

November 3, 2017

VIA Email, Courier and RESS



Independent Electricity System Operator

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Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
27th Floor 2300 Yonge Street
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Dear Ms. Walli:

**Re: Independent Electricity System Operator
2017 Expenditure and Revenue Requirement Submission
Ontario Energy Board File No.: EB-2017-0150**

On April 21, 2017, pursuant to subsection 25 (1) of the *Electricity Act*, 1998, the Independent Electricity System Operator ("IESO") filed with the Ontario Energy Board ("OEB") an application for review and approval of its proposed 2017 expenditure and revenue requirement and the fees that it proposes to charge in 2017. A decision by the OEB approving fees on an interim basis, effective January 1, 2017, was issued on December 29, 2016.

In accordance with the OEB's Procedural Order No. 2, a settlement conference was held on September 14 and 15, 2017. A settlement was reached between the IESO and participating intervenors on all but the following two issues on the approved issues list:

Issue 4.4: *Should the IESO establish a separate Market Renewal Program Deferral Account?*
and

Issue 5.1: *Is the IESO's proposed Regulatory Scorecard appropriate?*

A settlement proposal was filed with the OEB on October 3, 2017. OEB staff filed a written submission supporting the settlement proposal on October 10, 2017. After receiving clarification on certain aspects of the settlement proposal as requested, on October 31, 2017, the OEB issued Procedural Order No. 5, accepting the settlement proposal as filed and further clarified.¹

In Procedural Order No. 3, the OEB decided that the two unsettled issues would proceed by way of written hearing.² Procedural Order No. 5 determined the timelines for the written

¹ Procedural Order No. 5, October 31, 2017, page 2

² Procedural Order No. 3, October 13, 2017, page 2

hearing with the IESO's written submission due by November 3, 2017. The IESO's submission is provided below.

Issue 4.4: Should the IESO establish a separate Market Renewal Program Deferral Account?

In its June 29, 2017 comments suggesting the addition of Issue 4.4, Energy Probe stated:

Energy Probe submits that it is not appropriate to mix the costs of the MRP in the Forecast Variance Deferral Account (FVDA). These should be recorded and treated separately. The reasons for this include:

- a) The Forecast Variance Deferral Account is for general operating and capital costs whereas the MRP is a special IESO project that should be subject to a higher level of review and a prudence review, if necessary. For example, if the MRP goes over budget, Energy Probe submits that IESO should, similar to LDCs and OPG, have to justify those costs to the Board.*
- b) The clearance of the FVDA has become standard practice and the timing of the MRP account may not be appropriate on the same schedule.*

For these reasons, Energy Probe suggests that the IESO establish a separate Market Renewal Variance/Deferral Account.³

In its July 11, 2017 response to parties' comments on the draft Issues List, the IESO outlined why it did not support Issue 4.4 as proposed by Energy Probe:

...As the MRP is larger in scope, cost and profile than most projects it is being treated as a cost centre and will have the costs of staff and external resources dedicated to it tracked and reported against planned costs and resources. The IESO will regularly review the planned MRP work and reprioritize work where required to ensure maximum value results from the investment in the MRP. The IESO recognizes that the MRP is and will continue to be subject to a greater level of review than most of its projects and will continue to work with stakeholders on the project in an open and transparent manner as described in its evidence.

As the MRP's costs are being tracked as described above, the IESO suggests that the establishment of a deferral account for the MRP is neither required nor useful.⁴

In its August 4, 2017 decision to include Issue 4.4 in the Final Issues List, the OEB stated:

...Some intervenors, and OEB staff, supported this proposal.

³ Energy Probe Submission on Proposed Issues List, June 29, 2017, page 3

⁴ IESO Submission on Proposed Issues List, July 10, 2017, page 8

The OEB will add Energy Probe's proposed issue to the issues list: 4.4 Should the IESO establish a separate Market Renewal Program Deferral Account? While the IESO has stated that it can report on actual costs for the project against planned costs and therefore no separate account is required, the OEB agrees with OEB staff that this is best determined through this proceeding.⁵ (emphasis added)

Further clarification on this issue was included in the OEB-approved settlement agreement which stated:

The Parties also note that while the issue refers to the establishment of a deferral account, the disputed issue is about the creation of a specific variance account related to the Market Renewal Program.⁶ (emphasis added)

While the scope of the issue has evolved over the course of this proceeding, the IESO submits that the reasons the IESO provided in its response to parties' comments on the draft Issues List still holds with respect to whether the creation of a specific Market Renewal Program ("MRP") variance account is necessary. Namely, the establishment of an MRP variance account is neither required nor useful. The IESO has established a separate cost centre for this project and will be tracking and reporting costs of staff and external resources against planned costs and resources.

