



Fogler, Rubinoff LLP

Lawyers

77 King Street West

Suite 3000, PO Box 95

TD Centre North Tower

Toronto, ON M5K 1G8

t: 416.864.9700 | f: 416.941.8852

foglers.com

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Reply To: Thomas Brett

Direct Dial: 416.941.8861

E-mail: tbrett@foglers.com

Our File No. 191104

VIA RESS, EMAIL AND COURIER

Ontario Energy Board

2300 Yonge Street

27th Floor

Toronto, Ontario

M4P 1E4

Attention: Kirsten Walli,
Board Secretary

Dear Ms. Walli:

Re: EB-2019-0002: IESO, 2019 Revenue Requirement Submission

Please find enclosed herewith BOMA's Submission in this proceeding. BOMA apologizes for the lateness of this Submission, which was due to the coincidence of the Hydro One Transmission and Alectra hearings over the last two weeks.

Yours sincerely,

FOGLER, RUBINOFF LLP

A handwritten signature in black ink, appearing to read "Thomas Brett", written over a horizontal line.

Thomas Brett

TB/dd

Encls.

cc: All Parties (*via email*)

ONTARIO ENERGY BOARD

Independent Electricity System Operator ("IESO")

2019 Expenditure, Revenue Requirement, and Fees Submission

**Submission of Building Owners and Managers Association, Greater Toronto
("BOMA")**

October 28, 2019

**Tom Brett
Fogler, Rubinoff LLP
77 King Street West, Suite 3000
Toronto, ON M5K 1G8**

Counsel for BOMA

Submission of BOMA

1. Introduction

Given that we are now in the fourth quarter of 2019, and are just now making submissions on the IESO's 2019 revenue requirement, BOMA's submission will be confined to the more forward-looking measures that the Ontario Energy Board (the "Board") should take to avoid a repeat of the more troublesome aspects of the 2019 revenue requirement. However, the lateness of the 2019 proceeding (the Board will be unlikely to make a decision on the IESO's 2019 revenue requirement until early in 2020) highlights the dysfunctional nature of the legislative and regulatory process for the approval of IESO's annual revenue requirement. The result is the almost total lack of accountability of a public agency that spent billions of ratepayers' dollars since its inception. The 2019 budget will be spent before the Board has approved it.

BOMA recommends that the Board take the initiative to reset the process. The Board should recommend that the Ontario government amend the Electricity Act to place the IESO revenue requirement approval process on a proper basis. The proposed amendments should, inter alia:

- require the IESO to file its annual (or otherwise) revenue requirement submission to the Board no later than June 1st of the previous year;
- eliminate the requirement for the approval of the IESO business plan by the Minister. Other regulated entities in Ontario do not have their business plans approved by the Minister; their business plans are included in their rate applications to the Board and are used to help justify their proposed rates. Why should this requirement be imposed on the IESO? The Minister of Energy and the Environment has heavy enough responsibilities as it is, without having the additional burden of dealing with the IESO's business plan;

- the use of two or three year revenue requirement approvals, subject to Board's approval, should be considered. No other "utility" is required by legislation to submit revenue requirement submissions annually;
- the Board should have the right, as it does with every other regulated entity, to reject or alter the expenditure/revenue requirement proposal;
- the IESO Board of Directors should be strengthened by the addition of one or more seasoned executives. It should not be a "stakeholder" board. Some of its members lack the depth and breadth of experience necessary to guide the IESO.

2. MRP (Issue 6)

The IESO's MRP program is in a state of disarray. The business case for the MRP has been repeatedly postponed, and has yet to be produced, approved by the IESO board and filed. The Capacity Work Stream, which was the centerpiece of the Brattle Group Report, and accounted for 70% of the projected ratepayers' savings, was abandoned in July of this year, in a one-page press release from the IESO. The operability stream has been moved outside the MRP with little justification. In retrospect, Brattle's capacity recommendations were wildly optimistic, and untethered to Ontario reality.

