



Ontario Energy Board Commission de l'énergie de l'Ontario

DECISION AND ORDER

EB-2017-0150

INDEPENDENT ELECTRICITY SYSTEM OPERATOR

Application for approval of 2017 expenditure, revenue requirement
and fees

BEFORE: Cathy Spoel
Presiding Member

Lynne Anderson
Member

Rumina Velshi
Member

December 14, 2017

1. INTRODUCTION AND SUMMARY

The Independent Electricity System Operator (IESO) filed an application with the Ontario Energy Board (OEB) on April 21, 2017 under section 25(1) of the *Electricity Act, 1998*, seeking approval for the IESO's 2017 expenditures, revenue requirement and fees.

The IESO filed a settlement proposal for OEB approval on October 3, 2017. The settlement proposal represented a settlement between the IESO and participating intervenors on all but two issues on the approved issues list. The parties agreed, among other things, on the appropriate expenditures, revenue requirement and fees for 2017. After seeking clarification from the parties on certain terms of the settlement proposal, the OEB approved the settlement proposal, and invited written submissions on the two unsettled issues.¹

In this Decision and Order, the OEB addresses the two unsettled issues, namely, Issue 4.4 (*Should the IESO establish a separate Market Renewal Program Deferral Account?*) and Issue 5.1 (*Is the IESO's proposed Regulatory Scorecard appropriate?*). For the reasons that follow, the OEB has concluded that a separate deferral or variance account is not required in order to ensure adequate scrutiny of Market Renewal Program costs. The OEB has also determined that the IESO's proposed Regulatory Scorecard is acceptable and recognizes that the scorecard measures and targets will evolve with time as interested parties gain further experience with it.

In addition, this Decision and Order addresses the IESO's request filed on December 7, 2017 to have its fees declared interim effective January 1, 2018. The OEB approves the IESO's request to charge the two IESO usage fees (\$1.2187/MWh for domestic customers and \$0.9872 for export customers) on an interim basis from January 1, 2018 until such time as the OEB approves new fees.

¹ Decision and Procedural Order No. 5 issued on October 31, 2017.

2. PROCESS

The IESO filed an application with the OEB on April 21, 2017 under section 25 (1) of the *Electricity Act, 1998*, seeking approval for the IESO's 2017 expenditures, revenue requirement and fees (IESO 2017 Application).

On May 23, 2017, the OEB issued a Notice of Hearing to review the IESO 2017 Application.

On June 23, 2017 the OEB issued Procedural Order No. 1 and granted intervenor status to the following parties (*Intervenors granted cost award eligibility):

- The Association of Major Power Consumers in Ontario (AMPCO)*
- The Association of Power Producers of Ontario (APPRO)*
- Building Owners and Managers Association (BOMA)*
- Canadian Manufacturers and Exporters (CME)*
- Energy Probe Research Foundation (Energy Probe)*
- Environmental Defence (ED)*
- Ontario Sustainable Energy Association (OSEA)*
- School Energy Coalition (SEC)*
- Vulnerable Energy Consumers Coalition (VECC)*
- Ontario Power Generation (OPG)
- Power Workers' Union (PWU)
- The Society of Energy Professionals (SEP)
- HQ Energy Marketing Inc. (HQEM)

On August 4, 2017 the OEB issued a Decision on the Issues List.

Following a settlement conference held on September 14, 15 2017, the IESO filed a settlement proposal for OEB approval. The settlement proposal represented a full settlement between the IESO and participating intervenors on all but two of the issues on the approved issues list. OEB staff filed a submission supporting the settlement proposal.

On October 13, 2017, the OEB issued Procedural Order No. 3 which set out the process for dealing with the two unsettled issues by way of a written hearing, and required the parties to the settlement proposal to clarify certain of its provisions.

On October 16, 2017, Environmental Defence (ED) filed a notice of motion seeking an OEB order:

- requiring the IESO to provide full and adequate responses to certain ED interrogatories concerning transmission losses
- granting an extension of the August 25, 2017 deadline to inform the OEB that an intervenor wishes to submit evidence in this proceeding to two weeks from the date of any order on this motion
- requiring a technical conference on transmission losses

On October 31, 2017 the OEB issued Decision and Procedural Order No. 5, which approved the settlement proposal as filed and as further clarified in the IESO's letter of October 20, 2017, dismissed ED's motion, and set out the timelines for the parties' submissions to deal with the two unsettled issues.

