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Our File No. 339583-000245

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November 10, 2017

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th floor
Toronto, ON M4P 1E4

Dear Ms. Walli

**Re: Independent Electricity System Operator (“IESO”)
Application for Approval of 2017 Revenue Requirement, Expenditures & Fees
Board File No.: EB-2017-0150**

Please find enclosed the Written Argument of Canadian Manufacturers & Exporters (“CME”) in the above-noted proceeding.

Yours very truly

Borden Ladner Gervais LLP

A handwritten signature in black ink, appearing to read 'Scott Pollock', is written over a light blue horizontal line.

Scott Pollock

enclosure

c. EB-2017-0150 Intervenors
Paul Clipsham and Ian Shaw (CME)

OTT01: 8565062: v1

EB-2017-0150

ONTARIO ENERGY BOARD

Independent Electricity System Operator

2017 Expenditure and Revenue Requirement Submission

**ARGUMENT OF
CANADIAN MANUFACTURERS & EXPORTERS (“CME”)**

November 10, 2017

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I. INTRODUCTION

1. On April 21, 2017, the Independent Electricity System Operator (the “IESO”) filed a Submission for Review in respect of its proposed 2017 expenditure and revenue requirements and fees pursuant to subsection 25(1) of the *Electricity Act, 1998* (the “Act”).
2. Pursuant to the Ontario Energy Board’s (“OEB” or the “Board”) Procedural Order #2 dated July 17, 2017, a Settlement Conference was held among the parties and OEB Staff on September 14, 2017 and September 15, 2017.
3. As a result of the Settlement Conference, a Settlement Proposal was made to the Board which fully settled all issues except the two following issues:
 - (a) Issue 4.4 – Should the IESO establish a separate Market Renewal Program Deferral Account; and
 - (b) Issue 5.1 – Is the IESO’s proposed Regulatory Scorecard appropriate?
4. In the Board’s Decision and Procedural Order #5, dated October 31, 2017, the Board accepted the settlement proposal as filed and clarified by the IESO’s letter of October 20, 2017.
5. Therefore the only issues remaining are Issues 4.4 and 5.1.
6. Regarding Issue 4.4, CME submits that the IESO should establish a separate Market Renewal Program variance account. While the IESO’s current cost tracking proposal may provide more transparency than the IESO would usually provide; given the size of the Market Renewal Project (“MRP”), CME submits that costs for it should be tracked in a separate variance account to allow intervenors the opportunity to test the IESO’s evidence in a more rigorous manner before allowing the IESO to collect that money from ratepayers.
7. CME also submits that the Regulatory Scorecard, while a good starting point, does not go far enough to be a useful tool for the Board. Most of the proposed metrics do not have any targets set, and the IESO plans to wait, in some cases, several years before populating the metrics with targets. CME submits that the IESO have the information and

qualifications available to make reasonable informed decisions on what their targets should be, and they should populate the targets in order to give the Board the most information possible to decide which metrics it finds most helpful.

II. THE IESO SHOULD ESTABLISH A SEPARATE MARKET RENEWAL PROGRAM DEFERRAL ACCOUNT

8. CME submits that the Board should require the IESO to create a separate variance account to track the costs associate with the MRP.

9. The IESO argues that a separate variance account is not necessary because it is not required or useful.¹ They support this assertion by arguing that the establishment of a separate cost centre, and their proposed level of tracking and reporting are sufficient to meet the expectations of Issue 4.4.²

10. CME disagrees that the financial reporting proposed by the IESO is sufficient to meet the expectations of Issue 4.4.

11. While part of the value of a separate variance account lies in the separation of costs and expenditures, so there is clarity regarding the flow of funds, the other value inherent in a variance account is the ability for intervenors and Board Staff to test the evidence put forward by the regulated entity.

12. Even if ratepayers will have to bear the full cost of the project regardless of what the process uncovers, it is CME's view that a more rigorous process, which does more to bring the IESO's project spending to light is in itself a net-benefit to ratepayers, who will be able to see and understand what (if anything) went over-budget, and where their money is being allocated.

¹ IESO Argument in Chief, dated November 3, 2017, p. 3.

² IESO Argument in Chief, dated November 3, 2017, p. 4.

III. THE IESO'S PROPOSED REGULATORY SCORECARD DOES NOT GO FAR ENOUGH

The Scorecard Does Not Set Targets for Many Categories

13. In their application, the IESO has declined to populate the scorecard with targets, unless they already exist in the IESO Corporate Performance Measures ("CPM") or there is a pre-existing requirement, such as compliance with NERC high-risk reliability standards.³

14. The IESO gave two reasons for this:

- (a) A sufficient history should be available before targets are met, to ensure that the targets are realistic and attainable;⁴ and
- (b) It would be more effective to set targets for those metrics that the Board determines will assist it to evaluate the proposed expenditure and revenue requirement.⁵

15. In CME's view, neither of these arguments are persuasive. CME submits that the Board should require the IESO to populate the scorecard with targets for 2017 and onwards, in order to make the scorecard an effective regulatory tool for the Board.

