hillier:** Listen, the question is, do you stand behind the recommendations of the OEB to the IESO?

**Ms. Rosemarie Leclair:** Absolutely.

**Mr. Randy Hillier:** Absolutely.

**Ms. Rosemarie Leclair:** Absolutely, we would. If you want more information about—because that was a pretty loaded question—

**Mr. Randy Hillier:** Yes.

**Ms. Rosemarie Leclair:** —with a lot of components to it: Is it technical, is it feasible, is it this? I have not prepared those reports. My colleague Glenn Leslie has.

**Mr. Randy Hillier:** But you're confident and you stand behind them?

**Ms. Rosemarie Leclair:** I'm confident that they are well-researched, that they are supported by a technical team made up of the market assessment unit that supports the market surveillance panel, and that the market surveillance panel has the qualifications to do the work.

**Mr. Randy Hillier:** Okay. To the best of your knowledge, has the IESO ever come back to you, to the OEB, and said, "If we implement your recommendations, we will suffer brownouts and blackouts throughout the province"?

**Ms. Rosemarie Leclair:** As I indicated in my opening remarks, the market surveillance panel makes its recommendations to the IESO and the IESO provides responses.

**Mr. Randy Hillier:** To your knowledge, have they ever come back to the OEB and said, "We will have brownouts and blackouts if we implement your recommendations"?

**Ms. Rosemarie Leclair:** Well, I've been there for six years and the IESO has commented in its responses about the importance of balancing reliability as well as market efficiency, as Mr. Gregg has said in his opening remarks. Reliability, when it suffers, has that as a potential consequence. So, have they used those words? I wouldn't think so. Have they commented on reliability concerns? I haven't gone back and refreshed my memory, but I would expect that they may well have commented on reliability concerns.

**Mr. Randy Hillier:** Thank you. My next question is to the deputy minister. In your opening, you said that you have layers and layers of oversight that help protect the best interests of ratepayers. I believe that's a direct quote, because I wrote it down.

We can see that there are layers and layers throughout the Ministry of Energy, the OEB, the IESO and the subsequent panels, but I challenge the assertion that they're acting in the best interests of the public when we see significant misuse, abuse, loss of monies and activities not taken that could have saved money. Indeed, I would say that these layers and layers maybe add obscurity and maybe add incompetence and, in the example illustrated by the third party, maybe even have added some layers of fraudulent activity.

Deputy Minister, you said you welcomed and appreciated the Auditor General's reports. I want to ask you a direct question because Mr. Gregg from the IESO says that the Auditor General has recommended a review and they're taking this under consideration. I want to ask you, will you direct the IESO to implement the Auditor General's recommendation number 1? It's not a review. There's a specific element, and I'm asking you, will you direct the IESO to implement the Auditor General's recommendation?

**Mr. Serge Imbrogno:** Sorry. Is there a—

**Mr. Randy Hillier:** Are you going to direct the IESO to implement the Auditor General's recommendation number 1?

**Mr. Serge Imbrogno:** I just want to make sure we're clear on what—you're referring to recommendation number 1 from the report?

**Mr. Randy Hillier:** Yes.

**Mr. Serge Imbrogno:** It says in part "implement the Ontario Energy Board market surveillance panel's (OEB panel) recommendations in an effective and timely way."

**Mr. Randy Hillier:** "And where the OEB panel submits a report to the IESO that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately."

**Mr. Serge Imbrogno:** Yes. Our response to the auditor's report is that we are going to be working with the OEB and the IESO to determine the best way to implement, whether it's through a legislative change or whether it's through some other mechanism. I think we are looking at that. It's premature for me to say exactly how we would implement that.

**Mr. Randy Hillier:** So you're willing to allow the "misuse, abuse or possible abuse of market power" to continue, then?

**Mr. Serge Imbrogno:** No. We have systems in place now that would identify that and the IESO would take action through their MACD. We'd have the—

**Mr. Randy Hillier:** We've seen from the report that your systems are not robust enough or not enforced enough because we just had a series of audits that show excessive cost and costs spent that provided no value or benefit to the ratepayers of this province. So if you're not

prepared to direct the IESO to implement that, what you're telling this committee is that you're willing to accept continued misuse and abuse.

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**Mr. Serge Imbrogno:** No, that's not what I'm saying. I've tried to answer that.

The two programs that are in place are important for reliability. The IESO has made changes to both programs over time. The underlying need of the program remains, and we've demonstrated the changes that have been made.

**Mr. Randy Hillier:** So we have to accept misuse and abuse in order to have a reliable system?

**Mr. Serge Imbrogno:** No, I'm not saying that; I'm saying that the IESO has taken actions to make the program clearer to market participants—

**Mr. Randy Hillier:** I haven't heard anything from the IESO yet that says that they're going to immediately put into place recommendations from the OEB for rules that would prevent the misuse and abuse of market power. I haven't heard that.

**Mr. Serge Imbrogno:** They have the MACD there already to ensure there is no abuse of market power, and to take actions—

**Mr. Randy Hillier:** But we know that there have been abuses.

**Mr. Serge Imbrogno:** And actions have been taken.

**Mr. Randy Hillier:** We know that the auditor's recommendation is X—it's number 1—and I haven't heard anyone here, of the three, or anybody else, say, "We accept the auditor's recommendation, and we will implement it because we do have the best interests of the public at heart."

**Mr. Serge Imbrogno:** Absolutely, we do. Maybe Peter can talk to you about some of the changes that have been made. Then maybe I can talk to you about, going forward, if there are legislative changes that are needed that we're looking at.

**Mr. Randy Hillier:** This recommendation is from the OEB recommendations to the IESO. You don't need any legislative changes for the IESO to open its ears and listen to what is being said to them from the OEB.

**Mr. Peter Gregg:** We do take very seriously the recommendations that come in from the market surveillance panel. Over the years, as I already highlighted before, particularly with the congestion management settlement credits regime, we have made multiple changes to that program as a direct response to what the MSP has advised us on. So I think the relationship has been good.

I would also point out that through our own MACD organization, where they have the authority to conduct audits, they have found inappropriate payments had been made, and we have taken action to recover those.

We have also levied fines; we have fining authority as well.

