

1 **BOARD STAFF INTERROGATORY 1**

2 Issue 5.2

3 Are organizational resources adequate, appropriately managed and suitably allocated
4 amongst the various OPA functions and work groups?

5 Reference

6 Exhibit A/Tab 5/Schedule1/page 20

7 Exhibit A/Tab 5/Schedule1/page 24

8 Preamble

9 The OPA states in its 2007 Annual Report at A-5-1 page 24 that it has a \$975 million Line
10 of Credit with the Province of Ontario. It also states in this report at A-5-1 page 20 that it
11 holds various short term investments and it earns interest on these investments.

12 Questions

- 13 • Why are no operating costs (e.g. interest costs) shown for the use of this Line of Credit
14 in the OPA's 2007 Annual Report or in the OPA's Revenue Requirements Submission?
- 15 • Does Asset Backed Commercial Paper make up any part of the OPA's short term (or
16 any other) investments? If so, what are the details of the exposure and what impact, if
17 any, does this have on the OPA's interest projections?
18

19 RESPONSE

20 Q1. The line of credit does not have an availability or standby fee. The line of credit is the
21 funding method for the Regulated Price Plan and Retailer Settlement Deferral
22 Accounts. The interest is assigned to the Regulated Price Plan and Retailer
23 Settlement Deferral Accounts and does not impact the OPA operating expense.

24 Q2. Asset backed commercial paper is an excluded investment as per the OPA treasury
25 policy. Asset backed commercial paper is not part of any investment owned by the
26 OPA.

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1 **BOARD STAFF INTERROGATORY 2**

2 Issue 5.2

3 Are organizational resources adequate, appropriately managed and suitably allocated
4 amongst the various OPA functions and work groups?

5 References

6 Exhibit B/Tab 1/Schedule1/page 1
7 Exhibit B/Tab 2/Schedule1/pages 1 and 2
8 Exhibit B/Tab 3/Schedule1/page 1
9 Exhibit B/Tab 4/Schedule1/page 1
10 Exhibit B/Tab 5/Schedule1/pages 1 and 2
11 Exhibit D/Tab 2/Schedule1/page 4 Table 3

12 Preamble

13 The OPA's 2009 Work Program for its four main functional areas (Power System Planning,
14 Conservation, Resource Procurement and Contract Management and Market/Technology
15 Development) and its Corporate Support function is noted in the pre-filed evidence at B-1-1
16 page 1, B-2-1 pages 1 and 2, B-3-1 page 1, B-4-1 page 1 and B-5-1 pages 1 and 2 and the
17 resource mix allocated to these activities is shown at D-2-1 page 4 Table 3.

- 18 • What comparisons with other similar organizations has the OPA conducted to assure
19 itself that its operating costs are reasonable?
20

21 RESPONSE

22 The OPA conducted exploratory work to establish the operating parameters for the OPA in
23 2006. The OPA held meetings with New York State Energy Research and Development
24 Authority ("NYSERDA"), BC Hydro and the California Energy Commission, which are
25 jurisdictions involved in similar activities. Through direct conversations and interviews it
26 was determined that comparisons with these organizations would not be possible. For
27 example:

- 28 • NYSERDA is involved only in conservation and monitors two LDCs and the OPA has
29 90 plus LDCs and mandates in system planning and generation procurement activities.
- 30 • BC Hydro includes similar operational characteristics but the organization structure is
31 integrated and reliable separation of the components was not possible.
- 32 • The California Energy Commission is mandated for policy planning in the energy sector
33 and does not include system planning and generation procurement.

1 The OPA budget is developed to support the strategy of the OPA through achievement of
2 the objectives set in the business plan. The business plan mandate is assessed to
3 determine the resources required to deliver on the mandate. These assessments are
4 assembled in the OPA budget.

5 To ensure reasonable costs and value are achieved the OPA employs standard business
6 practices. The OPA employs request for procurement (“RFP”) and other standard business
7 procurement practices to ensure reasonable value for money on activities in support of our
8 objectives.

9 The budget is approved by the Board of Directors and presented to the Minister of Energy
10 and Infrastructure for approval.

