

Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273



BY EMAIL

October 10, 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 Submission on Settlement Proposal
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's submission on the Settlement Proposal dated October 3, 2017 filed by the IESO 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

STAFF SUBMISSION ON SETTLEMENT PROPOSAL

**INDEPENDENT ELECTRICITY SYSTEM OPERATOR'S
2017 REVENUE REQUIREMENT AND FEES APPLICATION
EB-2017-0150**

October 10, 2017

Background

On April 21, 2017, the Independent Electricity System Operator (IESO) filed an application with the Ontario Energy Board (OEB) under section 25(1) of the *Electricity Act, 1998*, seeking approval for its 2017 expenditures, revenue requirement and fees. The premise of the IESO's application is its 2017 Business Plan that was approved for implementation by the Minister of Energy in March 2017. The primary purpose of the Business Plan is to demonstrate the IESO's priority objectives for fiscal year 2017 as well as the staffing and monetary resources required to achieve them. Beginning in 2017, these priorities include the delivery of an extensive Market Renewal Program (MRP).

For 2017, the IESO proposes an operating budget of \$191.4 million to deliver its approved Business Plan. The funding for Plan implementation is anticipated to be generated through a combination of usage and registration fee revenue totalling \$190.8 million and \$0.6 million, respectively.

The proposed 2017 operating budget of \$191.4 million is \$9.3 million above the \$182.1 million approved for 2016. The IESO indicates that the higher operating budget is due to the MRP as well as higher pension and other post-employment expenses.

The IESO is an independent, not-for-profit entity governed by a board whose directors are appointed by the government of Ontario. Unlike other regulated electricity sector entities, the IESO does not earn a rate of return. The IESO is dependent on OEB approved fees to fulfill its government appointed mandate.

In addition to an annual usage and registration fees, and as approved by the OEB in the last fees case (EB-2015-0275), the IESO retains a standing \$10 million operating reserve within its Forecast Variance Deferral Account (FVDA). The purpose of the operating reserve is to financially support unplanned work activities that may be material in scope and outside of the control of management (i.e., to fund activities requested of the IESO that were not contemplated during the development of the Minister approved Business Plan). The FVDA is also used to track the difference between the IESO's actual expenses and the OEB approved revenue requirement.

This settlement does not address the applicability of the OEB's recently issued final report on pensions and other post-employment benefits entitled *Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs* issued on May 18, 2017. Given the timing of the issuance of the Final Report and the fact that this is a

2017 fees case, OEB staff have no concerns with this approach but expects that the IESO will address the applicability of the policy in its 2018 fees case.

Status of Issues

On September 29, 2017, the IESO filed a settlement proposal for the OEB's review and approval. The proposal reflects the agreement reached between the IESO and participating intervenors on all issues described within the OEB approved Issues List with the following exceptions:

- **Issue 4.4:** Should the IESO establish a separate Market Renewal Program Deferral Account?
- **Issue 5.1:** Is the IESO's proposed Regulatory Scorecard appropriate?

Submission

OEB staff has reviewed the Settlement Proposal submitted by the IESO. For the following reasons, OEB staff support the agreement reached by the parties:

- The IESO's 2017 revenue requirement application is consistent in terms of both objectives and budget with its Business Plan as approved by the Minister of Energy.
 - The budget required to fulfil the activities described within the IESO's Business Plan have been determined by the parties to be appropriate. This includes the costs associated with the MRP that the Minister of Energy has tasked the IESO to pursue.
- The proposed 2017 revenue requirement of \$191.4 million is reasonable. Although this amount is \$9.3 million higher than 2016 revenue requirement, the increase was justified by the IESO's new mandate to deliver a robust MRP strategy in 2017. When excluding MRP, the revenue requirement for 2017 is essentially flat when compared to 2016 levels. OEB staff has no concerns with this proposal and note the following reasons in the IESO's evidence:
 - The MRP is a multi-year project that is anticipated by the IESO to provide significant benefit to Ontario electricity consumers. The IESO's preliminary estimates suggest that these benefits could reach \$3.4 billion over the 2021-2030 period. In addition, the MRP is expected to provide several non-monetary benefits that improve market operation. Examples of these benefits include: energy markets that more accurately and transparently reflect marginal production costs, reduced uplift payments and limit opportunities for gaming.

