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BY EMAIL & REGULAR MAIL

March 16, 2011
File No.: 101926.1056

Kirsten Walli
Board Secretary
Ontario Energy Board
PO Box 2319
2300 Yonge Street
Toronto, ON M4P 1E4

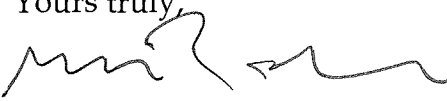
Dear Ms. Walli:

**Re: Independent Electricity System Operator – Fiscal 2011
Fees Submission for Review: EB-2010-0046**

I enclose for filing the Settlement Proposal agreed to between the IESO and all intervenors who participated in the Settlement Conference on March 8, 2011 (the "Intervenors").

As stated in the Settlement Proposal, the IESO and Intervenors agreed to a settlement on all issues contained in the Board-approved Issues List (with the exception of Issue 3.3) and the Intervenors agreed to the IESO's proposed revenue requirement, capital expenditures and fees. Subject to the Panel's approval, the IESO and Intervenors agree that it would be appropriate to determine Issue 3.3 (which concerns the IESO's proposal for treatment of its 2010 accumulated operating surplus) by way of brief oral submissions based on the existing evidentiary record.

The IESO hereby requests that the Board accept the Settlement Proposal and approve the IESO's proposed revenue requirement, capital expenditures and fees as set out in its Fiscal Year 2011 Fees Submission for Review.

Yours truly,

Glenn Zacher

/sc
Encl.

cc: Board Staff
Registered Intervenors and observers

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CALGARY
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NEWYORK
LONDON
SYDNEY

INDEPENDENT ELECTRICITY SYSTEM OPERATOR (IESO)
FISCAL YEAR 2011 FEES SUBMISSION FOR REVIEW
SETTLEMENT PROPOSAL
EB-2010-0046

This Settlement Proposal is filed with the Ontario Energy Board (“the OEB” or “Board”) for consideration in the determination of the Independent Electricity System Operator (“the IESO”) Fiscal Year 2011 Fees Submission for Review, EB-2010-0046 (the “IESO’s 2011 Fees Submission”).

The Settlement Proposal arises from a Settlement Conference that was conducted on March 8, 2011 pursuant to Rule 31 of the OEB’s *Rules of Practice and Procedure* (the “*Rules*”) and the OEB’s *Settlement Conference Guidelines*. This Settlement Proposal was prepared in accordance with Rule 32 of the *Rules* and the *Settlement Conference Guidelines*.

The following parties participated in the Settlement Conference:

- The IESO;
- Association of Major Power Consumers in Ontario (“AMPCO”);
- Ontario Power Generation (“OPG”);
- Energy Probe Research Foundation (“Energy Probe”);
- Canadian Manufacturers and Exporters (“CME”) and
- Vulnerable Energy Consumers Coalition (“VECC”).

The Electricity Distributors Association and the Society of Energy Professionals participated in the Technical Conference, but did not attend or participate in the Settlement Conference.

OEB Staff and OPG are not parties to this Settlement Proposal and therefore take no position on any issue.

The IESO, AMPCO, Energy Probe, CME and VECC, the parties to the Settlement Proposal, are hereinafter collectively referred to as the “Parties”.

The Parties are satisfied with the IESO’s evidence on all issues and have agreed to a settlement on all issues, with the exception of Issue 3.3 which concerns the IESO’s proposal for treatment of its 2010 accumulated operating surplus. The Settlement Proposal therefore covers all issues on the Board-approved Issues List (attached hereto as Schedule “A”) with the exception of Issue 3.3. Subject to approval of the Board Panel, the IESO and the other Parties agree that it would be appropriate to decide Issue 3.3 by arranging for brief oral submissions based on the existing evidentiary record.

By way of background, a Technical Conference was held on February 18, 2011 and Board Staff and intervenors examined panels of IESO witnesses on the matters contained in the Issues List; the Technical Conference was transcribed. There was one undertaking for the IESO from the Technical Conference which the IESO responded to on February 23, 2011.

In accordance with Rule 32 of the Board's *Rules and Settlement Conference Guidelines*, this Settlement Proposal outlines the Parties' agreement and provides a direct and transparent link between the issues and the evidence in the record. The Parties further agree that the evidence is sufficient to support the Settlement Proposal in respect of the settled issues and that the quality and detail of the supporting evidence will allow the Board to make findings on the settled issues.

