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BY EMAIL

April 9, 2019

Ontario Energy Board
Ms. Kirsten Walli
Board Secretary
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Ontario Energy Board (OEB) Staff Interrogatories
Independent Electricity System Operator (IESO) Application for Approval of
2019 Expenditures, Revenue Requirement, and Fees
OEB File Number: EB-2019-0002**

Pursuant to Procedural Order No. 1, please find attached OEB staff interrogatories in the above referenced proceeding.

Yours truly,

Original Signed By

Michael Lesychyn
Project Advisor, Supply and Infrastructure

C: Parties to EB-2019-0002



ONTARIO ENERGY BOARD

OEB Staff Submission Interrogatories

**Independent Electricity System Operator's Application for Approval of
2019 Expenditures, Revenue Requirement, and Fees**

EB-2019-0002

April 9, 2019

1.0 Revenue Requirement, Operating Costs and Capital Spending

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

Staff IR #1

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

Preamble:

In the IESO's September 4, 2018 letter to the Minister, the IESO indicates:

"Our Commitment to sound financial management, even as we make significant investments to deliver market renewal, cybersecurity and other priorities, means we are not seeking an increase to our revenue requirement for 2019".

And

Reference: Exhibit A-2-2. Pg. 6 of 7, Exhibit A-2-2 page 16 and 17, Exhibit B-3-1, Attachment 3 – Appendix 2-JC OM&A Programs

Preamble:

In its business, plan the IESO states: "The IESO intends to hold its revenue requirement for 2019 at the levels approved for 2018 and 2017".

Questions:

- a) Please discuss how the IESO is able to hold its budget to 2017 and 2018 levels given that its Operating, Capital expenditure and full time staffing levels are increasing for both Core Operations and the MRP as provided in the detailed financial tables on pages 16 and 17 of Exhibit A-2-2.
- b) What program activities have been cancelled/modified/reduced or replaced to make room for the new and expanded activities in 2019 in terms of operations, capital and staffing?
- c) Please quantify the financial and staffing impacts of these changes.
- d) A flow chart has been provided as Attachment 1 that provides a model of the OEB's understanding of the inputs that go into calculating the IESO Revenue

Requirement. Please confirm whether the flow chart is accurate or modify the flow chart as necessary. In addition, please confirm that the total IESO OM&A costs are comprised of only the departments identified in Appendix 2-JC OM&A Programs and that no changes are planned to these departments in 2019.

Staff IR #2

Reference: Exhibit B-3-1, Attachment 3 – Appendix 2-JC OM&A Programs

Preamble

OEB staff is seeking additional information in questions a) thru d) to explain how and where the PSAB transition items are included in the 2019 revenue requirement. OEB staff is also seeking additional information that demonstrates that the interest on the cumulative difference between cash and accrued pension and OPEB expenses is being appropriately allocated to the 2019 revenue requirement.

Questions:

- a) Please confirm that the amount of recovery for PSAB transition items included in the IESO's revenue requirement remains at \$3.912 million for 2019.
- b) Please indicate the line item in Appendix 2-JC (OM&A Programs) that the PSAB transition recovery amounts are included in.
- c) Please confirm that the 2019 interest income shown in Appendix 2-JC (\$5.9 million for 2019) includes calculated interest on the cumulative difference between the amounts collected under the cash basis versus amounts collected under the accrual basis for pension and other post-employment benefit costs.
- d) Please provide the supporting calculation for the amount referred to in part c).

Staff-3

Reference: Exhibit B-3-1, Attachment 3 – Appendix 2-JC OM&A Programs

Preamble:

Under the heading Corporate Adjustments within Appendix 2-JC OM&A Programs the categories of General, Amortization and Interest are significant components of the overall budget and thus more detail is required to understand their impact.

Questions:

- a) Please provide a more detailed breakdown of the \$18.4 million in amortization proposed in the 2019 budget and provide the supporting calculations for how this figure was derived.
- b) Please provide a more detailed breakdown of the \$5.9 million in interest income proposed in the 2019 budget and provide the supporting calculations for how this figure was derived.
- c) Please explain what the \$2.8 million proposed in the 2019 budget under General represents.
- d) Please confirm that there are no amounts included in the 2019 revenue requirement, or the December 31, 2018 accumulated deficit of the IESO that relate to the Ontario Fair Hydro Plan. If this is not the case, please indicate the nature of these costs, where they are included in Exhibit B-3-1 Appendix 2-JC, and provide justification for their inclusion.

