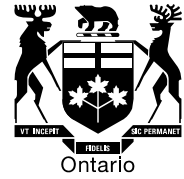


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BY E-MAIL

March 11, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Board Staff Interrogatories
Independent Electricity System Operator
Fiscal 2014 Fees Submission for Review (the “Application”)
Board File Number: EB-2013-0381**

In accordance with Procedural Order No. 1, please find attached Board staff's interrogatories respecting the above referenced Application.

Yours truly,

Original signed by

Gona Jaff
Project Advisor
Licensing and Performance Reporting

Attachment

cc: All Parties to the Proceeding



Board Staff Interrogatories

Independent Electricity System Operator 2014 Fees Submission for Review

EB-2013-0381

March 11, 2014

1. Operating Costs

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

Interrogatories

Reference: Exhibit B, Tab 1, Schedule 1 (Letter to the Minister of Energy dated October 31, 2013, Page 1)

In particular, the 2014 budget included in the Business Plan we are submitting to you today is \$11.8 million less than what was forecast for 2014 in our last multi-year submission, including a \$5.5 million reduction in proposed Operations, Maintenance and Administration costs.

- 1.1.1 Please provide details on factors that have contributed to the difference between the two budgets mentioned in the letter referenced above.
- 1.1.2 Please indicate whether the IESO foresees any consequences as a result of the reduced OM&A spending? If so how does the IESO intend to mitigate such consequences?

Reference: Exhibit B, Tab 1, Schedule 1 (2014-2016 Business Plan, Page 6)

Prudent financial management is a key priority for the IESO and it recognizes the need to effectively manage costs that are ultimately passed on to customers. The proposed fee for 2014 reflects that commitment, including a proposed \$1 million reduction from last year's OM&A budget of \$112.1million.

- 1.1.3 Please indicate whether the IESO has any guidelines/ policies in place in relation to "prudent financial management" and cost effectiveness. If so, please provide full particulars including copies of available supporting documents.
- 1.1.4 Please confirm that the proposed 2014 OM&A budget (\$111.1 million) is 7% higher than last year's actual OM&A spending (\$103.8 million). Please provide detailed information justifying the need for this increase.
- 1.1.5 Please provide a breakdown of the OM&A costs by categories for each of 2011, 2012, 2013 and 2014 and comment on material variances over those particular years.
- 1.1.6 Please provide a breakdown of total staff costs by relevant categories including pension and other post-employment benefit expenses for each of 2011, 2012, 2013 and 2014 and comment on any material variances over those particular years.
- 1.1.7 Please indicate whether the IESO has conducted any recent salary and/or benefits reviews? If so, please provide details and indicate whether any adjustments have been made or will be made by the IESO as result of those reviews.

Reference: Exhibit B, Tab 1, Schedule 1 (2014-2016 Business Plan, Page 11)

In addition, the IESO will continue to employ focused vendor management and competitive procurement processes to limit inflationary and other increases in computer support, maintenance and equipment costs and in telecommunication costs.

- 1.1.8 Please elaborate on the statement referenced above including details regarding the IESO's procurement processes and measures taken to ensure vendor performance delivery remains high while costs are contained.

Reference: Exhibit B, Tab 1, Schedule 1 (2014-2016 Business Plan, Page 4)

Over the 2014-16 period, the IESO will need to add new resources – including staff and tools – to manage the evolving challenges posed by cybersecurity. New staff will deal with additional technical work, including threat and data analysis.

- 1.1.9 Please provide a breakdown of cybersecurity management related costs for 2013 and each year of the planning period and provide explanations where necessary.
- 1.1.10 Did the IESO consider other options for managing these issues other than hiring new staff (e.g. contracted services)? If so please provide any available analysis.

1.2 Are the IESO's projected staffing levels appropriate and reasonable?

Reference: Exhibit B, Tab 1, Schedule 1 (2014-2016 Business Plan, Page 11)

	2013		2014		2015		2016	
	Regular	Temp	Regular	Temp	Regular	Temp	Regular	Temp
Wholesale Operations	459	8	451	8	451	7	449	7
Total	459	8	451	8	451	7	449	7

- 1.2.1 Please confirm whether the staffing levels provided in the table referenced above reflect the IESO's entire staff complement. If this cannot be confirmed, please provide an explanation.
- 1.2.2 Please reproduce the table referenced above with the IESO's 2011 and 2012 staffing level added to the table and provide comments where necessary.

Reference: Exhibit B, Tab 1, Schedule 1 (2014-2016 Business Plan, Page 11)

Changes in staffing levels over the planning period result from a reallocation of effort across the different business functions with the recognition of efficiencies being achieved in some of the ongoing processes.

1.2.3 Please identify the staff positions that the IESO plans to reallocate and the business units affected along with any other relevant information.