We absolutely take ratepayer interests at heart, and we do have mechanisms in place to ensure that we're on the ball.

**Mr. Randy Hillier:** Let's just follow up on that then for a minute before I turn the floor over. The audits showed that there was \$260 million of questionable reimbursements, right? The IESO figured, "We don't even have to go back and try to get that \$60 million. We'll just leave that \$60 million on the table. We will attempt, and we were successful, in getting 85% of the \$200 million," right? There is a disconnect happening here between the expectations of the Legislature, the expectations of the Auditor General, and the willingness of the IESO to actually protect the public interest.

You said it again today; it was like *déjà vu*—last week. When your audit committee rejected the Auditor General's recommendations, with the qualified opinion on the fair hydro plan, and said that, as long as they listened to their audit committee, that's acceptable enough—I heard it again today from you, Mr. Gregg, that IESO is the ultimate decision-maker. That's not true. That is not true. You are a subordinate body of this Legislature. So when this Legislature says, and when we have the confidence of an Auditor General who says, "You're not performing very well. You're leaving money on the table and taxpayers' money is being abused," you have an obligation to fix this and to accept these recommendations and to put them into play quickly—unless we're going to have brownouts and blackouts as a result.

**Mr. Peter Gregg:** I think that's well said. I don't want to leave the impression that we're not listening. In fact, I want to leave the opposite. There are a number of recommendations in this report that we're discussing today where the IESO wholeheartedly agrees. I can give examples when it comes to cyber security. I can give examples, as I mentioned in my opening remarks, when it comes to resourcing for MACD. I wholeheartedly agree with that.

In general, we find the recommendations of the Auditor General to be very, very helpful. What we're trying to do, though, is talk about the complexity of both being a system operator and a market operator. We need to balance the efficiency of the market system but also the reliability of the system. That's why these programs are in place.

I want to make sure that I leave the distinct impression that we do take that very seriously—

**Mr. Randy Hillier:** You're making it sound like this job is an impossibility, that you can't do reliability and protect the ratepayer at the same time.

**Mr. Peter Gregg:** You can do both, and that's what we try to do every day.

**Mr. Randy Hillier:** Okay. But we're not doing it very well.

I'm going to pass the floor over to Mr. Smith and we'll continue in the second round.

**Mr. Todd Smith:** Let's pick up there, then. I think that these programs were brought in at a time when we didn't have the oversupply situation that we have now in Ontario when it comes to our electricity supply in Ontario, correct?

**Mr. Peter Gregg:** Yes.

**Mr. Todd Smith:** These programs have evolved over the years. There has been warning after warning after warning, starting in 2010 and right through until 2016, regarding the Real-Time Generation Cost Guarantee program and the potentials for abuse in that program that, obviously, were occurring during that time. So why was there no action taken until 2016? Randy and Mr. Tabuns have hit on it. Why did it take until 2016 that there actually was some action? I know that this predates your time, Mr. Gregg, at the IESO, but why did it take so long?

**Mr. Peter Gregg:** Yes. With this, I think that I may actually ask Leonard Kula, our chief operating officer, to come up, because I think that he can give you a good timeline of what we did do. I'll start it off. Len, if you can come on up.

When we first kicked off, as you said, the system and the generator mix was very different back in 2002. What we were essentially looking at, from a period of between 2002 and 2009, were fuel costs—right, Len?—in terms of what was eligible cost for the Real-Time Generator Cost Guarantee program. But as we saw changes in the resource supply mix, we needed to adapt. We started to do that in 2009.

Are you able to correct anything that I've said that you think is not appropriate? You can pick up from there as well.

**Mr. Leonard Kula:** Certainly. Thanks, Peter.

**Mr. Peter Gregg:** Say who you are.

**Mr. Leonard Kula:** Leonard Kula. I am the vice-president of planning, acquisition and operations, and the chief operating officer.

You are correct. The Real-Time GCG program initiated in 2003, shortly after we opened the market, because it became clear that our generators—coal and gas generators that have long start-up and long run times—weren't getting the right signals in a five-minute market. So we needed to provide a mechanism to get them to start. In the absence of a program like this, we noticed that generators that we needed online were not coming online because they didn't have certainty from that five-minute market that we implemented in 2002.

Those conditions still exist today. We still have a five-minute market. We were leading-edge in that design of the market at the time, and it has been adopted across North America by other market operators. The need for this program is still there.

We implemented the program in 2003. Around 2009, we noted that the characteristics of our resource fleet were changing. Coal was being retired, being used less often. We moved to a gas fleet. We did a number of different things at that point in time to go ahead and change the eligibility requirements for the program and, also, to change the eligible costs for the program.

Before that, from 2003 to 2009, costs were easily auditable. When the costs were submitted, we were able to check them. But we entered into a new regime in 2009 and, recognizing that change, we ramped up our programs to go ahead and monitor what was going on in the market.



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**Mr. Todd Smith:** So when did the actual gaming of the system begin? Did that begin in 2009? I know the report doesn't look all the way back to 2003 at the start of the system, but we saw the companies starting to abuse these programs. When did that start, Leonard?

**Mr. Leonard Kula:** We changed the design of the program in December 2009 to change the eligible costs. We expected a change in the size and the cost of emissions, so we were monitoring to see if the changes met our expectations.

What we noticed was that the costs were greater than what we anticipated. We continued our monitoring and we started mounting efforts to go ahead and amplify our audit provisions, and started to more closely look at the costs that were being submitted.

**Mr. Todd Smith:** But warning after warning came from the OEB that action needed to be taken to stop this gaming of this system so that we didn't have raccoon traps, we didn't have car washes, we didn't have carpet cleaning or these types of items being expensed by these companies and paid for by the ratepayers of Ontario.

One of the questions that I have, and it may be for the deputy minister—there were at least five different energy ministers, I'm assuming, who were made aware of these types of payments that were being made that were ineligible costs, or at least they were being submitted. Why was there no action taken by the ministers or the deputy minister to try to make sure that the OEB's recommendations were being implemented by the IESO?