Staff-4

Reference: Exhibit A-3-1 – Audited Financial Statements, Note 3 – Restatement of Corresponding Figures, Note 6 – Rebates Due to Market Participants and Accumulated Deficit

And

Reference: Exhibit B-3-1 Pages 2-4 of 6 – Accounting Policy Change

Preamble:

With respect to changes in its accounting policy, the IESO states the following under Note 3 c) in its 2018 Financial Statements:

The discount rate used to value the IESO's supplemental employee retirement and other post-employment benefit plans' liabilities previously was based on the expected rate of return on plan assets as at the measurement date. As of January 1, 2018, the discount rate utilized to value these unfunded liabilities is based on the IESO's estimated cost of borrowing as at the measurement date. The impact for this change is an increase of \$31,314 thousand in the deficit balance reported to accumulated deficit as at December 31, 2017.

OEB staff notes that, after retroactively recording the accounting policy change, the IESO's December 31, 2018 Accumulated Deficit includes a \$4.73 million deficit for the Regulatory Deferral Account and a \$52.482 million deficit for the PSAB Transition Items.

In Exhibit B-3-1, the IESO further states:

In this submission, the IESO has requested to raise its operating reserve to \$10 million. The IESO is not proposing to increase its revenue requirement for fiscal 2019 to recover its current operating deficit position. The IESO plans to address the deficit funding gap in future rate filings with the OEB.

Questions:

- a) Please prepare a table identical to the one in Note 6 d) PSAB Transition Item – Accumulated Deficit, in the 2018 Financial Statements. However, please apply the previous accounting policies (discount rate based on expected rate of return of plan assets as at the measurement date) to these figures.
- b) Please elaborate on the IESO's plans to address the deficit-funding gap as a result of the change in accounting policy. Specifically, in what manner does the IESO intend to recover this shortfall, over what time period, etc.
- c) Please provide rationale for why the funding gap is not being addressed in this current application.
- d) Please provide an analysis to show what the impact would be on the 2019 revenue requirement, as well as the 2019 Usage Fees, if the cumulative impacts of the accounting policy change were amortized and collected on the same basis as the amounts that are currently being amortized in the PSAB Transition Items accumulated deficit account (based on estimated average remaining service life of employees).

Staff IR #5

Reference: Exhibit A-2-2. Pg. 9 of 27

Preamble:

At Exhibit A-2-2. Pg. 9 of 27, the IESO states: "As part of our commitment to transparency, starting in 2019 the IESO will supplement existing planning publications with an annual planning outlook."

Questions:

- a) Has the IESO initiated development of the annual planning outlook?
- b) If applicable, what is the IESO's anticipated timing for the release of the outlook report?
- c) Please provide an overview of the information that will be provided in annual planning outlook report.
- d) How are the findings provided in the annual planning outlook expected to influence the work and budgets of the IESO in future years?

OEB Staff #6

Preamble: Exhibit A-2-1. Pg. 1 of 2

Preamble:

In the Honourable Greg Rickford's letter dated December 11, 2018 to the IESO, the Minister states:

I expect future Market Renewal resourcing beyond 2019 will be further reassessed in future business plans and in the IESO's proposed expenditure and revenue requirements submitted to the Ontario Energy Board. I hope that the IESO will continue to focus on operating efficiency and ensuring maximum value for ratepayers.

Questions:

- a) Please describe the steps the IESO has been and plans to take in implementing cost efficiencies and opportunities for expense reductions.

Staff IR #7

Reference: Exhibit B-1-1. Pg. 2 of 8

Preamble:

At Exhibit B-1-1, Pg. 2, the IESO states:

“In furtherance of its commitment in the Package Settlement, the IESO is investigating the potential for a multi-year revenue requirement submission to assist with meeting the timing prescribed in section 25(1) of the Act”.

Questions:

- a) Please explain what is meant by the statement “the IESO is investigating the potential for a multi-year revenue requirement submission”.
- b) Please confirm that in this application the IESO is not seeking OEB approval to submit a multi-year application in the future.
- c) How does the IESO envision that a multi-year approval would work?

