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BY EMAIL

November 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 Unsettled Issues
Independent Electricity System Operator (IESO) Application for Approval of
2017 Revenue Requirement, Expenditures and Fees
OEB File Number: EB-2017-0150**

Pursuant to the Decision and Procedural Order No. 5 issued on October 31, 2017, please find attached OEB staff's submission on the two unsettled issues 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 UNSETTLED ISSUES

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

November 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 revenue requirement, expenditures and fees.

In its Decision and Procedural Order No. 5 issued on October 31, 2017, the OEB accepted the settlement proposal agreed to by the IESO and participating intervenors, which covers all but two issues on the Issues List, and directed the parties to file written submissions on the unsettled issues, namely:

- **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?

This submission provides OEB staff's perspective and recommendations on the two unsettled issues.

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

The Market Renewal Program (MRP) is a multi-year initiative being undertaken by the IESO to optimize the efficiency of Ontario's electricity system. Initial estimates provided by the IESO suggest that the costs to deliver the MRP will range from \$150-\$200 million and provide a net benefit to consumers of \$3.7 billion. The forecast costs and benefits of the MRP were identified in the IESO's Minister-approved 2017-2019 business plan.

In its November 3, 2017 submission, the IESO indicates that the issue has evolved over the course of the proceeding, from the establishment of a deferral account to the creation of a specific variance account related to the MRP. In the submission, the IESO explains that it: "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."

In the same submission, the IESO confirmed its commitment to tracking and monitoring the MRP through its financial systems by quoting the following response it made in its July 11, 2017 response to parties on the draft issues list:

"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”.

OEB staff agrees with the IESO that the creation of a separate cost centre related specifically to the MRP and the IESO’s internal financial controls will allow the IESO to accurately track planned versus actual costs related to the MRP, and will in turn allow the OEB (and intervenors) to scrutinize MRP spending in the IESO’s annual fees proceedings. OEB staff does not see how the establishment of a separate variance account would improve the IESO’s accountability in respect of MRP spending, and the ability for the OEB, OEB staff and intervenors to scrutinize any variances between actual and forecast costs. To allow for appropriate scrutiny, the cost centre should be developed in a manner that will allow for full transparency of all MRP related expenditures.

OEB staff does not support the establishment of a separate MRP variance account at this time given the above. In addition, it is OEB staff’s view that in regulation generally, the use of variance accounts should be minimized to the extent possible. OEB staff submits that the information tracked in the separate cost centre should be granular enough to enable meaningful variance analysis in subsequent annual fees case applications. For example, there may be merit in separately identifying the expenditures within the five core MRP initiatives as described on the IESO website, such as the cost of staff and external resources incurred by these five core MRP initiatives.

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

In the OEB-approved settlement in last year’s fees case (EB-2015-0275), the IESO agreed to develop a regulatory scorecard.

The IESO engaged Elenchus as its expert to assist in the development of the scorecard. Elenchus consulted with intervenors who participated in the last fees case as well as Environmental Defence during the scorecard development process.

Elenchus’s recommendations are found at pages 39 through 41 of the June 2, 2017 Elenchus Report on the IESO Regulatory Scorecard.¹ The IESO’s proposed scorecard is found at Attachment 2 of Exhibit C of the IESO June 30, 2017 submission.

As the IESO notes in its November 3, 2017 submission, it has been suggested that metrics relating to transmission losses be added to the scorecard. However, in the OEB’s October 31, 2017 Decision and Procedural Order No. 5, the OEB denied the motion brought by Environmental Defence for further answers on transmission losses, holding that “it is premature to consider for the IESO’s 2017 revenue requirement

¹ IESO Submission filed June 30, 2017, EB-2017-0150, Exhibit C-1-1, Attachment 1

submission on 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'".² The IESO confirmed in its submission 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."

The settlement agreement explained that the scope of this unsettled issue included whether any further studies or analysis should be required in relation to the scorecard. Considering the consultation on the scorecard that the IESO has already undertaken through its consultant Elenchus, and given the nascent state of the MRP, OEB staff does not see the need for such studies or analysis at this time.

In OEB staff's view, the IESO's proposed scorecard is appropriate and is likely to be of assistance to the OEB in future fees cases. However, the scorecard measures and metrics should be reviewed annually as part of the IESO fees case to ensure that it remains up-to-date and consistent with the IESO's approved Business Plans and overall operations.

All of which is respectfully submitted.

² EB-2016-0160, September 28, 2017, revised October 11, 2017, p.33.