

EB-2017-0150

Ontario Energy Board

IN THE MATTER OF the *Electricity Act*, 1998, section 25(1);

AND IN THE MATTER OF a Submission by the Independent Electricity System Operator to the Ontario Energy Board for the review of its proposed expenditure and revenue requirements for the fiscal 2017 and the fees it proposes to charge during the fiscal year 2017.

Interrogatories of Energy Probe Research Foundation

August 14, 2017

**EB-2017-0150 IESO 2017 Fees
Energy Probe Interrogatories**

1.0 Revenue Requirement, Operating Costs and Capital Spending

Energy Probe IR# 1 Revenue Requirement

Reference: Exhibit A, Tab 1, Schedule 1, Page 3

- a) Please provide a table with approved historic revenue requirement and actual revenues from 2010-2016.
- b) Please add a column with the forecast for 2017
- c) Show the opening and closing balances in the FDVA for each year.
- d) Show the amounts collected/rebated from ratepayers each year.

Energy Probe IR# 2 Operating Costs

References: EB-2015-0275 Exhibit A-2-2, Business Plan Pages 12-13; EB-2015-0275 Exhibit I Tab 1.0 Schedule 5.03 ENERGY PROBE 3

Preamble: In IESO Business Plan 2016 the IESO stated "In 2017 and 2018, the IESO is planning to deliver further reductions in operating expenditures and resources as a result of various projects initiated in 2016. Operating expenditures compared to 2016 are decreased by two percent by the end of the planning cycle".

- a) Please reproduce the Table provided in the second reference (IR Response EP 3) and provide columns showing the revised actuals and projection for core operating expenses and Total Expenses 2015-2018 and add a column with the projection for 2019.
- b) Discuss for each component cost changes relative to prior year.
- c) Compute the percentage change relative to the 2 percent cited in last year's evidence.
- d) Specifically address the drivers for changes in core program compensation and benefits and relate this to the changes in FTEs.

Energy Probe IR# 3

References: Exhibit A-2-2, page 13

Preamble: The cost of IESO's Total Core Operations grows from \$182.1 million in 2016 to \$183.4 million in 2018, which includes an increase in operating and administration costs. In its 2016 fees application (EB-2015-0275), the two agencies noted that the merger would create sustained "efficiencies".

- a). Can IESO breakdown any productivity savings that have resulted as a result of the merger, given that the cost of its core operations are increasing 2016-2019?
- b). Can IESO provide any detail on whether there is any sustained decrease in operating costs as a result of the government suspending the LRP II procurement?

Energy Probe IR# 4 Operating Costs, Compensation Costs and Staffing Levels

References: Exhibit A-2-2, Business Plan Page 9; EB-2016-0275 Exhibit A-2-2, Business Plan Page 11

Preamble: The 2016 Business Plan stated that "the IESO expects full-time staff to decline from 694 in 2015 to 680 in 2018"

For 2017, the IESO anticipates an average headcount of 687 for core operations and an incremental 25 headcount, for a total of 712. The incremental resources will be required to deliver the IESO's core business and Market Renewal.

- a) Please provide the actual FTEs for (OPA and) IESO from 2010-2016.
- b) Please list the number of part-time or contract employees it will employ between 2015 and 2019.
- c) Please Specifically Indicate of the 25 FTEs added 2017, how many are for the Market Renewal Program and how many are fill-in for staff assigned to the MRP.
- d) For the FTE Projection on Page 11 please indicate of the proposed 75 FTEs added in 2018/19, how many are for the Market Renewal Program and how many are fill-in for staff assigned to the MRP.

Energy Probe IR# 5 Operating Costs, Compensation Costs and Staffing Levels

Reference: Exhibit A-3-2, Pages 36-38 Exhibit C, Tab 2, Schedule 1, Attach. 4 Form 2K

- a) Using the Form 2K provided in evidence as a starting point, please modify to provide for Executive, Management, Society and Union groups for the historical (2011-2015), as well as bridge (2016) and test years (2017) a breakdown as applicable, of

- Total Full Time Employees (FTE); total Part-Time Employees,
- Total Salaries & Wages
- Benefits charged to O&M.

b) Please provide a table that benchmarks for 2011-2017 (forecast):

- i. Total Compensation to Total OM&A and
- ii. OM&A per TWh.