1.2 *Is the IESO's Registration & Application Fees revenue forecast of \$0.0 million for Fiscal Year 2019 appropriate?*

Staff IR #8

Reference: Exhibit A-1-1. Pg. 3

Preamble:

The IESO seeks approval to continue charging registration fees 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) Please identify all procurements that the IESO will or may undertake in 2019 where a registration fee for participation will be charged.

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 #9

Reference: Exhibit A-2-2. Pg. 5 & 6 of 27

Preamble:

In its Business Plan the IESO states:

Organizational focus

This is a pivotal time for the electricity sector. To capitalize on the changes that are underway, the IESO is evaluating all aspects of its business, with a view to making incremental investments now that are expected to reap major dividends down the road.

This includes having the right people in the right place focusing on the right objectives. Through our diverse and highly skilled Board of Directors and employee base, the IESO will continue to deliver value to Ontarians for years to come.

The IESO's broad mandate includes long-term planning, market and system operations and oversight, research into innovative solutions, stakeholder engagement and alignment of energy efficiency with system needs. To better position the organization to deliver on its mandate, in 2018 the IESO completed a corporate realignment aimed at building a stronger, more cohesive organization focused on a common purpose.

In addition to their core responsibilities, each of the six members of the executive leadership team reporting to the CEO will be accountable for achieving specific strategic objectives and performance measures that reflect the growing focus on building a strong foundation to support the ongoing evolution of the sector. These range from developing an enterprise-level data integration strategy, and positioning the IESO as a thought leader in cybersecurity, to implementing major process improvements and enabling innovation across the organization.

Questions:

- a) Please provide an organizational chart for the IESO from the CEO to the department levels that each of the six members of the executive team is responsible for. For each department provide the staffing levels of full time and non-full time staff, budgets and major work program activities including MRP planned in 2019.

- i. Please describe staff migration, changes to budgets and impact on work programs over the last year (i.e. from 2018 to 2019).
- ii. What changes to the organization structure were required from 2018 to 2019 because of Core Operations and External Work activities (i.e. cancellation of Green Ontario Fund)?
- iii. Please provide the ratio of management (non-executive) to union (society and PWU), and non-union employees for the organization. Are the ratios for the IESO comparable to those reported for the Energy Sector Comparator Companies in the Non-Executive Total Remuneration Review Exhibit C-2-1, Attachment 1, pg. 5?
- iv. Please identify the departments within the IESO that are responsible for managing the external work initiatives including the Other Government Programs, Smart Metering Entity, and Market Sanctions and Payment Adjustments.

Staff IR #10

Reference: Exhibit B-1-1. Pg. 6 of 8

Preamble: at Exhibit B-1-1. Pg. 6 of 8, the IESO states:

“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.”

Questions:

- a) Please identify how the IESO funds the MACD Enforcement division.
- b) How are the budgets for MACD Enforcement established?
 - i. Who approves the budget?

Staff IR #11

Reference: Exhibit A-2-2. Pg. 6, 9 of 27

Preamble:

At Exhibit A-2-2. Pg. 9 of 27, the IESO states:

In addition to facilitating a central collaboration hub for cybersecurity best practices, in December 2018, the IESO is set to launch of a security operations centre – a major milestone in the evolution of the organization’s cybersecurity program. The centre will provide new real-time cybersecurity situational awareness capabilities and the 24/7 cybersecurity monitoring required to improve incident detection and response to the threats that face our electricity infrastructure and the organizations that operate it.

And

Preamble:

At Exhibit A-2-2, Pg. 6 the IESO has cited cyber security as a priority initiative in 2019 and in the future. Despite its priority, the IESO has provided limited cyber-related budgets or staffing for the planning period. Given the sensitivities associated with cyber security efforts, OEB staff is not requesting specific details, however, OEB staff requests the IESO to confirm the following:

Questions:

- a) Is the cybersecurity operations centre currently in-service? If not in-service, by what date does the IESO’s anticipate the centre will become operational?
- b) Please indicate the source of funding for both the development and ongoing operations (including staffing costs) of the cybersecurity operations centre.
- c) At Exhibit A-2-2, page 17, the IESO demonstrates its forecast staffing levels for 2019. Has the IESO reflected the staff assigned to the cybersecurity operations centre in these forecasts?
- d) Does the IESO believe it has sufficient budget to appropriately address cyber security? Is this budget reflected in the revenue requirement? If not, through what budget is cyber funded?
- e) Is the IESO on track with its Cyber Security initiatives in 2019 to ensure that it meets the Minister’s expectations for Cyber Security as outlined in his letter dated December 11, 2018 approving the IESO’s 2019-21 Business Plan?