Throughout this proceeding, the IESO has further elaborated on the tracking and monitoring of MRP costs, including in its responses to interrogatories:

The Market Renewal Program has been broken out as a separate item in our business plan, and has been assigned its own cost centre within the IESO. These measures provide enhanced visibility for cost reporting and cost control during the MRP initiation/stakeholder education/high-level design phase, where the costs are predominantly O&M costs. The IESO will follow our internal processes for recording and tracking costs associated with the Market Renewal Program during this time.⁷

And for further clarification:

The IESO tracks costs for large projects such as the MRP through the IESO's financial systems.

Costs, transaction and time reports are reviewed by financial analysts and the project manager monthly to ensure that all costs are recorded to the project and that costs are allocated to operating and capital expenses as appropriate. Analysis of actual vs planned costs and resources is reviewed on a monthly basis by management.⁸

⁵ Decision on Issues List, August 4, 2017, page 5

⁶ Exhibit S, Tab 1, Schedule 1, page 17

⁷ Exhibit I, Tab 1.6, Schedule 2.32

⁸ Exhibit I, Tab 4.4, Schedule 10.25

As the issue under consideration has evolved from establishing a deferral account, as originally suggested by Energy Probe and supported by parties, to the creation of a specific MRP variance account, the IESO submits that it would be helpful to review the definition of a variance account as provided in the OEB's Handbook for Utility Rate Applications:

Variance accounts track the difference between the forecast cost of a project or program, which has been included in rates, and the actual cost. If the actual cost is lower, then the extra money is refunded to customers. If the actual amount is higher, then the utility can request permission to recover the extra amount through future rates.⁹

The IESO submits that its proposed tracking and recording of MRP costs are consistent with the tracking expected for a variance account. In addition, consistent with previous applications filed, the IESO will continue to report previous year-end financials and staffing levels as part of the IESO's annual revenue requirement submission. The reporting of year-end financials and staffing levels will include a breakdown of MRP-related actual and budgeted costs, actual and budgeted staffing levels, and the associated variance drivers.

It is also important to note that, unlike many regulated entities, the IESO must file annually with the OEB an application for review and approval of its revenue requirement, expenditures and the fees it proposes to charge. The IESO submits that this provides the OEB and intervenors with a regular opportunity for a robust, comprehensive review of, amongst other things, the MRP costs.

The forecasted MRP costs are included in the IESO's 2017-2019 Business Plan¹⁰ and are clearly within the base upon which the IESO's proposed 2017 revenue requirement, domestic and exports usage fees were derived.¹¹ Further, the IESO submits that any variance from the forecasted MRP costs would be captured in the IESO's Forecast Variance and Deferral Account ("FVDA") in which the IESO typically seeks annual disposition or recovery of any year-end balance. As the IESO is proposing to track and report year-end MRP-related actual and budgeted costs, actual and budgeted staffing levels, and the associated variance drivers, the IESO submits that one can readily determine costs or cost savings associated with the MRP without creating a new variance account.

Further, the IESO submits that the IESO's proposed approach to track and record MRP costs in a separate cost centre and to report against planned costs and resources fully meets the expectations of the clarified Issue 4.4. Establishing a separate MRP variance account does not offer any advantages over the IESO proposal. The IESO submits that establishing this variance account would create administrative burden while providing no discernible benefit.

⁹ Handbook to Utility Rate Applications, October 13, 2016, Appendix 2: Glossary of Terms, page iii

¹⁰ Exhibit A, Tab 2, Schedule 2, pages 12-13

¹¹ Exhibit B, Tab 1, Schedule 1

Issue 5.1: Is the IESO's proposed Regulatory Scorecard appropriate?

Draft Regulatory Scorecard

As part of the OEB-approved settlement agreement in the IESO's 2016 Revenue Requirement Submission, the IESO agreed to:

*...consult with intervenors to develop a scorecard for filing in its next Revenue Requirement Submission filed with the Board. **It is intended that this scorecard will be a tool for the Board and intervenors to use in evaluating the IESO's proposed expenditure and revenue requirement.** The IESO will engage an expert to assist with this work.*¹² (emphasis added)

The IESO engaged Elenchus Research Associates Inc. ("Elenchus") in this work and as part of the IESO's updated evidence filed on June 30 2017, the IESO filed a draft regulatory scorecard¹³ based on a proposed scorecard prepared by Elenchus following extensive consultations with interested parties.

The IESO continues to be supportive of a scorecard to assist the OEB in its decision making process when reviewing the IESO's proposed expenditure and revenue requirement. The IESO submits that the draft regulatory scorecard filed in Exhibit C, Tab 1, Schedule 1, Attachment 2 could fulfill this requirement.