(a) The Sufficient History Argument

16. For the nine metrics that do not have targets, the IESO suggests that they will not set targets until they have "a history" on the measure before committing to targets. The IESO's position will mean, in some cases, that targets are not available to be populated for several years. Consider the cost control metric "Total Expenses/MWh". This metric would be reported on a three year rolling average basis. In order to develop a history, three years' worth of data would be required in order to derive the first average, and more years' worth of data would be required in order to have a rolling average history.

³ IESO proposed 2017 Expenditure and Revenue Requirement Submission, EB-2017-0150, Exhibit C, Tab 1, Schedule 1, page 2 of 4.

⁴ IESO proposed 2017 Expenditure and Revenue Requirement Submission, EB-2017-0150, Exhibit C, Tab 1, Schedule 1, page 2 of 4.

⁵ IESO proposed 2017 Expenditure and Revenue Requirement Submission, EB-2017-0150, Exhibit C, Tab 1, Schedule 1, page 2 of 4.

17. CME submits that waiting several years for the IESO to populate targets into the scorecard is an unacceptable timeframe.

18. The IESO is capable of setting realistic, attainable targets to populate their scorecard with in the absence of several years' worth of data since the IESO regularly performs complex strategic and financial planning which often require forecasting several years in advance.

19. For instance, the IESO's business plan includes cost projections in 2018 and 2019, across a host of categories within the business, including OM&A costs, normal capital project costs, and project costs for the Market Renewal Program.

20. Furthermore, the IESO has a number of years' worth of experience setting realistic goals for scorecards, since they regularly perform that task with their CPM targets.

21. CME recognizes that the IESO may have a learning curve when it comes to setting targets for new metrics. CME submits that the Board should take that into consideration when reviewing whether the IESO has met those targets, and what that means for the appropriateness of the IESO's revenue requirement. CME submits, however, that the IESO should be required to make an attempt to populate the scorecard with reasonable targets that can be refined over time as the IESO gains more experience with the measures.

(b) More Effective for the Board to Decline to Set Targets Until the Board Determines which Metrics it Finds Useful

22. CME submits that, contrary to the IESO's assertion, it would be more effective to submit targets for all of the metrics in order to help the Board determine which metrics it would find useful for the IESO to report on.

23. As discussed above, part of the usefulness of the scorecard is measuring a regulated entity's performance against the targets it set for itself. The nature of the target therefore would have a direct impact on how useful a proposed metric is.

24. For instance, if a target is easily met, the usefulness and effectiveness of the metric is reduced since the fact that a regulated entity met their target is rendered meaningless.

25. CME submits that the Board should be provided with information regarding targets. The Board will be in the best position to determine which metrics are the most useful once they have been provided with all of the information, both what the metric is, and what the proposed targets would be. The Board would then be able to decide which metrics they would find useful for the IESO to report on with the benefit of a full record.

The IESO Should Provide a Scorecard Metric to Track the Benefits of the MRP

26. In the benefits case prepared by the Brattle Group identified a number of possible benefits that could be gained if the IESO implemented the Market Renewal Project. Specifically, the report found the annual benefits are estimated to grow to \$775 million per year by 2030.⁶

27. CME submits that the IESO's scorecard, in addition to showing metrics such as total expenses and variance from the revenue requirement, should also provide a metric whereby the costs of the MRP are quantified in relation to the total benefits accrued.

28. This would provide ratepayers with a concrete measure of how cost effective the MRP project is, and an up to date snapshot on the amount of inefficiencies that have been ironed out of the system.

IV. EXPANSION OF THE NERC RELIABILITY METRIC

29. CME submits that the NERC reliability metric should be expanded beyond a simple yes or no statement.

30. CME suggests that the IESO expand the NERC metric in two ways:

- (a) List NERC's high risk reliability standards in the explanation section of the scorecard; and
- (b) Provide a narrative description of the efforts that the IESO has undertaken and their accomplishments in addition to indicating whether they achieved compliance or not.

⁶ Benefits case, page 103.

CME submits that these additions would help expand the visibility of the IESO's reliability efforts to the Board and the ratepayers of Ontario, and would increase the usefulness of this measure in the Board's consideration of the IESO's proposed expenditures and revenue requirement.

V. TRANSMISSION LOSSES

31. CME supports the efforts that will be undertaken by the IESO and Hydro One to investigate and combat transmission losses. The amount of money lost to inefficiencies is significant, with estimates placing it in the hundreds of millions of dollars every year, and CME is hopeful that the IESO's work in this regard will lead to significant ratepayer savings.

32. CME looks forward to the IESO's report on initiatives for economically reducing transmission line losses in the IESO's first revenue requirement submission following the joint work.

VI. COSTS

33. CME requests that it be awarded 100% of its reasonably incurred costs in connection with this matter.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 10th day of November, 2017.



Scott Pollock
Emma Blanchard
Counsel for CME