

Ontario Energy Board

IN THE MATTER OF subsection 25.(1) of the *Electricity Act, 1998*;

AND IN THE MATTER OF a Submission by the Independent Electricity System Operator to the Ontario Energy Board for the review of its proposed expenditure and revenue requirements for the fiscal year 2019 and the fees it proposes to charge during the fiscal year 2019.

Interrogatories of

Energy Probe Research Foundation to the IESO

April 8, 2019

General

EP-1

Reference: No Reference

Please provide updated 2019 organization charts for IESO (to director level).

Issue 1.1 Is the IESO's Fiscal Year 2019 net revenue requirement of \$190.8 million appropriate?

EP-2

Reference: Government Press Release and Save Energy Website

Preamble: The CFF and IAP programs were discontinued on March 21, 2018

- a) Will there be any additional conservation staffing and OM&A costs in 2019? What are these costs?
- b) Will the cost consequences be incremental and covered in the 2019 Budget or covered by the uplift charges?
- c) Please summarize the conservation initiatives in the March 2019 Federal Budget and discuss the relevance to Ontario and IESO 2019-20 programs.

EP-3

Reference: Minister's Directive - FIT and LRP

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.

Are there any costs in 2019 related to this directive? If the answer is yes, please provide the amounts with explanations.

EP -4

Reference: Exhibit A, Tab 2, Schedule 2, Page 12 and page 22 (SME)

Preamble: *"To be delivered to the OEB by the end of 2018, the plan will outline the proposed tools, processes and procedures that will enable the SME to accept and process data requests, as well as a monetization model that will be beneficial for both data clients and ratepayers. After undergoing a rigorous screening process, clients are expected to use the data to inform research and development, technology, training and continuous service improvement. Any surplus funds – above and beyond those levied for cost recovery –will be credited to ratepayers."*

- a) Why is the plan not in evidence? Please file the plan.
- b) Who are the clients?
- c) What are the capital and operating costs and revenues, annual and total?
- d) Please provide the cost/benefit business case.

EP-5

Reference: Exhibit A, Tab 2, Schedule1, Page 1, and Business Plan

- a) Please update the steps the IESO has taken and initiatives in 2018 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. Identify human resource activities e.g. in staffing levels, corporate re-organizations and compensation.
- b) Are the cost savings achieved through these efficiency opportunities included in the IESO's 2019 Revenue Requirement? Please provide a summary

EP-6

Reference: Exhibit B, Tab 1, Schedule 1, page 7

Preamble: IESO lists a number of risks to its forecasts, which include the “potential impacts of fulfilling new directives from the Minister and managing the work associated with new contracts, whether for new supply, conservation or the import and export of power.”

- a) Has IESO undertaken the management of any new contracts related to conservation or new supply? If so, please summarize and provide the costs of that work?
- b) Can IESO update the budget for the nine items in the LTTP that it was directed to undertake? If so, please provide that budget or any estimates related to LTTP directives.

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

EP-7

References: Exhibit B, Tab 3, Schedule 1, and Attachments Tables 1, 2 and 3
Exhibit B, Tab 3, Schedule 1, Updated Attachment 2 Appendix 2-JB.

- a) Please provide a version of Appendix 2-JB, with historic plan and actual (2017-2018) and Test Year forecast.
- b) Please explain the material differences in Compensation, and Consulting and Professional fees.
- c) Show the net impact of over/under plan spending, by adding a line showing impact on FDVA/Reserve Fund

EP-8

References: Exhibit B, Tab 3, Schedule 1, and Table 2; Attachment 4,Appendix 2-K
EB-2018-0143 Exhibit I, Tab 1.3, Schedule 8.16, SEC 16

- a) Please provide a version of the updated Appendix 2-K showing 2016-17 actuals, 2018 Forecast (2018 Fees case), 2018 Actual and 2019 Forecast. Reconcile to the Staffing at Exhibit A-2-2, Page 17 and Exhibit B Tab 3 Schedule 1 Page 3 Table 2 updated:
- b) For Executive and Board S&W, please explain the \$1.0 million (36%) over Budget for 2018 and the \$0.6 million increase for 2019 (21%) relative to 2018 budget.
- c) Please provide a Breakdown of FTEs and Budget similar to the response to referenced SEC 16. Please retain the 2018 data and add 2019.

Issue 1.4 Is the IESO's Capital Expenditure budget for Fiscal Year 2019 appropriate?
Issue 6.3 Are the IESO's forecast 2019 capital costs for the Market Renewal Program appropriate in the context of the scope and timing of the overall project?

