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BY EMAIL

August 17, 2017

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: OEB Staff Interrogatories
Independent Electricity System Operator (IESO) Application for Approval of 2017 Revenue Requirement, Expenditures and Fees
OEB File Number: EB-2017-0150

Pursuant to Procedural Order No. 2, please find attached OEB staff interrogatories in the above referenced proceeding.

Yours truly,

Original Signed By

Michael Lesychyn
Project Advisor, Supply and Infrastructure

cc: Parties to EB-2017-0150

ONTARIO ENERGY BOARD

OEB Staff Interrogatories

Independent Electricity System Operator's Application for the Approval of 2017 Expenditures, Revenue Requirement and Fees

EB-2017-0150

August 17, 2017

1.0 Revenue Requirement, Operating Costs and Capital Spending

1.3 *Is the IESO's Operating Costs budget of $191.4 million for Fiscal Year 2017 appropriate?*

1.3 Staff – 1

Reference: Exhibit A-2-2, p. 11 & Exhibit C-2-1, attachment 2

Preamble:

At Exhibit A-2-2, p. 11 the IESO states:

> “The 2017 proposed operating expenses are $9.3 million above the 2016 budget expenses as per the 2016-2018 Business Plan.The higher operating expenses are primarily due to the impact of Market Renewal and higher pension and other post-employment expenses.”

At Exhibit C-2-1, attachment 2, the IESO states:

> “Planned operating expenses in 2017 have increased by approximately $9.8 million when compared with 2016 actual operating expenses. The increase is due to a combination of the addition of the Market Renewal Program and annual inflationary pressures.”

Questions:

a) Please confirm how much the IESO fees are increasing - $9.3 million or $9.8 million? Please explain the discrepancy.

b) Please explain what is meant by annual inflationary increases, as stated at Exhibit C-2-1, attachment 2, particularly in light of the IESO’s fee having declined in 2016. What is the estimated % annual inflationary impact? What is it based on?

c) Exhibit C-2-1, attachment 2 provides different cost drivers for the increased operating expenses than at Exhibit A-2-2, p. 11. Please fully explain and quantify the cost drivers.

d) Please explain ‘corporate adjustments’ in the Operating Programs Table at Exhibit C-2-1, attachment 3.

1.4 *Are the IESO's projected staffing levels and compensation (including salaries, benefits, pensions and other post-employment benefits) appropriate and reasonable?*

1.4 Staff – 2

Reference: Exhibit A-2-2, p. 13-14 and Exhibit B-3-1, p. 2-3

Preamble:

Page 14 of Exhibit A-2-2 states that “Incremental FTEs will be required to deliver the IESO’s core business and Market Renewal”.

Page 13 of Exhibit A-2-2 states:

> “A reduction of one percent in the core operations staffing budget is anticipated to occur over the planning period as merger synergies are maintained and other efficiencies are realized.”

In addition, the table at the bottom of page 13 shows core FTEs continuing to decline.

Page 2 of B-3-1 states:

> “The government direction to conclude renewable procurement initiatives such as Large Renewable Procurement in 2016 resulted in staff vacancies. These vacancies were maintained within 2016 in anticipation of needing additional staff in support of the Market Renewal Program.”

Page 10 of Exhibit B-1-1 states:

> “The approved Business Plan was resubmitted to the Minister on February 1, 2017 and included the forecast additional resourcing requirements for the Market Renewal Program, and reflect the elimination of the Large Renewable Procurement and redeployment of procurement staff accordingly.”

Questions:

a) Please explain how the IESO can anticipate a one percent reduction in the core operations staffing budget and at the same time require incremental FTEs to deliver the IESO’s core business.

b) What proportion of the incremental FTEs required for Market Renewal will be temporary vs. full time? How many are expected to be internal rather than external? For internal resources, will the positions be backfilled? If not, please explain what work will not be done in 2017 that would have been undertaken by these internal resources.

c) Will any of the incremental FTEs required for Market Renewal eventually be converted to permanent/core staff? If yes, please explain how many are expected to become core FTEs and the forecast total FTEs for the IESO. If not, please explain how the IESO will manage any incremental or modified work created by the Market Renewal project without additional FTEs.

d) Please explain what is meant by ‘maintaining vacancies’ at page 2 of B-3-1? How does this relate to the core FTE numbers provided in Exhibit A-2-2 on page 13?

e) Please explain what work the 25 additional Market Renewal staff will do in 2017 given that there is no capital projects planned for Market Renewal in that year, as stated at Exhibit C-2-1, Attachment 1.

f) How were the staffing levels for Market Renewal determined?

g) Please explain whether the number of budgeted core FTEs should be lower given the ‘elimination of the Large Renewable Procurement and redeployment of procurement staff...” as stated at page 10 of B-1-1. Where has procurement staff been redeployed to? How many staff has been redeployed? Was all redeployed staff previously working on the Large Renewable Procurement?