Staff IR #12

Reference: Exhibit A-2-2. Pg. 17 of 27, Exhibit B, Tab 3, Schedule 1, Table 2, pg. 3 of 4

Preamble:

On page 17 of the IESO business plan, the IESO is budgeting an average of 717 full time staff for core operations and 125 full time staff for its MRP project in 2019. In Table 2: 2018 Latest Estimate of Staffing Levels compared to 2018 Budget on page of Exhibit B, Tab 3, Schedule 1 the IESO reports a negative variance of 21 and positive variance of 24 for the MRP program.

- a) Were there any core operations that were impacted by the negative staffing variance?
- b) Did the positive variance of 24 MRP staff push the project ahead of schedule?
- c) Given that the staffing projections for 2018 for both Core Operations and MRP showed variances, how confident is the IESO that a similar situation will not occur in 2019, potentially affecting both core operations and MRP work programs?
- d) How confident is the IESO that it will be able to staff the MRP project to the full 125 full time staffing that it is budgeting in 2019, given that many of the positions require specialized experience? Is there a critical number of staff that the IESO needs in 2019 to complete its MRP budgeted work programs?
- e) What is the risk to the MRP project in terms of delay and budgeting if the IESO cannot fill all 125 full time MRP positions?
- f) What back up plans/contingences does the IESO have if it cannot secure all 125 staff?

Staff IR #13

Reference: Exhibit C-4-1. Attachment 1, Pg. 14 of 15

Preamble:

The matrix provided at Exhibit C-4-1. Attachment 1, Pg. 14 of 15 demonstrates that staff in salary grades MP6, MP4, and MP4 receive significantly higher total compensation in relation to peer groups identified in Mercer's Non-Executive Total Remuneration Review.

Questions:

- a. Please confirm if the total remuneration disparity between IESO staff in salary grades MP6, MP4, and MP4 and their peers is primarily driven by pensions, active benefits, and post-retirement benefits.
- b. Please describe what steps the IESO will make in order to better align the total remuneration of IESO staff in salary grades MP6, MP4, and MP4 with, at a minimum, their energy sector peers.
- c. What increases in total remuneration are expected for 2019? If applicable, are these increases anticipated to further the disparity between IESO staff in salary grades MP6, MP4, and MP4 and their energy sector peers?

Staff IR #14

Reference: Exhibit C-2-1. Pg. 13 of 15

Preamble:

The IESO provides three tables that illustrate incremental staffing level increases in 2019 for MRP to 125 full time staff and 21-shared resources.

Questions:

- a) Will any of the incremental FTEs required for Market Renewal eventually be converted to full time staff? If yes, please explain how many are expected to become core FTEs and the forecast total FTEs for the IESO. If not, please explain how the IESO will manage any incremental or modified work created by the Market Renewal project without additional FTEs.
- b) Of the 50 incremental positions planned in 2019 how many have been filled as of April 9, 2019?

Staff IR #15

Reference: Exhibit A-2-2. Pg. 15 of 27.

Preamble:

At Exhibit A-2-2. Pg. 15 of 27, the IESO states:

For 2019, the IESO anticipates an average headcount of 726 to deliver its core electricity system responsibilities while continuing the implementation of its strategic initiatives. The Market Renewal Program will require an average headcount of 125 as the program advances to the detailed design stage. This brings the total average headcount requirement for the IESO to 851 in 2019.

Questions:

OEB staff has developed the below matrix based on the information provided at the references cited above. As demonstrated, the IESO forecasts increasing its staffing complement in 2019 by 103, or 14% from 2018 levels.