**Mr. Serge Imbrogno:** I would say that actions were taken to implement. I think it took the IESO a bit of time to do their auditing. When they noticed, as Len was saying, that some of the costs were higher than expected, the IESO went and did audits. I think part of the problem was the generators—it wasn't specific as to what they could claim, and they were probably just contributing some of their OMA costs to this program. I think the IESO took steps to say, "Here are your eligible costs. You can only submit this," rather than allowing them to submit costs and then going in and doing an audit after. So I think there were some practical changes that were made by the IESO.

Whether the generators that were submitting these were, as you say, gaming the system or whether it just wasn't clear what costs were eligible, they would have picked up those costs elsewhere. So it was a refinement of the program, and where the IESO noticed that others were less clear, they fined them.

**Mr. Todd Smith:** But electricity costs were skyrocketing during this time in Ontario. I mean, the price of electricity was continuing to increase by double-digit percentages every year during this time. I would like to think that the ministry and the ministers were keeping an eye on this type of situation, considering the fact that the OEB was putting this out in publicly documented reports, that this potential gaming was occurring in the system.

We know there were nine companies that were mentioned in the report, or at least nine companies that were

gaming the system in the report. We know that Goreway was one of them; we know OPG was another. Who were the other seven?

**Mr. Serge Imbrogno:** I'll leave that to the IESO to answer.

**Mr. Peter Gregg:** We're not able to disclose those names due to confidentiality provisions in the market rules. So I'm not able to disclose those.

**Mr. Todd Smith:** But the minister has said that they were prior to—actually, here's exactly what they said. Ministers Duguid, Bentley, Chiarelli, Thibeault: Were they all made aware of these problems—sorry, I'm missing my quote here somewhere.

I don't understand why those companies can't be disclosed. Why do we just have Goreway? Why do we just have OPG?

**Mr. Peter Gregg:** My understanding around—I think OPG self-disclosed, and I believe Goreway was disclosed through the report of the MSP. But the IESO is not at liberty to disclose those individual companies due to the confidentiality provisions in the market rules.

**Mr. Todd Smith:** These are ratepayers in Ontario who are footing the bill for this, to the tune of millions and millions of dollars.

*Interjection.*

**Mr. Todd Smith:** Mr. Tabuns asked the question earlier: Why weren't the police called in with regard to what was happening at Goreway? We actually did ask the OPP to investigate what was happening at Goreway. We should know, because it's taxpayers' dollars. It's the ratepayers of Ontario who are footing the bill for this type of ineligible expense, this type of gaming of the system.

**Mr. Peter Gregg:** Again, I would repeat that through MACD, which is a ring-fenced entity of the IESO, they do have the authority to conduct investigations, to conduct audits, to recover funds and to administer fines where necessary. We have a long track record of doing that. Where we've found ineligible costs submitted we've gone back and recovered those funds.

Another important change that I would mention when it comes to the GCG program is that we did move, a number of years ago also, to predefine eligible costs up front. Rather than doing a payment and then an audit afterward, we said, "Okay, here are the costs that are actually eligible" and we'd have a predefinition of that up front, so there was a lack of any kind of uncertainty that would come from that. We tweak and make changes to these programs as we go along.

**Mr. Todd Smith:** I just found this quote here—it was in a December 7 report from CTV—that both the vice-president from IESO and the former Minister of Economic Development—

**The Chair (Mr. Ernie Hardeman):** If we could stop you there. I'm so interested I missed that your time is up.

**Mr. Todd Smith:** Thank you, Chair.

**Mr. Peter Tabuns:** And you were just rolling, Todd; I know.

**The Chair (Mr. Ernie Hardeman):** We'll go to Mr. Tabuns.

**Mr. Peter Tabuns:** Thank you. I'm going back to follow along the line of questioning that I left off at.

There is a 23-member working group advising the IESO on strategic policy and market design issues—a substantial group, one that you're going to pay attention to. Included in the members of that group are:

—Resolute Forest Products, found by the OEB panel to have obtained \$20.4 million by misusing market rules, and found by the IESO to have broken market rules by repeatedly submitting false bids to withdraw electricity from the grid;

—a market participant being investigated by the IESO for a potential \$20 million regarding major breaches of market rules; and

—a market participant that submitted ineligible cost claims under the standby cost recovery program estimated at about \$51 million.

Why on earth are you allowing companies that have either been found to have cheated and scammed the system or are being investigated for cheating and scamming the system to be part of a technical working group that's writing recommended rules for the new shape of the system?

**Mr. Peter Gregg:** Again, I would clarify that the market renewal working group is just that. It's a group of stakeholders and market participants. We have other forums as well in our robust stakeholding regime. We have the stakeholder advisory committee that we meet with on a regular basis, and that meets with our board. We also have a technical panel. We have a broad range of stakeholding initiatives.

When it comes to market renewal, we're happy to receive input from members who are market participants, but again, as I said, it comes down to the IESO to ultimately make recommendations and for our board to approve any changes to market rules.

**Mr. Peter Tabuns:** Fair enough comment, I guess. Again to the deputy minister: It makes sense for us to get input. I've sat in this room many a time, having people come in and make presentations on bills, and that's arm's-length enough for me, frankly.

But to have people on the technical working group who you are investigating—I don't want advice from cheaters and scammers. I want them locked out. They have given up a certain amount of legitimacy when they're stealing money from the people of Ontario.

The Auditor General suggests the immediate prohibition of representatives from companies that have been found by the OEB or the IESO to have misused IESO programs from participating in the initiative working group. That seems entirely reasonable to me.

Deputy Minister, what is your ministry going to do to ensure that the people of Ontario are protected from cheaters and scammers, and that cheaters and scammers, by their very actions, have given up the right to have input?

**Mr. Serge Imbrogno:** I think it's important that the IESO gets stakeholder feedback. I understand what you're saying—

**Mr. Peter Tabuns:** There are a lot of stakeholders out there, you know. There are a lot of stakeholders who I am going to assume operate honestly.

**Mr. Serge Imbrogno:** May I just—

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**Mr. Peter Tabuns:** I'm happy to listen to them. I may disagree, but I don't think they're trying to rip me off.

But if you're having people advising the IESO on how the system should be shaped after they have been breaking the rules and taking in tens of millions of dollars, why on earth would we give them this sort of consultative role?

