

VECC INTERROGATORY 8

4.0 The Deferral and Variance Account

INTERROGATORY

4.1 Reference: B-1-1/pg.7

a) IESO explains it is seeking to increase its reserve fund from \$6 million to \$10 million
“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”

Please elaborate on what “volatility” and changes in the “external environment” are
contemplated by this statement.

b) When has IESO last been required to use its reserve fund?

c) What is the financial risk to IESO in the event it cannot access a reserve fund?
Specifically, in the case of a shortfall what plans/options has IESO made for access to
short term financing from commercial sources?

RESPONSE

a) The increase in the operating reserve from \$6 million to \$10 million is as a result of increased
capital requirements and project complexities that relate to IESO’s key risks as well as
significant efforts pertaining to market renewal, transmission capacity auction and
settlements replacement.

b) The IESO last used its operating reserve in 2017 to offset the historical increase in pension
and OPEB expenses as a result of discount rate change recommended by the Auditor
General. The historical restatement of the pension and OPEB expenses resulted in an
additional \$13.4 million in expenses and an operating reserve deficit of \$4.7 million (after
applying the 2017 and 2018 rebate amounts).

c) In the case when the IESO cannot access its reserve fund, the IESO has the option to access
the line of credit provided by the Ontario Electricity Financial Corporation as outlined in
Note 7 Debt of the 2018 Annual Report at Exhibit A-3-1, page 27.

1 In circumstances where the IESO's operating reserve is insufficient to cover the cost of
2 materialized risks, the FVDA account will be in a deficit balance and the IESO will seek to
3 recover the reserve shortfall in the next revenue requirement submission. This circumstance
4 would result in rate volatility for the IESO; or, additional pressure on operating costs to
5 deliver its mandate.

VECC INTERROGATORY 9

4.0 The Deferral and Variance Account

INTERROGATORY

4.2 References: B-2-1, pg. 1

a) Please provide the year-end balance in the FVDA for the 2015 through 2018.

RESPONSE

a) Please see the response to OEB Staff Interrogatory 18 a), at Exhibit I, Tab 4.1, Schedule 1.18.

OEB STAFF INTERROGATORY 18

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

INTERROGATORY

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.

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

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.
- 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.

RESPONSE

- a) Please find below 2015 to 2018 FVDA statements.

FVDA (In \$ millions)	2015	2016	2017	2018
Beginning Balance	7.6	10.0	10.0	6.0
In year surplus/(deficit)	12.0	12.6	1.4	1.3
OEB decision and order - reduce operating reserve	-	-	(4.0)	-
Rebates to Market Participants	(9.6)	(12.6)	-	-
Impact of accounting policy change (discount rate)	-	-	-	(13.4)
2017 surplus allocated to 2018 operating reserve deficit	-	-	(1.4)	1.4
Ending balance	10.0	10.0	6.0	(4.7)

*Note: The FVDA values were provided back to 2015 the IESO’s first year as the merged entity.

In 2018, the IESO updated its accounting policy for the discount rate used to value the IESO's supplemental employee retirement and other postemployment benefit plans' liabilities. The retroactive application of this accounting change resulted in \$13.4 million in additional expenses realized within the FVDA in 2018. These expenses were funded

1 in part by the \$6.0 million operating reserve, the 2017 surplus of \$1.4 million and the
2 2018 surplus of \$1.3 million and resulted in a \$4.7 million deficit in the FVDA.

3 The \$4.7 million deficit in the FVDA is currently being funded by the IESO's line of
4 credit provided by the Ontario Electricity Financial Corporation as outlined in Note 7
5 Debt of the 2018 Annual Report in Exhibit A-3-1, page 27.

- 6 b) The primary objective of maintaining an operating reserve is to fund operations in the
7 event of revenue shortfalls or unanticipated expenditures and to minimize rate
8 fluctuations to rate payers as a result of these events.

9 In 2018, the accounting change to the discount rate used to value the IESO's
10 supplemental employee retirement and other postemployment benefit plans' liabilities
11 resulted in an unanticipated expense of \$13.4 million – which was partially funded by
12 the operating reserve.

- 13 c) The IESO is projecting to deliver its 2019 priorities within its approved budget, which
14 would result in the same deficit FVDA balance as reported for 2018 (\$4.7 million). The
15 IESO is not proposing to increase its revenue requirement for fiscal 2019 to recover its
16 current FVDA deficit position. The IESO plans to address the deficit-funding gap in
17 future rate filings with the OEB. The IESO is in the process of developing a strategy to
18 address the deficit-funding gap, which arose as a result of the change in accounting
19 policy.

