

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.

**ARGUMENT IN CHIEF
OF THE INDEPENDENT ELECTRICITY
SYSTEM OPERATOR**

1. Introduction

1. The Independent Electricity System Operator (IESO) filed its Submission for Review (Submission) of its proposed 2019 expenditure and revenue requirements and fees with the Ontario Energy Board (OEB or Board) on January 28, 2019. Interim fees have been in effect since January 1, 2019 in accordance with the Board's Decision on Interim Fees (EB-2018-0143) issued on December 18, 2018.

2. The Submission was filed under subsection 25(1) of the *Electricity Act, 1998*, which provides that the IESO shall submit its proposed expenditure and revenue requirements for the fiscal year, and the fees it proposes to charge during the fiscal year, to the Board for review. Pursuant to subsection 25(4), the Board may approve the proposed expenditure and revenue requirements and the proposed fees, or may refer them back to the IESO for further consideration with the Board's recommendations.

3. On March 28, 2019, the IESO filed an update to its evidence (March Update) that reflected its 2018 audited financial results.¹ Among other things the March Update explained a change in accounting policy that resulted in a restatement of expenses for

¹ Exhibit A-3-1; Exhibit B-3-1 and attachments 2, 3, and 4

certain employee benefit plans, namely, the supplemental employee retirement (SERP) and other post-employment benefit (OPEB) plans.²

4. Following a process of written interrogatories and responses, the Board issued a Decision on Motion and Procedural Order No. 4 dated May 31, 2019 (Decision and PO#4) in which it indicated that more information was required for two of the IESO's capital projects, the Market Renewal Program (MRP) and the CRS Replacement & Migration project (CRS Project). Decision and PO#4 specified information required in respect of each of these two projects and the IESO filed the required information on June 14, 2019 (June Filing).

5. A settlement conference was held on July 17 and 18, 2019. The Settlement Proposal arising out of the settlement conference was accepted by the Board in its Decision on Settlement Proposal and Procedural Order No. 6 dated August 9, 2019 (PO#6).

6. PO#6 noted the request of the IESO to file updated evidence regarding changes to the MRP and it provided for the filing of this updated evidence, together with a process of written interrogatories on the updated evidence. The IESO filed the updated evidence (August Update) and a Revised Submission for Review on August 26, 2019 and responses to interrogatories on the August Update were filed on September 25, 2019.

7. On September 30, 2019, the Board issued Procedural Order No. 7 (PO#7), in which it indicated that, after reviewing the IESO's interrogatory responses on the August Update, it had decided to proceed with written submissions on the unsettled issues in this proceeding. PO#7 provides for the IESO to file Argument in Chief by October 11, 2019, OEB Staff and intervenors to file submissions, if any, by October 25, 2019 and the IESO to file reply argument by November 6, 2019.

² Exhibit B-3-1, pages 2-4. The accounting policy change is discussed further under the heading Deferral and Variance Account, below.

8. This is the Argument in Chief of the IESO filed in accordance with PO#7. The submissions below follow generally the issues set out in the Final Issues List approved by the Board in its Decision on Issues List dated March 28, 2019.³ The IESO's submissions also address issues regarding materiality that were identified by the Board in Decision and PO#4.

2. Expenditure and Revenue Requirements

9. The IESO's revenue forecast for registration and application fees is a settled issue.⁴ The proposed 2019 revenue requirement and capital expenditure budget, and the IESO's projected staffing level and compensation, are unsettled issues.⁵

(a) Operating Expenses/Revenue Requirement

10. The IESO's proposed revenue requirement for 2019 is \$190.8 million. This revenue requirement is unchanged from the revenue requirements approved by the Board in both 2018 and 2017.⁶

11. The proposed revenue requirement of \$190.8 million includes 2019 budget operating expenses for core operations of \$179.1 million and for the MRP of \$11.7 million.⁷ The 2019 budget average FTEs are 717 for core operations⁸ and 97 for the MRP.⁹ The MRP is addressed in a separate section of this argument, below.