IESO 2011 Revenue Requirement, Proposed Expenditures and Fees

The Parties agree to the IESO's 2011 proposed revenue requirement of \$126 million and proposed 2011 capital expenditures of \$21.5 million.

The Parties agree to the continuation of the \$1,000 application fee and proposed IESO usage fee of \$0.822/MWh commencing January 1, 2011 (to be charged in the manner provided in the IESO's 2011 Fees Submission).

The following general evidence, in addition to the specific evidence cited under the issues below, supports this agreement:

- Exhibit A, Tab 1, Schedule 1, IESO's 2011 Fees Submission.
- Exhibit B, Tab 1, Schedule 1, 2011-2013 Business Plan
- Exhibit B, Tab 1, Schedule 2, Letters from IESO to Minister of Energy and Infrastructure dated October 1 and 29, 2010; letters from Minister of Energy and Infrastructure to IESO dated October 22 and November 1, 2010
- Exhibit B, Tab 2, Schedule 1, Supplemental Financial Information – Projected 2010 Financial Results and Financial Outlook 2011 to 2013
- Exhibit B, Tab 3, Schedule 1, Methodology for Calculating 2011 Usage Fee and Process for Rebating any Revenue Surplus.
- Exhibit B, Tab 4, Schedule 1, Status of Enhanced Day-Ahead Commitment Project.
- Exhibit B, Tab 5, Schedule 1, Status of Undertakings.
- Amended 2011 Fees Submission filed February 2, 2011
- Actual 2010 Financial Results (unaudited) filed February 2, 2011
- Final Transcript for February 18, 2011 Technical Conference.

1.0 Operating Cost

1.1 Are the IESO's projected OM&A Costs appropriate and reasonable?

The Parties accept that the evidence set out below supports the appropriateness and reasonableness of the IESO's projected OM&A costs:

- Exhibit B, Tab 1, Schedule 1, 2011-2013 Business Plan, pages 10-20.
- Exhibit B, Tab 2, Schedule 1, Supplemental Financial Information – Projected 2010 Financial Results and Financial Outlook 2011 to 2013
- Exhibit TC.1, Answers by IESO to pre-filed Questions of OEB, AMPCO and VECC
- Final Transcript for February 18, 2011 Technical Conference, pages 15-30.
- Actual 2010 Financial Results (unaudited) filed February 2, 2011

1.2 Are the IESO's projected staff costs and strategy for setting compensation levels appropriate and reasonable?

The Parties accept that the evidence set out below supports the appropriateness and reasonableness of the IESO's projected staff costs and strategy for setting compensation levels:

- Exhibit B, Tab 1, Schedule 1, 2011-2013 Business Plan, page 10.
- Exhibit B, Tab 2, Schedule 1, Supplemental Financial Information – Projected 2010 Financial Results and Financial Outlook 2011 to 2013, pages 3, 9-14.
- Exhibit TC.1, Answers by IESO to pre-filed Questions of OEB, AMPCO and VECC
- Exhibit TCU. 1, Average IESO staff salary for people in salary groups MP2, MP4, MP5, and MP6
- Final Transcript for February 18, 2011 Technical Conference, pages 30-62.

2.0 Capital Spending

2.1 Are the IESO's proposed 2010 capital expenditures on the enhanced day-ahead commitment (EDAC) project reasonable?

The Parties accept that the evidence set out below supports the reasonableness of the IESO's proposed 2010 capital expenditures on the enhanced day-ahead commitment (EDAC) project:

- Exhibit B, Tab 1, Schedule 1, 2011-2013 Business Plan, pages 11.
- Exhibit B, Tab 2, Schedule 1, Supplemental Financial Information – Projected 2010 Financial Results and Financial Outlook 2011 to 2013, pages 6-7.
- Exhibit B, Tab 4, Schedule 1, Status of Enhanced Day-Ahead Commitment Project.
- Exhibit TC.1, Answers by IESO to pre-filed Questions of OEB, AMPCO and VECC
- Final Transcript for February 18, 2011 Technical Conference, pages 6-14.

2.2 Is the EDAC project on budget and schedule?

The Parties accept that the evidence set out below supports the fact that the EDAC project is on budget and schedule:

- Exhibit B, Tab 1, Schedule 1, 2011-2013 Business Plan, pages 7, 11.
- Exhibit B, Tab 2, Schedule 1, Supplemental Financial Information – Projected 2010 Financial Results and Financial Outlook 2011 to 2013, pages 6-7.
- Exhibit B, Tab 4, Schedule 1, Status of Enhanced Day-Ahead Commitment Project.
- Exhibit TC.1, Answers by IESO to pre-filed Questions of OEB, AMPCO and VECC
- Final Transcript for February 18, 2011 Technical Conference, pages 6-14.

