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10 November 2017

Kirsten Walli, Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
Toronto ON M4P 1E4

VIA EMAIL

Dear Ms. Walli,

Re: EB-2017-0150 – Independent Electricity System Operator (IESO) Application for approval of 2017 revenue requirement, expenditures and fees
Final Arguments of Vulnerable Energy Consumers Coalition (VECC)

Please find attached the submissions of VECC in the above noted proceeding.

Cc: Tam Wagner, IESO (email)
Fred Cass, Aird & Berlis (email)
Michael Lesychyn, OEB (email)
Intervenors to EB-2017-0150 (email)

EB-2017-0150

ONTARIO ENERGY BOARD

Independent Electricity System Operator
2017 Revenue Requirement, Expenditures and Fees

Final Submission
of the
Vulnerable Energy Consumers Coalition
(VECC)

10 November 2017

Cynthia Khoo, Counsel for
Vulnerable Energy Consumers Coalition

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Introduction

In accordance with Procedural Order No. 5, VECC presents its submissions on the two remaining issues in the abovementioned proceeding, which were not resolved at settlement. The two issues are:

- 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?

Summary of submissions

Based on the record of this proceeding, VECC's recommendations have not changed from those provided in earlier submissions. The IESO should establish a separate deferral and variance account dedicated to the MRP, given the high degree of uncertainty, to ensure accountability, and to avoid complications in interactions with the rest of the FVDA. The IESO's regulatory scorecard should include more specific metrics and integrate a target outcomes-based approach, including in areas such as connections and registrations, contract management, procurement, conservation and demand management, corporate relations, employees, and earned value of the MRP.

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

4.1. The IESO should establish a separate Market Renewal Program (MRP) Deferral Account. In earlier arguments to include this item on the issues list, VECC noted that the MRP is a major initiative, and one of the most significant initiatives that IESO has undertaken. It will also have a substantial impact on revenue requirement in 2017 and beyond, and thus should be subject to heightened and more focused review. VECC remains of this view.

4.2. In its Filing Requirements for Electricity Distribution Rate Applications (2016 edition for 2017 rate applications), the Board set out the criteria for establishing a new deferral and/or variance account. Although the test is provided in context of an applicant wishing to establish a new deferral or variance account, the criteria nonetheless indicate the circumstances under which the Board would consider establishing a new account to be appropriate:

- **Causation** – The forecasted expense must be clearly outside of the base upon which rates were derived;
- **Materiality** – The forecasted amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the distributor, otherwise they must be expensed in the normal course and addressed through organizational productivity improvements; and

- **Prudence** – The nature of the costs and forecasted quantum must be reasonably incurred although the final determination of prudence will be made at the time of disposition. In terms of the quantum, this means that the applicant must provide evidence demonstrating as to why the option selected represents a cost-effective option (not necessarily least initial cost) for ratepayers.[1]

4.3. The MRP meets all of the above criteria. First, the associated expenses will be clearly outside of the base upon rates were derived, given that the MRP will be a new and massive undertaking on IESO's part, and would not have been part of prior revenue requirements normally.

4.4. Second, the forecasted amounts exceed the OEB's materiality threshold. IESO proposes a 2017 net revenue requirement of $190.8 million. According to the Board's filing requirements,[2] that makes its materiality threshold 0.5% of that figure: $954,000. The MRP forecast of $12 million for 2017 is clearly above that threshold.

4.5. Evidence from IESO also demonstrates that the MRP will have "significant influence" on their operations, given the complexity and scope of the project. The MRP will constitute no less than an overhaul of the Ontario electricity market:

> To meet these objectives, the project scope will include improvements to the way the IESO schedules energy, procures supply resources, and manages variability - in particular:
> - A single-schedule market;
> - A financially binding Day-ahead Market;
> - Enhanced real-time unit commitment;
> - A capacity auction including the import and export of capacity;
> - More frequent intertie scheduling; and
> - Other operability enhancements as identified by the IESO and its stakeholders.[3]

4.6. Achieving the above will require increased resources, in addition to those IESO must devote to continuing its core operations and maintaining service quality throughout the completion of the MRP. This suggests that the expenses associated with the MRP should not be addressed alongside or blended in with pre-existing typical operations and related expenses, as it appears the Forecast Variance Deferral Account (FVDA) is more associated with.