Staff	2018 Actual	2019 Budget
Operating headcount	672	726
MRP Headcount	76	125
Total	748	851

- a) The IESO forecasts that significant staffing increases are needed to support delivery of its core operations. Please explain how the IESO determined the number of additional staff required and how the IESO determined that this level of increase was reasonable.
- b) The IESO forecasts that significant staffing increases are needed to support MRP activities. Please explain how the IESO determined the number of additional staff required and why the IESO considers these increases to be reasonable.

Staff IR #16

Reference: Exhibit A-2-2. Pg. 6 of 27

Preamble:

At Exhibit A-2-2. Pg. 6 of 27, the IESO states:

“To better position the organization to deliver on its mandate, in 2018 the IESO completed a corporate realignment aimed at building a stronger, more cohesive organization focused on a common purpose.”

Questions:

- a) Please briefly describe the primary impacts of the realignment on the structure of the IESO.
- b) Please briefly describe the financial and operational benefits delivered through the realignment.

1.4 *Is the IESO's Capital Expenditure budget for Fiscal Year 2019 appropriate?*

Staff IR #17

Reference: Exhibit A-2-2. Pg. 17 of 27

Preamble: The table entitled Capital on page 17 of the IESO's Business 2019-2021 Plan provides a detailed account of all planned capital expenditures over the three-year planning period.

Questions:

- a) Given the IESO did not spend its capital budget on either Core Operations or the MRP in 2018, how confident is the IESO that it will spend its budgeted 2019 allocation in both areas?
- b) As of April 1, 2019, what percent of its 2019 budgeted capital expenditures for both core operations and MRP has the IESO spent?

4.0 The Deferral and Variance Account

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

Staff IR #18

Reference: Exhibit A-1-1 Pg. 1, 3 of 5

Preamble:

On pages 1 and 3, the IESO states:

“Pursuant to subsection 25 (1) of the Act, the IESO is seeking the following approvals from the OEB:

g) Approval to rebate the year-end balance in the FVDA above the requested \$10 million operating reserve. The IESO will rebate the surplus to market participants proportionate to the fees collected in 2018. The rebates will be provided in the next billing cycle following the month in which OEB approval is received.

The IESO agreed to an operating reserve of \$6 million for 2018¹, which represented 3% of the IESO’s revenue requirement. The 2017 Package Settlement (EB-2017-0150) reduced the operating reserve by \$4 million to offset the MRP operating budget. In its application, the IESO notes that this level was appropriate for the previous budgets, but given the potential volatility in spending driven by changes in activity volume and external factors, the IESO is seeking approval of \$10 million in 2019. The IESO further notes that the OEB’s operating reserve is 20% of its annual funding requirements. In its application, the IESO has not indicated that it has accessed the funds available through the FVDA to fund work activities or mitigate risks to-date in 2019.

Questions:

- a) Please provide a table indicating whether there has been a surplus or deficit in the past 5 years in the FVDA, and if applicable, illustrating the amounts that the IESO has rebated to market participants for the past 5 years.
- b) In both 2017 and 2018, the OEB approved an FVDA of \$6 million. Please explain provide why a \$4 million increase to the FVDA for 2019 is necessary.
 - i. At Exhibit B, Tab 1, Schedule 1, page 7, the IESO states that they are seeking the increased FVDA as a result of “potential volatility in spending driven by changes in the volume of activities and the external environment...”. Please provide specific examples of the volatilities driving the uncertainty.

¹ EB-2018-0143, OEB Decision and Order, October 25, 2018

- c) Please explain the likelihood that the end-of-year balance in the 2019 FVDA, if kept at the current \$10 million level, will result in a surplus that will require rebating to market participants.

5.0 Commitments from Previous OEB Decisions

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

Staff IR #19

Reference: Exhibit C-1-1, Attachment 1 – 2019 IESO Regulatory Scorecard

Preamble:

Under the Performance Category Stakeholder Satisfaction, the IESO modified the Measure by adding, “meets or exceeds expectation” and added the Performance Category of “Non-compliance Detection”.