**Mr. Serge Imbrogno:** Maybe I can just give an example of OPG. I think from OPG's perspective—and I'm not saying that it applies to everyone else—it was a sense of what the rules are for applying for the program, when they were a bit vague and more costs were included. When they were specific, they were able to make adjustments.

I'm not saying that they're the same as a Goreway type, where a penalty was imposed, but I think there were legitimate reasons why some generators bid into the program using different metrics, and then the IESO firmed up and said no, these are the only eligible costs. I think it's important just to clarify these are legitimate programs and people are applying for these programs to supply—

**Mr. Peter Tabuns:** You know what? There may be people, Deputy Minister, who may misunderstand a rule because of a subtlety. But the wording here is “repeatedly submitting false bids.” That's not a misunderstanding of the subtle difference in a rule, nor “major breaches of market rules.”

**Mr. Serge Imbrogno:** Right. No, I understand that.

**Mr. Peter Tabuns:** I don't want advice from these folks. They should be under watch so they don't cheat us again. They shouldn't be part of this process. Are you going to take the Auditor General's recommendation to heart and use the power of your ministry to protect the people of Ontario or not?

**Mr. Serge Imbrogno:** No. I think the IESO has made some changes to who is on their advisory committees.

**Mr. Peter Tabuns:** And?

**Mr. Serge Imbrogno:** And they can take those appropriate changes—

**Mr. Peter Tabuns:** Are you going to be in compliance with this recommendation?

**Mr. Serge Imbrogno:** I think we have to be careful about who you exclude and who you get advice from, and whether, in the end, that advice goes to the IESO and its board, and it's advice to that board. I think the IESO has already taken some steps to remove some people from its stakeholder advisory. They have the power to do that. Where they felt it's appropriate, they have done that already.

**Mr. Peter Tabuns:** So you're not saying to me that you're actually going to comply. So someone who

engages in major breaches of market rules or repeatedly submitting false bids—that's okay if they're around.

**Mr. Serge Imbrogno:** I'm not saying that. I'm just saying—

**Mr. Peter Tabuns:** Well, then, are you going to comply with the Auditor General's recommendation or not?

**Mr. Serge Imbrogno:** Well, I'm leaving that at this point. The IESO has taken some actions, and whether they need to take more actions—we've talked about reviewing, going forward, with the OEB and IESO. This could be one of the things that we review. I just can't say today that we are directing the IESO to remove people from its stakeholder advisory committee or any of the other committees that it has.

**Mr. Peter Tabuns:** Well, politically, you're the one that is held accountable, and in the end I expect that you will hold these bodies accountable. I want to know if, given the authority of your ministry, you'll be making sure that the Auditor General's recommendations are carried through—and if they are not, that there are consequences for those who report to the ministry.

**Mr. Serge Imbrogno:** We have said we are reviewing those, whether legislative changes are required or other administrative changes between now and—

**Mr. Peter Tabuns:** And when? The end of time, or a shorter period?

**Mr. Serge Imbrogno:** It's hard for us to make legislative changes now, as you know, so I think that's our—

**Mr. Peter Tabuns:** Well, then, administrative changes.

**Mr. Serge Imbrogno:** That's our review process and we're starting that review.

**Mr. Peter Tabuns:** You're starting the review. When do you expect the review to be done?

**Mr. Serge Imbrogno:** It depends on what the changes are. We have an OEB modernization panel that has been created to look at relationships between stakeholders and the OEB, including the IESO, so there's an opportunity there for changes. As Peter has said, they are doing their market renewal initiative, which—

**Mr. Peter Tabuns:** Deputy Minister, that's fine. I heard you. You're loud and clear. The Auditor General noted that at the time of her audit, the oversight division in the IESO had identified five potential major violations requiring large-scale investigations. However, only one investigation was underway. Four others were suspended because of a lack of resources. Why is protecting people from cheating and scamming not a priority for the Ministry of Energy and the bodies that report to it? Why is that?

**Mr. Serge Imbrogno:** It is an absolute priority, and I'll let Peter explain the resource question—

**Mr. Peter Tabuns:** Just a second. If you're hanging fire on four investigations, suspended because you don't have enough staff, that doesn't say to me that that's a priority. You've got something like 43 investigations of minor breaches that are backlogged. Okay. I think that's a problem, but let's say they're minor. You've got four

major ones that you don't have enough staff to investigate. Clearly, it's not a priority, and we could be losing tens of millions of dollars. Why is it not a priority? You can say it's a priority, but if you don't allocate staff and money, then it's not a priority. Why is it not a priority to you?

**Mr. Serge Imbrogno:** It is a priority, and I'll let IESO explain—

**Mr. Peter Tabuns:** Then why haven't you allocated staff and money? If they haven't, why haven't you held them accountable? You're the deputy minister.

**Mr. Serge Imbrogno:** Right. Let's let Peter explain, and then we can have that conversation.

**Mr. Peter Gregg:** I think I'll ask Glenn McDonald, who is director of the MACD, to come up and he can add some clarifying points as well.

I began my role at the IESO approximately eight months ago, and as part of joining the organization, I looked across the organization and included in that was MACD. Glenn and I have had a number of discussions around business planning, to ensure that he's got enough resources and the right resources at his disposal to conduct the audits that he sees as a priority. It's been the subject of several discussions, and it's a commitment from me that I've given to Glenn and it's a commitment that I've made to my board of directors as well, to ensure that an appropriate level of resourcing, quality of resourcing, experienced resources are there to ensure we do the priority audits.

**Mr. Peter Tabuns:** I'll be honest—my time is short. The Chair, as charming as he is, will cut me off in the middle of a great question, so I want to get in what I can.

**Mr. Peter Gregg:** Sure.

**Mr. Todd Smith:** He's a charmer.

**Mr. Peter Tabuns:** He is a charmer.

When do you expect things to be in place so that we can actually pursue people cheating the system?

**Mr. Peter Gregg:** Do you want to—say your name—

**Mr. Glenn McDonald:** Yes. Glenn McDonald, director of the market assessment and compliance division, referred to as the oversight division in the Auditor General's report.

Peter's comments reflect our conversations. We have had staff added in terms of those investigations you're referencing. We are acting on three of them right now. We've added two new staff since the time of the Auditor General's report. I feel satisfied that we are able to now move on these.