Energy Probe IR# 6 Operating Costs, Compensation Costs and Staffing Levels

Reference: Exhibit A-3-1, Page 52

Preamble: The Broader Public Sector Executive Compensation Framework regulation (O. Reg 304/16) came into force in 2016 for implementation in 2017. The IESO's executive compensation program will be reviewed in accordance with this regulation and made available on the IESO's website by September 2017.

- a) Has IESO retained the Hay Group to undertake this review?
- b) Will the compensation comparison be filed in this case?
- c) If not, please provide evidence to confirm that the IESO 2017 total compensation (Executive) conforms with the regulation?
- d) Please provide an update for 2017 executive base salary compensation in the same format as Exhibit A-3-1, page 54. Include the two missing executive positions. Please reconcile with Exhibit C, Tab 2, Schedule 1, Attachment 4, Form 2-K and the response to Energy Probe IR# 4
- e) Please provide a table showing all executive and management incentive pay, other benefits and other post-retirement benefits for 2016 and a projection for 2017.

Energy Probe IR# 7 Market Renewal Program

Reference: Exhibit A. Tab 3, Schedule 1 2016 Annual Report

Preamble: The Market Renewal project will evolve the wholesale energy market and introducing capacity auctions to competitively and efficiently procure resources, while continuing to meet emerging operability challenges.

The Market Renewal initiatives include:

- A single-schedule market;
- A financially binding Day-ahead Market;

- Enhanced real-time unit commitment;
 - A capacity auction including the import and export of capacity;
 - More frequent intertie scheduling; and
 - Other operability enhancements as identified by the IESO and its Stakeholders
- a) Please file a Copy of the Brattle Report *A Benefits Case Assessment of the Market Renewal Project*, prepared for the IESO by the Brattle Group.
 - b) Please provide details of The Market Renewal Working Group.
 - c) Please provide details of the MRP Project Plan and Operating and Capital Budgets 2016-2019.

Energy Probe IR# 8

References: Exhibit B, Tab 3, Schedule 1, page 2

Preamble: IESO is proposing to retain \$5 million in excess costs in 2017 in order “minimize fee increases as a result of the Market Renewal Program in 2018.”

- a). Can IESO confirm whether it’s proposing a form of “fee smoothing” the cost to electricity customers of the MRP?
- b). Has IESO ever engaged in this kind of smoothing of costs in the past?
- c). Will the costs of the MRP – in 2017 or beyond -- ever push annual fee increases pass the OEB’s approved threshold for rate smoothing of 10% on the total bill as it applies to LDCs?

Energy Probe IR# 9

References: Exhibit B, Tab 1, Schedule 1, Page 8

Preamble: As the Market Renewal Program is anticipated to benefit both domestic and export customer classes, the IESO is proposing to recover the costs associated with the Market Renewal Program from both customer classes on a proportionate basis based on TWh. These costs are a component in the proposed 2017 fees as calculated by Elenchus. The IESO has a forecast \$12 million of operating costs due to the Market Renewal Program in 2017 (as shown in Table 5 below).

- a) Other than the general statement above stating equal benefit to customer classes, on what basis does IESO believe that “these costs are a component in the proposed 2017 fees as calculated by Elenchus”.

- b) Was Elenchus specifically directed to include MRP Costs and Benefits as identified in the Brattle Report? If so provide that direction and references of the parts of the Elenchus Report that included those costs/benefits.
- c) Given that the allocation of costs for existing services considered by Elenchus has resulted in differentiated dees, why would IESO not undertake a new/updated cost allocation study to ensure post MRP costs are appropriately allocated? Please discuss
- d) Confirm IESO has identified over \$60 million in MRP capital costs and has not provided evidence on these costs or how these costs should be accounted for, or be allocated to the user classes. Please provide this evidence.
- e) Can IESO confirm that the greatest cost savings of the MRP come from a capacity auction, yet any savings in the capacity auction will benefit customers different depending on whether they are Class A or Class B customers in terms of the Global Adjustment.