12. The IESO is tasked with a statutory mandate that extends across a wide range of responsibilities. More specifically, the objects of the IESO set out in section 6 of the *Electricity Act, 1998* include, for example, directing the operation and maintaining the

³ Decision on Issues List, Schedule A: Final Issues List.

⁴ Board-approved Settlement Proposal, Schedule A to PO#6 (Settlement Proposal), Issue 1.2, page 8 of 15.

⁵ Settlement Proposal, Issues 1.1, 1.3 and 1.4, pages 7 and 9 of 15.

⁶ Exhibit B-1-1, page 1.

⁷ Business Plan 2019-2021 dated September 4, 2018 (Business Plan), Exhibit A-2-2, page 16 of 27.

⁸ Business Plan, page 17 of 27.

⁹ Response to AMPCO Interrogatory 41, Exhibit I, Tab 6.0, Schedule 13.41 AMPCO 41.

reliability of the electricity system in Ontario; engaging in activities relating to contracting for procurement of electricity supply, electricity capacity, electricity storage, transmission systems and conservation resources; engaging in activities in support of the goal of ensuring adequate, reliable and secure electricity supply and resources in Ontario; and conducting independent planning for electricity generation, demand management, conservation and transmission.

13. The 2019-2021 Business Plan (Business Plan) sets out the IESO's priority initiatives and associated resourcing requirements needed to deliver on core responsibilities, as well as a number of additional activities to enable longer-term benefits for both the sector and consumers.¹⁰ The priority initiatives stated in the Business Plan include the following:

- advancing Market Renewal to deliver a more competitive and efficient market to improve the way electricity is priced, scheduled and acquired;
- preparing for the future by conducting integrated planning while seeking innovative solutions that enhance reliability and help lower costs;
- investing in cybersecurity to protect the grid through leadership in cybersecurity best practices for the sector;
- broadening engagement and leveraging the IESO's role as a trusted information source to drive collaboration and inform decision-making; and
- implementing conservation changes to better align the system and consumer needs and transition to the market of the future.¹¹

¹⁰ Business Plan, page 6 of 27.

¹¹ Response to SEC Interrogatory 1c (SEC 1c Response), 1, Exhibit I, Tab 1.1, Schedule 10.01 SEC 1, Attachment 3, page 2 of 16.

14. As far as cybersecurity is concerned, the Board's EB-2018-0198 Decision approved amendments to the IESO's licence that, among other things, require the IESO to provide cybersecurity information sharing (CSIS) services to all licensed distributors and transmitters.¹² Notwithstanding the significant investments required to deliver on this and other priority initiatives, and in order to meet the challenges associated with maintaining the same revenue requirement for the third consecutive year, the IESO must manage cost increases in a number of areas, including collective agreement escalations and an ongoing focus on system reliability.¹³

15. While core operations staffing has gradually been increasing to support the core initiatives discussed above,¹⁴ the IESO has prudently managed incremental hiring to address staffing cost pressures due to the impact of collective agreements.¹⁵

16. The IESO's plan to manage cost pressures with no increase in revenue requirement demonstrates its commitment to sound fiscal management¹⁶ and the identification of potential cost and operating efficiencies.¹⁷ The IESO requests that the Board approve the proposed 2019 revenue requirement of \$190.8 million.

(b) Capital Expenditures

17. The IESO regularly prioritizes capital initiatives.¹⁸ In late 2018, the IESO introduced an enhanced project prioritization process to identify and prioritize the projects that support the IESO's strategic outcomes, while balancing the need to maintain critical IT systems.¹⁹ The prioritization process and activities now form part of the IESO's

¹² EB-2018-0198 Decision and Order, July 19, 2018, page 2 and Appendix A. The licence requirements obligate the IESO to provide and promote centralized CSIS services including, I. Cyber Security Situational Awareness, and II. Information exchange.

¹³ Business Plan, page 6 of 27.

¹⁴ SEC 1c Response, Attachment 3, page 7 of 16.

¹⁵ SEC 1c Response, Attachment 3, page 4 of 16.

¹⁶ Business Plan, pages 3 and 6 of 27.

¹⁷ Business Plan, pages 15 of 27.

