

PWU INTERROGATORY 2

Issue 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-PWU-2

INTERROGATORY

Reference: EB-2017-0150, Exhibit A-2-2, Page 8 of 31 (Business Plan):

Early findings show potential for cost savings that are expected to be realized by both consumers and suppliers, with a baseline estimate of \$3.7 billion (net present value) over a ten year period from 2021-2030. These savings represent a net efficiency benefit, meaning the total commodity cost of electricity (i.e. energy, Global Adjustment and uplifts) is reduced by that amount. The majority of savings are expected to flow to consumers, while the rest would flow to other market participants. Costs for the project are estimated to fall in the range of \$150 - \$200 million. While these are only initial findings and are expected to change as the IESO works with stakeholders in Q1 2017 to finalize the analysis, the numbers demonstrate that the range of reasonably expected benefits far outweighs the likely costs of the project.

a) Is the IESO analysis on the cost-benefit of Market Renewal finalized? If so, please provide the most recent estimate of the savings and cost of the Market Renewal initiative.

b) Please confirm if the costs of the Market Renewal are recovered from user fees only?

c) Please provide the breakdown of costs the IESO has incurred so far in 2017 relating to the Market Renewal initiative?

d) What is IESO's understanding and expectation with respect to the role and mandate of the Ontario Energy Board with respect to the Market Renewal initiative? Specifically, explain if the IESO expects the role of the OEB to be only assessing the reasonableness of costs of Market Renewal or a broader role including the need for the Market Renewal initiative?

RESPONSE

a) The IESO analysis on the cost and benefits has been finalized in the Brattle report, "A Benefits Case Assessment of the Market Renewal Project". The report was published on

April 20, 2017. Section VII of the Brattle report provides detail on the most recent estimate of expected costs. Section VIII provides detail on the most recent estimate of expected benefits. The IESO has not done any updated analysis on the cost-benefits since the Benefits Case was published.

Operating costs for 2017 and 2018 have remained as per the 2017 – 2019 Business Plan, but forecasts for 2019 and beyond have been updated with more current assumptions. The capital costs have also been updated. These updates will be reflected in the 2018 – 2020 business plan.

See BOMA interrogatory 45, sub-part a) i) at Exhibit I, Tab 1.6, Schedule 2.45. for updated costing estimates.

b) Confirmed. The costs of the Market Renewal will be recovered through the IESO's usage fees only.

c) Market Renewal costs at the end of June 30, 2017 are below:

(in millions of dollars)	June 30, 2017
Compensation & Benefits	1.5
Professional & Consulting Fees	0.5
Operating & Administration	0.2
Total	2.2

Since the original date of filing of this interrogatory response the IESO has updated its forecast of costs of the Market Renewal Project for the calendar year as shown below. The updated forecast is \$4 million lower than the \$12 million forecast provided in the 2017 – 2019 Business Plan.

(in millions of dollars)	2017 Forecast
Compensation & Benefits	5.5
Professional & Consulting	2.1
Operating & Administration	0.4
Total	8.0

d) As noted in the Board's Decision on the issues list in this proceeding, "the MRP is within the mandate of the IESO" and "the IESO has broad powers under the *Electricity Act, 1998* to make rules that govern the electricity market". The IESO therefore does not expect the OEB

1 to assess the need for the MRP. As the interrogatory indicates, the Board determines the
2 reasonableness of the costs of the market renewal program (MRP) through the IESO's
3 annual revenue requirement submission. The IESO also expects that the OEB will fulfil its
4 role as described in section 33 of the *Electricity Act, 1998* of overseeing the market rule
5 review process for any market rule amendments required to enact the initiative.

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