Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

October 25, 2019

Ms. Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
BoardSec@oeb.ca

Dear Ms. Long:

Re: Independent Electricity System Operator
Application for approval of 2019 expenditures, revenue requirement and fees
OEB Staff Submission

Ontario Energy Board File Number: EB-2019-0002

In accordance with Procedural Order No. 7, please find attached the OEB staff submission for the above proceeding. This document has been sent to the Independent Electricity System Operator and to all other registered parties to this proceeding.

The Independent Electricity System Operator is reminded that its reply submission is due by November 6, 2019, should it choose to file one.

Yours truly,

Original Signed By

Andrew Bishop
Project Advisor, Generation & Transmission

Encl.

OEB Staff Submission

Application for approval of 2019 expenditures, revenue requirement and fees

Independent Electricity System Operator

EB-2019-0002

October 25, 2019

1 INTRODUCTION

On January 28, 2019, the Independent Electricity System Operator (IESO) filed an application with the Ontario Energy Board (OEB) under section 25(1) of the *Electricity Act, 1998*, seeking approval for its 2019 expenditures, revenue requirement and fees. The IESO's application reflects its 2019-2021 Business Plan (Business Plan) which was approved for implementation by the Minister of Energy, Northern Development and Mines (Minister) on December 11, 2018. The Business Plan outlines the IESO's priority objectives for fiscal year 2019, as well as the staffing and monetary resources required to achieve them. Beginning in 2019, these priority objectives include, but are not limited to, advancing the Market Renewal Program (MRP), investing in cybersecurity and implementing conservation changes.[1]

For 2019, the IESO proposes an operating budget of $190.8 million to deliver its approved Business Plan, with funding anticipated to be generated through usage fee revenue collected from both domestic and export customers. Currently, the IESO is continuing to apply the OEB-approved fees for 2018, on an interim basis, until final fees for 2019 are approved.[2] The proposed 2019 revenue requirement of $190.8 million is the same as the revenue requirements approved by the OEB in 2017[3] and 2018.[4]

In addition to annual usage and registration fees, the IESO proposes a $10 million operating reserve within its Forecast Variance and Deferral Account (FVDA), an increase of $4 million over the operating reserve approved through the IESO's 2018 revenue requirement application.[5] The IESO states that the operating reserve financially supports unplanned work activities that may be material in scope and outside of the control of management (i.e., to fund activities requested of the IESO that were not contemplated during the development of the Minister-approved Business Plan). The FVDA is also used to track the difference between the IESO's actual expenses and the OEB-approved revenue requirement.

1.1 Status of Issues

A settlement conference was held between the IESO and intervenors on July 17 and 18, 2019. The IESO filed a settlement proposal arising from the settlement conference on August 2, 2019 which reflected the agreement reached on a limited set of issues between the IESO and participating intervenors. On August 7, 2019, OEB staff filed a

[1] Exhibit A/Tab 2/Schedule 2/p. 6 and IESO Argument-in-Chief
[2] EB-2018-0143, Decision on Interim Fees, December 18, 2018.
[3] EB-2017-0150
[4] EB-2018-0143
[5] EB-2018-0143

submission in support of the settlement proposal. On August 9, 2019, the OEB accepted the settlement proposal.

Issues that were not settled as part of the settlement proposal are outlined below:

- **Issue 1.1:** Is the IESO's Fiscal Year 2019 net revenue requirement of $190.8 million appropriate?
- **Issue 1.3:** Are the IESO's projected staffing levels and compensation (including salaries, benefits, pensions and other post-employment benefits) appropriate and reasonable?
- **Issue 1.4:** Is the IESO's Capital Expenditure budget for Fiscal Year 2019 appropriate?
- **Issue 2.1** (partial settlement on the methodology only, but not the level of the fees): Is the methodology used to derive the proposed IESO Usage Fees and the resulting Usage Fees of $1.227/MWh for domestic customers and $1.0125/MWh for export customers appropriate?
- **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 and Deferral Account that is in excess of the $10 million operating reserve appropriate?
- **Issue 5.2:** Is the Total Compensation Study for represented and non-represented staff appropriate?
- **Issue 6.1:** Is the reporting on financial and operational performance of the Market Renewal Program for 2017, 2018, 2019, and proposed future reporting, appropriate?
- **Issue 6.2:** Are the IESO's forecast 2019 operational costs for the Market Renewal Program appropriate in the context of the scope and timing of the overall project?
- **Issue 6.3:** Are the IESO's forecast 2019 capital costs for the Market Renewal Program appropriate in the context of the scope and timing of the overall project?

2 SUMMARY OF OEB STAFF SUBMISSION

OEB staff recommends approval of the $190.8 million revenue requirement and usage fees proposed by the IESO on an interim basis, pending further and better evidence on the MRP and other core activities being filed in the IESO's application for 2020, which is anticipated shortly. To the extent that the IESO can clarify in its reply submission the matters addressed by OEB staff in this submission, without introducing new evidence, this will inform the OEB to what extent the IESO should be required to further substantiate its position on these matters in its next fee application.