EP-9

References: Exhibit B Tab 2 Schedule 1 page 2 Table 4; Exhibit B Tab 3 Schedule 1, Attachment 1, Appendix 2-AA

Preamble: IESO has underspent its capital budget in 2016, 2017 and again in 2018

- a) Please provide the actual 2018 Operations and MRP Capital Project spend. Reconcile to the above references.
- b) Please provide a detailed explanation for the underspend in IESO's capital budget for 2018.
- c) Please discuss in detail why the major "jump" in MRP Capital in 2019 can be managed based on the history of underspend?
- d) Should IESO have an MRP Capital Variance Account (MRPCVA) to record and levelize MRP Capital Expenditures? Please discuss, including smoothing of fees.

EP-10

References.: Exhibit A, Tab 2, Schedule 2, Page 7, 2019-2021 Business Plan;

Exhibit B, Tab 3, Schedule 1, Attachment 1, Appendix 2-AA (Capital Projects)

Preamble: *"In 2019, the IESO is planning a capital envelope of \$17.3 million to facilitate the delivery of corporate priorities associated with its core business. An investment of \$38 million in capital costs is required to fund the next stage of the Market Renewal Program. Further details on the overall capital program are included in Appendix 3."*

- a) Please provide a schedule similar to Appendix 2-AAA showing the Capital Budgets for 2018 (Forecast and Actual) by category and the 2019 and 2020 Forecasts.
- b) Expand and provide a schedule for the MRP 2018 (Forecast and Actual) by category and the 2019 and 2020 Forecasts.
- c) Please provide a variance report for 2018 for Core Operations and MRP.

Issue 2.1 Is the methodology used to derive the proposed IESO Usage Fees and the resulting Usage Fees of \$1.227/MWh for domestic customers and \$1.0125/MWh for export customers appropriate?

EP-11

Reference: Exhibit A, Tab 1, Schedule 1; Exhibit B, Tab 1, Schedule 1, Page 3, Table 3

Preamble: The IESO usage fees are calculated for the IESO by Elenchus using the same Elenchus model and inputs approved by the Board in the IESO's 2016 revenue requirement submission (EB-2015-0275).

- 2018 Forecast domestic and export energy volumes;
 - 2018 Total Budget by business unit and department; and
 - The cost allocation for each department.
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- a) What volumes were the Interim usage fees (\$1.2402/MWh for domestic customers and \$1.0115/MWh for export) based upon?
 - b) Please provide the actual 2018 volumes for domestic, embedded generation, export and losses.
 - c) Please provide updated 2019 forecast volumes, budgets and allocations breakdowns taking into account the 2018 actuals.
 - d) Compare 2018 to 2019 and provide the underlying drivers for the changes from 2018 to 2019

Issue 4.1 Is the IESO's proposal to retain an Operating Reserve of \$10 million in the Forecast Variance Deferral Account appropriate?

Issue 4.2 Is the IESO's proposal to clear the 2018 Year-End balance in the Forecast Variance Deferral Account that is in excess of the \$10 million operating reserve appropriate?

EP-12

References: Exhibit A, Tab 1, Schedule 1, Page 3; Exhibit B, Tab 1, Schedule 1, Page 7; Exhibit B, Tab 3, Schedule 1, Table 1

Preamble: *"In response to potential volatility in spending driven by changes in the volume of activities and the external environment, the IESO is seeking approval to retain an operating reserve of \$10 million in 2019."*

- a) Confirm based on the update the 2018 Surplus is now \$1.3 million rather than \$4 million.
- b) Clarify if IESO still proposes to add this to the 2019 Operating Reserve (\$10 million), or rebate all or part to users?
- c) Please list when IESO has
 - Rebated surplus (amounts) and
 - Added the surplus to the next year operating reserve.Indicate for each, if the OEB approved the action or not, or if it was part of a Settlement Please provide relevant references and extracts.

- d) Has the IESO obtained an accounting opinion whether the 2018 surplus should be rebated to customers that paid fees in the 2018 fiscal year?

EP-13

References: Exhibit B, Tab 2, Schedule 1, Page 1 FVDA

- a) Please provide a Schedule that shows the opening and closing balances of the FVDA 2016-2018.
- b) Add notes regarding amounts rebated or other dispositions with specific references to OEB approvals

Issue 5.0 Commitments from Previous OEB Decisions

EP-14

Reference: Exhibit B, Tab 1, Schedule 1, Page 6;

Preamble: *“In addition, through the Package Settlement the IESO agreed to apply the same cost allocation principles used for the SME to the Market Assessment and Compliance Division’s enforcement (“MACD Enforcement”) activities. While these activities were not included in the BDR Report, it was agreed that they are of a similar type of non-fees funded activity of the IESO. Therefore, costs the IESO incurs for work and staff time in support of MACD Enforcement will be charged to MACD Enforcement in the same manner as such work is done to support the SME is charged to the SME.”*

- a) Specifically for SME and MRP please provide details on how the 2019 costs are allocated, including non-core functions and management/governance costs?
- b) Who pays these costs, i.e. what is the allocation to users?