11 Finally, the regulatory process provides the opportunity for external scrutiny by interested
12 parties and the Ontario Energy Board, to ensure budgeted expenditures are maintained
13 within reasonable levels.

BOARD STAFF INTERROGATORY 3

Issue 5.2

Are organizational resources adequate, appropriately managed and suitably allocated amongst the various OPA functions and work groups?

Reference

Exhibit D/Tab 2/Schedule1/page 2 Table 1, page 3 Table 2

Preamble

The OPA states in its pre-filed evidence that it has changed its approach in its budgeting process. It states that the overhead costs associated with the other Strategic Objectives have now been re allocated to the Corporate Support Objective. In the 2006, 2007 and 2008 fiscal years the OPA previously allocated much of these overhead costs with its associated primary activity.

- Please provide revenue requirement information (actual spending as at December 31) for the OPA's five business units for fiscal years 2006, 2007 2008 in the same format as the 2009 budget is presented.

RESPONSE

The requested information is provided in the table below:

Board Staff Interrogatory 3				
Actual Costs by Strategic Objective				
2006 to 2008				
(\$'000)				
		2006 Actual	2007 Actual	2008 Actual Unaudited
	Strategic Objective 1	4,660	6,086	4,788
	Strategic Objective 2	8,669	14,374	16,557
	Strategic Objective 3	5,206	5,552	6,900
	Strategic Objective 4	377	509	629
	Strategic Objective 5	11,070	15,789	28,776
	Contingency Fund	0	0	0
	Total	29,983	42,310	57,650

The increase in actual spending in 2008 primarily reflects increased legal, intervenor and stakeholder costs required to support the IPSP proceeding.

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1 **BOARD STAFF INTERROGATORY 4**

2 Issue 5.2

3 Are organizational resources adequate, appropriately managed and suitably allocated
4 amongst the various OPA functions and work groups?

5 Reference

6 Exhibit A/Tab 5/Schedule1/page 28

7 Preamble

8 Executive compensation for the 2007 fiscal year is shown at page 28 of the OPA's 2007
9 Annual Report. As is indicated in the Compensation Table, all five individuals on the
10 executive team received 100% of their performance incentive.

- 11 • Does the OPA agree that in most performance management systems, goals are set at a
12 level such that all members of a group do not normally achieve 100% attainment?
- 13 • Is the OPA now attempting to implement a performance management system that
14 employs more of a "stretch goal" approach and if not why not?
15

16 RESPONSE

17 The OPA agrees that in most performance management systems, goals are set at a level
18 such that all members of a group do not normally achieve 100% attainment.

19 The OPA's annual report states that the "target" for executive variable compensation for
20 2007 was set at 15% of fixed compensation. This was a description of the variable pay
21 plan design, not a statement of the actual incentive payments to executives in 2007.
22 "Target" means that OPA executives are eligible to receive an incentive payment of up to
23 15% of fixed compensation in any given year. In 2007, the CEO was paid an incentive
24 payment of 13.5% of his fixed compensation. In the previous two years, he was paid 10%
25 (2005) and 12% (2006) respectively. Similarly, the actual incentive pool for all other OPA
26 executives was 10% in 2005, 10% in 2006 and 12% in 2007. Actual incentive payments to
27 individual executives are distributed on the basis of performance and contribution, and, in
28 2007, ranged between 9% and 13.5%. From the OPA's inception to date, no executive has
29 received a 15% ("target") performance incentive payment in any year.

30 In the past few years, the OPA's executive team has led the organization in the attainment
31 of stretch and, in many cases, groundbreaking goals: the creation of an Integrated Power
32 System Plan ("IPSP"), the first in Ontario in several decades; the procurement and contract
33 management of approximately 10,500 MW of new generation, much of this from renewable
34 sources; and the launch of a full suite of 23 conservation programs.

- 1 The OPA's 2009 goals and objectives are no less challenging, as described at Exhibit B,
- 2 Tabs 1 through 5. All employee performance, including that of executives, will be held to
- 3 established specific, measurable, achievable, relevant and time-bound goals. Goals that
- 4 are "achievable" will be required to incorporate a stretch component, such that extra effort
- 5 and performance will be required to meet that standard.