Reference: 2014-2016 Business Plan, page 8

On the cost side, the IESO has been effective in managing its work programs with operating costs projected to be \$3.0 million below the approved budget, largely the result of the higher than planned position vacancies as it has taken management longer than anticipated to fill all vacant positions in 2013.

1.2.4 Please explain the reasons for the delay in filling the vacant positions in 2013.

1.2.5 Please identify the projects and/or business units affected by the hiring delay and describe the impact. If the impacts are minimal from these delays, please indicate whether these positions can be eliminated?

1.2.6 Please provide the number of vacancies filled in 2013 along with the following information for each position filled:

- (a) reason(s) for the vacancy (e.g. new position, retirement...etc.); and
- (b) business unit and function.

1.2.7 Please provide the number of current vacant positions along with the following information for each position:

- (a) reason(s) for the vacancy (e.g. new position, retirement...etc.);
- (b) business unit and function; and
- (c) date by which the position is expected to be filled.

Reference: Exhibit B, Tab 1, Schedule 1 (2014-2016 Business Plan, Page 5)

An increased investment in training and development for new employees will also be essential given that almost a third of the current employees will be eligible for retirement by the end of 2016.

1.2.8 Please elaborate on the statement referenced above and provide details on the IESO's plan to deal with the projected employee retirements.

1.2.9 Please explain whether the IESO has taken any action, to date, to deal with the projected retirement? If no action has been taken to date, please explain why not?

2. Capital Spending

2.1 Are the IESO's proposed 2014 capital expenditures appropriate and reasonable?

Reference: Exhibit B, Tab 1, Schedule 1 (2014-2016 Business Plan, Page 13)

The IESO continues to have an ongoing need for reprioritization of initiatives it undertakes, and accordingly, the business planning process is not used as the mechanism for capital project approval. Rather, through business planning, an appropriate capital envelope is established for future years, with capital commitments approved individually on an ongoing basis.

- 2.1.1 Please confirm whether the IESO has in place a process for the planning and prioritization of capital expenditures? If so, please provide full details.
- 2.1.2 Please provide a breakdown of actual capital spending for each of 2011, 2012 and 2013, indicate whether the projects were discretionary or not, and provide comments were necessary.
- 2.1.3 Please indicate whether any of the planned 2014 capital projects are discretionary. If so, please indicate whether they can be deferred to 2015 (or later).

References: Exhibit B, Tab 1, Schedule 1 (2014-2016 Business Plan, Appendix 2: IESO Capital Projects)

- 2.1.4 Please confirm that the “Renewable Integration Initiative” and the “IESO Simulator” project were completed in 2013. If this cannot be confirmed, please explain.
- 2.1.5 With respect to the projects listed below, please provide a description of the work completed/ planned to be completed in each applicable year (i.e. 2013, 2014, and/or 2015) along with a high level cost breakdown:
 - (a) Revenue Metering System Replacement;
 - (b) Energy Management System (EMS) Refresh;
 - (c) Registration Automation;
 - (d) Oracle 11g RAC Technical Refresh;
 - (e) Market Information Management Refresh;
 - (f) Tier 1 Storage Refresh;
 - (g) Interchange Automation;
 - (h) Market Interface System Refresh; and
 - (i) Outage Management Replacement.
- 2.1.6 Please provide a high level description of the “Other Capital Projects” (i.e. projects totaling less than \$1M) completed in 2013 and planned for 2014.

3. The IESO Usage Fee

3.1 Is the move to gross billing from net billing appropriate?

Reference: Exhibit B, Tab 1, Schedule 1 (2014-2016 Business Plan, Page 6)

The IESO is proposing to change its fee structure to also include energy volumes equal to the output from generation embedded in local distribution networks. Currently, those volumes are not included in the determination of the IESO fee because the fee is based on energy withdrawals net of embedded generation.

- 3.1.1 Please indicate whether the IESO's proposal to change its fee structure from net billing to gross billing received appropriate stakeholder support and agreement. Please provide full details including whether any parties disagreed with this approach and if so, what was the nature or reason(s) for the disagreement.
- 3.1.2 Please indicate whether the IESO's proposed fee structure has been adopted by other electricity market and system operators in other jurisdictions. If so, please provide full particulars.
- 3.1.3 Please provide the total cost associated with the proposed changes to the current fee structure.

Reference: Exhibit B, Tab 1, Schedule 1 (2014-2016 Business Plan, Page 10)

The IESO's proposed usage fee for 2014 of \$0.803 per MWh represents a 2.3% reduction from our current fee of \$0.822/MWh.

- 3.1.4 Please confirm that the proposed usage fee of \$0.803/MWh is based on total energy volumes including embedded generation.
- 3.1.5 Please confirm that the current usage fee of \$0.822/MWh is based on energy volumes excluding embedded generation (the "Current Calculation Methodology").
- 3.1.6 Please calculate the IESO's 2014 usage fee based on the Current Calculation Methodology and provide the resulting \$/MWh fee.