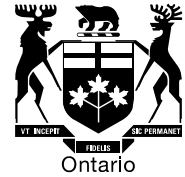


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BY E-MAIL

August 10, 2018

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2701
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Independent Electricity System Operator
2018 Expenditure, Revenue Requirement, and Fees**

OEB File Number: EB-2018-0143

In accordance with Procedural Order No. 2, please find attached OEB staff's interrogatories related to the above noted proceeding.

Yours truly,

Original signed by

Michael Lesychyn
Project Advisor, Supply and Infrastructure

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1.0 Revenue Requirement, Operating Costs and Capital Spending

1.1 *Is the IESO's Fiscal Year 2018 net revenue requirement of \$190.8 million appropriate?*

Staff IR #1

Reference: Exhibit A, Tab 1, Schedule 1, Pgs. 1, 2

Preamble:

The IESO proposes a 2018 net revenue requirement of \$190.8 million.

The IESO is seeking the following approvals from the OEB:

Approval of the proposed usage fees of \$1.2402/MWh for domestic customers (including embedded generation) and \$1.0115/MWh for export customers.

In the IESO's December 18, 2017 letter to the Minister, the IESO states: "we are holding our revenue requirement for 2018 at 2017 budget levels. For 2018, the IESO's proposed core operating expenses are \$190.8 million, which will be funded by usage fee revenues".

Questions:

- a) Please explain why the IESO is requesting both an increase in domestic and export usage fees if its revenue requirement remains unchanged from 2017 levels. What factors are driving the need to increase the domestic and export usage fees?
 - i. Why does the rate of increase between domestic and export usage fees vary?

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Staff IR #2

Reference: Exhibit A-2-1. Pg. 1

Preamble:

In the IESO's letter dated December 18, 2017 to the Minister, the IESO states: "As indicated in my letter of September 1, we are holding our revenue requirement for 2018 at 2017 budget levels. This means the organization will continue its efforts to find efficiencies and opportunities for expense reductions."

Questions:

- a) Please describe the steps the IESO has or plans to take in identifying cost efficiencies and opportunities for expense reductions.
 - i. Please identify the status of each identified efficiency opportunity. Classify each opportunity as either implemented or in process.
 - ii. If available, please quantify the financial cost savings and expense reduction opportunities identified through this process.
 - iii. Do any of the identified efficiency opportunities involve human resource activities such as a change in staffing levels and/or corporate re-organizations?
 - iv. Do/should the cost savings achieved through these efficiency opportunities effect the IESO's 2018 revenue requirement?

Staff IR #3

Reference: Exhibit A-2-2. Pg. 5 of 28

Preamble:

The Application states: "Even with these additional initiatives, the IESO intends to hold its revenue requirement for 2018 at 2017 approved budget levels."

Questions:

- a) Please identify any significant services, projects or other functions previously performed by the IESO that have been discontinued since 2017.

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- i. If applicable, please indicate the number of staff assigned to these discontinued projects as well as associated budgets.
- ii. If applicable, please indicate if the budgets for these discontinued services/projects/functions were included in previous revenue requirement applications.

Staff IR #4

Reference: Exhibit A-2-2. Pg. 13

Preamble:

The Application states: “The IESO is collaborating as a service provider with the Ministry of Environment and Climate Change (MoECC) to support the Green Ontario Fund, by assisting with the design and operation of a website, the management of a call center and the design and delivery of programs”.

Questions:

- a) The *Cap and Trade Cancellation Act, 2018* was introduced in the Ontario Legislature on July 25, 2018. Please describe how, if the bill is passed, the operations of the IESO in 2018 may be impacted.
- b) Please discuss the impact of the bill, if passed, on staff assigned to the MoECC project.
 - i. Have/will impacted staff be reassigned to other areas of IESO operations?
 - ii. If applicable, what impact will the reassignments have on the IESO’s projected staffing levels in 2018 and corresponding payroll and benefits budgets?