¹⁸ Business Plan, page 17 of 27.

¹⁹ Exhibit B-2-1, page 3.

Enterprise Planning Framework and tie directly to strategic plans. The process also includes enhanced prioritization criteria that support the assessment of projects against corporate strategy, mitigation of key enterprise risks, cost/benefit and project deliverability. The IESO has also developed a resource management tool that supports the allocation of resources to specific projects and compares this to the IESO's capacity to support capital initiatives.²⁰

18. The IESO's business planning process establishes an appropriate capital envelope for core operating initiatives with commitments approved individually on an ongoing basis.²¹ The IESO reviews its portfolio of capital projects at least quarterly, such that the portfolio can be adjusted as needed based on evolving needs or priorities.²² Specific projects are committed individually throughout the year within the total capital envelope.²³

19. The initiatives and projects included in the IESO's capital envelope for 2019 to 2021 are set out in the Business Plan, which has been approved by the Minister of Energy, Northern Development and Mines (the Minister).²⁴ The 2019 capital expenditure budget for core operations initiatives is \$17.3 million²⁵ and for the MRP the updated budget is \$26.0 million.²⁶ As noted above, Decision and PO#4 indicated that the Board required more information for two projects, the MRP and the CRS Project, and the information required by the Board was provided by the IESO in the June Filing.

20. The June Filing and August Update, together with other evidence in this proceeding, comprise an extensive evidentiary base in support of MRP capital

²⁰ Response to CME Interrogatory 3 (CME 3 Response), Exhibit I, Tab 0, Schedule 8.03 CME 3, page 1.

²¹ Business Plan, page 17 of 27.

²² CME 3 Response, page 2.

²³ Exhibit B-2-1, page 3.

²⁴ Business Plan, Appendix 3, page 24 of 27 & Exhibit A-2-3, page 1.

²⁵ Business Plan, Appendix 3, page 24 of 27

²⁶ Exhibit C-2-2, page 3.

spending.²⁷ Further discussion of MRP capital spending can be found under the Market Renewal Program heading, below.

21. As for spending on core initiatives, the CRS Project referred to in Decision and PO#4 is needed to replace the IESO's Commercial Reconciliation System (CRS) that was deployed in 2002 and end user computing tools that the IESO has relied on due to technical limitations of the CRS, as well as to develop a new post final settlement process.²⁸ The IESO has given due consideration to alternatives to the CRS Project²⁹ and to project risks and mitigation strategies³⁰ and it has filed in evidence a detailed explanation of the justification for the CRS Project.³¹

22. The IESO requests that the Board approve the proposed capital envelope for 2019 of \$17.3 million for core operations initiatives and \$26 million for the MRP.

3. Usage Fees

23. The methodology used to derive the IESO's proposed 2019 usage fees is a settled issue, as is the January 1, 2019 effective date for the usage fees.³² The proposed usage fees resulting from the application of the accepted methodology is an unsettled issue.³³

24. The IESO has proposed 2019 usage fees of \$1.227/MWh for domestic customers and \$1.0125/MWh for export customers. These proposed usage fees for 2019 can be compared to the 2018 fees that were made interim as of January 1, 2019, which are \$1.2402/MWh for domestic customers and \$1.0115/MWh for export customers.³⁴

²⁷ See, for example, Exhibit C-2-1, Exhibit C-2-2 and the June Filing.

²⁸ Response to SEC Interrogatory 11, updated June 14, 2019 (SEC 11 Response), Exhibit I, Tab 6.0, Schedule 10.11 SEC 11, pages 2-3.

²⁹ SEC 11 Response, pages 2-4.

³⁰ SEC 11 Response, page 4.

³¹ SEC 11 Response.

³² Settlement Proposal, Issues 2.1 (partially settled) and 2.2, page 10 of 15.

³³ Settlement Proposal, Issue 2.1, page 10 of 15.

³⁴ Exhibit B-1-1, pages 4-5.