**Mr. Peter Tabuns:** So when can we expect a report back on those investigations? Can you tell us—are they going to be resumed, the ones that have been suspended?

**Mr. Glenn McDonald:** The ones I've referenced have been resumed—

**Mr. Peter Tabuns:** The ones that have been noted by the Auditor General, the four that were suspended because you didn't have enough resources.

**Mr. Glenn McDonald:** Three of the four remaining investigations have been—her report was in December and we've added staff that started in January and Febru-

ary. They're getting on board and we're taking those cases now.

**Mr. Peter Tabuns:** I just want to say, thank God, Auditor General, that you look at stuff, because otherwise, things would not be investigated. They would be left to drift. No offence to you, sir, but that's our experience here.

Again, I know my time is limited, but your oversight division's computer system lacks functionality, according to the Auditor General:

“—it lacks the basic functions needed to analyze trends in the information it contains;

“—it is prone to freezing ... staff informed us” while they were showing us how it worked “that ... the system would crash if they demonstrated certain functions; and

“—staff are unable to enter fines issued to generators where the fine amounts are more than five digits,” which I think is a handy way of controlling fines, but not useful to the people of Ontario.

“In the absence of a sufficiently functional computer system, oversight division staff manually track and analyze some market activity information in spreadsheets.”

Do we have Marley and Scrooge in the backroom doing your accounts? This is the 21st century.

**Mr. Peter Gregg:** Again, I put this in a category of very valid recommendations from the Auditor General, like the one you previously mentioned around resourcing. I've certainly taken those recommendations seriously as I've entered my new job. This is another area of focus that Glenn can add some details to that we have taken action on our systems to ensure that we have a modern system to track these things.

Glenn, could you add some details?

**Mr. Peter Tabuns:** When can we expect a report that all this is done?

**Mr. Glenn McDonald:** Right now we're piloting a system that the IT group at the IESO has helped us bring in place. We've always been using a litigation support system for evidence on our major cases. What you're referencing is a case history, case tracking system. There are two types of systems. One we've always had, the one—and I support the recommendation that we should move towards a more sophisticated system. We're now using a system on a pilot basis, and as we work out the kinks, it'll be in play—by Q3 of this year we'll have that system fully operational.

**Mr. Peter Tabuns:** Thank you for that.

So, Deputy Minister, why has this not been a priority for your ministry? Why does it take an AG report and a public hearing for things to actually move forward? Why for years have we had understaffing in investigation? Why for years have people been cheated by this system? Why has this not been a priority for your minister and your ministry?

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**Mr. Serge Imbrogno:** It has been a priority, and we have said there have been changes. The specifics of whether they need to upgrade their IT system—that's

something that the IESO and the IESO board need to be on top of. The ministry would review the business plan that's provided by the IESO, and the IESO would make recommendations based on that business plan, what resources they need.

**Mr. Peter Tabuns:** So why weren't you on top of them?

**Mr. Serge Imbrogno:** We were on top of them to the extent that we needed to ensure that they would report in on what actions they were taking—

**Mr. Peter Tabuns:** Did they ever tell you they couldn't pursue investigations because they didn't have staff?

**The Chair (Mr. Ernie Hardeman):** I hate to do it again, but that does conclude your questioning.

**Mr. Peter Tabuns:** Oh, come on. Chair.

**The Chair (Mr. Ernie Hardeman):** The government: Ms. Sandals.

**Mrs. Liz Sandals:** One of the things that I was responsible for at Treasury Board was cyber security and risk management. Those were a couple of portfolios that I was quite interested in there. I'm wondering—because the auditor talks about cyber security and some issues around cyber security, and certainly I think we all recognize that cyber security is a growing threat and that risk management is becoming a much more important topic in all sorts of corporate settings, I wonder if you could talk a bit about what the IESO is doing about cyber security, managing risk and reducing the vulnerability of the electricity system to cyber security issues.

**Mr. Peter Gregg:** Yes, absolutely. Thank you for that question. It is a major area of focus for the IESO as we look to maintain a safe and reliable electricity system. I mentioned before that over the last decade, we've gone from relatively few centralized generation facilities to literally thousands of distributed generation systems connected to both the high-voltage bulk electricity system and the distribution grid. They're all connected to the Internet in some way and a lot of data flows there.

You've seen a change in the resource supply mix, a change in the threat index that would come from that. I would also add that as well as being under the purview of the Auditor General to conduct audits on us, we also need to abide by standards that are set out by the North American Electric Reliability Corp. They develop and provide standards for all system operators and all utilities across North America, and they've got an audit regime as well. As part of their audit, they'll look at operational readiness, operational plans, but they'll also look at what they call critical infrastructure protection assets, so those critical assets when it comes to cyber security.

I'm pleased to report that we had an audit by the Northeast Power Coordinating Council that conducts the audits for us on behalf of NERC last fall, and it was under the newest regime of critical infrastructure protection, which was version 5. I'm pleased to say that we passed that audit with no findings.

That being said, it's one of those issues that you did rightly identify—the increasing number of threats, the

increasing complexity of the threats—and we can't afford to ever rest on our laurels when it comes to cyber security. We are, as I mentioned, in the final stages of recruiting a new chief information officer who will bring a great wealth of experience to the organization to help build on the expertise we've already got.

We've also been reaching out and working on a partnership with, as I mentioned earlier, the CSE, the Communications Security Establishment. If you followed the last federal budget, they've got over half a billion dollars in additional funding to assist them to look at 10 core critical infrastructure areas in Canada, the first three being the power sector, telecommunications and the financial sector. I'm pleased to report that we've established a very positive working relationship with that organization with respect to information-sharing and also to make sure that we can leverage their expertise in terms of any kind of threat response that we've got.

So it's an area that I think we're active in on several fronts. We're proud of our ability to be thought leaders in this area. We also work with the OEB. We also work with local distribution companies to make sure that any of the information we have or best practices that we can bring to the table are available to them as well.

**Mrs. Liz Sandals:** I'm curious about the interaction and some of the issues you would have, because you're working with everybody from OPG, which is big, sophisticated and has their own very sophisticated security, given the nature of the nuclear business, right down to somebody who is a very small generator. Then you're also dealing with distribution companies, many of which have a whole bunch of major municipalities, but again, right down to some very small distribution companies that just have one little town. I'm wondering how you deal with the challenge of having that huge variation in the sophistication of both the supply and distribution.