1.4 Staff – 3

Reference: Exhibit B-1-1, p. 10

Preamble:

Page 10 of Exhibit B-1-1 states

> “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; the IESO will not be financing the work performed by its staff on behalf of the OCCSDC.”

Page 1 of C-3-1 states

> "The internal 2016 costs associated with the Ontario government's greenhouse gas cap-and trade initiative is approximately $500,000. These incremental costs were for external counsel and consultants that were retained to assist the IESO to review and negotiate amendments to supply contracts where appropriate."

Questions:

a) How many FTEs and what percentage of these individual's time does the IESO expect to be supporting the OCSDC?

b) Please explain how budgets have changed to reflect the time/costs of staff now working for the OCCSDC rather than on IESO work?

c) How will the alternative deployment of these resources affect the achievement of the IESO's work in 2017? What work would have been undertaken by these resources but will now no longer be pursued in 2017?

d) Please provide details of the fully allocated approach used to calculate the offset to the revenue requirement for 2017, including all assumptions.

e) How does the IESO's work for the OCCSDC relate to the costs for cap and trade related work stated at C-3-1?

1.4 Staff – 4

Reference: Exhibit B-3-1, p. 2-3, Exhibit C-2-1, attachment 4

Preamble:

Page 3 of Exhibit B-3-1 states that there were 675 actual staff while 688 were budgeted for that year. Exhibit C-2-1, attachment 4 indicates that there were 665 employees in 2016.

Questions:

a) Please explain the difference in the head count between Exhibit B-3-1, page 3 and Exhibit C-2-1, attachment 4.

b) Did the IESO conduct any benchmarking to support the projected staff levels and compensation for 2017? If so, please file the supporting documentation.

1.5 *Is the IESO's Capital Expenditure budget for Fiscal Year 2017 appropriate?*

1.5 Staff – 5

Reference: Exhibit B-2-1, p. 5

Preamble:

The IESO has made changes to its accounting policies to increase transparency and to report certain costs as regulated assets, consistent with the accounting policies of other regulated entities in North America.

Questions:

a) Please indicate how much of the PSAB Transition balance is being recovered in the 2017 rate that has been proposed as part of this application?
b) What methodology is used to determine the annual amount that gets included in rates?
c) Please confirm that the above methodology does not change as a result of the accounting change for these costs as noted in the 2016 audited financial statements.
d) Are there any issues related to the accounting change that will impact future revenue requirement applications by the IESO?

1.6 *Are the IESO's forecast 2017 operational costs for the Market Renewal Program appropriate in the context of the scope and timing of the overall project?*

1.6 Staff – 6

Reference: Exhibit A-2-2, p. 7-9 and 16; Exhibit B-1-1, p.5-9; Exhibit B-2-1, p.3

Preamble:

On Page 5 of Exhibit B-1-1, the evidence states:

> "The IESO's Market Renewal Program is a multi-year project that is anticipated to provide benefits to Ontario's electricity market and customers. Early findings show potential for cost savings from the Market Renewal Program to be realized by consumers and suppliers of approximately $3.4 billion over the 2021-2030 period."

On page 8 of Exhibit A-2-2, it states that “Costs for the [Market Renewal] project are estimated to fall in the range of $150 - $200 million.”

On Page 8 of B-1-1 it states:

> “Of the $12 million in forecast 2017 costs, the IESO is proposing to allocate $3.0 million from its budget for core business operations, from the IESO redeploying consulting support as well as impacts of hiring timing and staffing rates…”

Page 3 of B-2-1 states:

> “As shown in Table 2 below, the projected operating costs for the Market Renewal Program are forecast to increase in 2018 over 2017 costs. This increase, when combined with the $3 million of 2017 Market Renewal costs the IESO is proposing to allocate from its budget for core business operations as described on page 9 of Exhibit B-1-1 equals the $5 million the IESO is proposing to be allowed to retain”

Questions:

a) How did the IESO establish the Market Renewal project cost forecast? Was any benchmarking undertaken to confirm the reasonableness of costs?

b) Once the Market Renewal project is initiated, is it possible to stop the project part way through, or is the OEB’s approval of 2017 Market Renewal project amounts effectively committing the entire project?