4.7. Third, the nature and quantum of forecasted costs for the MRP are intended to be reasonably incurred, and should be subject to a prudence review at the time of disposition. In fact, IESO already intends to house the MRP expenses within a deferral account, the FVDA. However, this is not equivalent to, and would not serve the purposes of, creating a separate, dedicated deferral and variance account for the MRP alone.

1 Ontario Energy Board, Filing Requirements for Electricity Distribution Rate Applications - 2016 Edition for 2017 Rate Applications, "Chapter 2: Cost of Service," at page 70.
2 *Ibid*., at page 6.
3 Exhibit A-2-2, at pages 4-5.

4.8. In its Argument-in-Chief, IESO provides reasons to support its view that there should not be a separate MRP Deferral Account. It begins by reiterating its initial arguments against the proposal from earlier in this proceeding: the MRP is already being treated as a cost centre; the IESO will regularly review and reprioritize MRP work as necessary in any case, to ensure maximum value; the IESO will continue to work with stakeholders openly and transparently, recognizing increased scrutiny of the MRP; and the MRP's costs are being tracked regardless.[4]

4.9. However, these reasons do not negate the need for a separate MRP deferral and variance account (DVA). First, the fact that the MRP is being treated as a cost centre militates towards creating a separate deferral and variance account for it, aligning both IESO's internal treatment of MRP costs with regulatory treatment of those same expenses. Second, although the IESO has stated that it will review and reprioritize, consult stakeholders, and track MRP costs in any case—that is good, but insufficient. That the IESO "will be tracking and reporting costs of staff and external resources against planned costs and resources"[5] does not automatically mean that the Board can hold IESO accountable for such tracking and reporting and the outcomes themselves, without a mechanism such as a DVA.

4.10. The key difference between what IESO proposes and what a separate MRP DVA would provide is accountability. IESO may do all of the above, or it may not, or it may do them to a less than ideal standard, and the Board would be limited in addressing such circumstances without an MRP DVA. Or if the Board does try to address any issues that arise with MRP costs, then it will not be able to target the MRP specifically through its own DVA, but can only address MRP-related expenses in a way that may impact or hold back the rest of the expenses in the FVDA that are not in issue, if they are all mixed together in one account.

4.11. In its Argument-in-Chief, IESO also states that what would be established, if MRP costs were to go into a separate account, is an MRP *variance* account, and not necessary a *deferral* account. However, evidence suggests that to a certain extent, the separate MRP account would be both a deferral and a variance account. One aspect worth underlining about the forecasted MRP costs is how vague and uncertain many of them are. For example, interveners asked repeatedly for further cost breakdowns of various aspects of the MRP, and could not obtain them.

4.12. VECC would refer to the final arguments of Energy Probe, which delineate the high degree of uncertainty that Brattle expressed throughout its costs analysis of the MRP for IESO: the predicted benefits are subject to a notable "uncertainty range"; "cost estimates are not reflective of actual vendor quotes"; and the estimate features "substantial uncertainty", among other observations.[6] Given the degree of unknowns and uncertainty involved, the MRP account may be a "variance" account only in the loosest sense of the term, and border on being a deferral account where costs are

[4] IESO Argument-in-Chief, at page 2.
[5] *Ibid*., at page 3.
[6] Final Arguments of Energy Probe, at para 4.8.

forecast only with caveats of great uncertainty and range. This suggests that further scrutiny and Board-driven accountability is required, such as would be provided only through a separate MRP deferral and variance account.

4.13. IESO proposes to capture MRP costs within its Forecast Variance and Deferral Account (FVDA). However, combining the two, rather than creating a separate account for the MRP, would detract from the purposes and operations of both. It would complicate the assessment and examination of MRP costs by having to extract them from the rest of the FVDA, and add further potential for muddling of what are already currently unclear figures and a vague composite picture of what will be going on with the MRP as a whole.

4.14. Additionally, the complexity, unprecedented and unique nature, and scope of the MRP make it unsuitable for what appears to be a routine DVA such as the FVDA. This may result in one or both of two outcomes at a future proceeding: the review of the MRP may be less thorough or focused than it might otherwise be, or be in other ways compromised, due to the “routine” and normally uncontroversial nature of the FVDA; and/or the entire FVDA and all of the non-MRP costs it houses may be disrupted or unnecessarily prevented from being disposed of, if issues arise with the MRP-related costs alone.