2.3 Is the current design of EDAC expected to achieve the desired benefits in light of the evolving market conditions?

The Parties accept that the evidence set out below supports the expectation that EDAC will achieve the desired benefits in light of the evolving market conditions:

- Exhibit B, Tab 2, Schedule 1, Supplemental Financial Information – Projected 2010 Financial Results and Financial Outlook 2011 to 2013, page 7.
- Final Transcript for February 18, 2011 Technical Conference, pages 6-14.

2.4 Are the IESO's proposed capital expenditures, other than EDAC, appropriate and reasonable?

The Parties accept that the evidence set out below supports the appropriateness and reasonableness of the IESO's proposed capital expenditures, other than EDAC:

- Exhibit B, Tab 1, Schedule 1, 2011-2013 Business Plan, pages 11, 17-20.
- Exhibit B, Tab 2, Schedule 1, Supplemental Financial Information – Projected 2010 Financial Results and Financial Outlook 2011 to 2013.
- Exhibit TC.1, Answers by IESO to pre-filed Questions of OEB, AMPCO and VECC.
- Final Transcript for February 18, 2011 Technical Conference.

3.0 Methodology for Calculating Usage Fee

3.1 Is the methodology for calculating the 2011 usage fee and process for rebating surpluses appropriate and reasonable?

The Parties accept that the evidence set out below supports the appropriateness and reasonableness of the IESO's methodology for calculating the 2011 usage fee and the process for rebating surpluses:

- Exhibit B, Tab 1, Schedule 1, 2011-2013 Business Plan, page 9.
- Exhibit B, Tab 3, Schedule 1, Methodology for Calculating 2011 Usage Fee and Process for Rebating any Revenue Surplus.
- Exhibit B, Tab 2, Schedule 1, Supplemental Financial Information – Projected 2010 Financial Results and Financial Outlook 2011 to 2013.
- Final Transcript for February 18, 2011 Technical Conference, pages 67-77.

- Amended Fees Submission filed February 2, 2011.
- Actual 2010 Financial Results (unaudited) filed February 2, 2011.

3.2 Is the forecast Market Demand and methodology appropriate and have the impact of Conservation or Demand Management initiatives been suitably reflected?

The Parties accept that the evidence set out below supports the appropriateness of the IESO's forecast Market Demand and methodology and that this methodology suitably reflects the impact of Conservation or Demand Management initiatives:

- Final Transcript for January 29, 2010 Technical Conference, pages 78-79.

3.3 Is the IESO's proposal for the treatment of its 2010 accumulated operating surplus appropriate and reasonable?

The Parties do not agree that the IESO's proposed treatment of its 2010 accumulated operating surplus is appropriate or reasonable.

The IESO's evidence on this issue may be found at the following references:

- Exhibit B, Tab 1, Schedule 1, 2011-2013 Business Plan, page 7.
- Final Transcript for February 18, 2011 Technical Conference, pages 67-77, 86-98.
- Amended Fees Submission filed February 2, 2011.
- Actual 2010 Financial Results (unaudited) filed February 2, 2011.

4.0 Green Energy and Green Economy Act (GEGEA) Initiatives

4.1 Are the IESO plans to address GEGEA initiatives reasonable and cost-effective?

The Parties accept that the evidence set out below supports the reasonableness and cost-effectiveness of the IESO's proposal to address GEGEA initiatives:

- Exhibit B, Tab 1, Schedule 1, 2011-2013 Business Plan, pages 1-6.
- Exhibit TC.1, Answers by IESO to pre-filed Questions of OEB, AMPCO and VECC.

- Final Transcript for February 18, 2011 Technical Conference, pages 101-112.

4.2 Are the IESO's proposed increases in resources to implement the GEGEA initiatives reasonable and cost-effective?

The Parties accept that the evidence set out below supports the reasonableness and cost-effectiveness of the IESO's proposed increases in resources to implement the GEGEA initiatives:

- Exhibit B, Tab 1, Schedule 1, 2011-2013 Business Plan, pages 1-6, 10.
- Exhibit TC.1, Answers by IESO to pre-filed Questions of OEB, AMPCO and VECC.
- Final Transcript for February 18, 2011 Technical Conference, pages 101-112.

