



October 25, 2019

Ms. Christine Long
Registrar & Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Re: Independent Electricity System Operator (IESO) 2019 Fees Application
AMPCO Submissions on Unsettled Issues
Board File No. EB-2019-0002

Dear Ms. Walli:

Attached please find AMPCO's submission in the above proceeding.

Please do not hesitate to contact me if you have any questions or require further information.

Sincerely yours,

(Original Signed By)

Colin Anderson
President
Association of Major Power Consumers in Ontario

EB-2019-0002

Independent Electricity System Operator

Application for Approval of 2019 Expenditures, Revenue

Requirement, and Fees

AMPCO's Submission October 25, 2019

The Independent Electricity System Operator (IESO) filed an application with the Ontario Energy Board (OEB) on January 28, 2019 under subsection 25(1) of the Electricity Act, 1998, seeking approval for its 2019 expenditures, revenue requirement, and fees.

The IESO filed a settlement proposal arising from the settlement conference on August 2, 2019. The settlement proposal reflects the agreement reached between the IESO and participating intervenors on a limited set of issues.

AMPCO's submissions below are focussed on the following issues: Market Renewal Program, Operating Reserve, Baseline MRP Schedules and Budgets and the Materiality Threshold.

Market Renewal Program

The IESO launched the Market Renewal Program (MRP) in March 2016. At this time, the MRP included three distinct work streams: Energy, Capacity and Operability.

A benefits case assessment of the MRP prepared by The Brattle Group in April 2017 estimated province-wide efficiency and customer benefits of the MRP significantly outweighed estimated implementation costs, with a 10-year present value of net benefits ranging from \$2.2 billion to \$5.2 billion. As shown in Figure ES-1 below from the Brattle report, the MRP is expected to deliver \$3.4B in net benefits over a 10-year period based on costs of approximately \$200M.¹

The majority of the benefits (70%) come from Capacity Auction reforms followed by Operability reforms (16%) and Energy Market reforms (14%).²

In early 2018, the IESO moved the Operability Workstream out of the Program leaving two remaining workstreams (Energy and Capacity) encompassing four initiatives: Single Schedule Market, Day-Ahead Market, Enhanced Real-time Unit Commitment and Incremental Capacity Auction (ICA)³. In the pre-filed evidence the total program budget is estimated at \$247 million,⁴ a 26% increase compared to the \$195.9 million budget estimate in the 2018 Fees case EB-2017-0150.⁵

On July 16, 2019, the IESO announced that it would cease to move forward with the Incremental

¹ MRP Benefits Case: The Future of Ontario's Electricity Market (The Brattle Group) April 20, 2018 PVii