25. Given that the methodology for determining the 2019 usage fees is a settled issue, the IESO understands that any issue with regard to the usage fees in this proceeding relates to the 2019 revenue requirement because the net revenue requirement is an input into the methodology for calculating the fees. The 2019 revenue requirement is addressed above, under the heading Expenditure and Revenue Requirements, and below, under the heading Market Renewal Program.

26. The IESO requests that the Board approve the proposed 2019 usage fees of \$1.227/MWh for domestic customers and \$1.0125/MWh for export customers.

4. Registration Fees

27. All issues with respect to registration fees have been settled³⁵ and thus no submissions will be made on this aspect of the Submission.

5. Deferral and Variance Account

28. The Final Issues List identifies two deferral and variance account issues. The first issue relates to the IESO's proposal to retain an operating reserve of \$10 million in the Forecast Variance Deferral Account (FVDA). The second issue relates to the IESO's proposal to clear any 2018 year-end balance of the FVDA that is in excess of the \$10 million operating reserve. These are both unsettled issues.³⁶

29. Prior to the merger of the IESO and the Ontario Power Authority (OPA), the IESO and the OPA each retained an operating reserve of \$5 million and, after the merger, a \$10 million operating reserve was approved for the IESO.³⁷ The operating reserve was reduced to \$6 million in the context of package settlements in the IESO's 2017 and 2018

³⁵ Settlement Proposal, Issues 3.1 and 3.2, pages 10-11 of 15.

³⁶ Settlement Proposal, Issues 4.1 and 4.2, page 11 of 15.

³⁷ EB-2015-0275 Decision and Order, December 29, 2016, Schedule A, page 14 of 18.

fees cases. The \$6 million reserve represents 3% of the IESO's proposed revenue requirement.³⁸

30. In this proceeding, the IESO seeks approval to retain a \$10 million operating reserve, which is approximately 5% of the IESO's proposed 2019 net revenue requirement. As in previous years, the IESO would maintain the operating reserve in the FVDA.³⁹

31. The primary objective of maintaining an operating reserve is to fund operations in the event of revenue shortfalls or unanticipated expenditures. Given the scope and complexity of the IESO's mandate, the IESO submits that an operating reserve of \$10 million is appropriate.

32. As set out in the evidence, there is a potential for additional unplanned work activities beyond the control of IESO management that may be material in scope.⁴⁰ While the IESO strives to reduce uncertainty in the inputs to its Business Plan, there are a number of key risks to the IESO's ability to achieve its strategic objectives in line with its forecasts of revenues and operating expenses.⁴¹

33. As for the issue with regard to clearance of any year-end balance in the FVDA that is in excess of the \$10 million operating reserve, the IESO was actually in an operating deficit position as of the end of 2018. The change in accounting policy described in the March Update resulted in a restatement of the IESO's SERP and OPEB expenses back to 2010 and a resulting restatement of the IESO's previously reported 2017 operating

³⁸ Exhibit B-1-1, page 6 of 8.

³⁹ Exhibit A-2-2, Appendix I, page 21 of 27, and Exhibit B-1-1, page 7.

⁴⁰ Exhibit B-2-1, page 2.

⁴¹ Exhibit B-1-1, page 8. See also the Business Plan, Appendix 2.

surplus to an operating deficit.⁴² The IESO applied its 2018 annual surplus of \$1.3 million to bring the 2018 year-end operating deficit to \$4.73 million.⁴³

34. 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 revenue requirement filings.⁴⁴

35. The IESO submits that the accounting restatement that resulted in the IESO's current operating deficit position confirms the merit of the proposed \$10 million operating reserve. As stated by the IESO in an interrogatory response:

A material example of how the IESO used the operating reserve to fund unanticipated expenditures was in 2018 when a historical restatement of the pension and OPEB expenses took place, resulting in an additional \$13.4 million in expenses and an operating reserve deficit of \$4.7 million. A \$10 million operating reserve would have helped mitigate the operating reserve deficit as a result of this unplanned event.⁴⁵

36. The IESO therefore requests that the Board approve the proposed reserve of \$10 million. The IESO will advise the Board in its next revenue requirement submission of its plans to restore the reserve to the Board-approved level.

⁴² Exhibit B-3-1, page 3.

