

1 OEB STAFF INTERROGATORY 10

2 **4.0 The Deferral and Variance Account**

3 **4.1 Is the IESO's proposal to retain an Operating Reserve of \$6 million in the Forecast**
4 **Variance Deferral Account appropriate?**

5 **Staff IR #10**

6 INTERROGATORY

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

8 Preamble:

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

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

14 Questions:

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

23 RESPONSE

- 24 a) i. The IESO executes its priorities in a rapidly evolving environment and complex mandate
25 which includes long-term planning, market and system operations and oversight,
26 exploration of innovative solutions, stakeholder engagement and alignment of
27 conservation with system needs. Its historical operating reserve level of \$10 million
28 represents approximately 5% of its current revenue requirement of \$190.8 million, which
29 the IESO believes is a reasonable level. The IESO believes it is appropriate to continue to
30 retain a balance of at least \$6 million in the IESO's operating reserve and reserves the
31 right to seek to increase the amount in the reserve in future applications. Please refer to

1 pages 6 - 7 of Exhibit B-1-1 where the current approval for \$6 million of operating
2 reserve is described, as well as an explanation of how material unplanned work
3 activities and fluctuations in demand (e.g., risks) that are beyond the control of
4 management could impact spending as justification for maintaining an operating
5 reserve of at least \$6 million. These risks are not quantified, which could result in the
6 operating reserve being reset. The IESO maintains the objective of the operating reserve
7 at the OEB-approved level is to fund the IESO's operations in the event of revenue
8 shortfalls or unanticipated expenditures. The \$6 million in the operating reserve equals
9 approximately 3% of the IESO's proposed 2018 revenue requirement.

10 The IESO's practice of maintaining an operating reserve is aligned with the practices of
11 other similar sector organizations, such as the OEB. Similar to the IESO, the primary
12 objective of the OEB in maintaining an operating reserve is to fund the OEB's operations
13 in the event of revenue shortfalls or unanticipated expenditures. The OEB currently has
14 an operating reserve of \$8 million, which is 20% of the OEB's current annual funding
15 requirement¹.

- 16 ii. The IESO is not anticipating that there will be a surplus balance in the FVDA at the end
17 of 2018. Surplus balances in the FVDA occur when there is an over-collection of
18 revenues and/or expenses are less than budget. As of the end of Q2 2018 the IESO was
19 on track with budgeted expenses in the first half of 2018, and management maintains its
20 commitment of delivering its priorities within the 2018 budgeted levels for the year. The
21 IESO had previously identified fluctuations in total demand, as compared to the IESO's
22 forecast, as a risk to the revenues recovered through the IESO's usage fees which would
23 impact the balance in the FVDA.

¹ Ontario Energy Board Annual Report 2016-2017, Page 27

1 CME INTERROGATORY 5

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

4 CME # 5

5 INTERROGATORY

6 Ref: Exhibit B, Tab 1, Schedule 1, page 6 of 7

7 The Applicant states: "[T]he IESO believes that \$6 million will be an adequate reserve against
8 the uncertainties referred to below, but the IESO does not necessarily believe that this is an
9 appropriate amount for the reserve going forward." The Applicant then goes on to list a
10 number of risks on the following pages.

- 11 (a) Does the IESO quantify the likelihood that the risks are realized, and the required
12 withdrawal from the operating reserve that the occurrence of each risk would entail?
- 13 (b) If the answer to (a) above is yes, please provide the estimated likelihood of occurrence of the
14 listed risks, and the monetary impacts of those risks.
- 15 (c) If the answer to (a) above is no, how does the IESO estimate whether or not their operating
16 reserve is sufficient?
- 17 (d) Please provide a breakdown, by year, of how much of the operating reserve the IESO has
18 been required to use for the past 10 years.

19 RESPONSE

- 20 (a) No.
- 21 (b) Not applicable.
- 22 (c) Please see the response to OEB Staff Interrogatory 10(a)(i) at Exhibit I, Tab 4.1,
23 Schedule 1.10.
- 24 (d) Post-merger (since January 1, 2015), the IESO has not used any funds in the operating
25 reserve account.
- 26 In 2007, the IESO had an operating loss of \$4.309 million. This resulted in a decrease to the
27 accumulated surplus from \$5 million to \$691 thousand.

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