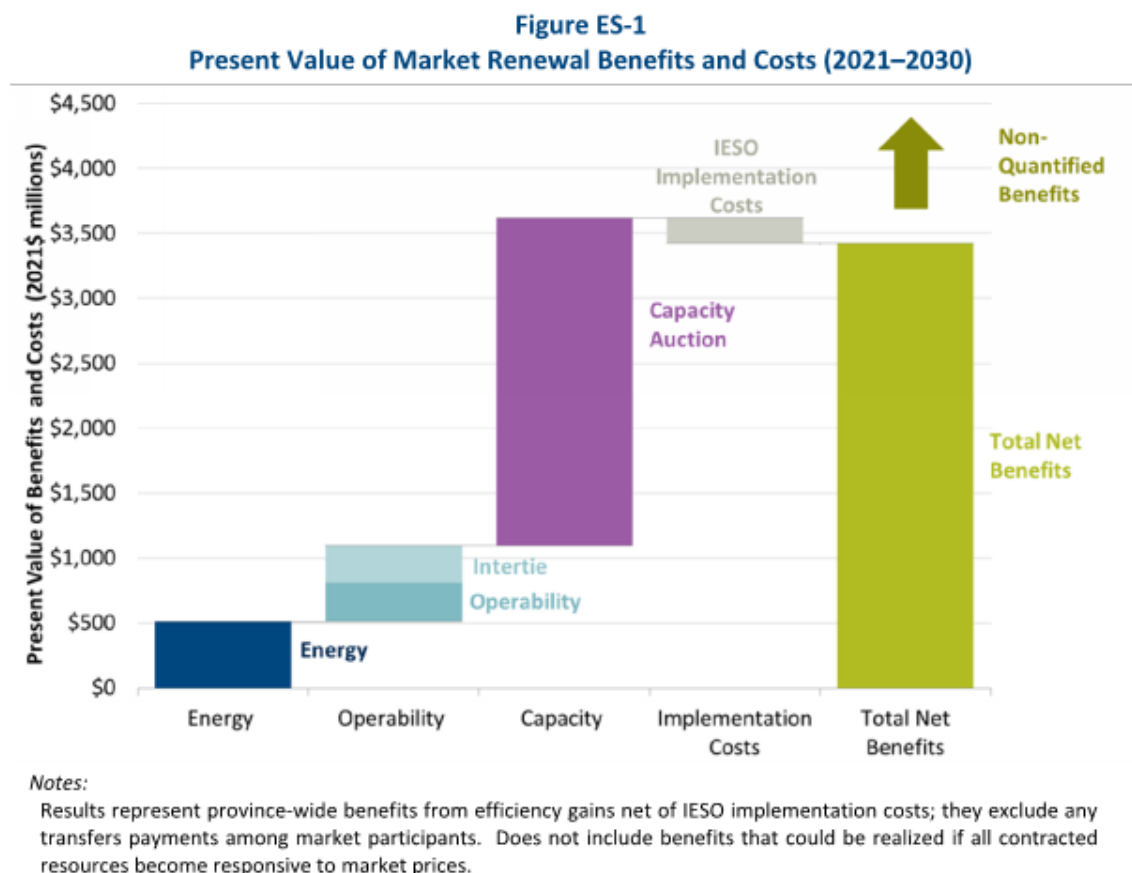
² OEB IR#25

³ C-2-1 P2

⁴ C-2-1 P1

⁵ I-1.6-2.45 BOMA 45

Capacity Auction (ICA) high level design (HLD) published in March of 2019 due to an update in the IESO 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 are reacquired when their contracts expire.⁶



The changes to the Operability and Capacity workstreams impact the benefits case. In the meantime, the IESO continues to incur MRP and ICA related costs, the majority in 2019, all in the absence of a completed and approved business case.

The impact to the IESO 2019 Fees application is a \$12 million reduction in the MRP capital budget and no reduction in the \$4.8 million operating budget.⁷ The \$12 million reduction is due to the cancellation of planned hiring from 55 to 27. The IESO continues to seek approval of a 2019 net revenue requirement of \$190.8 million.⁸

AMPCO's overarching concern with the latest change in the MRP is that the IESO has spent considerable time, resources and ratepayer funds working on the MRP and the ICA initiative without an approved

⁶ C-2-2 P1

⁷ C-2-2

⁸ A-1-1 P1 Updated August 26, 2019

business case as intended. Approval of the business case was originally targeted for Q3 2018⁹, to be followed by individual project execution plans for each of the initiatives. Specifically the IESO was to develop this Q3 2018 business case prior to the start of detailed design and before commencing any significant capital spending, as a more robust cost estimate was expected as part of the MRP business case.¹⁰ Further, If the IESO's evaluation of the business case was favourable leading to its approval, then this step was to formalize the Market Renewal Program to commit the significant capital resources to proceed with detailed design and implementation phases.¹¹ The approval of the individual project execution plans was intended to follow the approval of the business case, at which time each project would have established baselines for scope, schedule, and cost against which the project execution phase (detailed design and implementation) will be monitored and controlled.¹²

Despite the IESO's plans to have a business case prior to committing any significant capital spending, the IESO entered the detailed design phase in 2019 and committed \$38 million in capital for the MRP, with \$11.3 million allocated to the Capacity workstream.

The business case was delayed until Q3 2019.¹³ Then with the change in the ICA, the latest timing of the business case is Q4 2019. The total annual and projected MRP budget is to be further refined through this business case.¹⁴ The business case is intended to focus exclusively on assessing the benefits of the new energy market as defined in the Energy HLDs. As noted above, the Energy Market reforms represented only 14% of the original benefits case.