⁴³ Exhibit B-3-1, pages 3-4. This evidence indicates that the Office of the Auditor General of Ontario completed its financial statement audit and provided a clean audit opinion that noted the changes in accounting policies adhere to Canadian public sector accounting standards.

⁴⁴ Exhibit B-3-1, page 4.

⁴⁵ Response to SEC Interrogatory 25, Exhibit I, Tab 6.0, Schedule 10.25 SEC 25.

6. Commitments from Previous OEB Decisions

37. All issues relating to commitments from previous OEB decisions have been settled, with the exception of one issue, namely, whether the total compensation study for represented and non-represented staff is appropriate.⁴⁶

38. In the Board-approved Settlement Proposal for the IESO's 2017 Revenue Requirement Submission (2017 Settlement Proposal), the IESO agreed to hire a third-party consultant to conduct a total compensation study of represented and non-represented staff, excluding IESO executives. The IESO agreed that the study would be conducted in 2018 to ensure that the most recent market data is used and it agreed to file the study in its 2019 Revenue Requirement Submission.⁴⁷

39. The IESO engaged Mercer (Canada) Limited (Mercer) to conduct the study in accordance with the 2017 Settlement Proposal.⁴⁸ Mercer's final report dated September 27, 2018 provided an independent market-based assessment of the IESO's non-executive total remuneration and was filed by the IESO in this proceeding.⁴⁹

40. The filing of the Mercer report in this proceeding meets, in all respects, the commitments made by the IESO in the 2017 Settlement Proposal regarding a total compensation study. The IESO therefore submits that it has fully and appropriately complied with its commitments in the 2017 Settlement Proposal regarding a non-executive total compensation study.

⁴⁶ Settlement Proposal, Issues 5.1 (settled), 5.2 (unsettled) and 5.3 (settled), pages 12-13 of 15.

⁴⁷ EB-2017-0150 Settlement Proposal, Issue 5.4, referred to in evidence in this proceeding at Exhibit C-4-1, page 1.

⁴⁸ Exhibit C-4-1, page 1.

⁴⁹ *Ibid* and Exhibit C-4-1, Attachment 1, page 2 of 15.

7. Market Renewal Program

41. The MRP was formalized as a project in the IESO's 2017-2019 Business Plan and significant progress has been made on the program since that time.⁵⁰ The MRP will address known issues with the existing market design and will deliver ratepayer value by meeting system needs more cost-effectively.⁵¹

42. MRP initiatives and activities are organized into Energy and Capacity work streams, as well as a General work stream. The Energy work stream includes three initiatives, Single-Schedule Market (SSM), Day-Ahead Market (DAM) and Enhanced Real-time Unit Commitment (ERUC).⁵² The Capacity work stream includes further development of the Capacity Auction⁵³, as well as the development of other procurement mechanisms, to meet Ontario's resource adequacy needs⁵⁴ (Revised Approach). The General work stream supports both the Energy and Capacity work streams.

43. The IESO's submissions with respect to the MRP work streams are set out under the specific sub-headings that follow. As stated above, the IESO requests that the Board approve the proposed 2019 revenue requirement and capital expenditure envelope that include 2019 operating and capital expenses for the MRP.

(a) Capacity Work Stream

44. As the initial focus of the Capacity work stream, the IESO began working with stakeholders to design and develop an Incremental Capacity Auction (ICA).⁵⁵ The purpose of the IESO's ICA initiative was to develop an enduring market-based mechanism that would secure incremental capacity to help ensure Ontario's reliability

⁵⁰ Exhibit C-2-1, page 2.

⁵¹ Exhibit C-2-1, page 1.

⁵² Exhibit C-2-1, pages 2-3.

⁵³ an evolution of the IESO's former Demand Response auction.

⁵⁴ Exhibit C-2-2, page 1.

⁵⁵ Exhibit C-2-1, page 3.

needs are met cost effectively.⁵⁶ On July 16, 2019, the IESO announced that it would not move forward with the ICA high level design (HLD), but would proceed to implement enhancements to the Demand Response auction that will continue to evolve over time into an enduring auction mechanism.