Staff IR #5

Reference: Minister of Energy, Northern Development and Mines Directive: “Wind Down of Feed-in Tariff and Large Renewable Procurement Contracts”

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Preamble:

On July 5, 2018, the Minister of Energy, Northern Development and Mines released a directive requiring the IESO to take cancellation action on certain projects procured through the Feed-in-Tariff and Large Renewable Procurement initiatives.

Questions:

- a) Does the Minister's Directive have any impact on the IESO's 2018 expenditure, revenue requirements and fees as proposed in this application?
- b) Please discuss the impacts, if any, of the Directive on the IESO's supply and demand forecast.

1.2 Is the IESO's Registration & Application Fees revenue forecast of \$0.00 million for Fiscal Year 2018 appropriate?

Staff IR #6

Reference: Exhibit A, Tab 1, Schedule 1, Pg. 3

Preamble:

The IESO seeks approval to continue charging registration fees of up to \$10,000 for electricity supply and capacity procurements, including conservation and load management procurements as well as to continue charging \$1,000 for the IESO's market participation application fee.

Questions:

- a) The IESO has forecast 2018 revenue from registration and application fees to be "negligible". Given this forecast, why is the IESO seeking approval for continuance of registration and application fees?
- b) Has the IESO generated any unanticipated revenue from registration and application fees in 2018?
- c) If yes, what amount of revenue has been generated and what is the source of the revenue?
- d) If yes, does the collection of this revenue effect any aspect of the \$190.8M revenue requirement request?

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1.3 Are the IESO's projected staffing levels and compensation (including salaries, benefits, pensions and other post-employment benefits) appropriate and reasonable?

Staff IR #7

Reference: Exhibit A-2-2. Pg. 5

Preamble:

The Application states: "Challenges are presented in managing the budget in 2018 and beyond as increases in compensation and benefits begin to outpace opportunities to reduce costs".

Questions:

- a) Please describe the factors driving the compensation and benefits increases.
 - i. Are the increases the direct the result of the number of new employees, compensation for existing employees, or a combination of both?
- b) Please discuss the actions being taken by the IESO to manage the challenges of increasing compensation costs.

1.4 Is the IESO's Capital Expenditure budget for Fiscal Year 2018 appropriate?

Staff IR #8

Reference: Exhibit A-2-2. Pg. 23

Preamble:

Appendix 3 of the IESO's 2018-2020 Business Plan provides a detailed account of all planned capital expenditures over the three-year planning period.

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Questions:

- a. Who at the IESO is responsible for approving the capital projects and related project budgets listed in Appendix 3?
 - i. Please provide a description of the process(es) used by IESO staff to gain approval/sign-off for capital projects.
- b. Please provide an update on the capital spending plan in Appendix 3.
 - i. Does the IESO still expect to spend an amount of \$26.6 million on capital projects in 2018, which includes \$4 million for Market Renewal expenditures?

2.0 Usage Fees

2.1 Is the methodology used to derive the proposed IESO Usage Fees and the resulting Usage Fees of \$1.2402/MWh for domestic customers and \$1.0115/MWh for export customers appropriate?

Staff IR #9

Reference: Exhibit B, Tab1, Schedule 1, Pg. 2

Preamble:

The Application states: "The domestic usage fee will be calculated using the most recent IESO 18-month forecast of withdrawals in 2018 for use in Ontario, less estimated losses, plus generation embedded in local distribution networks; which is a proxy for the Allocated Quantity of Energy Withdrawn ("AQEW"). The export usage fee will be calculated using the most recent IESO 18-month forecast of exports in 2018, which is a proxy for the Scheduled Quantity of Energy Withdrawn ("SQEW"). Line losses will be split between export and domestic customers based on their proportion of the total 2018 forecast energy volumes."

Questions:

- a. Please confirm that the methodology (including input assumptions and formulas) used in the Elenchus model to calculate the 2018 domestic and export usage fees are the same as those used to derive the domestic and export usage fees approved in EB-2017-0150.
 - i. If applicable, please discuss the rationale for any changes to the model and provide rationale for why these changes are appropriate.

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4.0 The Deferral and Variance Account

4.1 Is the IESO's proposal to retain an Operating Reserve of \$6 million in the Forecast Variance Deferral Account appropriate?