At the same time, the IESO continues to seek direction from the OEB on which measures the OEB would find useful in its decision making process. If there are measures in the IESO's draft regulatory scorecard that the OEB does not find useful in its review of the IESO's proposed revenue requirement and expenditure, the IESO respectfully submits that these measures be removed from the IESO's regulatory scorecard and that no further reporting on these measures be required.

Additional Studies or Further Analysis

As part of the settlement agreement, the scope of this unsettled issue also includes consideration of studies or further analysis:

The Parties, and Environmental Defence, also agree the scope of the Unsettled Issue includes whether there are any studies or other further analysis that the IESO should be required to undertake in relation to or as part of a Regulatory Scorecard. The agreement on the scope of this issue should not be construed as the Parties agreeing that the IESO should be required to

¹² EB-2015-0275, Exhibit S, Tab 1, Schedule 1, page 17

¹³ Exhibit C, Tab 1, Schedule 1, Attachment 2

*undertake any studies or other further analysis, just that the question should be considered during the hearing of the Unsettled Issue.*¹⁴

The IESO submits that studies or further analysis are not required to support a regulatory scorecard or to assist the OEB in its review of the IESO's proposed revenue requirement and expenditure.

As noted in the IESO's evidence,¹⁵ the IESO's draft regulatory scorecard was developed from the proposed regulatory scorecard prepared by Elenchus based on an independent study and extensive stakeholder consultations and analysis. To develop its proposed regulatory scorecard,¹⁶ Elenchus held open meetings and conducted a number of one-on-one consultations with interested parties, including the IESO and OEB staff,¹⁷ to gather input and seek feedback. The IESO submits that as the IESO's draft regulatory scorecard is based on the Elenchus proposed regulatory scorecard, a result of an independent study and extensive consultations and analysis, no further studies or analysis beyond the Elenchus report are required nor would they further assist the OEB in its decision making.

Transmission Losses

There has been the suggestion that metrics on, or related to, transmission system losses should be included in the IESO Regulatory Scorecard. In its Decision and Procedural Order No. 5, the OEB determined that:

*...it is premature to consider for the IESO's 2017 revenue requirement submission whether transmission losses should be included in the IESO's Regulatory Scorecard given the recent OEB decision in Hydro One's transmission rates case. That decision requires Hydro One to work jointly with the IESO to "explore cost effective opportunities for line loss reduction". The OEB expects the IESO to work with Hydro One and to report on initiatives for economically reducing transmission line losses in the first revenue requirement submission following the completion of the joint work with Hydro One. It would be more appropriate to determine whether transmission line losses should be included in the IESO's Regulatory Scorecard once this report has been reviewed.*¹⁸

The IESO confirms that it will work jointly with Hydro One to explore cost effective opportunities for line loss reduction and will report on this in its first revenue requirement submission following the completion of this joint work.

¹⁴ Exhibit S, Tab 1, Schedule 1, page 17

¹⁵ Exhibit C, Tab 1, Schedule 1, page 3

¹⁶ Exhibit C, Tab 1, Schedule 1, Attachment 1, page 7

¹⁷ Exhibit C, Tab 1, Schedule 1, Attachment 1, page 50

¹⁸ Decision and Procedural Order No. 5, October 31, 2017, pages 2-3

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Conclusion

In summary, with respect to Issue 4.4: *Should the IESO establish a separate Market Renewal Program Deferral Account?*, the issue at hand is whether a separate MRP *variance* account is required. The IESO respectfully submits that, given the IESO's proposed approach to track and record MRP costs in a separate cost centre and to report against planned costs and resources annually in its revenue requirement submission, a separate MRP variance account is not necessary.

With respect to Issue 5.1: *Is the IESO's proposed Regulatory Scorecard appropriate?*, the IESO submits that the IESO's draft regulatory scorecard is appropriate. To the extent that certain measures in the IESO's draft regulatory scorecard would not be useful to the OEB in reviewing the IESO's proposed revenue requirement and expenditure, the IESO submits that these measures should be removed from the regulatory scorecard that the IESO would be reporting on in future revenue requirement submissions. By approving the IESO's draft regulatory scorecard in full or in part and providing direction on those metrics it does or does not find useful, the OEB will allow the IESO to begin to build a record of historical, or actual, results with its next revenue requirement submission.

All of which is respectfully submitted.

Yours truly,



Tam Wagner

Senior Manager, Regulatory Affairs

cc: Mr. Fred Cass, Aird & Berlis (email)
Intervenors to EB-2017-0150 (email)
Michael Lesychyn, Case Manager, OEB (email)