OEB STAFF INTERROGATORY 10

4.0 The Deferral and Variance Account

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

INTERROGATORY

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?

RESPONSE

a) The IESO is seeking the OEB's approval to retain $5 million of any surplus revenues received in 2017 to minimize potential fee increases, to both domestic and export usage fees, as a result of the Market Renewal Program in 2018. This is to allow for stable and predictable IESO usage fees based on a forecast of the IESO's costs for the year ahead, similar to how the OEB designs RPP prices. The IESO believes that this is an efficient and fair approach, given the long-term benefits that are forecast to result from the Market Renewal Program. The IESO is seeking the Board's approval of this $5 million operating reserve for the Market Renewal Program at this time as it is the first IESO revenue requirement submission where there is an explicit cost associated with the Market Renewal Program. The IESO believes that it is prudent to set up these measures from the start given the complexity and scope of the project and to provide a tool for the IESO to protect ratepayers from potential future fee increases as a result of the Market Renewal Program.

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CME INTERROGATORY 9

Issue 4.3

INTERROGATORY

Issue 4.3

Reference: Exhibit B, Tab 2, Schedule 1 page 2 of 6

The IESO states:

> *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.*

a) Please explain why the IESO is deviating from its normal cost recovery mechanisms for this discreet $5 million.

RESPONSE

a) Please refer to the response to OEB Staff Interrogatory 10 at Exhibit I, Tab 4.3, Schedule 1.10

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ENERGY PROBE INTERROGATORY 14

Issue 4.3

INTERROGATORY

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.

RESPONSE

a) As stated in Exhibit B-2-1, any 2017 funds retained or underspent will be tracked in the FVDA. The IESO tracks whether these funds were collected from domestic or export customers and can rebate funds in a manner which accurately and fairly reflects the revenues paid by these customer classes.

b) Please refer to the response to Energy Probe Interrogatory 9 part (c) at Exhibit I, Tab 1.6, Schedule 5.9. The cost allocation should be based on the same drivers as those for the FVDA as the cost allocation methodology determines the fees that are ultimately charged to domestic and export customers. If there is a surplus in the FVDA, the surplus is a direct result of the fees collected and can be tracked as such to ensure that any rebates are returned to the appropriate customer class.

c) The IESO manages its operating costs, including costs of various programs or initiatives, for example MRP, at an enterprise level – risks and opportunities, including timing differences are managed across the organization by senior leadership. While MRP is a multi-year initiative of some complexity, it relies on common support functions within the IESO, as well as subject matter expertise across divisions that are allocated to the project as appropriate. The IESO does not engage in comprehensive activity based costing such that a separate deferral/variance account would be appropriate or of benefit.

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ENERGY PROBE INTERROGATORY 15

Issue 4.3

INTERROGATORY

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

RESPONSE

The IESO did not request approval for the continuation of the RFDA, the Registration Fees Deferral Account, in its 2016 revenue requirement submission (EB-2015-0275).

Please refer to the response to OEB Staff Interrogatory 8 at Exhibit I, Tab 4.1, Schedule 1.08 and Energy Probe Interrogatory 14 part (a) at Exhibit I, Tab 4.3, Schedule 5.14 for details of the refund of the FDVA 2016 balances to customer classes.

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ENERGY PROBE INTERROGATORY 25

Issue 4.3

INTERROGATORY

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?

RESPONSE

Responses provided by the Brattle Group:

a) Brattle's analysis of the benefits of an incremental capacity auction was prospective, not retrospective, and as such did not gather comprehensive data on excess costs to ratepayers in past years.

b) As past estimates of excess costs are not available, it is not possible to compare past excesses to future savings. However, it is most appropriate to compare the future benefits of Market Renewal to going-forward implementation costs as done in the Benefits Case.

c) Many other jurisdictions rely heavily on rate-regulated assets or assets with long-term contracts. Several of the markets reviewed in the Benefits Case rely primarily on regulated or contracted assets, including the markets of MISO, CAISO, and SPP. The experiences in these markets illustrate how the benefits achievable from energy and operability enhancements can be realized regardless of regulated or contracted status. Other markets reviewed in the Benefits Case, including PJM, NYISO, ISO-NE, and ERCOT, have fewer regulated and contracted assets. The experiences in these markets illustrate efficiency benefits from operational and flexibility enhancements, as well as the benefits achievable from relying on market-based investment decisions through capacity markets.

The Market Renewal benefits estimates were adjusted to account for the significant penetration of contracted resources in Ontario that are insulated from market conditions in the energy, operability, and capacity workstreams; see section VI.B of the Benefits Case report for further details of this adjustment (please refer to Exhibit I, Tab 1.6, Schedule 5.07, Attachment 1).