In AMPCO's view, the IESO needs a more robust project management and governance framework to manage a project of this size. The planned capital for this one project significantly exceeds the IESO's core operations base capital budget beginning in 2019.¹⁵ For the years 2017 and 2018, the IESO has spent \$24.4 million on MRP.¹⁶

With the cancellation of the ICA in July 2019, the IESO still proposes to spend \$2.6 million until the end of the year, including funding 27 incremental Capacity workstream staffing.¹⁷ Given the major changes in scope since the benefits case was completed in April, the magnitude of the project, and the fact that the costs and benefits are currently being refined and reassessed AMPCO submits the Board should require that the IESO not make any commitments to spend any further unnecessary funds on the MRP prior to the approval of the business case.

Operating Reserve

The IESO seeks approval of the following:

- Approval for \$10 million as an operating reserve in the Forecast Variance Deferral Account ("FVDA").

⁹ EB-2017-0150 I-1.6 Schedule 2.45 BOMA 45

¹⁰ EB-2017-0150 I-1.6-10.18 AMPCO 18

¹¹ EB-2017-0150 I-1.6-6.04 PWU 4

¹² EB-2017-0150 I-1.6-10.22 AMPCO 22

¹³ I-6.2-13.27 AMPCO 27

¹⁴ C-2-2 P5

¹⁵ A-2-2 P17

¹⁶ \$8.1 million in 2017 (C-2-1 P12) & \$16.3 million in 2018 (C-2-1 P6)

¹⁷ C-2-2 P3-4

- Approval to rebate the year-end balance in the FVDA above the requested \$10 million operating reserve to market participants proportionate to the fees collected in 2018.

In 2018, an operating reserve balance of \$6 million was approved.¹⁸ In 2017, a \$6 million operating reserve balance was again approved. Specifically, \$4.0 million was rebated out of the \$10 million 2016 operating reserve back to customers to account for a reduction in the 2017 Market Renewal Program operational budget.

AMPCO submits the Board should not approve a \$4 million increase in the operating reserve in this application. The Board should maintain an operating reserve of \$6 million. The IESO indicates it is seeking an approval to increase the operating reserve back to its approved 2016 operating reserve level of \$10 million given the scope and complexity of the IESO's mandate and the potential for additional unplanned work activities that are beyond the control of management. The scope and complexity of the IESO is consistent with previous years where a \$6 million reserve was approved and sufficient.

Baseline MRP Schedules and Budgets

On January 2, 2019 the IESO filed baseline MRP schedules and budget to fulfill the outstanding condition on which Issue 6.1 was settled in EB-2017-0150.

The IESO proposes to track SPI and CPI for 2019 against the baselines for schedule and cost for 2019. The IESO plans to develop baselines for schedule and cost for 2020 to track SPI and CPI for 2020.¹⁹

AMPCO submits the SPI and CPI should be tracked against a baseline schedule and budget for the project as a whole. Earned Value Metrics SPI and CPI are intended to allow for continuous analysis of progress achieved against plan throughout the project timeline and across individual tasks forming part of a work component. In other words, the project "earns" progress as work steps are completed, thus allowing management to implement strategies should the project track "off-plan".²⁰

The IESO indicates it does not have a baseline schedule and budget for years beyond 2019 at this time.²¹ AMPCO submits once the baseline schedule and budget for the entire project is available, the SPI and CPI should be reset on this basis.

Materiality Threshold

As part of the Board's Decision on the Motion and Procedural Order No. 4, the Board asked parties to provide submissions on whether or not the IESO should have a materiality threshold, and if so, at what level.

AMPCO has reviewed the submissions of SEC and CME regarding this issue and supports those submissions. AMPCO agrees the fundamental nature of the IESO, and its relationship to both the Board and the ratepayers of Ontario is identical to that of a distributor and as such, it should have a materiality

¹⁸ EB-2018-0143 OEB Decision

¹⁹ I-6.1-10.19 SEC 19

²⁰ EB-2017-0150 AMPCO Submission

²¹ I-6.1-10.19 SEC 19

threshold in line with distributors of a similar revenue requirement. Based on the IESO's \$190.8 million revenue requirement in 2019, a materiality threshold of \$ 1 million is appropriate. AMPCO agrees the imposition of a materiality threshold will ensure that the IESO is required to provide a sufficient amount of information regarding material expenditures.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 25th day of October 25th 2019.