Staff IR #10

Reference: Exhibit A, Tab 1, Schedule 1, Pg. 3

Preamble:

The Application states: "Pursuant to subsection 25 (1) of the Act, the IESO is seeking the following approvals from the OEB:

- i) Approval to rebate \$1.4 million, which is the year-end balance in the FVDA above the \$6 million operating reserve, based on the IESO's audited 2017 financial statements as approved by the IESO Board of Directors".

Questions:

- a) Through its 2017 revenue requirement application, the IESO requested approval to rebate to market participants the year-end balance in the FVDA of \$12.5 million. The IESO has now asked to rebate the year-end balance of \$1.4 million to these same market participants.
 - i. Please discuss the merits of reducing or increasing the current \$6 million operating reserve.
 - ii. Please discuss the likelihood that the end-of-year balance in the 2018 FVDA, if kept at the current \$6 million level, will be a surplus that will require rebating to market participants.

5.0 Commitments from Previous OEB Decisions

5.1 Are the targets developed by the IESO for each performance measure included in the 2018 Regulatory Scorecard reasonable?

Staff IR #11

Reference: Exhibit C, Tab 1, Schedule 1, Pg. 2

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Preamble:

The Application states: "As specified in the EB-2017-0150 Decision, the IESO has made an effort to set 2018 targets that are realistic and attainable. As the IESO gains a history on these measures, the IESO will continue to refine the targets in future years."

Questions:

- a) Please describe the extent to which the IESO leveraged the following when developing/establishing each target:
 - i. Consultations with internal and external IESO stakeholders.
 - ii. The methods and metrics developed by other jurisdictions to demonstrate organizational performance.
- b) Do the targets established represent a stretch for the IESO? That is, will the IESO need to modify/update its processes to achieve the targets?

5.3 *Has the IESO adequately explained how the results of the Cost Allocation study are being implemented?*

Staff IR #12

Reference: Exhibit C, Tab 3, Schedule 1, Pg.1

Preamble:

The cost allocation study completed by BDR North America Inc. provided several findings and recommendations related to the IESO's cost allocation methods. In response to these recommendations, the IESO has provided a high-level description of the actions it will take to address identified concerns.

Questions:

- a) Please indicate how and when the IESO intends to address to following recommendations provided by BDR:
 - i. Management time: That is, what process will the IESO engage to ensure time spent by senior managers on non-core functions is appropriately allocated?

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- ii. Smart Metering Entity: How will the IESO address BDR's finding that the incremental cost approach used by the IESO to allocate costs is not appropriate?
- b) Based on the findings of BDR, please estimate the total amounts (i.e., a dollar value) the IESO failed to charge for management and SME services.
 - i. Does the IESO intend to recoup any of the undercharged amounts? If so, what process will the IESO use to recoup unbilled costs?

5.4 *What is the status of the IESO's transmission losses study?*

Staff IR #13

Reference: Exhibit C, Tab 1, Schedule 1, Pg. 3

Preamble:

The Application states: "The IESO has been working jointly with Hydro One to explore cost effective opportunities for line loss reduction. The IESO will report to the OEB on these efforts in its first revenue requirement submission following the completion of this joint work."

Questions:

- a) Please fully describe the work the IESO has undertaken to-date with Hydro One to explore line loss mitigation opportunities.
 - i. Please summarize findings identified by the IESO and Hydro One to-date.
 - ii. Please provide a timeline for when the IESO anticipates completing the study.

6.0 Market Renewal Program

6.2 *Are the IESO's forecast 2018 operational costs for the Market Renewal Program appropriate in the context of the scope and timing of the overall project?*

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Staff IR #14

Reference: Exhibit A-2-2. Pg. 7

Preamble:

The Application states: "The analysis found that starting in the early 2020s, the proposed Market Renewal initiatives could result in an estimated benefit of up to \$5.2 billion over 10 years, the majority of which will be realized by consumers".