EP-15

Reference: Exhibit A, Tab 3, Schedule 1, Pages 8 of 42, MACD

Preamble: *“As of December 31, 2018, the IESO was managing more than 33,700 electricity resource contracts, representing over 26,700 MW of capacity, with annual contract settlements in excess of \$7 billion. Ongoing administration of these contracts involves enforcing contract provisions, negotiating, finalizing and implementing amendments, and resolving commercial disputes, as well as building and maintaining models for calculating and issuing contract payments.”*

- a) Please indicate if the 2018, MACD activity in 20 significant investigations, audits and payment recoveries of matters in excess of \$200 million, and impact to reliability is typical or atypical related to the statement that “In the previous three years, MACD has returned more than \$120 million to the market through enforcement actions”.
- b) Please provide a high-level summary of the 20 MACD 2018 contract administration activities and indicate the outlook for the 2019 activities.
- c) What were the costs and benefits for the historic years and forecast for 2019?

Issue 5.1 Is the IESO's 2019 Regulatory Scorecard appropriate?

EP-16

Reference: EB-2017-0143, 2018 Scorecard

Preamble: The referenced IESO Scorecard identifies Implementation of the Long Term Energy Plan ("LTEP")

- a) Please identify the number of staff assigned to the LTEP initiative in 2018 and 2019.
- b) The IESO's 2018 Scorecard identifies that six key LTEP initiatives were to be completed by year end 2018:
- c) Please provide and discuss the status of each of these six initiatives

EP-17

References.: Exhibit A, Tab 2, Schedule 2, Page 20, CPM 10.1; Exhibit C, Tab 1, Schedule 1, Page 1

Preamble: *"The IESO's 2019 Regulatory Scorecard ("Scorecard") is included as Attachment 1 to this Exhibit. The Scorecard has been updated to reflect 2018 actual values for each of the measures, as well as 2019 targets."*

- a) Why does the evidence (reference above) not appear to include the OEB Regulatory Scorecard for 2019? Please file a copy.
- b) How is customer satisfaction measured?
- c) What are the conservation targets for 2019-20? Are they the same as per the LTEP or changed? If they are changed please provide the revised targets.

Issue 5.2 Is the Total Compensation Study (Mercer) for represented and non-represented staff appropriate?

EP-18

Reference.: Exhibit C, Tab 4, Schedule 1 Mercer Compensation Study Page 3 ff.

Preamble: *"On an overall organization basis, the IESO'S total remuneration, including the value of all cash compensation, benefit and pension plans is positioned 11%, 22% and 18% above the market 50th percentile for the energy, public and private sector peer groups respectively. Positioning above the 50th percentile on a total remuneration basis is primarily a result of the high employer provided value of pension plans in place at the IESO for PWU and the Society represented jobs. "*

- a) Does the IESO agree with the Mercer Findings? If so, please indicate so in the Table below. If not, please Comment regarding IESOs disagreement. (provide added notes/comments if insufficient space)
- b) What actions will the IESO take to bring Compensation and Benefits to the Median? Please list in the following Table. (provide additional notes if insufficient space)

Mercer Finding	IESO Comment	Actions IESO will take
IESO'S total remuneration, including compensation, benefit and pension plans is positioned 11%, 22% and 18% above energy, public and private sector peer groups		
Represented jobs are positioned between 15% to 34% above the market 50th percentile (salary) relative to the public and private sector peer groups.		
When compared to the private and public sector, the IESO provides a top quartile active benefits plan to its PWU employee group.		
Short-term incentive levels are highest amongst non-unionized jobs in the energy sector		

Issue 6.1 Is the reporting on financial and operational performance of the Market Renewal Program for 2017, 2018, 2019, and proposed future reporting, appropriate?

EP-19

Reference: Exhibit C-2-1, Attachment 1, Appendix A

Preamble: *“Beginning in January 2019, the IESO will monitor and track project performance for both the Capacity and Energy work streams against the established baseline schedules and budget described below. The schedules and budget for the Energy and Capacity work streams will be tracked and will roll up to form the overall MRP schedule and budget.”*

- a) Please provide an update on Market Renewal spending for 2018 and a detailed report whether IESO on track to meet its forecasted budgets.

- b) For 2019, based on Q1 results, please provide a schedule that indicates for each initiative, if it is on time and budget. Provide relevant comments/discussion.

Issue 6.2 Are the IESO's forecast 2019 operational costs for the Market Renewal Program appropriate in the context of the scope and timing of the overall project?

No Questions

Issue 6.3 Are the IESO's forecast 2019 capital costs for the Market Renewal Program appropriate in the context of the scope and timing of the overall project?

EP-20

Reference: EB-2017-0143 Exhibit C, Tab 2, Schedule 1, page 5

Preamble: *“Prior to the start of detailed design for each of the initiatives, and commencing any significant capital spending, the IESO will develop a business case for the MRP, which will be provided to the IESO Board of Directors for approval, and to stakeholders thereafter.”*

Have additional business cases been completed in 2018 or 1Q 2019? If so, please provide these.