4.15. Given all of the above, for reasons of ensuring accountability, accounting for significant uncertainty, and implementing regulatory clarity, the IESO should establish a separate deferral and variance account specific to the Market Renewal Project.

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

5.1. The primary concern with IESO’s proposed regulatory scorecard is that it lacks specificity in metrics and target outcomes, and may resemble more a series of updates rather than a tool to ensure performance and drive improvement.

5.2. The purpose of such scorecard metrics is to provide the Board with a means of understanding the cost effectiveness of the IESO. We think this is an important objective especially in light of the changing functions with the IESO (e.g., the MRP and ramping down on renewable energy contracting). The type of metrics anticipated were outlined in the Elenchus Report:

- tracking staffing levels by business unit relative to some measure of output (but methods of quantifying the outputs have not been identified);
- tracking average compensation per employee;
- tracking cost on the basis of some functional disaggregation of the IESO’s activities by some means other than business unit (discussions between Elenchus and the IESO did not result in the any practical way to do this); and
- measuring of productivity in one or more specific areas, for example IT dollars per staff, or the number of procurement contracts per staff

5.3. Both IESO and its consultant retained for the purpose of developing a scorecard expressed reservation as to the ability of develop measures of productivity, stating, “Elenchus and IESO staff were unable to identify meaningful productivity or efficiency measures for either department or activities since there is very little standardization of the IESO’s work products.”[7] The resulting proposed Scorecard contains only one meaningful measure of cost effectiveness under contract management.[8]

PROPOSED AND ILLUSTRATIVE IESO REGULATORY SCORECARD						
Performance Outcomes	Performance Categories	Measure	2016 Actual	2016 Target	Target met unmet (3)	5-year trend (4)
Stakeholder Responsiveness	Stakeholder Satisfaction	Satisfaction with the engagement process	65%	N/A		
Operational Effectiveness	Reliability	Compliance with NERC high risk reliability standards	Yes	Yes		
	Planning	Timely implementation of key IRRP recommendations	4 of 30	4		
	Cost Control	Variance from the OEB-approved revenue requirement	-0.30%	N/A		
		Total Expenses/MWh (3-yr rolling average)	$1,118.8/MWh	N/A		
	Contract Management	Resources Required for Capacity Contracts Management	740.94 contracts/FTE	N/A		
			712.21 MW/FTE	N/A		
	IESO Administered Markets					
	Settlements Operations	Unqualified biennial Settlements Operations CSAE 3416 audit	N/A	N/A		
	Market Dispatch	Number of high or medium risk observations in the biennial Dispatch Scheduling Optimizer review	0	0		
	Projects	Market Renewal Initiative proceeding according to the schedule and budget	N/A	N/A		
Public Policy Responsiveness	Conservation	Annual reporting of portfolio cost ($/kWh)	0.031$/kWh	within 0.04$/kWh		
		Achievement of 2020 energy savings target milestones (TWh)	2.9 TWh	N/A		
	Planning	Timely implementation of key planning LTEP project milestones	5 in 2016	N/A		

[7] Exhibit C-1-1, Attachment 1, page 30
[8] Exhibit C-1-1 Attachment 2

5.4. The lack of meaningful cost effectiveness measures in the proposed scorecard arises for two reasons. First, many public institutions resist cost effectiveness metrics generally under the ambit that what they produce is too amorphous to measure. In VECC's view, this is not necessarily true. With effort, such measures, even if imperfect, can be developed. Second, IESO did not retain an expert in the field of scorecard or corporate productivity. As such there was a lack of expertise applied to the issue of productivity measurement.

5.5. IESO has taken positive steps in developing a scorecard. However, the IESO should be directed to retain expertise in productivity metrics in order to improve on its proposal. Such steps would go to demonstrating to Ontario ratepayers that they are receiving the most value out of the services provided by the IESO.

5.6. VECC would also recommend that IESO begin establishing targets for all of its cost metrics immediately, to be incorporated into the scorecard for IESO's next application and going forward. Additionally, the scorecard should include employee metrics, earned value metrics associated with the MRP, and metrics associated with conservation and demand management (CDM). Such metrics would go to assessing IESO's costs control and contract management, costs per output, and provide a clear evaluation of performance and value in specific areas of operations and spending.

Costs Incurred

VECC respectfully submits that it has acted responsibly and efficiently during the course of this proceeding, and requests that it be allowed to recover 100% of its reasonably incurred costs.

ALL OF WHICH IS RESPECTFULLY SUBMITTED