5.0 Smart Metering Entity

5.1 Is the IESO's process for separating costs associated with its role as the Smart Metering Entity ("SME") from costs associated with its role in operation the provincial electricity grid and managing the wholesale electricity market reasonable?

The Parties accept that the evidence set out below supports the reasonableness of the IESO's process for separating costs associated with its role as the Smart Metering Entity ("SME") from costs associated with its role in operating the provincial electricity grid and managing the wholesale electricity market:

- Exhibit B, Tab 1, Schedule 1, 2011-2013 Business Plan, pages 12-13, 21-22.
- Final Transcript for February 18, 2011 Technical Conference, pages 113-117, 119-122.

5.2 Is the IESO's proposal and timing for recovery of its smart metering costs through a separate regulatory mechanism appropriate and reasonable?

The Parties accept that the evidence set out below supports the appropriateness and reasonableness of the IESO's proposal and timing for recovery of its smart metering costs through a separate regulatory mechanism:

- Exhibit B, Tab 1, Schedule 1, 2011-2013 Business Plan, pages 12-13, 21-22.

- Final Transcript for February 18, 2011 Technical Conference, pages 113-117, 119-122.

5.3 To what extent do any of the IESO's expenditures relate to its support of the SME and are those expenditures adequate to ensure that the SME meets its obligations, including the SME's obligations in relation to smart meters and TOU implementation?

The Parties accept that the evidence set out below supports the adequacy of the expenditures described above:

- Exhibit B, Tab 1, Schedule 1, 2011-2013 Business Plan, pages 12-13, 21-22.
- Final Transcript for February 18, 2011 Technical Conference, pages 113-117, 119-122.

6.0 Reliability

6.1 Are the IESO's proposed 2011 measures to address reliability appropriate and cost-effective?

- The Parties accept that the evidence set out below supports the appropriateness and cost-effectiveness of the IESO's proposed 2011 measures to address reliability: Exhibit B, Tab 1, Schedule 1, 2011-2013 Business Plan, pages 1-6, 17-20.
- Exhibit B, Tab 2, Schedule 1, Supplemental Financial Information – Projected 2010 Financial Results and Financial Outlook 2011 to 2013, pages 5-9.
- Final Transcript for February 18, 2011 Technical Conference, pages 118-119.

Schedule "A"

INDEPENDENT ELECTRICITY SYSTEM OPERATOR ("IESO")

FISCAL 2011 FEES SUBMISSION FOR REVIEW

ISSUES LIST

EB-2010-0046

1.0 Operating Costs

- 1.1 Are the IESO's projected OM&A Costs appropriate and reasonable?
- 1.2 Are the IESO's projected staff costs and strategy for setting compensation levels appropriate and reasonable?

2.0 Capital Spending

- 2.1 Are the IESO's proposed 2011 capital expenditures on the enhanced day-ahead commitment (EDAC) project reasonable?
- 2.2 Is the EDAC project on budget and schedule?
- 2.3 Is the current design of the EDAC expected to achieve the desired benefits in light of the evolving market conditions?
- 2.4 Are the IESO's proposed capital expenditures, other than EDAC, appropriate and reasonable?

3.0 Methodology for Calculating Usage Fee

- 3.1 Is the methodology for calculating the 2011 usage fee and process for rebating surpluses appropriate and reasonable?
- 3.2 Is the forecast Market Demand and methodology appropriate and have the impact of Conservation or Demand Management initiatives been suitably reflected?
- 3.3 Is the IESO's proposal for the treatment of its 2010 accumulated operating surplus appropriate and reasonable?

4.0 Green Energy and Green Economy Act (GEGEA) Initiatives

- 4.1 Are the IESO's plans to address GEGEA initiatives reasonable and cost effective?
- 4.2 Are the IESO's proposed increases in resources to implement the GEGEA initiatives reasonable and cost effective?

5.0 Smart Metering Entity

- 5.1 Is the IESO's process for separating costs associated with its role as the Smart Metering Entity ("SME") from costs associated with its role in operation the provincial electricity grid and managing the wholesale electricity market reasonable?
- 5.2 Is the IESO's proposal and timing for recovery of its smart metering costs through a separate regulatory mechanism appropriate and reasonable?
- 5.3 To what extent do any of the IESO's expenditures relate to its support of the SME and are those expenditures adequate to ensure that the SME meets its obligations, including the SME's obligations in relation to smart meters and TOU implementation?

6.0 Reliability

- 6.1 Are the IESO's proposed measures to address reliability appropriate and cost effective?

Dated: February 11, 2011