**Mr. Peter Gregg:** You've identified a really interesting area around the whole supply chain. That is a major area of focus across North America and in Ontario. I guess a direct answer to that, when it comes to—you mentioned OPG. We do engage at the executive level with companies like OPG, Toronto Hydro and Hydro One, which are at that sophisticated stage. We've got mechanisms to engage with them.

We also engage directly with local distribution companies. We hold summits on a regular basis to bring in experts—our own expertise but also industry expertise or beyond industry expertise—to share information. We most recently have started to work with the Canadian Cyber Threat Exchange—CCTX. They are a federally mandated organization to assist critical infrastructure in terms of information-sharing. We're working with them to also ensure that local distribution companies can get the information from them as well; so partnering with CSE and CCTX and bringing that information to the local distribution companies.

I guess the short answer is, we're trying to engage on multiple levels and at appropriate levels to make sure that people are taking the action they need to—

**Mrs. Liz Sandals:** So do you find yourself almost as the trainer in some of these interactions?

**Mr. Peter Gregg:** I'd say training is really important internally. It's a huge part of our program, regularly training employees to be aware of what the threats are. I'd say when it comes to other entities across the sector, we're not training but it's more the information-sharing—sharing best practices, making sure they're aware, assisting them.

**Mrs. Liz Sandals:** And then they would be taking some of that information that you're sharing and presumably doing their own training?

**Mr. Peter Gregg:** Correct.

**Mrs. Liz Sandals:** Is there an interaction at all between OEB and IESO with respect to cyber security? I have no idea how that works.

**Ms. Rosemarie Leclair:** Maybe I can speak a little bit on an initiative that the OEB launched almost two years ago. The issue of cyber security is clearly one that is an emerging issue and everyone is grappling with what to do. The OEB identified back then that there were all kinds of standards at the bulk level and very few standards, if any, at the distribution level. You're only as good as your weakest link. So having done that, while it's not technically an OEB thing, we recognized, in the public interest and in our capacity as protecting consumers and protecting from risk, that we needed to do something. We recognized the issues. Remember that you identified specifically the different scale at Toronto Hydro versus Hydro Hawkesbury, a totally different scale and a totally different focus and capability.

We brought a cyber security expert on staff at the OEB and initiated a project in consultation with a full working group of local distribution companies, supported by the Electricity Distributors Association. We are now coming close to the end of that initiative and, as part of that, what we've developed is a framework that applies to all LDCs in the province of Ontario, where they have to go through an annual risk assessment. Having done that risk assessment, they have to certify to the board that they've done the risk assessment, that they've identified the weaknesses and that they have an action plan to address those.

The board does not want to have accountability for that, so we don't want to know what's in their risk assessment, we don't want to know the results of it, we don't want to know the details, plus we don't want to make ourselves at risk of containing information, but there's an annual reporting requirement that says that they must take a look at that.

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Then the follow-up: Obviously, we have different follow-up mechanisms. One of the follow-up mechanisms is ensuring that when they come before us for their rate applications, that it's financially reflected in their plans.

**Mrs. Liz Sandals:** That's my next question. Thank you.

**Ms. Rosemarie Leclair:** We also recognize that not everyone has the financial capacity to undertake the skills development. I think the training and the education that Peter alludes to is very much at the core of all this. We've identified best practices for them: having it be a regular item on their board agenda, having it be at the executive table, and sharing of expertise. We're calling on the IESO to actually be the lead agency to ensure that that sharing of information actually happens.

**Mr. Peter Gregg:** We're very supportive of having that role.

**Mrs. Liz Sandals:** Okay. Actually, that's good to know because of the diversity of supply and the diversity of distribution. It's good to know that there's a coordinating OEB and then a more hands-on role at IESO.

I'm going to turn it over now to my colleague MPP Dong.

**Mr. Han Dong:** How much time do I have?

**The Chair (Mr. Ernie Hardeman):** About seven minutes.

**Mr. Han Dong:** Seven minutes, okay. Well, Peter, first of all, thank you. Do you want to finish off your answer on the market renewal, if you have any more to add to what you previously said?

**Mr. Peter Gregg:** I'd like to bring Leonard up, who has got accountability for that. I tried to respect the two minutes and I gave an eye-level overview of it, but Leonard, if you can add some more detail to the four streams and what is involved, that would be helpful.

**Mr. Leonard Kula:** Thank you. As Peter spoke about earlier, there are four major initiatives in the market renewal program. Three are related to the energy stream.

At this point in time, we have processes in place to dispatch, in real-time, and to calculate electricity prices, as I mentioned before, on a five-minute basis. We have processes, in the hours-ahead, to make sure that we have the right generation available to us in order to balance supply and demand. We also have a process in place, day-ahead, to go ahead and determine what the right set of resource commitments are at that time frame. These three activities, we find, are the right mechanisms in Ontario to go ahead and reliably and efficiently prepare for power system operations.

But these mechanisms are mirrored in other electricity markets across North America. We are looking to implement a new design, an altered design to accomplish these same functions but in a more efficient manner. We are going to benefit from the evolution of thought of other entities across North America that are trying to balance supply and demand. There have been a lot of advancements in how you do that. These enhancements will work effectively for us in reflecting the evolved nature of the resource fleet in Ontario, the change of the supply mix from a coal-based generation fleet to something that is much cleaner with gas generation, wind and solar that is seen in Ontario.

Ontario has been at the forefront in that resource mix change. Other jurisdictions are going through that as well

and altering the market mechanisms to go ahead and interact with that resource fleet effectively.

With regard to those three time frames—day-ahead, hours-ahead, real-time—we are currently executing processes. We are going to take advantage of the learnings from across North America and implement enhanced mechanisms to go ahead and allow us to deliver reliability in a more efficient manner.

The fourth initiative that we are looking to implement is a thing called an incremental capacity auction. What it does is, it builds on a market design function that we currently execute, which is a demand response auction. Ontario has been at the forefront of allowing consumers to respond to prices in electricity. When we opened the market in 2002, we had a number of large industrial consumers in Ontario that bid into the electricity market and, depending upon the five-minute price, would actually get a dispatch instruction from the IESO to go ahead and reduce their consumption and provide a different type of resource. We were North American leaders in that type of program, and we've enhanced it since.