1 **BOARD STAFF INTERROGATORY 5**

2 Issue 6.4

3 Workforce Hiring Practices

4 Has the OPA responded appropriately to the expectation of the Board Panel in respect of
5 workforce hiring practices as stated on page 11 of the Decision and Order of the EB-2007-
6 0791 proceeding?

7 Reference

8 Exhibit D/Tab 2/Schedule 1/pages 5-7

9 Preamble

10 The OPA states in its pre-filed evidence at pages 5-7 of D-2-1 that the 2009 employee staff
11 level is projected to be 182.4 regular FTEs plus 11.3 temporary FTEs (total of 194), which
12 is up from the 2008 budgeted staff level of 161.4 regular FTEs plus 23 temporary FTEs
13 (total of 184), due mainly to an increased requirement for additional Power System
14 Planning, Human Resource, Business Services and Communications personnel.

- 15 • If additional (compared to those available during 2008) OPA resources are unavoidably
16 needed in 2009, could they not be provided by temporary employees or contractors until
17 there is more certainty in the electricity and the energy environment?
18

19 RESPONSE

20 The OPA undertook an extensive three year planning process in early 2008 which identified
21 the planned work and consequent resources required to meet its objectives in the period
22 from 2009 to 2011. This information fed into the 2009 business and budget planning
23 process, including the staffing (i.e. headcount/FTE) plan and budget.

24 The OPA has aligned its staffing plan with the business needs that were identified in this
25 extensive planning process, hiring regular employees for core, long-term requirements, and
26 retaining temporary and consulting resources for non-core, short-term assignments.

27 Other factors that are considered when determining whether a position should be filled on a
28 temporary or regular basis are:

- 29 1. The labour market in which the OPA competes for required talent: As the Agency
30 Review Panel reported, given the massive amounts of current and impending
31 retirements, the electricity labour market is very competitive and will continue to be so
32 into the foreseeable future. The OPA must present a very attractive employee value
33 proposition to compete in this market for educated, highly skilled people with electricity

1 sector experience. Temporary and contract employment arrangements (which do not
2 include pension and other benefits) are not perceived by labour market participants as
3 attractive propositions, and do not always attract the level of talent required. For
4 instance, OPA data shows that temporary employees do not succeed as well as regular
5 employees: the involuntary turnover rate, due to below standard performance, amongst
6 temporary employees is 25%, far higher than that for regular employees (9% in 2008).
7 This higher level of turnover adversely affects productivity in respect to lost opportunity,
8 and quality and quantity of work.

- 9 2. Internal equity and engaged workforce: Having a significant portion of OPA staff
10 continuously employed on a fixed term, or temporary basis, creates an inequitable and
11 unhealthy work environment in which some employees have significantly better
12 employment terms and conditions than others.
- 13 3. Legal advice regarding employer obligations under the *Employment Standards Act,*
14 *2000 and Common Law*: The OPA has received advice from its employment law
15 advisors to avoid repetitive, short-term employment contracts and multiple renewals of
16 temporary employment contracts. Further, the OPA is advised that there are legal
17 impediments to having temporary employees who in substance and form could be
18 viewed by third parties as permanent, or regular, employees. Doing so would expose
19 the OPA to obligations and liabilities under the *Employment Standards Act, 2000* and in
20 common law. The Employment Standards Branch of the Ontario Ministry of Labour is
21 monitoring the prevalence of temporary contract and contingent employees in Ontario
22 closely and applies “form and substance” tests to cases that come before it when
23 deciding upon issues such as notice of termination and severance requirements, and
24 other related employer obligations. The OPA is also advised that similar cases have
25 been decided by the Ontario Superior Court of Justice, and that there are now
26 precedents of common law notice being awarded to individuals in such cases. Finally,
27 the OPA has been advised that this is a newly emerging basis for class action law suits
28 in other similar jurisdictions, and that it is only a matter of time before an employer in
29 Ontario is subject to such a class action suit.

30 In the past year, as temporary contracts have come up for renewal, sometimes for the
31 second or third time, managers have been asked to determine whether or not there is a
32 foreseeable end to the work required of the temporary employee. Where managers
33 have determined that the work will continue indefinitely, the temporary employee has
34 been offered employment as a regular employee.