45. The decision to wind down work on the ICA HLD reflects the IESO's planning outlook which indicates that, over the next decade, there is enough energy to meet provincial demand and a limited need for additional capacity if existing Ontario resources continue to remain available when contracts expire. The decision also reflects the IESO's work with stakeholders, from which it emerged that there was a lack of stakeholder support to proceed with detailed design of the ICA.⁵⁷

46. The IESO's capacity-related work through the Revised Approach continues to be of value. Regardless of the procurement mechanism, there are a number of foundational capacity-related topics that require development.⁵⁸ This foundational work will utilize ICA design elements and stakeholder feedback to assist the IESO in making informed decisions on capacity procurement. For example, an updated capacity qualification process is equally applicable to a future auction or complementary mechanism such as a capacity contract.⁵⁹

47. The Capacity work stream remains a part of the MRP, with a Revised Approach that includes the following work beginning in 2019:

- Final stakeholder clarification of feedback from the ICA HLD;
- Stakeholder feedback regarding complementary capacity mechanisms to ensure adequate supply in Ontario in the future;

⁵⁶ *Ibid.*

⁵⁷ Exhibit C-2-2, page 1.

⁵⁸ Response to OEB Staff Interrogatory 31(a), Exhibit I, Tab 6.0, Schedule 1.31 OEB Staff 31.

⁵⁹ Response to OEB Staff Interrogatory 39(c), Exhibit I, Tab 6.0, Schedule 1.39 OEB Staff 39.

- Continued efforts to finalize foundational capacity-related features that would be common to any mechanism, including qualification, obligations and improved planning requirements; and
- Development of any future Capacity Auction enhancements beyond the current approved project.⁶⁰

48. The first step in the Revised Approach was to wind down work on the HLD for the ICA. Following that wind down, the IESO has been meeting with stakeholders that were engaged in the HLD to discuss their comments on the design elements of the ICA and to determine how their feedback should be reflected in the future phases of the Capacity Auction.⁶¹ The IESO remains committed to competitive mechanisms for maintaining resource adequacy.⁶²

49. Operating expenses to support the Capacity work stream in 2019 were budgeted at \$4.8 million and the current 2019 forecast is in line with the budget.⁶³ The IESO's evidence provides a breakdown of Capacity work stream forecast and budget operating expenses divided between the first half of 2019 and the second half of 2019 in order to show the effect on Capacity work stream expenses of the Revised Approach.⁶⁴

50. The Capacity work stream planned deliverables in the first half of 2019 included the completion of HLD and the start of detailed design. The HLD was completed with fewer resources and ahead of schedule and resources were put towards the start of detailed design earlier than planned.⁶⁵ This resulted in operating expenses of \$2.2 million in the first half of 2019, including an amount of approximately \$0.5 million expensed rather than capitalized as planned, because, with the decision not to proceed with the detailed design stage of the ICA, capitalization of 2019 Capacity work stream expenses will not

⁶⁰ Response to OEB Staff Interrogatory 29(a), Exhibit I, Tab 6.0, Schedule 1.29 OEB Staff 29.

⁶¹ Exhibit C-2-2, page 2.

⁶² Response to OEB Staff Interrogatory 42, Exhibit I, Tab 6.0, Schedule 1.42 OEB Staff 42.

⁶³ Exhibit C-2-2, page 2

⁶⁴ Exhibit C-2-2, page 3, Table 2.

⁶⁵ Response to AMPCO Interrogatory 39, Exhibit I, Tab 6.0, Schedule 13.39 AMPCO 39 and Exhibit C-2-2, page 3, Table 2.

take place.⁶⁶ Operating expenses in the first half of the year were \$1.5 million less than the budget amount of \$3.7 million.

51. Capacity work stream operating expenses for the second half of 2019 are forecast to be \$2.6 million, compared to a budget of \$1.1 million.⁶⁷ With costs that were budgeted as capital now treated as operating expenses, the resulting expense forecast increased by \$1.5 million against budget.⁶⁸ This increase is offset by the under budget in the first half of the year.