One of the things we have done is, we have implemented a thing called the demand response auction in Ontario, which allows industrial consumers to go ahead and respond to market conditions and reduce their consumption and provide benefit for both themselves and Ontario.

We are going to enhance that program and expand it by making it a mechanism for all types of resources in Ontario to provide capacity. That is the supply resources that we need. We have found, by looking at our neighbours, that a mechanism like a capacity auction is something that provides great benefit for ratepayers. It provides a level playing field. It provides a forum for new technologies to go ahead and compete. We note that there are all kinds of new technologies, new players in the market, that are returning value for Ontario.

An example of the value of competition: One of the services that we procure in Ontario through competitive means is a service called regulation, a second-by-second balancing. As a system operator, we have needed that service for decades. We have had traditional suppliers—gas generators, coal generators, hydroelectric facilities typically provide that—but we need more in Ontario as the system evolves.

We ran a competitive procurement in 2017 for additional balancing services, regulation services. The successful respondents were two storage facilities, two battery facilities, that are going to provide about one third now of our balancing services in Ontario at significantly favourable prices, to benefit Ontario ratepayers at costs lower than we've seen in the past with the traditional resources.

We've noted the value of competition for new technologies. We find that a stream like the incremental capacity auction will allow us to go ahead and provide a level playing field to encourage all kinds of resources to submit bids to provide supply in Ontario.

**The Chair (Mr. Ernie Hardeman):** That concludes the time. It's a great place to stop.

**Mr. Han Dong:** That was seven minutes?

**The Chair (Mr. Ernie Hardeman):** That's the seven minutes.

Randy Hillier.

**Mr. Randy Hillier:** Thank you. I'm going to ask this question first off, and I'll just phrase it up this way: Public accounts gets many ministries and many agencies of the government to appear before it, responding to the Auditor General's reports. Invariably, what we find is that a ministry or an agency will come before the committee and will say, "We have reviewed the Auditor General's report. We accept the recommendations. We are implementing the recommendations, and here is a scorecard on where we are in the implementation of those recommendations." That's invariably how it happens until we get to the Ministry of Energy and the IESO. Then we get a very, very different response. We get these words of deflection, words that don't actually commit to anything other than a commitment to do commitments, and that's about it. So I'm going to ask this question to both the IESO and to the deputy minister.

It certainly appears to me that this committee and the Auditor General are being frustrated in their responsibilities by your words and your performance here. I've listened to the third party, their comments. I've listened to your responses, and there is clearly an unwillingness to be forthright and state on the record what you're going to do or what you're not going to do.

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I've got to ask this question: Is this deliberate to frustrate the Auditor General? Is it deliberate to frustrate this committee, and if so, why? Have you been directed to do so? Has the IESO been directed by the ministry to frustrate the Auditor General? I'd like to know your response to that.

**Mr. Peter Gregg:** If I could go first?

**Mr. Randy Hillier:** Yes.

**Mr. Peter Gregg:** Absolutely not, and it is not our intent at the IESO to frustrate the efforts of the Auditor General. I would hope that when you see our responses to the recommendations that are specific to us—there are a number that fall under the category of where we agree. An example of that is where there is a recommendation that spoke to more independence of the market assessment compliance division. We've made that change. Glenn and his organization do not report to me. From a governance perspective, they report to a committee of the board of directors. That was a very valid recommendation. We completely agree with that.

**Mr. Randy Hillier:** So let me ask this question. I'm going to pose this as an undertaking that the IESO responds back to this committee on each of the recommendations in the same fashion that we've come to expect from every other agency and every other ministry—responds directly to these recommendations: when you're doing them, what status are they and when you expect them to be complete. If there is a reason why you are not going to adopt it, then you explain why.

That's the undertaking that I would like to see from the IESO to this committee. Would you be prepared to do that?

**Mr. Serge Imbrogno:** We have done that. We have provided the committee with the auditor's recommendations and our responses—

**Mr. Randy Hillier:** I've seen that, but where—

**Mr. Serge Imbrogno:** Some of them take time. Like for the ministry, we will be reviewing legislation to determine whether any changes are required, whether there's sufficient powers within MACD, whether the OEB needs more authority to review market rule changes. It's going to take time. We've said in here that by the end of the year we'll have that review done. That doesn't mean that there aren't changes happening.

**Mr. Randy Hillier:** Does that mean—

**Mr. Serge Imbrogno:** There are changes that the IESO has been making and will continue to make, but we have tried to be as explicit as we can about each recommendation in our response.

**Mr. Randy Hillier:** Okay. I'm going to ask one last question before I turn it over to Mr. Smith, and that is this: The market renewal initiative—because that's been talked about a lot. As the Auditor General identified, we have this working group. Now I know there have been changes to it, changes that came about as a result of exposure. We have a 23-member working group that is providing advice, and in that group were a number of people and organizations who were conducting activities that abused the system. They were gaming the system. I'm just going to say, a child would know better than to set up a working group to set up the rules and then invite the people who they know are gaming the rules to be in that working group.

Both the IESO—and I understand that's maybe before your time, but the deputy minister was there in that role at that time. How could you possibly ever have permitted that to happen? To me, that is just an abdication of competencies when you have such a large organization as the IESO structure a working group in that fashion, who they know have gamed the system, who they know have been under investigation and have committed things that were not in the best of the public interest. Deputy Minister, how did you ever permit that to happen?

**Mr. Serge Imbrogno:** The structuring of those stakeholder advisory committees and groups are the purview of the IESO. They have—

**Mr. Randy Hillier:** So you don't look over it at all? You don't have an interest in what's going on?

**Mr. Serge Imbrogno:** Well, there's definitely an interest in what's going on. I think it's important that the IESO gets input from all the generators.

**Mr. Randy Hillier:** Even the ones that are scamming them?

**Mr. Serge Imbrogno:** Well, it's at the discretion of the IESO who they put on those panels.

**Mr. Randy Hillier:** Do you think that's appropriate, that people scamming them are going to be the ones who are providing them with direction?