3. DECISION ON UNSETTLED ISSUES

Issue 4.4: Should the IESO establish a separate Market Renewal Program Deferral Account?

The IESO has a major multi-year initiative, the Market Renewal Program (MRP) to optimize the efficiency of Ontario's electricity system. The IESO states in its application that "Market Renewal will deliver a more efficient, stable marketplace with competitive and transparent mechanisms that meet system and participant needs at lowest cost". Initial project costs are estimated to be in the range of \$150M to \$200M spanning a timeframe of a decade or longer and deliver potential cost savings to be realized to consumers and suppliers of approximately \$3.4B during this period.

The IESO proposed to establish a separate cost centre for this project.

Given the magnitude and significance of the MRP, many intervenors have submitted that a separate MRP deferral / variance account be established. This, they argue, would allow for increased transparency, greater scrutiny of MRP spending and ultimately improve the IESO's accountability regarding the MRP project.

In its reply submission the IESO states:

Given the lack of clarity of what parties are seeking, the causation criterion not being met (and will continue not to be met in future IESO submissions as MRP costs will form part of the IESO's revenue requirement), and the IESO's proposed tracking and reporting mechanisms, the IESO submits that a MRP deferral or variance account is not required nor appropriate.

In its submission, OEB staff indicated that tracking of MRP costs within the separate cost centre should be granular enough to enable meaningful variance analysis in subsequent annual fees case applications. Staff suggested there was merit in identifying the expenditures within the core MRP initiatives as described on the IESO website.

Findings

The OEB agrees with the IESO and OEB staff that a separate MRP deferral / variance account is not required.

The OEB supports the establishment of a separate cost centre related specifically to the MRP, as proposed by the IESO. The IESO should develop this cost centre in a manner that allows for:

- Detailed and transparent reporting and monitoring of all MRP spending on a sub-program (initiative) level
- OEB staff and intervenors to adequately scrutinize the costs and review any variances for prudence

As proposed by the IESO, the OEB expects the IESO to submit an MRP cost report as part of its annual revenue requirement application. This report should provide in detail MRP-related actual and budgeted capital and operating costs for each of the core MRP initiatives.

For each of these core MRP initiatives, the IESO should report on:

- Annual and projected final project cost
- Staffing levels and associated costs
- External resources
- Actual and projected cost savings annually and cumulative
- Actual annual achievement against planned

A variance explanation for each of the items above should also be provided between actual and forecast costs for the relevant period.

The OEB agrees with OEB staff that the use of variance accounts should be minimized to the extent possible. With the establishment of an MRP-specific cost centre and cost report, there will be sufficient information for the appropriate regulatory oversight without the need for additional accounting steps for managing a separate deferral or variance account.

The OEB also expects the IESO to track specific performance measures for the MRP to monitor how effectively the IESO is achieving the key objectives of the project. The OEB has included two quantitative measures on the scorecard discussed in the next section; however, for a project of the magnitude of the MRP, the OEB expects that the IESO will also develop other measures of performance and will undertake an assessment of outcomes / benefits of the project compared with planned.

Issue 5.1: Is the IESO's proposed Scorecard appropriate?

In the OEB-approved settlement in the IESO's 2016 expenditures, revenue requirement and fees application,² the IESO agreed to develop a scorecard in consultation with intervenors. The settlement said: "this scorecard will be a tool for the Board and intervenors to use in evaluating the IESO's proposed expenditure and revenue requirement".

The IESO engaged Elenchus Research Associates Inc. ("Elenchus") to assist in the development of this scorecard. The IESO, in its 2017 Application submitted a draft scorecard based on a proposed scorecard prepared by Elenchus following consultations with interested parties.

