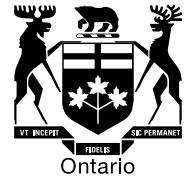


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BY EMAIL

October 9, 2018

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 Settlement Proposal
Independent Electricity System Operator Application for Approval of 2018
Expenditures, Revenue Requirement, and Fees
OEB File Number: EB-2018-0143**

Pursuant to Procedural Order No. 1, please find attached OEB staff's submission on the Settlement Proposal dated October 2, 2018 filed by the IESO in the above referenced proceeding.

Yours truly,

Original Signed By

Andrew Bishop
Project Advisor, Supply and Infrastructure

cc: Parties to EB-2018-0143



ONTARIO ENERGY BOARD

STAFF SUBMISSION ON SETTLEMENT PROPOSAL

**INDEPENDENT ELECTRICITY SYSTEM OPERATOR'S 2018
EXPENDITURE, REVENUE REQUIREMENT, AND FEES APPLICATION
EB-2018-0143**

October 9, 2018

Background

On April 30, 2018, 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 2018 expenditures, revenue requirement and fees. The premise of the IESO's application is its 2018 Business Plan that was approved for implementation by the Minister of Energy on March 19, 2018. The primary purpose of the Business Plan is to demonstrate the IESO's priority objectives for fiscal year 2018 as well as the staffing and monetary resources required to achieve them. For 2018, these priorities include, but are not limited to, the continuance of the Market Renewal Program (MRP), cybersecurity, completing the Conservation First Framework Mid-Term Review, and Long-Term Energy Plan (LTEP) implementation.

For 2018, the IESO proposes a revenue requirement of \$190.8 million that will be funded through usage fee revenue collected from both domestic and export customers.

The IESO proposes to maintain its 2018 revenue requirement at the 2017 approved level of \$190.8 million.¹ The IESO indicates that its ability to hold its revenue requirement at previously approved levels is due to the organization's continued efforts to find efficiencies and opportunities for expense reductions.

In addition to domestic and export usage fees, and as approved by the OEB in the last fees case², the IESO retains a standing \$6 million operating reserve within its Forecast Variance Deferral Account (FVDA). The purpose of the operating reserve is to financially support unplanned work activities that may be material in scope and outside of the control of management (i.e., to fund activities requested of the IESO that were not contemplated during the development of the Minister approved Business Plan).

Status of Issues

On October 2, 2018, the IESO filed a settlement proposal for the OEB's review and approval. The proposal reflects the agreement reached between the IESO and participating intervenors on all issues on the OEB approved Issues List.³

¹ The IESO's 2017 net revenue requirement of \$190.8 million included operating costs of \$191.4 million less collected registration fees of \$0.6 million.

² EB-2017-0150

³ The OEB approved issues list as provided through Decision on Issues List and Procedural Order No. 2 dated July 30, 2018

Submission

OEB staff does not oppose the Settlement Proposal. OEB staff notes that the Settlement Proposal reflects the following:

1. The IESO's 2018 revenue requirement application appears to be consistent from both a budget and objectives perspective with its Minister of Energy approved Business Plan.
2. The IESO's proposed 2018 revenue requirement of \$190.8 million, which the parties accepted, appears reasonable. The IESO has held its revenue requirement at 2017 levels despite increasing compensation and benefits budgets and the IESO's mandate remaining unchanged.
3. The Settlement Proposal requires the IESO to formally, and publicly, report on the steps taken to respond to the applicable findings of the Auditor General's 2017 Annual Report. This information is to be filed annually through the IESO's revenue requirement submission in the format provided as Attachment 1 to the Settlement Proposal. The information will provide stakeholders with a basis upon which they can assess the appropriateness of the actions taken by the IESO to address each of the Auditor General's recommendations.

Reflecting the importance of the Auditor General's specific recommendations on the IESO's market assessment and compliance activities, the Settlement Proposal specifies that, beginning in 2019, a new market assessment and compliance activities specific metric(s) will be added to the IESO's scorecard. OEB staff supports the addition of this metric(s) in the upcoming 2019 fees application so that the OEB will have an opportunity to review and opine on the appropriateness of the measure(s).

4. The Settlement Proposal identifies that parties to the proceeding recognize the "inherent difficulty reviewing the IESO's annual revenue requirement submission when it is filed part way through the fiscal year." To address this issue, the Settlement Proposal commits the IESO to taking reasonable steps to ensure it can file a full revenue requirement with the OEB 60-days prior to the beginning of the fiscal year, thus attempting to alleviate issues related to in-year application review and approval. The IESO will report in its next revenue requirement submission the steps it has taken, or plans to take, to achieve this goal.
5. The Settlement Proposal requires the IESO to file the baseline MRP schedule and budget with the OEB no later than January 2, 2019 and to copy all Parties on

this filing. This is consistent with the OEB's Decision and Order in the IESO's previous Revenue Requirement Application⁴ which required that the IESO develop a separate cost centre related specifically to the MRP in a manner that allows for:

- Detailed and transparent reporting and monitoring of all MRP spending on a sub-program (initiative) level
- OEB staff and intervenors to adequately scrutinize the costs and review any variances for prudence

The OEB also expected that the IESO would provide detailed MRP-related actual and budgeted capital and operating costs for each of the core MRP initiatives in future revenue requirement submissions, as well as a variance explanation between actual and forecast costs for the relevant period.

6. The application was responsive to the OEB's Decision and Order on the IESO's 2017 Expenditures, Revenue Requirement, and Fees application. Through that decision, the IESO was required to develop and file as part of its 2018 application a series of reports, studies, and data that provided parties with additional insight into the operational and cost effectiveness of the organization. The additional filing requirements placed on the IESO included:

- MRP cost report
- Corporate Cost Allocation Study
- Proposed targets for each performance measure included in the IESO's scorecard
- Four Standard Financial Reports (i.e., capital projects, operating & administrative (O&A) cost drivers, O&A programs, employee costs)

In respect of the additional requirements, OEB staff has reviewed the materials filed by the IESO and based on this review, is of the view that the IESO has carried out its obligations as intended. Specifically, in OEB staff's view, the addition of these documents provides parties with a comprehensive understanding of the IESO's ongoing and planned activities and associated expenditures. In OEB staff's view, this additional information supported the assessment of reasonableness with respect to the 2018 revenue requirement proposed by the IESO.

⁴ EB-2017-0150

In conclusion, OEB staff submits that the settlement proposal represents an acceptable outcome from a public interest perspective.

All of which is respectfully submitted.