



McCarthy Tétrault LLP
PO Box 48, Suite 5300
Toronto-Dominion Bank Tower
Toronto ON M5K 1E6
Canada
Tel: 416-362-1812
Fax: 416-868-0673

George Vegh
Direct Line: (416) 601-7709
Direct Fax: (416) 868-0673
Email: gvegh@mccarthy.ca

April 9, 2019

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, ON
M4P 1E4

Re: EB-2019-0002 – APPrO interrogatories

Dear Ms. Walli:

We are counsel to the Association of Power Producers of Ontario (“**APPrO**”). Pursuant to Procedural Order no. 1, please find enclosed APPrO’s interrogatories in this proceeding.

Yours Truly,

A handwritten signature in blue ink, appearing to read 'G. Vegh', with a stylized, cursive flourish at the end.

George Vegh

cc: David Butters, President & CEO, APPrO
Parties in EB-2019-0002

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 the Association of Power Producers of Ontario (“APPRO”)

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?

APPRO INTERROGATORY 1

Reference: Exhibit A-2-2 p 8

Preamble: Under the heading “Broadening the adequacy outlook” the Business Plan states “Our planning process will be focusing on transparently outlining different system needs” and further states “As part of our commitment to transparency, starting in 2019 the IESO will supplement existing planning publications with an annual planning outlook. Designed to broaden understanding of resource adequacy over a 20-year planning horizon, this document will outline system needs that help enable stakeholders to make informed decisions and investments.”

Questions: Please elaborate on the above. Specifically:

- a) How will the new annual planning outlook impact the IESO’s revenue requirement (will more resources be required)?
- b) How will the new annual planning outlook to be provided differ from what the IESO currently provides?
- c) Aside from the new annual planning outlook, how does and how will IESO planning process focus on transparently outlining different system needs?

APPRO INTERROGATORY 2

Reference: Exhibit A-2-2 p 10

Preamble: The IESO's Business Plan states at p 10, "finding efficiencies in the way we do business and delivering reliability at the lowest cost is an enterprise-wide priority"

Questions: Please provide examples (aside from the Market Renewal Program ("MRP")) of how in 2018 or 2019 the IESO has found efficiencies in the way it does business and delivers reliability at the lowest cost. Please explain how the revenue requirement for 2019 has been lowered by these examples.

APPRO INTERROGATORY 3

Reference: Exhibit A-2-2 p 15

Preamble: The IESO's Business Plan states at p 15:

The organization has successfully met the challenge of incorporating significant investments that are required to deliver on its mandate with long-term benefits for Ontario's energy sector, while efficiently managing the related cost pressures to continue to operate at the same level of funding since 2017.

Questions: The IESO's revenue requirement was raised in 2017 as a result of the MRP. Therefore, aside from MRP investments (for which there was an increase in revenue requirement), please provide examples of the significant investments made in 2018 and expected in 2019 that have been incorporated by the IESO while continuing to operate at the same level of funding.

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?

APPRO INTERROGATORY 4

Reference: Exhibit C-2-1 p 15 and Exhibit I, Tab 6.2, Sch 8.20 in EB-2018-0143

Preamble: Exhibit C-2-1 p 15 states that “Quantification of the project performance measures of Cost Performance Index (“CPI”) and Schedule Performance Index (“SPI”)” will be available in the 2020 Revenue Requirement Submission for 2019.

Question:

- a) Why are these performance measures not being reported upon for 2018 in this current proceeding, given that the IESO has these figures available as evidenced by the CPI and SPI numbers in the monthly cost reports and monthly schedule reports filed in last year’s proceeding under Exhibit I, Tab 6.2, Sch 8.20 in EB-2018-0143?

APPRO INTERROGATORY 5

Reference: Exhibit C-2-1 attachment 1 p 3-4

Preamble: Exhibit C-2-1 attachment 1 p 3-4 states that $SPI = \text{Earned Value} / \text{Planned Value}$ and $CPI = \text{Earned Value} / \text{Actual Cost}$

Questions: Please explain how the IESO defines Earned Value and Planned Value, with example calculations.

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?

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?

APPRO INTERROGATORY 6

Reference: Exhibit A-2-2 p 23

Preamble: Page 23 of the IESO Business Plan states that a “cost efficiency” risk is that “The Market Renewal Program is adversely affected by system dependencies, and/or a lack of resources with market design and implementation expertise”

Questions:

- a) What is the potential impact of this risk on operational and capital budgets, for 2019 and in the context of the scope and timing of the overall project?
- b) What is the potential impact of this risk on the operational and capital budgets related to the capacity work stream specifically, for 2019 and in the context of the scope and timing of the overall project?
- c) What is the IESO doing to address this risk in relation to operational and capital budgets, for 2019 and in the context of the scope and timing of the overall project?
- d) What is the IESO doing to address this risk in relation to operational and capital budgets related to the capacity work stream specifically, for 2019 and in the context of the scope and timing of the overall project?
- e) Exhibit I, Tab 6.2 Sch 8.20 Attachment 17 p 1 filed in last year's EB-2018-0143 proceeding refers to KPMG being onboard as a risk consultant and working jointly with the MRP and Enterprise risk teams, who are working on the refinement of existing IESO risk assessment framework which includes gap analysis between the Project Risk Framework (PRF) and Enterprise Risk Management (ERM) and identifying leading best practices to integrate with the PRF and ERM. Please provide all documents resulting from this process and relating to the MRP.