1 **BOARD STAFF INTERROGATORY 6**

2 Issue 6.1

3 Is the proposed usage fee reasonable and appropriate?

4 Reference

5 Exhibit D/Tab 2/Schedule1/pages 14 and 15

6 Preamble

7 The OPA states at D-2-1 pages 14 and 15 that it is proposing a volumetric usage fee that
8 will be collected as part of the Wholesale Market Service Charge and this fee is based on a
9 projected IESO load forecast of 144.7 TWh.

- 10 • Please provide any information that you are aware of from other agencies comparable
11 to the OPA regarding raising funds to meet their operating requirements.
- 12 • Please provide information on any other options (other than a fee based on energy
13 usage) that were considered by the OPA to provide cost recovery for its operating
14 requirements.
15

16 RESPONSE

17 Q1. The OPA is not aware of other agencies that are directly comparable, as described in
18 the response to Board Staff Interrogatory 2 at Exhibit I-1-2. The OPA is collecting the
19 fee consistent with the method used by the IESO.

20 Q2. The OPA has not considered other options for fee recovery. The use of the existing
21 methodology was seen to be more efficient for fee recovery than development of a
22 separate methodology for fees that are similar to those recovered by IESO.

23 IESO collection of the OPA fee is carried out in a manner consistent with the IESO
24 collection of its own fee, which is recovered from directly-connected customers
25 including local distribution companies ("LDCs"), as part of the Wholesale Market
26 Charge. The OPA currently has no plans to change the method for deriving its fee or
27 recovering its costs.

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1 **BOARD STAFF INTERROGATORY 7**

2 Issue 6.2

3 Is the proposed disposition of variance and deferral accounts reasonable and appropriate?

4 Reference

5 Exhibit D/Tab 1/Schedule1/page 1

6 Preamble

7 The OPA states at D-1-1 page 1 that it is proposing to recover for the 2009 fiscal year the
8 accumulated balance in the Government Procurement Cost Deferral Account and
9 approximately a third of the accumulated balances in the various Retailer Contract
10 Settlement Deferral Accounts.

- 11 • Please provide information on any other options (e.g. recovery over a shorter or longer
12 period) that were considered by the OPA for handling the disposition of its deferral and
13 variance accounts, and why they were rejected.
14

15 RESPONSE

16 Recovery of the balance in the Government Procurement Cost Deferral Account was
17 determined to have limited impact relative to the overall magnitude of the usage fee
18 required to recover the OPA's revenue requirement. On a volumetric basis, recovery of this
19 amount over one year results in an increase to the fee of \$0.009/MWh. Under these
20 circumstances, a one-year recovery period was considered appropriate and no other
21 options were considered.

22 The Retailer Contract Settlement Deferral Accounts at \$42.5 million represents a more
23 substantial impact of approximately 65% of the overall revenue requirement. Recovery of
24 the full amount over one year would have resulted in a proposed usage fee of \$0.680/MWh,
25 or an increase over the 2008 approved fee of 97%. Under these circumstances, a one-
26 year recovery period was considered inappropriate. The OPA determined that a longer
27 recovery period was required to mitigate this impact.

28 The three-year recovery period was selected, as it matches the time period over which the
29 balance was accumulated and is the longest possible period allowing for full recovery prior
30 to the implementation of International Financial Reporting Standards ("IFRS"), which could
31 have implications for this recovery process.

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1 **BOARD STAFF INTERROGATORY 8**

2 Issue 1.1

3 Is the Operating Budget of \$5.79 million allocated to Strategic Objective # 1 (Power System
4 Planning) reasonable and appropriate?

5 Reference

6 Exhibit B/Tab 1/Schedule1/page 4
7 IPSP Pre file C-11-1 pages 129 and 130

8 Preamble

9 The OPA states at B-1-1 page 4 that it intends to purchase a new Energy Production and
10 Cost Forecasting Model simulation package in 2009. The OPA has used its existing
11 PROSYM and PSM Portfolio Screening Model packages for its work on the first IPSP
12 (IPSP Pre file C-11-1 pages 129 and 130).