- Given the magnitude of the potential benefits for consumers, OEB staff believe the investment for 2017 in the MRP to be prudent and in the public interest.
 - Year-over-year tracking of the progress made towards MRP goals will be facilitated through the IESO's annual revenue requirement process.
- The IESO will reduce its \$10 million operating reserve by \$4 million to reflect an updated forecast of 2017 MRP expenses. Further explanation of this adjustment and its impacts on IESO operating budgets is provided below:
 - On October 3, 2017, the IESO provided evidence that its forecast budget for 2017 MRP activities was being reduced from \$12 million to \$8 million.
 - To account for this reduction of \$4 million, the IESO and intervenors agreed to reduce the IESO's operating reserve from \$10 million to \$6 million. The \$4 million will be refunded to market participants upon the OEB approving the Settlement Proposal.
- The Settlement Proposal will result in the IESO filing of a more comprehensive revenue requirement application in subsequent proceedings. This will include:
 - A corporate cost allocation study on the charges associated with staff and services the IESO provides to third parties, such as the Ontario Climate Change Solutions Deployment Corporation (OCCSDC) and the Smart Metering Entity. The results of this study are to be provided by the IESO as part of its 2018 Revenue Requirement Submission.
 - A total compensation study, including all components of compensation and benefits, for its represented and non-represented staff, excluding the IESO executives. The IESO will hire a third-party consultant to undertake the study of represented and non-represented staff in 2018 to ensure that the most recent market data is used and will file the study in its 2019 Revenue Requirement Submission.
 - Standard Financial Reporting forms as agreed to by the parties in respect of capital projects, Operating & Administrative (O&A) costs drivers, O&A programs, and employee costs.

In conclusion, OEB staff submits that the settlement proposal represents an acceptable outcome from a public interest perspective.

Under the OEB's Practice Direction on Settlement Conferences, OEB staff is required to make a submission on "whether the accompanying explanation and rationale is adequate to support the settlement proposal." In this case, the parties say on p. 4 of the Settlement Proposal that they "are of the view that the evidence provided is sufficient to support the Settlement Proposal in relation to the settled issues and, moreover, that the quality and detail of the supporting evidence, together with the corresponding rationale,

will allow the Board to make findings agreeing with the proposed resolution of the settled issues.” OEB staff has reviewed the evidence specifically referenced in the Settlement Proposal in respect of each of the settled issues, including the newly filed evidence on the IESO’s updated forecast of 2017 MRP expenses, and agrees, for the reasons above, that the evidence supports the outcomes agreed upon by the parties. The OEB may have benefited from some additional details in the Settlement Proposal itself on why the parties accepted the evidence as being reasonable. Should the OEB convene an oral hearing on the unsettled issues, the OEB could seek more rationale from parties at that time.

Unsettled Issues

The parties were unable to reach consensus on whether the two unsettled issues should be resolved through an oral or a written hearing. Consequently, the parties agreed to file written submissions with the OEB on their preferred type of hearing. Five parties (the IESO, Canadian Manufacturers & Exporters, Environmental Defence, The Society of Energy Professionals and the Building Owners and Managers Association) filed submissions in that regard. Table 1 summarizes the hearing types requested by each party by issue:

Table 1: Preferred Hearing Type

Party	Issue 4.4	Issue 5.1
IESO	Written	Written
Canadian Manufacturers & Exporters	Oral	Oral
Environmental Defence	N/A	Oral
The Society of Energy Professionals	Written	Written
Building Owners and Managers Association	Oral	Oral

In respect of both of the unsettled issues, OEB staff agrees with the IESO and The Society of Energy Professionals that there is sufficient evidence on the record, including the extensive interrogatories on the proposed Regulatory Scorecard, that will allow the OEB to proceed to make a determination by way of a written hearing. In OEB staff’s view, neither issue requires oral cross-examination.

All of which is respectfully submitted.