The IESO has refused to provide coherent earned value indices that the Board directed it to provide in EB-2017-0150. These indices are a very important measure of the IESO's progress within budget of the MRP.

The Board should direct, and specify the form of, the two earned value indices, referred to as part of the 2020 submission. These measures are widely used to ensure projects are progressing at a rate proportionate to the expenditure of the projects' budgets.

The 2019 forecast OM&A costs for the MRP do not reflect appropriate reductions from the abandonment of the capacity work stream. The 2020 submission must do so, and should justify in detail the retention of any FTEs dedicated to an expansion of the existing demand response auction, the renegotiation of expiring NUG contracts, or other specific initiatives. Details should be provided.

The Board should not approve the proposed 2019 revenue requirement OM&A budget, but return it to the IESO with comments to be addressed in the 2020 submission.

The Board should direct the IESO to cease all but the most necessary spending on both the capacity stream, and on the energy stream, until the MRP business plan has been approved by the IESO board, submitted to, and approved by, the Board as part of its update to the IESO's 2020 application. It has been clear for some time that the MRP business case, initially promised for the third quarter of 2018, later changed to the third quarter of 2019, and not yet completed, should have been done on its original timetable, or earlier, before the significant funds were spent on the capacity stream. This was a major planning failure.

BOMA believes that the IESO should not make any material capital expenditures, related to the MRP, until the MRP business case is completed, and approved by the Board. An example of such an expenditure would be the planned \$10 million Digital Scheduling and Optimization Project.

The \$2.5 million planned for the capacity stream should not be approved in full. However, since the funds have already been spent, the offsetting 2019 adjustment should be made to the 2020 revenue requirement, in addition to whatever 2020 adjustments are proposed/accepted.

3. Issue 4.1 – Operating Reserve

The IESO's proposal to retain a \$10 million operating reserve in its forecast Variance Deferral Account is a 66% increase to the current \$6 million operating reserve, as agreed in the 2017 and 2018 revenue requirements settlements. The IESO's argument for the increase is the increased complexity of its business, including the MRP. This argument is unpersuasive. The IESO has never drawn down on its operating reserves for that reason (Tab 4.1, Schedule 1.18, OEB Staff.18(a)), and, with the termination of the capacity work stream, the complexity, scale, and riskiness of the IESO's work has diminished, not increased. Therefore, in BOMA's view, the operating reserve should remain at \$6 million.

4. Materiality Threshold

BOMA believes the Board should apply the principles outlined in the Board's Filing Requirements for Electricity Distribution Rate Applications. Those principles require a materiality threshold of 0.5% for all distributors with a revenue requirement of between \$10 million and \$200 million. The IESO should have a materiality threshold of \$1 million.

In addition to setting a materiality factor, the Board should develop filing guidelines for the IESO expenditures/revenue requirements submissions. Historically, the IESO has provided minimal information in its prefiled evidence. Much time and effort has been expended by all parties seeking the information necessary to evaluate the IESO's proposals, with the current year (2019) proceeding a good example of that tendentious process. Filing guidelines would be very beneficial. They would allow the Board to initially review the IESO's submission to ensure that it contained all of the information stipulated by the guidelines, as the Board currently does with distribution and transmission utilities. Such review would diminish the need for some of the

interrogatories, allowing for a more efficient proceeding. It would also give the IESO a clear statement of what information it is required to file, at least initially, and lay to rest past IESO claims of some unique status. In fact, the Board's ratemaking authority with respect to the IESO is different, but not lesser than the authority over regulated utilities. The IESO, as a regulated entity is more similar to, than different from, other utilities. Finally, it would afford the Board an opportunity to clarify what it wants and needs from the IESO. Board panels have sometimes differed in what the Board's role should be, and what information it needs, although of late, the Board has been more consistent and, in BOMA's view, more correct on this point).

ALL OF WHICH IS RESPECTFULLY SUBMITTED