APPRO INTERROGATORY 7

Reference: Exhibit B-3-1 p 3 and Exhibit C-2-1 p 12-13

Preamble: The Application states at B-3-1 that operating results for the MRP were \$2.3 million above budget for 2018 while capital results were \$2.7 under budget for 2018 due to delayed completion of high level designs. The Application further states at Exhibit C-2-1 p 12 that "Additional resources were added to the program in order to complete HLD (high-level design) within the current schedule"

Questions:

- a) Please confirm that the \$2.7 million underspending on capital will still need to be spent in future years.
- b) Please confirm that the \$2.3 million overspending on operations was due to high level designs taking more time and work than anticipated.
- c) Please confirm that the \$2.3 million overspending on operations will result in a \$2.3 million overspending on the MRP overall (relative to previously estimated costs for the MRP).
- d) Please confirm that per Exhibit C-2-1 p 7 line 14, the full \$2.3 million overspending on operations for the MRP program in 2018 is \$2.3 million overspending on the capacity work stream.
- e) Why was so much more work required in relation to estimates for the capacity work stream?
- f) Is the capacity work stream and the incremental capacity auction more complicated than anticipated?
- g) Is overspending anticipated for the capacity work stream and the incremental capacity auction in 2019?
- h) Exhibit I, Tab 6.2 Sch 8.20 Attachment 17 p 1 filed in last year's proceeding refers to delays in re-procuring a consultant to support the incremental capacity auction project. Please elaborate on this challenge and indicate whether it has been resolved. Please also confirm that this challenge did not result in additional costs.
- i) Has the IESO conducted a review of its responsibility for the inefficiencies in the operation of the current market so that it can ensure that it does not repeat the problems that led to the need to expend hundreds of millions of dollars to fix the inefficiencies in the market?

APPRO INTERROGATORY 8

Reference: Exhibit A-2-2 p 8 and Exhibit C-2-1 p 3

Preamble: Exhibit C-2-1 p 3 describes the Incremental Capacity Auction (“ICA”) work stream and states at lines 11-13 that the ICA initiative will develop an enduring market-based mechanism that will secure incremental capacity to help ensure Ontario’s reliability needs are met cost effectively. Exhibit A-2-2 p 8 states as follows (emphasis added):

With new capacity expected to be required as early as 2023, the introduction of an incremental capacity auction – a key part of the work currently being undertaken by the IESO’s Market Renewal Program – will be core to meeting future needs. When the market is redesigned, improved price signals will provide a clearer picture of what and where services are needed, and help drive decisions that ensure reliability.

Questions: Please elaborate on the timing of the incremental capacity auction and the ICA work stream. Specifically:

- a) If the incremental capacity auction is a key part of meeting future needs including new 2023 capacity, how will the incremental capacity auction be undertaken in time given that MRP work is not scheduled to be completed until 2022 the earliest, and has already been delayed?
- b) How does the IESO currently determine what and where services are needed?
- c) Why has the IESO failed to-date to present a clearer picture of what and where services are needed?
- d) How does the proposed incremental capacity market provide a clearer picture of what and where services are needed than the status quo?
- e) What steps has the IESO taken to ensure that it will not continue to procure resources that it does not require?
- f) How will the capacity market solve the problem described in question e) above?
- g) How do the costs of a capacity market procurement compare to the costs of an RFP for resources?

APPRO INTERROGATORY 9

Reference: Exhibit C-2-1 p 2-3

Preamble: Pages 2 and 3 of Exhibit C-2-1 describe the four MRP initiatives which are grouped into two work streams, energy and capacity.

Questions: Please elaborate on the relationship between the energy and capacity work streams. Specifically:

- a) Is it necessary, in 2019 and/or in the context of the scope and timing of the overall project, for the IESO to move forward with the capacity work stream at the same time as the energy work stream, as currently planned?
- b) Is it cost efficient, in 2019 and/or in the context of the scope and timing of the overall project, for the IESO to move forward with the capacity work stream at the same time as the energy work stream, as currently planned?

APPRO INTERROGATORY 10

Reference: Exhibit C-2-1 p 3 and Exhibit C-2-1 p 14

Preamble: Exhibit C-2-1 p 14 states that the Brattle Group report provided a benefit-cost analysis of the MRP in 2017. Exhibit C-2-1 p 3 describes the ICA work stream and states that the ICA initiative will develop an enduring market-based mechanism that will secure incremental capacity to help ensure Ontario's reliability needs are met cost effectively.