- 13 • Please indicate the deficiencies that the OPA has identified with the existing PROSYM
14 and PSM Energy Production models and what additional features that the OPA is
15 seeking with the new Energy Production simulation package.
- 16 • Please provide information on the estimated cost of the new Energy Production
17 simulation package that the OPA is proposing.
- 18

19 RESPONSE

20 In developing its first IPSP, the OPA used existing, well-established industry tools to
21 perform the required simulations. These tools were not initially developed for use in a
22 planning process as extensive as that required for the IPSP. With experience, it has been
23 determined that additional features and flexibility in these simulation models would improve
24 the efficiency of the IPSP development process.

25 Additional features to be incorporated in the new energy production simulation package
26 include the following:

- 27 • Inclusion of unit commitment logic;
- 28 • Inclusion of operational chronological constraints; such as unit minimum up and down
29 time and ramp rates;
- 30 • Inclusion of logic for hydro simulation; such as peak shaving operation;
- 31 • Capability to simulate forced outage rates in a randomized fashion, rather than by
32 decrementing the nameplate capacity equally for all hours in each year;

- 1 • Full (AC/DC) transmission network representation and hence, ability to perform
- 2 optimum power flow analysis for assessment of power flows and potential congestion;
- 3 • Improved user-friendliness and speed in data update, result extraction and customized
- 4 report creation; and
- 5 • Built-in module for full (AC/DC) transmission network representation and analysis.
- 6

7 The OPA has since signed a contract with LCG Consulting to license their UPLAN Network
8 Power Model. Under this licensing agreement, the OPA can only disclose the licensing fee
9 if ordered to do so by the Board or with the consent of LCG.

1 **BOARD STAFF INTERROGATORY 9**

2 Issue 2.1

3 Is the Operating Budget of \$5.7 million allocated to Strategic Objective # 2 (Conservation)
4 reasonable and appropriate?

5 Reference

6 Exhibit B/Tab 2/Schedule 1/page 15 Table 3
7 IPSP Pre file D-4-1 Attach 4 pages 2, 3, 8 and 9 Tables 3, 4, 10 and 11

8 Preamble

9 The Long Term conservation work plan as stated in the IPSP pre filed evidence (Reference
10 noted above) states that the OPA plans to deliver a stream of conservation programs with
11 an annual cost of approximately \$300M - \$400M and that these programs would consist of
12 150MW - 300MW of annual peak demand reduction and 1TWh – 2TWh of annual energy
13 savings.

- 14 • Please provide information to illustrate that the resources that the OPA has assembled
15 (B-2-1 page 15 Table 3) to carry out its conservation program are comparable (on a
16 program equivalence basis) with those of other similar agencies (for example in New
17 York, Vermont or California).
18

19 RESPONSE

20 It is extremely difficult to compare the operating costs of the OPA to agencies in other
21 jurisdictions, on a program equivalence basis, for several reasons:

- 22 • There is a spectrum of program design/delivery models for energy efficiency agencies,
23 ranging from vertically integrated agencies that undertake all activities in house to
24 agencies that outsource the majority of implementation activities, which will affect the
25 number of staff and overhead expenses of the agency.
- 26 • The majority of energy efficiency agencies do not divide their conservation budgets into
27 categories which are similar to the 'fees' and 'charges' categories used by the OPA.
- 28 • The definition and scope of what constitutes a 'program' will also vary by agency.
29

30 Please see the response to Board Staff Interrogatory 2 at Exhibit I-1-2 for a description of
31 the specific jurisdictions researched by the OPA.

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1 **BOARD STAFF INTERROGATORY 10**

2 Issue 3.1

3 Is the Operating Budget of \$7.73 million allocated to Strategic Objective # 3 (Supply
4 Procurement and Contract Management) reasonable and appropriate?

5 Reference

6 Exhibit B/Tab 3/Schedule1/page 1

7 Preamble

8 The OPA states at B-3-1 page 1 that in 2009 the Procurement and Contract Management
9 Group will procure needed resources, manage contracts with successful proponents and
10 provide settlement for parties who have achieved commercial operation.

- 11 • Please provide information to support the contention that it is necessary for the OPA to
12 carry out the day to day contract management and settlement function in-house rather
13 than out-source this activity.
14

15 RESPONSE

16 The OPA enters into procurement contracts for new electricity generation in order to ensure
17 that the required infrastructure is built in a timely manner to meet Ontario's needs. These
18 long-term contracts must be designed and managed in such a manner as to ensure the
19 best interests of ratepayers are protected, with appropriate allocation of risk within contract
20 terms.