c) The above reference on page 8 of B-1-1 states that $3 million of the Market Renewal costs is being funded from the IESO’s core business operations. Is the IESO intending to have its budget return to the current levels once the Market Renewal project is completed? If so, please explain what cost savings are able to be deferred now but cannot be maintained in the future.

d) OEB staff finds the evidence at page 3 of B-2-1 as referenced above difficult to follow. Please provide a table that illustrates the calculation described at page 3 of B-2-1 and provide further explanation as to the IESO’s intentions.

e) The above reference at page 5 of B-1-1 states that “Early findings show potential for cost savings from the Market Renewal Program to be realized by consumers and suppliers… Did the IESO consider funding the Market Renewal project in proportion to the benefits expected for domestic and export customers? What would be the proportion of benefits for both export and domestic customers, and how would that change the IESO's proposed fees?

f) Please summarize the feedback received from stakeholders to date. Are stakeholders generally supportive? Have any concerns been raised by stakeholders related to the benefits estimated by the Brattle Group's report? If so, what were they?

2.0 Usage Fee

2.1 *Is the allocation of energy volumes and costs between domestic and export markets reasonable?*

2.1 Staff – 7

Reference: Exhibit B-1-1, p. 4

Preamble:

As noted on p. 4 of Exhibit B-1-1, the IESO's domestic and export customer fees were calculated by Elenchus using the updated 2017 business unit budgets and energy data.

Questions:

a) Has there been any update to the Elenchus model other than cost inputs? Have any allocation factors changed?

4.0 The Deferral and Variance Account

4.1 Is the IESO's proposal to retain an Operating Reserve of $10 million in the Forecast Variance Deferral Account appropriate?

4.1 Staff – 8

Reference: Exhibit B-1-1, p. 9

Preamble:

On p. 9 of Exhibit B-1-1 the IESO indicates that it continue to retain an operating reserve of $10 million in 2017 in response to this potential volatility in spending driven by changes in the volume of activities and the external environment.

Question:

a) Does the IESO plan to return the balance in FVDA at the time of OEB decision, or the balance in the FVDA above the $10 million in Operating Reserve at the end of 2017?

4.2 *Is the IESO's proposal to clear 2016 Year-End balance in the Forecast Variance Deferral Account that are in excess of the $10 million operating reserve appropriate?*

4.2 Staff – 9

Reference: Exhibit B-3-1, p. 1

Preamble:

On page 1 of Exhibit B-3-1 the IESO states that it proposes to rebate the $12.5 million collected from user fees. The $12.5 million accumulated surplus is due to actual revenue being $12 million higher than planned.

Questions:

a) Please explain the rationale for proposing to return $12.5 million in 2017 and at the same time ask for a fee increase of approximately $9.7 million in 2017? Did the IESO consider offsetting the proposed fee increase with the balance in the FVDA? Please explain why or why not.

4.3 *Is the IESO's proposal to retain, in proportionate quantities, up to $5 million above the proposed 2017 revenue requirement received from each of the two customer classes, to be used to fund Market Renewal Program costs that occur in 2018 appropriate?*

4.3 Staff – 10

Reference: Exhibit B-2-1, p. 3

Preamble:

In addition to the $10 million operating reserve, the IESO is seeking approval to retain up to $5 million in excess revenues received in 2017 to minimize fee increases as a result of the Market Renewal Program in 2018.

Questions:

a) Please explain why the IESO is proposing to retain up to $5M in the FVDA beyond the revenue requirement for 2018 Market Renewal costs at this time. Why is the IESO not asking the OEB to consider this request as part of its 2018 revenue requirement submission?

5.0 Commitments from Previous OEB Decisions

5.1 Is the IESO's proposed Regulatory Scorecard appropriate?

5.1 Staff – 11

Reference: Exhibit C-1-1, p. 1

Preamble:

In the Board-approved Settlement for the IESO's 2016 Revenue Requirement Submission (EB-2015-0275), Section 6.2, the IESO agreed:

- To consult with intervenors to develop a scorecard for filing in its next Revenue Requirement Submission filed with the Board;
- That the scorecard is intended to be a tool for the Board and intervenors to use in evaluating the IESO's proposed expenditure and revenue requirement; and
- To engage an expert to assist with this work.

Questions:

a) How will the IESO use the Scorecard when finalized to adjust its Corporate Performance Measures (CPMs) going forward – will the IESO still use both?

b) How long does the IESO intend to take to develop the history before it has targets for the Scorecard?

c) What is the potential role for the OEB in reviewing the system view metrics, if any?

5.4 Is the IESO's rationale as to why benchmarking is not possible or appropriate acceptable

5.4 Staff – 12

Reference: Exhibit C-4-1, p. 1-2

Preamble:

The IESO submits cost benchmarking is not appropriate due to a lack of available information and lack of suitable comparable entities to bench mark against.