52. Capacity work stream costs for the remainder of 2019 were predominantly budgeted as capital costs and, as a result of the Revised Approach for the Capacity work stream, capital costs are reduced from the budget amount of \$12 million to zero.⁶⁹ The \$12 million reduction in capital costs for the Capacity work stream brings the revised 2019 capital costs for the MRP to \$26 million compared to the original budget of \$38 million.⁷⁰

(b) Energy Work Stream

53. The SSM initiative of the Energy work stream is a key foundational element of the MRP. It will help ensure that the system will send transparent signals to meet different system needs and will substantially reduce out of market payments associated with congestion management settlement credits. The DAM initiative will provide market participants with price certainty ahead of real-time and increase operational certainty for both market participants and the IESO. An ERUC program will improve the efficiency of unit commitments to the intra-day timeframe by considering all resource costs in commitment decisions and reduce out of market payments associated with the current real-time generator cost guarantee program.⁷¹

⁶⁶ Exhibit C-2-2, page 2.

⁶⁷ Exhibit C-2-2, page 3, Table 2.

⁶⁸ Response to OEB Staff Interrogatory 31(b), Exhibit I, Tab 6.0, Schedule 1.31 OEB Staff 31.

⁶⁹ Response to Energy Probe Interrogatory 21(b), Exhibit I, Tab 6.0, Schedule 4.21 ENERGY PROBE 21.

⁷⁰ Exhibit C-2-2, page 3.

⁷¹ Exhibit C-2-1, pages 2-3.

54. The IESO has engaged with stakeholders on the HLDs for the Energy work stream initiatives and draft HLDs were published in September (SSM) and December (DAM and ERUC) of 2018.⁷² The IESO's activities during 2019 in respect of the Energy work stream include review of stakeholder feedback on each of the draft HLDs, finalization of the HLD documents, closing the HLD phase of the initiatives and launching the detailed design phase.⁷³

55. The IESO will continue to engage with stakeholders throughout the detailed design phase of the Energy work stream. Engagement will occur through a single Energy work stream that will include forums on specific elements of design that cut across the three Energy initiatives.⁷⁴

56. Budgeted operating expenses for the Energy work stream in 2019 are \$2.3 million and budgeted capital expenditures are \$26 million.⁷⁵ There have been no material changes to the Energy work stream of the MRP and this work stream continues to progress in line with expectations. The IESO has prepared an MRP Energy Business Case that provides the expected benefits and costs of the Energy work stream. Work on the Business Case started in Q1 2019 and will be completed by the end of Q3 2019. The Business Case will be provided to the IESO's Board of Directors (IESO BOD) for review and will be made available to stakeholders following approval by the IESO BOD.

57. The Business Case will focus on why changes to Ontario's energy market are required, addressing known flaws and inefficiencies, and the value of creating a new platform to enable future market improvements and evolution. The Business Case will also include an assessment of the net benefits of the energy market enhancements over

⁷² Exhibit C-2-1, page 3.

⁷³ Exhibit C-2-1, page 4.

⁷⁴ Exhibit C-2-1, page 5.

⁷⁵ Response to SEC Interrogatory 21, Exhibit I, Tab 6.1, Schedule 10.21 SEC 21.

the first 10 years. The IESO has engaged stakeholders on the development of the Business Case to aid understanding and build support.⁷⁶

(c) General Work Stream

58. The General work stream is required to support both the Energy and Capacity work streams throughout 2019. It covers areas such as program management, control and governance; work to enable participation in future markets (such as the Non-Emitting Resources Sub-Committee); and other shared support such as recruiting.⁷⁷

59. For the first half of 2019, the IESO has apportioned General work stream spending equally between the Energy and Capacity work streams, reflecting the work that occurred during that time frame. Following the Revised Approach with regard to the Capacity work stream, resource effort under the General work stream has been re-directed primarily to support the Energy work stream, while still maintaining program management, control and governance activities to support the Capacity work stream for the remainder of 2019.⁷⁸

60. The budgeted 2019 General work stream expenses are required to support the Energy work stream as it ramps up to the implementation phase and to provide scaled-down support for the Revised Approach to the Capacity work stream with the initiation of new deliverables and the reassignment of resources.⁷⁹

⁷⁶ Response to AMPCO Interrogatory 35, Exhibit I, Tab 6.0, Schedule 13.35 AMPCO 35, Attachment 8, page 14 of 36.