Questions:

- a) Why is the IESO introducing these changes to the Performance Categories at this time?
- b) Given the IESO has met the bulk of its targets in 2018, is there a need to modify/update the proposed targets for 2019?
- c) Should the Measure under the Performance Category for Conservation be updated along with the targets to reflect recent changes and modifications to Conservation programs such as Green Ontario Fund?
- d) Should the Measure under the Performance Category for Planning Reliability be updated along with the targets to reflect the changes to the initiatives under the Long Term Energy Plan?

Staff IR #20

Reference: Exhibit C-1-1. Pg. 2 of 2

Preamble:

At C-1-1. Pg. 2 of 2, the IESO states:

“In 2019, the IESO will target 80% of the highest impact market events are triaged within 14 days of observation, ensuring highest impact market events are addressed in a timely manner.”

Questions:

- a) Please describe the process engaged by the IESO to develop the operational effectiveness target.
 - i. How did the IESO determine that the target is reasonable? As an example, was the target informed by a benchmarking process?

5.2 *Is the Total Compensation Study for represented and non-represented staff appropriate?*

Staff IR #21

Reference: Exhibit C-2-1, Attachment 1, Tab 3, Schedule 1 Pgs. 6 of 15

Preamble:

Non-Executive Total Remuneration Review completed provided the following finding:

Overall, the IESO'S compensation program, on a total remuneration basis, is positioned 11%, 22% and 18% above the market 50 percentile for the energy, public and private sector peer groups. Positioning above the 50' 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. The non-bargaining group is below the market competitive range of the energy peer group at -7% of the 50th percentile and within the market competitive range of the public and private sector peer groups at 5% and -1% respectively.

Questions:

- a) Has there been a cost of living adjustment applied to any of the peer groups for those located outside of the GTA?
- b) If not, would this adjustment result in a reduction in the gap for total remuneration between the IESO and the three peer groups?
- c) Given that the total remuneration gap between the IESO and peer groups is primarily driven by the IESO pension plans in place for the PWU and Society,

- what steps/initiatives could the IESO investigate to bring its pension plan remuneration in line with its peer groups?
- d) Has the IESO considered moving the IESO Pension Plan into a larger or different plan, such as the OPB, that could potentially reduce the IESO's pension liability?

5.3 *Has the IESO adequately described the division of responsibilities between the IESO and Hydro One Networks Inc. with respect to Transmission Losses?*

Staff IR #22

Reference: Exhibit C, Tab 5, Schedule 1 Pgs. 3 of 5

Preamble:

In its application the IESO states:

After a preferred alternative has been selected, Hydro One (or the applicable transmitter) is responsible for the design, specification, and installation of equipment to implement the recommended solution. During the implementation, Hydro One considers the industry best practices such as: use of lower loss conductors and transformers, conductor bundling, insulator hardware systems to improve corona losses, and insulator assemblies and structure configurations to improve insulation losses, as noted in the EPRI report.

Questions:

- a) Does the IESO provide comments/feedback to Hydro One on the design, specification, and installation of equipment to implement recommended solutions to ensure transmission losses are minimized?
- b) Which organization (the IESO or Hydro One) has the final say on how a recommended solution is implemented?

6.0 Market Renewal Program

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

Staff IR #23

Reference: Exhibit A-2-1. Attachment 1 Pg. 1 of 6

Preamble:

In regard to the MRP Baseline Schedules the IESO states:

The IESO has established baseline schedules for the MRP in 2019. The schedule for the Energy work stream in 2019 is provided as **Attachment 1** and the schedule for the Capacity work stream in 2019 is provided as **Attachment 2**. These schedules provide a summary of the major pieces of work that will be undertaken during the 2019 timeframe. Underpinning these schedules are detailed activities carried out by individuals or groups on a monthly, weekly, or daily basis as applicable.

Questions:

- a) Why does the IESO consider that an annual update to Attachments 1 and 2 is sufficient in keeping the OEB abreast of the MRP budget and schedule? Given the level of expenditures and activity in the upcoming 2 years would quarterly reporting to OEB not provide an earlier indication of potential variances?
- b) How will the work activities in Attachments 1 and 2 that fall behind and over budget be flagged?

Staff IR #24

Reference: Exhibit A-2-1. Attachment 1 Pg. 2, 3 of 6

Preamble:

In regard to the Schedule Performance Index & Cost performance Index (SPI & CPI) the IESO states:

As described in the IESO's MRP Cost Report within its 2018 Revenue Requirement Submission (EB-2018-0143), the baseline schedules and budget form the foundation that will enable the IESO to begin tracking performance

measures such as SPI and CPI beginning January 1, 2019 for both MRP work streams.