Questions:

a) Did the IESO investigate whether any parts of the organization could be benchmarked? For example, did it consider whether employee compensation costs, including pensions and OPEBs, or certain functions of the organization – like HR, communications, and finance groups - could be benchmarked against other organizations?

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

6.1 Is the IESO's treatment of pensions and other post-employment benefits costs appropriate?

6.1 Staff – 13

Reference: Exhibit A-2-2, p.11

Preamble:

The above reference indicates that pension and other post-employment benefits (OPEBs) expense increases in the planning period are due to a lower discount rate, which increases future liabilities, and reduced asset valuations resulting in a higher funding requirement. The higher expenses are partially offset by increases in the management group pension contributions and pension benefit changes, which take effect in 2017.

Questions:

a) Please provide the 2017 pension amount and the 2017 OPEB amount respectively, that are built into the 2017 Business Plan.

b) Provide a table that compares the 2017 pension and OPEB amounts as provided in a) above to the actual pension and OPEB expenses per the audited financial statements for the last five historical years.

c) Please provide the actuarial valuation that underpins the estimate of the 2017 pension and OPEB expense that is built into the 2017 Business Plan.

If the balance in the actuarial valuation is different from what is being sought in rates, then please provide an explanation supporting why the amount in rates is more appropriate.

6.1 Staff – 14

Reference: Exhibit A-2-2, p.12

Preamble:

The above reference indicates that the IESO has made changes, including revisions to the management pension and compensation structure ; and, to the negotiated contracts with its unions in order to manage the IESO's overall costs in the longer term.

Questions:

a) Please explain the changes that were implemented with respect to pensions and OPEBs, if any

c) What amount of savings in pension and OPEB costs are being reflected in the 2017 Business Plan as a result of these changes?

e) What is the expected Employer to Employee contribution ratio for pensions in 2017?

6.1 Staff – 15

Reference: Exhibit A-2-2, p.13

Preamble:

The above reference indicates that the IESO is seeking to recover approximately $18.4 million in amortization expense for 2017.

Questions:

a) Please provide the asset continuity schedule that underpins the amortization amount being sought for recovery in rates. Please ensure that the opening balances for 2017 presented agree to the December 31, 2016 continuity presented in the audited financial statements.

b) Please provide a five-year historical comparison between the amortization expense that was sought in rates compared to the actual amortization expense for each year.

d) How often does management review the reasonableness of their depreciation policies?

f) Has the IESO compared its depreciation policies to the useful lives recommended by the July 8, 2010 Asset Depreciation Study performed by Kinectrics Inc. on behalf of the OEB, and which forms the basis of the OEB's depreciation policy for most regulated utilities.

6.1 Staff – 16

Reference: Exhibit B-4-1, p.2

Preamble:

The above reference indicates that the IESO has historically over-collected on OPEB costs compared to the actual benefit payments made.

Questions:

a) Please complete the following table, one table each for pension and OPEB costs respectively.

Pensions and OPEBs	**First Year of recovery to 2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Amounts included in Rates							
OM&A							
Capital							
Total	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Actual contributions (pensions) / benefit payments (OPEBs)							
Net excess amount included in rates relative to amounts actually paid.	$ -	$ -	$ -	$ -	$ -	$ -	$ -

b) The IESO proposes an alternative mechanism for providing value to ratepayers from the over-collection of pension and OPEB costs than what is prescribed in the OEB's May 18, 2017 Report on the Regulatory Treatment of Pension and Other Post-Employment Benefit costs. Management has indicated that over-collection of OPEB expenses have historically been used to reduce IESO's debt.

i. Has the IESO also historically over-collected on pension costs?

ii. If so, please describe how the IESO has used pension recoveries in excess of pension contribution requirements.

iii. Should potential over-collections associated with pensions also be considered in the IESO's proposed alternative approach, if not, please explain why?

c) When justifying why the policy outlined in the OEB's May 18th, 2017 Report on the Regulatory Treatment of Pension and OPEB Costs should not apply to the IESO, management has highlighted the unique structure of the IESO in that it is a not-for-profit entity and that its core operations are funded through the annual fee that the OEB approves. Currently the IESO recovers its pension and OPEB costs on an accrual accounting basis.

i. How will the IESO fund it its pension and OPEB requirements in years where the accrual based amount for pension and OPEB costs is less than the actual cash requirements (i.e. what is collected in rates is in fact less than what is required)?

ii. If the IESO expects to use debt to fund the shortfall, would that require ratepayers to fund the interest on the related debt?