Energy Probe IR# 10 2017 – 2019 Capital Plan Details

References: Exhibit A-2-2, Page 29; Exhibit A-3-1, Pages 36 & 39; Exhibit C, Tab 2, Schedule 1 Appendix 2-AA

Preamble: As a rate-regulated entity, the IESO, in appropriate circumstances establishes regulated assets or liabilities and thereby defers the impact on the statement of operations of certain expenses or revenues because they are probable to be collected or refunded to market participants through future billings. The IESO has applied guidance from United States Generally Accepted Accounting Principles (US GAAP) Topic 980, *Regulated Operations*, in this policy.

- a) In the first reference, and the table listing capital plan items, please provide a breakout of all capex components comprising the Market Renewal Project with the budgets for 2017, 2018 and 2019.
- b) Please indicate progress to date on each MRP project component and any expenditures incurred that will eventually be capitalized.
- c) Please provide a copy of the IESO capitalization policy.
- d) As noted in the preamble, please provide more details as to how Capex is treated for regulatory purposes, for example expensed and/or amortized and in the latter case, for example if IESO has a notional ratebase or net fixed assets amount that is the basis for calculating the return on capital amount in the annual revenue requirement.

- e) Please provide the IESO 2017 cost of capital and a sample calculation of how capex translates into assets and a revenue requirement amount.
- f) Please provide discussion on options considered and proposed treatment of capital, specifically in context of the \$60 million incremental capital for the MRP.

Energy Probe IR# 11 Other Revenue

Reference: Exhibit B, Tab 1, Schedule 1, Page 10

Preamble: The IESO will be supporting the Ontario Climate Change Solutions Deployment Corporation (“OCCSDC”), a provincial crown corporation, by providing staff to perform work on behalf of the OCCSDC. IESO staff will utilize IESO office space and infrastructure while performing this work. All IESO staff time spent on OCCSDC related work will be tracked, and the IESO will charge a fully allocated cost for this staff time;

- a) Please provide a copy of the Inter-corporate Service Agreement (ISA) for the services.
- b) If the ISA is not available, or does not contain a schedule with the estimates/calculations for staff time, space and overhead, please provide a copy of these.
- c) If the costs incurred for the OCCSDC work differ from estimates, who is responsible for any difference?

2.0 Usage Fees

Energy Probe IR# 12

Reference: Exhibit B, Tab 1, Schedule 1, Page 3, Table 2

- a) Please provide in a single table, the historic forecast and actual (2011-2016) and 2017 forecast TWh for the three user classes.(Domestic, Export/import and Embedded)
- b) Based on historic experience, please provide a sensitivity analysis for 2017 for the charge determinants for the three components and discuss the result.
- c) How will IESO “true up” its 2017 fees if one or more of the TWH forecasts is in error?

Energy Probe IR# 13

Reference: Exhibit B Tab 1 Schedule 1 Page 5: Exhibit B Tab 1 Schedule 2 Page 3

Preamble: To parse the work of the IESO or to attempt to separate the costs or benefits of the IESO's operations is difficult now and will be increasingly difficult and decreasingly practical in the future.

- a) Specifically indicate why the regional and grid planning functions benefit both domestic and export customers.
- b) Please explain in detail why embedded generation creates costs for IESO at a different level than managing bulk generation and exports.

4.0 The Deferral and Variance Account

Energy Probe IR# 14 Deferral and Variance Accounts

Reference: Exhibit B, Tab 2, Schedule 1, Page 3

- a) The IESO has approval of two fees, please discuss how a true up on FDVA balances should be done to reflect fairly both costs and revenues for each of the classes of customers.
- b) How will IESO account for and allocate the costs of the Market Development Project/Program to users? Should the allocation be based on different drivers than those for the FDVA? Please discuss.
- c) Has IESO considered a separate Deferral/Variance account to deal with the costs and timing differences related to the MDP? Please discuss.