And

For the MRP, the IESO will be calculating earned value at the work stream level. SPI and CPI will be calculated on a monthly basis for each of the Energy work stream and Capacity work stream to arrive at an annual SPI and CPI for each individual work stream and the overall MRP at the end of 2019.

Questions:

- a) Please provide SPI and CPI monthly values to April 9, 2019.
- b) What are the early indications for the project from both of these performance measures? Do the results meet with the IESO's expectations at this point in the project?

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?

Staff IR #25

Reference: Exhibit C-2-1, Pg. 10 of 15, Exhibit C-2-1, pg. 6 of 15

Preamble: The 2019 MRP budget of \$11.7 million identified in Table 7: 2019 MRP Operating Budget by Work Stream represents a decrease of 3.3 million of the IESO's 2018 Forecast provided in Table 2: MRP results for 2018.

Questions:

- a) Given the MRP activities are ramping up in 2019 and subsequent years why is the IESO seeking a decrease in its MRP operating budget for 2019?
- b) How much of the forecasted 2019 MRP operating budget of \$11.7 million does the IESO anticipate spending before the business case is finalized and approved?
- c) How many MRP staff will be hired before the business case is finalized and approved?
- d) If applicable, please explain why the IESO considers it reasonable to hire and spend prior to the finalization of the MRP's business case?

- e) For both Energy and Capacity work streams what types of activities are associated with the Professional & Consulting cost category?
- f) What types of operating budget activities are associated with the General work stream?

6.2 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?

Staff IR #26

Reference: Exhibit C-2-1, Page 11 of 15

Preamble:

Table 8: 2019 MRP Capital Budget by Work Stream

Questions:

- a) Please describe each of the capital work initiatives within the Energy and Capacity work streams that the IESO anticipates completing in 2019 and their respective contribution to the \$38 million capital cost budget.
- b) Is the IESO on track to complete all projects described in response to part a) of this question as of April 9, 2019?
- c) In 2019, MRP capital costs are forecast to increase from \$4 million to \$38 million. What are the major capital work stream initiatives anticipated by the IESO that will drive this budget increase?
- d) How much of the forecasted 2019 MRP capital budget of \$38.0 million does the IESO anticipate spending before the business case is finalized and approved?
- e) If applicable, please explain why the IESO considers it reasonable to expend the capital budget prior to the finalization of the MRP's business case.

Staff-27

Reference: Exhibit A-2-2, Pages 18-19 of 27

Preamble:

In the 2019-2021 business plan, the IESO states:

In 2019, market renewal costs will be predominantly classified as capital expenses, as the program plans to start the detailed designs related to the energy and capacity work streams. The capital budget for the program in 2019 is \$38.0 million. Operating expenses to support the program include the completion of high-level designs for the capacity work stream, work to enable participation in future markets, market rule amendments and program governance and administration. The operating budget for the program in 2019 is \$11.7 million.

Questions:

- a) Please confirm that the IESO has designated “detailed designs” as capital costs while “high-level designs” are designated as operating costs. If this is not the case, please provide a detailed explanation for how the Applicant determines what types of Market Renewal Program costs are forecast to be capitalized versus expensed.
- b) Please explain on what basis any capitalized costs for the Market Renewal Program are (or will be) amortized to the statement of operations (e.g. declining balance, straight-line, etc.).
- c) Please confirm that the capitalization and amortization policies identified in the responses to parts a) and b) above are in accordance with Public Sector Accounting Standards.
- d) Has the IESO discussed its proposed capitalization and/or amortization methodologies for the Market Renewal Program costs with its external auditors? If so, have the external auditors raised any concerns with the proposed accounting treatment of these costs? Please explain.
- e) During the audit of the 2018 financial statements, did the IESO amend its treatment of capitalized costs or amortization amounts with respect to the Market Renewal Program as a result of any recommendations from its external auditors? If so, does the current 2019 forecast of capital costs, operating costs, and amortization pertaining to the Market Renewal Program reflect those amendments?

All of which is respectfully submitted