Questions:

- a) Did the Brattle Group report provide analysis of the costs to the IESO if the IESO pursued another option (i.e., aside from the ICA) to obtain capacity in 2023? If so, please provide.
- b) If no, how can the IESO know that pursuing the ICA in 2019 (and beyond) is the most cost-effective/appropriate manner to secure capacity needed for 2023?

APPRO INTERROGATORY 11

Reference: Exhibit C-2-1 p 14

Preamble: Exhibit C-2-1 p 14 states that “the IESO will be better able to discuss the MRP’s actual and projected cost savings, annually and cumulatively, by work stream” “with the development of the business case” expected to be completed Q4 2019. The IESO will also require “approval by the IESO Board of Directors” of the business case.

Questions:

- a) How can the OEB be confident that the quarter of the IESO’s proposed revenue requirement which is allocated to the MRP for 2019 is appropriate if the IESO cannot currently discuss the actual and project cost savings anticipated as a result of its current spending on the MRP?
- b) Can the IESO complete the business case prior to the completion of the HLD process?
- c) Please advise as to steps that the IESO can take in order to complete the business case sooner than Q4 2019.
- d) What is the amount of resources that the IESO has committed to investment in Market Renewal to-date despite the lack of a business case?
- e) Does the IESO expect that its Board of Directors will approve the business case?
- f) If the IESO’s Board of Directors does not approve the business case, what will be the next steps for the IESO?
- g) Is the IESO using a consultant to help prepare the business case?
- h) Please provide the terms of reference for the consultant.
- i) Exhibit I, Tab 6.2 Sch 8.23 SEC 23 filed in EB-2018-0143 lists the Brattle Group as consultant for various tasks in 2018. Is the Brattle Group is assisting the IESO in the development of the business case to be completed this year?
- j) If the answer to the above interrogatory is yes, wouldn’t it be preferable from an accuracy and risk perspective to use another consultant for the 2019 business case in order to ensure any oversights in the 2017 cost benefit analysis are corrected by a new set of eyes and perspective on MRP benefits and costs?
- k) How will the IESO engage with stakeholders regarding the 2019 business case?

APPRO INTERROGATORY 12

Reference: Exhibit A-2-2 p 17 and Exhibit C-2-1 p 12-14

Preamble: The IESO business plan states that total average FTEs for the IESO are expected to increase in 2019-2022 due to temporary resourcing required to support the MRP.

Exhibit C-2-1 p 13 states that in 2019, the MRP is continuing its staffing efforts.

Exhibit C-2-1 p 14 states that the Brattle Group report provided a benefit-cost analysis of the MRP in 2017.

Questions:

- a) Please comment on how the IESO's goals of efficient operation are affected by the hiring of temporary staff for the MRP. Please address this question taking into account the complexity of the MRP and the fact that it is intended to address problems in the IESO's market which have been known since market opening (i.e., temporary staff will presumably be significantly less familiar with problems that have been known since market opening as compared to the IESO's non-temporary staff).
- b) Please explain what is meant by the MRP continuing its staffing efforts. The IESO has referred to staffing challenges, please elaborate.
- c) How does the IESO ensure that temporary staff is efficient?
- d) Please provide the amount by which revenue requirement for 2019 is increased due to the need to train temporary staff.
- e) Please confirm that according to table 10 at C-2-1 p 13, the IESO had to hire 24 more people than anticipated/budgeted for in 2018.
- f) If the above is confirmed, please provide the impact to revenue requirement for 2019 of hiring 24 additional staff members.
- g) Please advise as to whether Brattle group estimates in 2017 included the level of staffing for the MRP which the IESO proposes for 2019.
- h) In light of staffing challenges and overspending on the capacity work stream in particular, would it be more efficient to focus the IESO's MRP resources in 2019 (and beyond) by focusing on only one of the two proposed workstreams – for example, focusing only on the energy work stream in the near future and address capacity needs in 2023 by another process?

APPRO INTERROGATORY 13

Reference: Exhibit C-2-1 p 2-3 and Exhibit I, Tab 6.2 Sch 8.20 Attachment 1 in EB-2018-0143

Preamble: Exhibit C-2-1 describes MRP costs and Exhibit I, Tab 6.2 Sch 8.20 Attachment 1 p 12-13 in EB-2018-0143 includes a figure which includes “corporate governance” as a “strategic, MRP-related project”.

Exhibit I, Tab 6.2 Sch 8.20 Attachment 1 in EB-2018-0143 also states at p 13 that the IESO has made specific organizational changes to enable the effective management of the MRP while continuing to deliver business as usual activities.

Questions:

- a) Please elaborate on the “corporate governance strategic MRP related project” and its relationship with the costs of (and resulting revenue requirement associated with) the MRP in 2019 and in the context of the scope and timing of the overall project.
- b) Please provide examples of the specific organizational changes made to enable the effective management of the MRP while continuing to deliver business as usual activities and how these affect the IESO's revenue requirement for 2019.

APPRO INTERROGATORY 14

Please provide a copy of all material provided to the Board of Directors and Senior Management regarding Market Renewal work plans, approvals, budget and updates that was not previously provided in EB-2018-0143.