Energy Probe IR# 15 Deferral and Variance Accounts

Reference: Updated Exhibit B, Tab 3, Schedule 2, Page 1

Please provide details/specifics of the refund of the RFDA and FDVA 2016 balances to customer classes

5.0 Commitments from Previous OEB Decisions

Energy Probe IR# 16 Corporate Performance Measures and Scorecard

References: Exhibit A-2-2, Page 15; Exhibit A-2-2, Page 21, Appendix 1

Preamble: The 2017 CPMs consider input from the IESO's Stakeholder Advisory Committee, representing the voices of the sector, as well as working collaboratively with the subject matter experts of the IESO itself. The CPMs were developed to be results and outcome-oriented, externally focused, measureable, specific and achievable.

- a) Please indicate when and which intervenors and stakeholders were consulted on the 2017 CPMs

- b) Please indicate which divisions/executives contribute to each target and an approximate level of accountability/responsibility for each.
- c) For each target/CPM please provide the detailed measurement(s) used
- d) Please provide details regarding how the CPMs relate to the corporate and individual executive measures and variable pay compensation (see Exhibit A-3-4, Pages 53 and 61)
- e) Please provide details (such as a report) of the corporate and individual performance management system at IESO.
- f) Please Indicate if the CPM Program been approved by
 - The Minister
 - IESO Board
 - IESO Stakeholder Committee
 - The OEB
- g) Please provide relevant material to support the response(s).

Energy Probe IR# 17 Corporate Performance Measures and Scorecard

Reference: Exhibit C Tab 1 Schedule 1 Page 2 Plus Attachments

Preamble: The IESO has not set or developed targets for the scorecard metrics at this time unless they exist in the IESO Corporate Performance Measures or there is a pre-existing requirement, such as the Compliance with NERC high risk reliability standards. Where such a target exists, they are included as the 2016 target. For other measures, the IESO believes that it would be more effective to have a history on the measure before setting a target to ensure that it is a realistic and attainable target.

- a) Please explain why, after reaching a settlement and engaging stakeholders in the Elenchus Study, the IESO now declines to populate the Scorecard for 2017 for consideration in the hearing.
- b) Please populate the Scorecard with a complete set of proposed 2017 targets.

Energy Probe IR# 18 Corporate Performance Measures and Scorecard

Reference: Exhibit C-1-1 Attachment 2

Preamble: MDA tab Indicates “Market Renewal Initiative proceeding according to the schedule and budget. The IESO is not reporting or providing 2016 information on the

Market Renewal Project as the project was under development and examination in 2016, it did not have a budget nor was a schedule established for 2016.

- a) Please provide the details of the Milestones/Metrics that are/will be the basis of reporting on the MDP and for the 2017 Scorecard targets.
- b) Please reconcile the response with prior EP IRs on the MRP costs and Capex.

Energy Probe IR# 19 Cost Benchmarking

References: Exhibit C, Tab 4, Schedule 1

Preamble: The IESO understands and appreciates the underlying desire for the Board and the Parties to look to the potential for cost benchmarking of some or all of its activities for the purpose of understanding the reasonableness of the IESO's proposed expenditures and usage fees.

However, based on the analysis above, the IESO respectfully submits that such an activity is not appropriate due to the lack of available information and the lack of suitable comparable entities to benchmark costs against.

- a) Does IESO accept that external cost benchmarking is useful? Please discuss.
- b) Why does IESO believe data comparability restrictions are too large?
- c) Although IESO believes that its core operations (to be defined by IESO in the response) cannot be compared to other RTO/ISOs, please provide a similar chart to Figure 8 in the FERC Report referenced in the evidence (Exhibit C, Tab 4, Schedule 1, Page 2 lines 15-16) showing IESO overall administration Cost/MWh over the period 2010-2016, adjusted for exchange rates.
- d) Please provide an internal benchmark analysis with schedules and charts showing OPA and IESO core operations costs from 2010-2017 (pre and post merger) and as applicable, normalize these for export and domestic functions based on relevant metrics such as \$/MWh.