Through their submissions, some of the intervenors expressed their opinion that the scorecard proposed by the IESO for purposes of evaluating the appropriateness of their proposed expenditure and revenue requirement is inadequate. Intervenor comments related primarily to the inability of the scorecard to demonstrate the ratepayer value associated with the various activities the IESO undertakes as well as the fact that the IESO failed to establish targets for all of the proposed scorecard metrics.

Findings

The OEB agrees with the IESO that the purpose of the scorecard is to assess the IESO's revenue and expenditure requirements and not to assess the overall performance of IESO in its oversight role of the electricity system.

The OEB concludes that the proposed scorecard is appropriate and the reporting of all measures in the proposed scorecard will be helpful in assessing future IESO expenditures, revenue requirement and fees applications. The OEB recognizes that the scorecard measures and targets will evolve with time as interested parties gain further experience with it. The OEB itself may also update the scorecard as part of its performance monitoring of the electricity sector.

The OEB makes the following specific recommendations to the IESO with regards to the proposed scorecard:

² EB-2015-0275

1. As suggested by several intervenors, the IESO needs to establish appropriate targets for each of the measures as soon as possible and ensure these are included with its 2018 expenditures, revenue requirement and fees application.
2. The OEB agrees with AMPCO that for assessing whether the MRP is proceeding according to schedule and budget, the specific quantitative project performance measures of Cost Project Index (CPI) and Schedule Performance Index (SPI) for each year should be included rather than simply a qualitative Yes/No report.
3. For the scorecard measure, “Conservation – Achievement of 2020 energy savings target milestones (TWh),” the IESO should include a target that is aligned with the OEB’s scorecard for electricity distributors. The IESO, by Directive from the Minister of Energy, is required to coordinate, support and fund the delivery of CDM programs through distributors to achieve its 2020 conservation target. It is therefore reasonable for the IESO scorecard measure on conservation to be the same as the distributors’.

4. THE IESO'S REQUEST FOR INTERIM 2018 FEES

The IESO filed a letter on December 7, 2017 requesting to charge the 2017 usage fees approved in this proceeding on an interim basis from January 1, 2018 until the end of the month in which the OEB approves the IESO's application for 2018 expenditures, revenue requirement and fees. The OEB notes the IESO made a similar request in its 2016 expenditures, revenue requirement and fees application which was approved by the OEB.

Findings

In respect of the IESO's usage fees for the 2018 rate period, the OEB approves the IESO's request to apply the fees approved in this proceeding (\$1.2187/MWh for domestic customers and \$0.9872/MWh for export customers) on an interim basis as of January 1, 2018³ until such time as new fees are approved by the OEB.

The determination to allow interim fees is made without prejudice to the OEB's ultimate decision on the IESO's 2018 application once filed, and should not be construed as predictive, in any way whatsoever, of the OEB's final determination of the IESO's 2018 fees or of the effective date of such fees.

³ This panel of the OEB was also assigned to deal with the matter of the IESO's interim 2018 fees under subsection 4.3(1) of the *Ontario Energy Board Act, 1998*.

5. COST AWARDS

The OEB may grant cost awards to eligible parties pursuant to its power under section 30 of the *Ontario Energy Board Act, 1998*. When determining the amount of the cost awards, the OEB will apply the principles set out in section 5 of the OEB's *Practice Direction on Cost Awards*. The maximum hourly rates set out in the OEB's Cost Awards Tariff will also be applied. Filings related to cost awards shall be made in accordance with the schedule set out in the next section of this Decision and Order.

6. ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Effective January 1, 2018, the IESO shall charge the OEB approved 2017 usage fees (\$1.2187/MWh for domestic customers and \$0.9872 for export customers) on an interim basis.
2. Eligible intervenors shall file with the OEB, and forward to the IESO, their respective cost claims by January 8, 2018.
3. The IESO shall file with the OEB, and forward to eligible intervenors, any objections to the claimed costs by January 19, 2018.
4. Eligible intervenors shall file with the OEB, and forward to the IESO, any responses to any objections to cost claims by January 26, 2018.
5. The IESO shall pay the OEB's costs of and incidental to this proceeding upon receipt of the OEB's invoice.

DATED at Toronto December 14, 2017

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary