

May 17, 2019



VIA Email, Courier and RESS

Independent Electricity System Operator

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Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
27th Floor 2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Independent Electricity System Operator
2019 Expenditure and Revenue Requirement Submission
Written Submission to the Motion of School Energy Coalition, and
Request of the Association of Power Producers of Ontario
Ontario Energy Board File No.: EB-2019-0002**

On May 6, 2019, School Energy Coalition (SEC), filed a motion with the Ontario Energy Board (OEB) seeking an order requiring the Independent Electricity System Operator (IESO) to provide full and adequate responses to two SEC interrogatories¹ (SEC Motion). On May 8, 2019, the OEB issued Procedural Order No. 2 which asked that the IESO file any written submissions in response to the motion by May 13, 2019.

On May 10, 2019 the Association of Power Producers of Ontario (APPrO) filed a letter supporting the SEC Motion, and asked that four of the IESO's responses to its interrogatories² be included within the SEC Motion. On May 13, 2019, the OEB issued Procedural Order No. 3 which noted that APPrO's request was not framed as a motion, as required by Rule 27.03 of the OEB's *Rules of Practice and Procedure* (OEB's Rules), but in the interest of administrative efficiency, extended the time for the IESO to respond to the SEC Motion and APPrO's request. The IESO has responded to SEC and APPrO separately below.

SEC Motion

At all times, the IESO endeavours to provide a full and adequate response to each interrogatory of its 2019 Revenue Requirement Submission as per Rule 27.01(a) of the OEB's Rules.

The SEC Motion requested full and adequate responses to SEC Interrogatories 11 and 21, which requested business case, project plan or similar documents with respect to the IESO's core capital

¹ SEC Interrogatories 11 and 21

² APPrO Interrogatories 6, 6e), 7i), and 11e)

budget projects³, and a detailed MRP capital breakdown, along with, for each material component of the MRP capital a copy of a business case, project plan or similar documents⁴.

To respond to the SEC Motion, the cover letter⁵ filed along with interrogatory responses provides relevant context:

The IESO notes that some interrogatories have raised issues which the IESO believes to be beyond the scope of this proceeding. The IESO has, in these cases, provided responses in an effort to be of assistance to the parties. The fact that the IESO has provided an answer to these interrogatories should not be taken as any indication that the IESO considers these areas of enquiry to be appropriate for the revenue requirement proceeding.

When intervenors request documentation that is overly broad, based on a materiality threshold⁶ which has no relevance to the IESO's business model, the IESO provides a response to be of assistance at the level of detail required for the OEB to assess the IESO's revenue requirement within the consideration of the OEB approved Issues List.

The IESO notes that the issue of materiality was addressed in the development of the issues list. In its Decision on the Issues List the OEB deemed the MRP a significant project and expanded the issues on the MRP. The IESO did not oppose additional issues related to the MRP. No similar identification was made for any other individual core capital project, all of which were available to intervenors and the OEB.

The IESO understands that in some cases rate-regulated entities provide business cases or project plans as evidence before the OEB. However, the IESO is an entity with a distinctly different role and business model than rate regulated entities in the energy market, and a unique approval process with the Minister of Energy, Northern Development and Mines, and the OEB.

SEC's generalization that such documentation is routinely requested and provided in other proceedings and should therefore as a matter of course be supplied in this proceeding fails to acknowledge the distinct business context of the IESO and its disclosure requirements. Under section 25(1) of *The Electricity Act, 1998*, the IESO is required to seek approval of its business plan, including capital expenditure details, on an annual basis with the Minister, prior to the review of its annual revenue requirement with the OEB.

The IESO submits that general practice for rate regulated electricity distributors is not, in of itself, reason for the IESO to provide the requested documentation. The materiality threshold defined by SEC has no basis of relevance for the IESO. SEC has applied a materiality threshold established for Electricity Distributor Rate Applications, entities which conduct business with a vastly different business model than the IESO.

³ SEC Interrogatory 11

⁴ SEC Interrogatory 21

⁵ IESO 2019 Revenue Requirement Submission Cover Letter, April 30, 2019

⁶ SEC used a materiality threshold of \$954,000 based on the Filing Requirements for Electricity Distributor Rate Applications within SEC Interrogatories 11 and 21

In the SEC Motion, SEC has acknowledged that there are no filing requirements that define the materiality threshold for the IESO⁷.

The IESO's submission to the SEC Motion with respect to the specific interrogatories is below.

SEC Interrogatory 11 - Core Operations Capital Budget

The IESO supports the provision of information that assists with the understanding of evidence within the Issues List and the IESO is of the view that the level of detail provided in the IESO's application is substantial in relation to capital expenditures and for the purpose of seeking the OEB's approval of a capital envelope⁸. The IESO notes that the information provided in this proceeding regarding the IESO's capital projects is consistent with the details that have been examined in previously approved IESO revenue requirement submissions.

The IESO's 2019 submission seeks approval for its proposed 2019 capital expenditure envelope under Issue 1.4 from the Issues List. Interrogatories are intended to clarify filed evidence, simplify the issues, allow for a full understanding of the issues, or expedite the proceeding⁹. The broad nature of the request by SEC in SEC Interrogatory 11, based on a materiality threshold with no basis, raises difficulty for the IESO to be responsive. However, the IESO endeavoured to clarify the evidence according to the OEB's Rules, past years' revenue requirement proceedings and the most current information available.

In the SEC Motion, SEC states that the information provided in response to SEC Interrogatory 11 is insufficient to understand what the projects are, if they are needed and if the costs are reasonable¹⁰. SEC also stated that the requested material is necessary "to understand what the project is, why it is being undertaken, and other relevant information."¹¹

The detailed capital projects table provided in the response to AMPCO Interrogatory 18, provides actual costs against 2017 and 2018 budget, variance from 2018's budget, and a status update on each capital project's current progress as of 2019, as well as project budget forecasts for future years. The IESO's approved 2019-2021 Business Plan, provides a breakdown of the IESO's capital projects through a summary financial table of the budgets from 2019-2021 and project details that describe each individual capital project. The IESO submits that this information and the information provided in Exhibit B-2-1 along with the response to other interrogatories (for example the response to SEC Interrogatory 1 provides expanded details on each individual core capital project) provides sufficient information to understand what the projects are, why they are being undertaken and if costs are reasonable.

⁷ SEC Motion

⁸ Responses to Interrogatories that provide detail on capital expenditures include: AMPCO Interrogatory 18; BOMA Interrogatories 6, 8 and 17; OEB Staff Interrogatories 1, 17 a), 26 and 27; Energy Probe Interrogatories 9, 10 and 19; SEC Interrogatory 1; and VECC Interrogatory 4

⁹ Rule 26.01, OEB's Rules

¹⁰ SEC Motion

¹¹ Ibid

Change initiatives/capital projects are included in the IESO's total capital envelope with commitments approved individually on an ongoing basis. These projects often span multiple years, many of which, as noted in the table, have begun prior to 2019. Business cases have the most relevancy and validity in the context of the point in time in which they are created and projects are initiated. As business operations continue, priorities change and operational decision making evolves. The IESO submits that the information provided in response to SEC Interrogatory 11, provides the most current and relevant information to assess its total capital project expenditure in 2019.

SEC also states that "Without the information, the intervenors and the Board cannot assess the proposed capital expenditures of the IESO."¹² The IESO disagrees with this framing which implies the OEB is assessing individual capital expenditures. The issue under consideration is the approved Issue 1.4, the IESO's total capital expenditure envelope, and not smaller individual capital project expenditures.

The IESO works within the approved capital expenditure envelope and prioritizes core capital projects to support its evolving needs and to sustain the current capabilities of the business. The IESO has provided information on its project prioritization process through its submission and in response to interrogatories¹³. Tracking of the IESO's capital projects is available through updated information in the IESO's Business Plan and annual Revenue Requirement Submission. The IESO disputes the notion that the lack of business cases for capital projects renders parties unable to assess the proposed total 2019 capital expenditure of the IESO.

Given the IESO's annual reporting of multi-year capital projects and the process through which the IESO prioritizes projects within an approved capital envelope, the IESO submits that the requested documentation would have limited relevance in assessing the appropriateness of the IESO's 2019 total capital envelope. The IESO also submits that the more current and relevant information provided in AMPCO Interrogatory 18 provides a full and adequate response to SEC Interrogatory 11.

SEC Interrogatory 21 - MRP Capital

SEC requested further detail to SEC Interrogatory 21, which asked for a detailed breakdown of the \$38 million of proposed MRP capital budget as well as for each material component of the budget, a copy of the business case, project plan, or similar document.

The IESO has acknowledged the material nature of the MRP and consistent with past Revenue Requirement Submissions provided significant information on activities in the MRP Cost Report as part of the application. The IESO submits that the MRP Cost Report is a document that is similar in nature to a project plan.

In the interest of a timely resolution to this delay in the proceeding, the IESO has provided an updated response to SEC Interrogatory 21 including a more detailed breakdown of the MRP

¹² SEC Motion

¹³ Exhibit B-2-1 page 3 and the response to CME Interrogatory 3

budget (including the \$38 million of capital) as Attachment 1. For the MRP that includes two material components – Energy and Capacity.

The IESO interprets a business case to be the stated justification for a proposed project or undertaking on the basis of its expected commercial benefit. The IESO submits that while it is appropriate to request a business case for a project on the scale of the MRP, the MRP capital envelope is not a project within itself, it is the capitalized portion of the MRP project budget. The IESO is currently developing an MRP business case which takes into account the high level design work, and plans to complete the business case in Q3 2019, and provide to stakeholders by the end of Q4 2019. The IESO is hosting a stakeholder engagement meeting on the development of the MRP Business Case. This is the forum for interested parties to express their views on the Business Case¹⁴. At this time, the relevant business case in response to SEC Interrogatory 21 is the MRP Benefits Case.

The Benefits Case prepared by The Brattle Group, was completed in April 2017 and is available on the IESO's website¹⁵. The Benefits Case established the merits of pursuing the MRP and was the basis for approving historical expenditures on MRP.

The material components of the MRP capital budget have also been outlined in response to other interrogatories (for example, SEC Interrogatory 22 provides a breakdown of all capitalized MRP professional & consulting costs¹⁶), within the MRP Cost Report filed as Exhibit C-2-1 and will be further refined in the IESO's MRP Business Case. The IESO submits that the breakdown provided in Attachment 1 includes sufficient detail to assess the total 2019 capital envelope prior to the MRP Business Case's arrival and is a full and adequate response to SEC Interrogatory 21. Accordingly, the IESO has updated its response to SEC Interrogatory 21, provided as Attachment 1 to this letter.

APPrO Request

In its letter, APPrO stated that the IESO took an unresponsive approach to answering four APPrO interrogatories¹⁷ under Rule 27.02 of the OEB's Rules. The IESO disagrees with the characterization of its responses. The IESO submits that it provided full and adequate responses to APPrO's interrogatories. The IESO's response to APPrO's submission with respect to the specific interrogatories is below:

APPrO Interrogatory 6

The preamble to APPrO's interrogatory makes the following reference to the IESO's 2019-2021 Business Plan: Page 23 of the IESO Business Plan states that a "cost efficiency" risk is that "The

¹⁴ <http://www.ieso.ca/Market-Renewal/Stakeholder-Engagements/Update-Meetings>

¹⁵ <http://www.ieso.ca/-/media/Files/IESO/Document-Library/engage/me/Benefits-Case-Assessment-Market-Renewal-Project-Clean-20170420.pdf>

¹⁶ SEC Interrogatory 22

¹⁷ APPrO Interrogatories 6, 6e), 7i) and 11e)

Market Renewal Program is adversely affected by system dependencies, and/or a lack of resources with market design and implementation expertise.”

APPrO stated that the IESO’s response did not address the system dependencies aspect of the risk¹⁸. The IESO notes that cost efficiency is not a risk, but a strategic focus area, where the IESO focuses on the best cost resource acquisition to efficiently manage IESO-administered markets in an evolving sector¹⁹. The IESO further notes that each individual sub-part question in APPrO Interrogatory 6 made no reference to "system dependencies". By asking the IESO to address "system dependencies" specifically, APPrO is in effect restating its interrogatory. Nevertheless, the IESO submits that it provided a full and adequate response referring to OEB Staff Interrogatory 12 which addresses system dependency within the context of the cost efficiency focus area. The IESO defines system dependencies as a risk that the resource requirements and interdependencies across the organization have not been adequately accounted for in planning of projects, initiatives and operational activities²⁰. In this context, system dependency relates to the MRP’s requirement for support and expertise from across the organization, and that the program may be adversely affected as a result of competing priorities and scarcity of qualified resources within the IESO. The resource constraints outlined in OEB Staff Interrogatory 12 address the system dependencies for the MRP within the IESO, and further, outline the IESO’s contingency plans.

APPrO Interrogatory 6 e)

APPrO Interrogatory 6 e) asks that the IESO provide all documentation relating to the MRP, resulting from the process the IESO has undertaken with KPMG working jointly with the IESO’s MRP and Enterprise risk teams regarding the IESO’s risk assessment framework.

The IESO’s enterprise risk management framework is in place to identify, assess and manage risks that the IESO faces in achieving the organization’s strategic objectives. The IESO annually assesses risks to the business and has identified seven key risks²¹ that could impact the achievement of its 2019 strategic objectives. Broad based input from the IESO’s Executive Leadership Team and senior management representatives from each of the organization’s business units, leveraged for their subject matter expertise, is used to support the effective identification of risks and mitigation plans. The identified key risks are the relevant risks when considering the appropriateness of the IESO’s budget to achieve the organization’s strategic objectives. The IESO discusses the key risk that relates specifically to MRP in OEB Staff Interrogatory 12.

¹⁸ APPrO Letter Supporting the SEC Motion, May 10, 2019

¹⁹ IESO 2019-2021 Business Plan, Appendix 1: CPM – 2019 Measures and Targets

²⁰ AMPCO Interrogatory 24

²¹ IESO 2019-2021 Business Plan, Appendix 2: Key Risks

In its response, the IESO provided the relevant recommendation related to the key risk from the IESO's 2019-2021 Business Plan that makes specific reference to MRP, along with the IESO's management response. The recommendation and related key risk deal with the challenge of managing competing and conflicting resourcing priorities. The IESO's approach to addressing this challenge is explained in the management response and in the IESO's response to APPrO Interrogatory 6 above.

The IESO provided the key systemic risk recommendation and management response to be helpful in answering interrogatories, however examination of the inner workings of a process resulting from the work done with KPMG, the IESO submits, is out of scope of Issue 6.2 and Issue 6.3 which examines whether the MRP's 2019 Operational and Capital budgets are appropriate.

As noted above in the response to the SEC Motion, the IESO responds to interrogatories with the required level of detail within the scope of the proceeding and to assist the OEB in its review and assessment of the IESO's revenue requirement submission. The cover letter to the IESO's interrogatories responses²² notes that the IESO responded to some interrogatories which it believes to be out of scope in this proceeding in an effort to be of assistance to the parties. The fact that the IESO has provided an answer to these interrogatories should not be taken as any indication that the IESO considers these areas of enquiry to be appropriate for the revenue requirement proceeding.

APPrO Interrogatory 7 i)

APPrO Interrogatory 7 i) asked if the IESO has 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.

The IESO submits that it attempted to answer to the best of its ability by referencing OEB Staff Interrogatory 25 d), which speaks to the reports that document benefits and reduction in market inefficiencies expected from MRP. OEB Staff Interrogatory 25 makes reference to reports by the Market Surveillance Panel, the Auditor General and the Market Reform study that provided both quantitative and qualitative analyses of the benefits from addressing inefficiencies through the different elements of MRP. As well, The Benefits Case outlined the quantifiable impacts of the MRP's work streams that would yield expected gross efficiency benefits of hundreds of millions of dollars per year, which are projected to continue to increase and accrue in subsequent years. The IESO is of the view that assigning blame with regard to specific inefficiencies in the market is not helpful to this proceeding and does not assist in the review of the MRP's 2019 capital and operational budgets under Issues 6.2 and 6.3.

²² IESO 2019 Revenue Requirement Submission Cover Letter, April 30, 2019

APPrO Interrogatory 11 d)

The IESO submits that it was responsive to APPrO Interrogatory 11 d) and interpreted the “amount of resources” committed to MRP to be referencing staff time committed to the MRP. The IESO also provided a response despite the misleading premise that no business case was completed.

While the IESO is unclear on the intent of the question, if APPrO’s interrogatory requests the total dollar investment in MRP up to this point, the IESO submits that this information is readily available within Table 9 of the MRP Cost Report filed as Exhibit C-2-1 and the IESO’s responses to interrogatories. Table 9 outlines a 2017 total MRP spend of \$8.1 million and a 2018 total of \$16.3 million. The current total MRP spend in 2019 is 4.8 million as of March 31, 2019²³.

However, the question is formed on the basis that there is a lack of a business case for MRP. The IESO submits that the question ignores The Benefits Case which as noted above was competed in April 2017 and was the basis for committing resources to MRP. Much like a business case, The Benefits Case undertook a cost benefit analysis prior to the initiation of the program. As The Benefits Case concluded that the benefits of MRP will greatly outweigh the costs, the IESO decided to proceed with MRP.

The IESO is of the view that the responses or any defects that APPrO finds with the IESO’s answers are not material and do not merit a further delay in the proceeding.

Please contact me directly at 905-855-6340 or Devon.Huber@ieso.ca if you have any questions or wish to discuss these points further.

Sincerely,



Devon Huber
Senior Manager, Regulatory Affairs

cc: Mr. Fred Cass, Aird & Berlis (email)
Intervenors to EB-2019-0002 (email)

²³ Energy Probe Interrogatory 19