Energy Probe IR# 20 Cost Benchmarking

Reference: Exhibit C, Tab 5, Schedule 1, Page 2

- a) Please update the Table provided in the reference for 2016.
- b) Please provide the expenditures and savings associated with the CII Programs for each year over the period 2014-2016 as well as the 3 year totals.
- c) Please provide similar information for the Residential Sector Programs.

6.0 Pensions and Other Post-Employment Benefits (OPEBs) Cost

Energy Probe IR# 21 OPEBs

Reference: Exhibit B Tab 4 Schedule 1 Page 3

Preamble: The IESO seeks the Board's approval to continue to apply any over-collection between OPEB expenses and OPEB benefit payments in a given year to the IESO's debt, with any resulting decrease in interest charges benefitting Ontario's ratepayers. The IESO believes that this alternative mechanism meets the spirit of the Report while acknowledging that the IESO is a not-for-profit corporation.

Please file a copy of the Accounting Order for the variance account to track the difference between the forecasted accrual amount and actual cash.

Energy Probe IR# 22

References: Exhibit A-2-2, page 7

Preamble: IESO states that the province's cap-and-trade policies is requiring IESO "to assess the impact on and negotiate amendments to a number of its major procurement contracts," while at the same time "requiring new business processes to be developed and put in place to address increased monitoring of emissions, manage transactions involving carbon costs, and develop and manage, on an ongoing basis, new and complex settlement agreements including rebate processes for various customer classes."

- a). Can IESO breakdown or estimate the cost to electricity customers of these new amendments to its major procurement contracts as a result of cap and trade?
- b). Can IESO detail the various costs to the agency associated with cap and trade as detailed in the preamble.

Energy Probe IR# 23

References: Exhibit A-2-2, page 17

Preamble: IESO is currently undertaking a mid-term review of conservation activities.

- a). Can IESO provide any drafts or documents related to the mid-term review?

Energy Probe IR# 24

References: Exhibit A-2-2, page 28

Preamble: IESO's capital spending is expected to increase from \$25 million in 2017 to \$63.2 million in 2019, largely as a result of the MRP.

a). Can IESO provide any details on the "other capital initiatives/projects" spending given that it is increasing from \$5.4 million in 2017 to \$11 million in 2019.

IR's for Brattle Group and the report "The Future of Ontario's Electricity Market."

Energy Probe IR# 25

Preamble: One of IESO's key claims in pursuing the Market Renewal Project is that it will save ratepayers money in the long-run, potentially as much as \$5.2 billion. But, as Brattle highlights in its report, the OEB's Market Surveillance Panel (MSP) had been pushing for market reforms as early as 1999. Most notably, the MSP highlighted the excess costs associated with the "existing approach" of capacity planning and long-term supply contracts. Brattle notes (page 3) that this approach "has met the province's resource adequacy needs and enabled rapid decarbonization, but has contributed to excess capacity and associated costs."

- a). Does Brattle have any estimates on the excess cost to ratepayers over the last decade from the province's surplus capacity and above-market contracts to generators?
- b). Does Brattle have any estimates on whether these excess costs will, ultimately, outweigh any cost savings from the MRP?
- c). Do any of the other markets that Brattle reviewed have the same magnitude of generators that are either rate-regulated or have signed long-term contracts with a government authority?

Energy Probe IR# 26

References: Brattle report, page 75

- a). Can Brattle provide the customer benefits achieved using IESO's "Outlook B" scenario from IESO's Ontario Planning Outlook?

Energy Probe IR# 27

References: Brattle report, page 80

- a). Provide this graph using the "Outlook B" scenario in the requirement line?
- b). Provide this graph using the "Outlook B" scenario for summer peak in the requirement line?
- c). Provide this graph using the "Outlook B" scenario for winter peak in the requirement line?

Energy Probe IR# 28

References: Brattle report, page 89

a). Provide a similar chart showing cost overruns of the MRP of 20%, 50% and 100%.

Energy Probe IR# 29

References: Brattle report, page 90

a). Does Brattle have any data on operating costs at other system operators before and after market reforms?