**Mr. Serge Imbrogno:** Well, the language about scamming—I'll leave that to the IESO. Whether they conduct investigations and then they agree on remediation or whether you kick someone out because there was a disagreement with the IESO, I think that's for the IESO to answer. But I think they need to "stakeholder" with natural gas generators, OPG. It's very difficult—

**Mr. Randy Hillier:** Goreway, yes—listen: I've stated—

**Mr. Serge Imbrogno:** Well, specifically on Goreway—

**Mr. Randy Hillier:** I think it's absolutely atrocious. I don't know what words would describe that level of incompetence, where you would have a working group of people that you know are engaged in inappropriate activities being hired, engaged and employed to make the rules for themselves. That is a failure of monumental proportions, in my view.

I'll cede the floor to Mr. Smith.

**The Chair (Mr. Ernie Hardeman):** Mr. Smith.

**Mr. Todd Smith:** Thanks very much. We know that there were nine gas and coal companies that were gaming the system for \$260 million over that nine-year period that Mr. Hillier has been talking about, and we know that the program is still in place. Are we confident that these companies are no longer billing for these ineligible costs? Can we assure the ratepayers of Ontario that this type of behaviour is no longer happening?

**Mr. Peter Gregg:** I'll take that. With respect to the generator cost guarantee program, which I think you referenced, a change that was made—I believe in 2014—was to ensure that eligible costs are predefined up front, so that generators know the category of cost that's eligible and what specific costs are eligible prior to committing to the program. I think that has gone a long way to alleviate any future problems. MACD continues to have the right to conduct investigations and audits where they see any kind of inappropriate activity, and they will continue to do that.

So everything within our power: I would give you that assurance. Are we going to be able to catch everything all the time? It's a tall order to say, but we're making all the best efforts to ensure that we can protect the ratepayers' interests, yes.

**Mr. Todd Smith:** Because we know that electricity customers have lost faith. They have lost faith. They get their bill in the mail and it doesn't make sense to them. They don't believe it. They don't believe they're using the kilowatt hours that it's saying on their bill that they have used. I'm one of those customers. I don't believe it half the time.

Then they see a story come out where companies are billing for raccoon traps and scuba gear and carpet cleaning and car washes—and that's only part of it, obviously; that's not making up \$260 million. But people have lost faith that there's any oversight in our electricity sector; they really have.

I know that the opposition parties don't feel really comfortable with the answers that we've been getting back here today. I don't think we're any more confident

than we were coming in here today. I don't know if the Auditor General's office is any more confident than they were after putting this information out there for us to digest.

Ultimately, I guess, who should be held responsible for all of these ineligible costs ending up on electricity customers? Should it be the companies—the generators—that overbill? Should it be the IESO? Should it be the Ministry of Energy? Who, ultimately, should be held responsible?

**Mr. Peter Gregg:** You're referring to ineligible costs in these programs?

**Mr. Todd Smith:** Yes.

**Mr. Peter Gregg:** I would answer that by saying that that is a big reason for the existence of the market assessment and compliance division: to be able to conduct investigations and audits to identify ineligible costs, recover that money as they see fit, levy fines where it is appropriate to levy fines and return those funds back to legitimate market participants—ultimately, ratepayers.

**Mr. Todd Smith:** But when I asked the question, previous to being cut off there by our eloquent and gentle Chair, we were talking about the confidentiality that's in place. We don't know. Outside of Goreway and OPG, we don't know who, ultimately, is responsible for these ineligible costs ending up on electricity bills across the province.

What I was getting at was that on December 7, there was a report on CTV where both a VP from the IESO and the former Minister of Economic Development said that they had no issue with disclosing the remaining companies that had been kept confidential. Why haven't those companies been disclosed to the electricity customers who ultimately ended up paying for these ineligible costs?

**Mr. Peter Gregg:** As I said before, there are set-up market rules, and in those market rules there are certain confidentiality provisions that don't allow me to share with the committee the names of those other generators.

**Mr. Todd Smith:** I mean, we can kind of figure it out. There are only so many natural gas companies in Ontario. There is only one coal company. Clearly, that was OPG. It doesn't take a rocket scientist to figure it out, but it's confusing to people that while Goreway has been identified, the others have not.

**Mr. Peter Gregg:** No, I understand.

**Mr. Todd Smith:** Let's go to the ICI program, then, in the few minutes that we have left. Mr. Hume was talking about the program earlier and the increased number of participants in the ICI program. The report states that electricity charges for residential and small business ratepayers are increasing, while the rates for large industrial ratepayers are shrinking. Is this going to have an effect on the 25% decrease on ratepayers' bills? That's a question that comes from this report.

**Mr. Serge Imbrogno:** I can answer that. I'll ask Steen to come up if I need some backup.

When we did the 2017 long-term energy plan, we would have factored in the costs related to shifting some



of those peak-demand costs to other ratepayers and also the benefits of not having to build additional peak demand. That would have all been factored into the 2017 long-term energy plan and that would have all been factored into the Ontario fair hydro plan. Both the benefits to the system as a whole and the allocation of the cost would have already been factored in, so there shouldn't be any incremental change in the impact on residential ratepayers.

**Mr. Todd Smith:** On page 331 of the auditor's report, it states that the ICI "results in increasing the electricity charges for residential and small business ratepayers." That's what it says.

**Mr. Serge Imbrogno:** Our perspective is that it's an allocation of the costs that is more appropriate. We acknowledge that that would appear to be a shift in some of those costs from large industrials to non-class-A customers.

**Mr. Todd Smith:** Do you have numbers on how many were shifted from class A to class B in terms of millions of dollars?

**Mr. Serge Imbrogno:** We have megawatts that—I think the auditor has the number in her report, and I'm saying that has all been factored in. But on the other side, there's also the benefit of not having to build those peaking plants that we factored into the long-term energy plan—

**The Chair (Mr. Ernie Hardeman):** And with that, that does conclude the time for the official opposition, too. That concludes the interrogation. We thank you very much for coming in this afternoon and helping us with our report.

We will wait for the clearing of the room and then we will bring in legal personnel to do a number of business—where we'll proceed to from here. We'll just recess for a minute or two to clear the room.

*The committee continued in closed session at 1443.*





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