-and-

Reference: Exhibit C, Tab 2, Schedule 1, Pg. 3

The Application states: "In 2018, the scope of the Market Renewal Program (MRP) has been focused on the Energy and Capacity work streams. The Operability work stream, including the More Frequent Intertie Scheduling ("MFIS") initiative, will be explored as part of a broader conversation on the future of Ontario's electricity market, rather than explicitly in the MRP".

Questions:

- a) Please elaborate on how the elimination of the of the Operability work stream, including the MFIS stream, will affect the estimated benefit of \$5.2 billion available from MRP activities.
- b) Please discuss how the elimination of the Operability working stream/MFIS initiative affects budgets and staffing requirements of the MRP.
- c) Will the elimination of the Operability work stream/MFIS initiative from the MRP allow for expedited completion of other MRP initiatives?
- d) If known, to what extent could the *Cap and Trade Cancellation Act, 2018* (if passed) impact the IESO's planned MRP activities and budgets in 2018?
- e) If known, to what extent could the *Cap and Trade Cancellation Act, 2018* (if passed) affect the IESO's MRP projected savings of \$5.2 billion dollars?

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Staff IR #15

Reference: Exhibit A-2-2. Pg. 15

Preamble:

The Application states: "The Market Renewal Program will require an additional average headcount of 43, bringing the total headcount requirement for the IESO to 731 in 2018."

Questions:

- a) Of the 43 positions, how many have been filled as of August 1, 2018?

Staff IR #16

Reference: Exhibit C, Tab 2, Schedule 1, Pg. 9

Preamble:

The 2018 MRP budget of \$16.7 million identified in Table 3: 2018 Market Renewal Program Operating and Capital Budget represents an increase of 111% from the IESO's actual MRP costs for 2017 of \$7.9 million. The IESO's MRP budget for 2017 was \$12 million. The IESO states that the underspend in 2017 was the result of unused contingency and a slow ramp-up of resources.

Questions:

- a) Please confirm if any capital projects were funded through the \$7.9 million spent on MRP activities in 2017.
 - i. If yes, please identify the projects as well as the amounts spent on each.
- b) The IESO's requested 2018 MRP budget is \$16.7 million. Please indicate the amount of the requested budget spent on or committed to MRP activities in 2018 to-date. Please categorize amounts by operating and capital expenditures.
- c) Please provide an overall forecast of the amount of the requested 2018 MRP budget that the IESO reasonably expects to spend. Please provide the forecast by capital and operating expenditures.
- d) As it relates to parts b) and c) of this question, please describe the rationale for any significant deviance between budget and forecasts.

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6.3 Are the IESO's forecast 2018 capital costs for the Market Renewal Program appropriate in the context of the scope and timing of the overall project?

Staff IR #17

Reference: Exhibit A-2-2, Page 18

Preamble:

Graph entitled Projected Market Renewal Costing

Questions:

- a) Please describe each capital project the IESO anticipates completing in 2018 and their respective contribution to the \$4 million capital cost budget.
 - i. Is the IESO on-track to complete all projects described in response to part a) of this question?
- b) In 2019, MRP capital costs are forecast to increase from \$4 million to \$34 million. What are the major capital projects anticipated by the IESO that will drive this budget increase?
 - i. Does the IESO believe that the necessary groundwork will be completed in 2018 for these projects to proceed in 2019?

7.0 IESO LTEP Cost

7.1 Are the costs associated with the activities identified in the IESO's Long-Term Energy Plan (LTEP) Implementation Plan appropriate?

Staff IR #18

Reference: Exhibit A-2-2. Pg. 9

Preamble: on page 9 of Exhibit A-2-2, the IESO identifies the nine LTEP initiatives it is directed to deliver.

Questions:

- a) Please provide a comparison of individual budgets against actuals for each of the nine initiatives.

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- b) Please identify the number of staff assigned to each LTEP initiative. Please identify the total number of staff assigned to the LTEP project.
- c) The IESO's scorecard identifies that six key LTEP initiatives are to be completed by year end 2018:
 - i. Please discuss the status of each of these six initiatives.
 - ii. Please discuss when the remaining three initiatives are anticipated to be finalized.