21 The OPA believes it is imperative to build effective long-term management of contracts by
22 preserving continuity in the relationships with counterparties. Suppliers must be treated
23 consistently and fairly, with contract provisions being interpreted and implemented in a
24 consistent manner. The removal of the contract management and settlement function from
25 the OPA would be disruptive for suppliers and may hinder the ability to ensure the required
26 infrastructure is built when needed.

27 With unique experience in the industry, the OPA possesses the intellectual capital
28 necessary to meet the objectives of the contract management and settlement function
29 effectively. This experience, and a thorough understanding of the procurement process,
30 allows the OPA to adapt to changes in the environment, and effectively respond to meet
31 the needs of developers and ratepayers. Interaction between the procurement process and
32 contract management functions facilitates the OPA's ability to continually evolve contract
33 management and settlement functions as required to respond to any changes in the
34 operating environment and meet the required objectives.

1 The option of out-sourcing the settlement process was considered. It was determined that
2 performing the required functions in-house was the least expensive option. The OPA has
3 implemented a settlement process that efficiently performs the settlement function with the
4 flexibility to deliver on future requirements.

5 In 2007, OPA management requested an audit of the settlement processes. The Ministry
6 of Finance completed the audit, which included a review of the settlement processes,
7 procedures and supplier statements for each of the various contract constructs that are
8 managed. The audit concluded that the settlement process was both “effective and
9 efficient”.

1 **BOARD STAFF INTERROGATORY 11**

2 Issue 4.1

3 Is the Operating Budget of \$1.03 million allocated to Strategic Objective # 4 (Barriers to
4 Resource Development) reasonable and appropriate?

5 Reference

6 Exhibit B/Tab 4/Schedule1/pages 3 and 4

7 Preamble

8 The OPA states at B-4-1 pages 3 and 4 that it will work with stakeholders and attempt to
9 address the impact of an increasing Global Adjustment Mechanism (GAM).

- 10 • Please provide information on how the OPA will develop solutions to deal with an
11 increasing GAM and describe the work plan and resource requirement that the OPA is
12 proposing to put forward for this activity?
13

14 RESPONSE

15 The OPA has devoted 0.5 FTEs to this task along with \$100,000 in professional and
16 consulting fees to investigate potential solutions to a growing Global Adjustment
17 Mechanism ("GAM"). This will require the OPA to: monitor and find effective reporting
18 mechanisms for the GAM, facilitate discussions with customer groups such as the CEO's
19 Customer Advisory Council, and to work closely with the Ministry of Energy and
20 Infrastructure and other energy sector agencies to consider options to better manage GAM-
21 related costs.

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1 **BOARD STAFF INTERROGATORY 12**

2 Issue 4.2

3 Is it appropriate for two government agencies to both be involved in market development
4 activities?

5 Reference

6 Exhibit B/Tab 4/Schedule1/pages 3 and 4

7 Preamble

8 The OPA states at B-4-1 pages 3 and 4 that its plans for Market Development are to
9 facilitate the trading of Heat Rate contracts, research the operation of forward markets in
10 other jurisdictions and examine the role of Customer Entitlement Agents

- 11 • Please provide information to on why it is efficient and effective for both the OPA and
12 the IESO to be carrying out concurrent market development activities and describe
13 other “more streamlined alternatives” that could be utilized to deal with market
14 development in the province.
15

16 RESPONSE

17 The OPA and the IESO have distinct mandates which are reflected in their different
18 legislative objects. Ontario Regulation 424/04 states that in developing the Integrated
19 Power System Plan, the OPA shall “identify and develop innovative strategies to encourage
20 and facilitate competitive market-based responses and options for meeting overall system
21 needs.” Accordingly, the OPA is investigating forward looking market instruments. The
22 IESO is primarily focused on day-to-day market activities.

23 The OPA works closely with the IESO in all of its market development activities,
24 maintaining constant communication to ensure a common understanding of market
25 evolution in pursuit of initiatives relevant to their different areas and to eliminate overlap or
26 duplication.

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