ENERGY PROBE INTERROGATORY 12

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?

INTERROGATORY

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

- o Rebated surplus (amounts) and

- o 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?

RESPONSE

a) Please see the response to OEB Staff Interrogatory 18 a), at Exhibit I, Tab 4.1, Schedule 1.18.

- b) As the 2018 FVDA ending balance is in a deficit position, there is no rebate anticipated to market participants.
- c) Please see the response to OEB Staff Interrogatory 18 a). The IESO last used its operating reserve in 2017 to offset the historical increase in pension and OPEB expenses as a result of discount rate change recommended by the Auditor General. The historical restatement of the pension and OPEB expenses resulted in an additional \$13.4 million in expenses and an operating reserve deficit of \$4.7 million (after applying the 2017 & 2018 rebate amounts).

Operating Reserve – Opening Balance (surplus)	\$6.0 million
Less: Historical restatement of the pension and OPEB expenses	(\$13.4 million)
Operating Reserve – Subtotal (deficit)	(\$7.4 million)
Add: Unrebated 2017 surplus	\$1.4 million
Add: Unrebated 2018 surplus	\$1.3 million
Operating Reserve – Closing Balance (deficit)	(\$4.7 million)

- d) No accounting opinion was sought as 2018 financial results were in a deficit position, not a surplus.

ENERGY PROBE INTERROGATORY 13

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?

INTERROGATORY

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

RESPONSE

a) Please see the response to OEB Staff Interrogatory 18 a), at Exhibit I, Tab 4.1, Schedule 1.18.

b) The IESO's 2016 (EB-2015-0275), 2017 (EB-2017-0150) and 2018 (EB-2018-0143) Revenue Requirement Submissions were approved by the OEB through decisions dated December 29, 2016, December 14, 2017 and October 25, 2018, respectively. Please see the response to OEB Staff Interrogatory 18 a).

SEC INTERROGATORY 12

1.1-SEC-12

INTERROGATORY

[Ex.B-1-1, p.7] With respect to the proposed \$10 operating reserve, please provide a table showing for each year the Board has approved an operative reserve for the IESO (or its processors), a) the approved amount, b) the amount used and c) the total approved revenue requirement.

RESPONSE

Please find below a table showing for each year, starting in 2010, a) the approved operating reserve amount, b) the amount used and c) the total approved revenue requirement.

IESO OPA (\$'000)	EB-2009-0377 EB-2009-0347	EB-2010-0046 EB-2010-0279			EB-2013-0381 EB-2013-0326		EB-2015-0275	EB-2017-0150	EB-2018-0143
	Board Approved 2010	Board Approved 2011	No Application 2012*	No Application 2013*	Board Approved 2014	No application 2015*	Board Approved 2016**	Board Approved 2017***	Board Approved 2018
Approved Operating Reserve - IESO	10,000	10,000	10,000	10,000	10,000				
Approved Operating Reserve - OPA	10,000	10,000	10,000	10,000	10,000				
Approved Operating Reserve (Combined entity)	20,000	20,000	20,000	20,000	20,000	10,000	10,000	6,000	6,000
Amount used	-	-	-	-	-	-	-	12,027	-
Approved revenue requirement - IESO	122.8	126.1	No OEB approved Revenue Requirement		129.1	No OEB approved Revenue Requirement			
Approved revenue requirement - OPA	76.0	79.9			60.3				
Total approved revenue requirement (Combined Entity)	198.8	205.9	N/A	N/A	189.4	N/A	182.1	190.8	190.8

*complete applications were not filed as the Minister did not approve the Business Plan(s)

** Board Decision December 29, 2016 approved \$1.1636/MWh for domestic and \$0.9603 MW/h for export customers effective January 1, 2017.

*** Board Decision December 14, 2017 approved IESO usage fees of \$1.2187/MWh for domestic customers (including embedded generation) and \$0.9872/MWh for export customers to be paid commencing January 1, 2017.

AMPCO INTERROGATORY 19

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?

AMPCO-19

INTERROGATORY

Ref: B-1-1 Page 7

Preamble: The IESO indicates 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.

Please explain further the potential volatility in spending and how it is driven by changes in the volume of activities and the external environment.

RESPONSE

Please see the response to OEB Staff Interrogatory 18 b), at Exhibit I, Tab 4.1, Schedule 1.18.