⁷⁷ Response to OEB Staff Interrogatory 33 (a) (OEB Staff 33(a) Response), Exhibit I, Tab 6.0, Schedule 1.33 OEB Staff 33 and Response to SEC Interrogatory 24 (SEC 24 Response), Exhibit I, Tab 6.0, Schedule 10.24 SEC 24.

⁷⁸ OEB Staff 33(a) Response.

⁷⁹ SEC 24 Response.

8. Materiality Threshold

61. In Decision and PO#4, the OEB stated that it is interested in receiving submissions on two issues pertaining to materiality, as follows:

- (i) whether it is appropriate to establish a materiality threshold for the IESO; and
- (ii) if so, at what level.

The Board stated that parties may address these two issues as part of their final submissions for this proceeding.⁸⁰

(a) Is a Materiality Threshold Appropriate?

62. The IESO submits that, for many reasons, different considerations apply to the issue of a materiality threshold in its submission to the OEB than in a rate case for a utility regulated by the Board. These reasons include the following:

- (i) the governing legislation provides that the business and affairs of the IESO are to be carried on without the purpose of gain⁸¹ and the IESO does not make capital investments or carry on its activities for the purpose of earning a return;
- (ii) the objects of the IESO include important electricity system matters such as planning, reliability and security⁸² and the IESO's capital investments and activities cannot necessarily be evaluated on the basis of financial and economic measures that might apply in respect of regulated utilities;
- (iii) the IESO's proposed revenue requirement and capital expenditure envelope are included in the Business Plan that is approved by the Minister before the IESO files its Submission for Review with the OEB; and
- (iv) for the purposes of the Business Plan that, upon approval by the Minister, forms the basis for the IESO's Submission for Review, the IESO

⁸⁰ Decision and PO#4, page 6.

⁸¹ *Electricity Act, 1998*, subsection 6(2).

⁸² *Electricity Act, 1998*, subsection 6(1).

proposes a capital envelope rather than a fixed set of specific projects or initiatives.

63. The IESO submits that a materiality threshold would only be appropriate if the threshold took into account the above noted considerations.

(b) If So, What Level Should the Threshold Be?

64. Given the IESO's mandate and objects under legislation and if the OEB determines a materiality threshold is appropriate, the IESO proposes a materiality threshold that is similar with that used by the IESO to determine if IESO BOD approval is required for a project. This threshold may be amended from time to time on approval of the IESO BOD, however, it is currently set at any project with a total capital expenditure in excess of \$4 million. The IESO proposes a materiality threshold of capital projects with a total cost in excess of \$4 million.

65. In late 2018, the IESO introduced an enhanced project prioritization process to identify and prioritize the projects that support the IESO's strategic outcomes, while balancing the need to maintain critical IT systems.⁸³ The process also includes enhanced prioritization criteria that support the assessment of projects against corporate strategy, mitigation of key enterprise risks, cost/benefit and project deliverability. The IESO's internal processes currently include review and approval by the IESO BOD of multi-year projects with a total capital cost of \$4 million or greater. The information provided to the IESO BOD with respect to these projects is consistent with the type of information that the Board required on the CRS Project in Decision and PO#4, including the nature of the project, why it is required, key project risks and where applicable, what other options were considered. If the IESO's proposed materiality threshold were adopted, the IESO would provide information consistent with the information the OEB required in its Decision and PO#4.

⁸³ Exhibit B-2-1, page 3.

9. Conclusion

66. For all of the foregoing reasons, the IESO respectfully requests that the Board approve the IESO's proposed revenue and expenditure requirements for the fiscal year 2019 and the fees that the IESO proposes to charge during the fiscal year 2019.

All of which is respectfully submitted.

A handwritten signature in cursive script, appearing to read "Fred D. Cass".

Fred D. Cass

Counsel for Independent Electricity System Operator