The IESO's proposed revenue requirement was premised on work related to the Capacity and Energy work streams of the MRP. With the IESO's decision not to proceed with detailed design work on the Capacity work stream, it is not clear to OEB staff to what extent the requested revenue requirement and staffing levels remain appropriate. In addition, OEB staff is of the view that further information from the IESO on program activity, staffing and budget changes will help clarify the IESO's proposed expenditures, revenue requirement and fees for 2019 and beyond, particularly in light of changes resulting from the new interim Conservation Framework, the wind-down of the Green Ontario Fund, and corporate realignment at the IESO. OEB staff also notes opportunities to enhance the understanding of IESO activities that are wholly or partially funded by revenues outside of the OEB-approved IESO fee – specifically, the activities of the IESO's Market Assessment and Compliance Division (MACD) and the IESO's activities related to the Green Ontario Fund.

OEB staff recommends approving the 2019 revenue requirement on an interim basis because no increase is being requested. OEB staff has no concerns with the majority of the proposed revenue requirement, and the resulting fee is actually lower for domestic customers than the current rate (though very slightly higher for export customers).[6] Accepting the IESO's revenue requirement and usage fees on an interim basis leaves them subject to a future adjustment. In other words, it does not prevent the OEB from determining through the application for 2020 that the revenue requirement and fees were not appropriate and referring them back to the IESO for further consideration under section 25(4) of the *Electricity Act, 1998.* By the same token, it would be a relatively straightforward exercise to finalize the 2019 revenue requirement and usage fees if the OEB determines that it is satisfied with the supporting evidence.

OEB staff notes that this approach will allow for OEB staff's concerns to be addressed while avoiding having two revenue requirement applications before the OEB at the

[6] The approved fees for 2018 were $1.2402/MWh for domestic customers (compared to $1.227/MWh proposed for 2019) and $1.0115/MWh for export customers (compared to $1.0125/MWh proposed for 2019).

same time – a new application for 2020, which is expected to be filed imminently,[7] and a revised 2019 application if the fees were instead not approved.

In terms of the IESO's request to increase its operating reserve to $10 million for 2019, OEB staff is of the view that the IESO should not be granted approval. Rather, OEB staff submits that the IESO should maintain its operating reserve of $6 million for 2019 (i.e., the same amount as approved in the 2018 IESO revenue requirement proceeding). OEB staff submits that the matter pertaining to the level of the operating reserve for 2019 can be finalized in this current proceeding.

In relation to whether the total compensation study for represented and non-represented, non-executive, staff filed by the IESO is appropriate, OEB staff suggests that the IESO provide a report on progress in future revenue requirement applications, in order to ensure the IESO is undertaking best efforts to align compensation with peer group comparators in the energy sector. OEB staff submits that this expectation should recognize the 2025 timeline for these efforts so that progress towards significant plan changes can be appropriately monitored.

OEB staff notes that the IESO's proposed materiality threshold level of $4 million, above which an approved business case or similar documentation would be required to be filed, appears high relative to other regulated entities in the sector. If the same 0.5% threshold that is currently used for electricity distributors and transmitters with a revenue requirement between $10 million and $200 million was applied to the IESO, a threshold of approximately $1 million would result. OEB staff is of the view that it could be appropriate for the OEB to implement a threshold of this level for consistency with other regulated entities. However, in the event the IESO's revenue requirement increases above $200 million, a threshold of $3 million could be implemented to ensure consistency with thresholds established for regulated electricity transmitters.

If the OEB chose not to establish a materiality threshold that aligned with electricity distributors and transmitters, the OEB could instead implement the IESO's proposed materiality threshold level of $4 million for consistency with the IESO's internal threshold for determining if Board of Directors (BOD) approval is required for a project. This materiality threshold could then be revisited in future IESO revenue requirement applications to determine whether that level appears to be appropriate, after some experience has been gained with the $4 million threshold. OEB staff notes that a decision on the materiality threshold level can be made in this proceeding independently of the OEB's decision on the 2019 revenue requirement and usage fees.

[7] Section 25(1) of the *Electricity Act, 1998* requires the IESO to file its annual application at least 60 days before the beginning of the fiscal year, as long as the Minister has approved the business plan. This year's application was filed on January 28, 2019.

3 EXPENDITURE AND REVENUE REQUIREMENTS

The OEB staff submissions on the following unsettled issues are addressed in this section:

- **Issue 1.1:** Is the IESO's Fiscal Year 2019 net revenue requirement of $190.8 million appropriate?
- **Issue 1.3:** Are the IESO's projected staffing levels and compensation (including salaries, benefits, pensions and other post-employment benefits) appropriate and reasonable?
- **Issue 1.4:** Is the IESO's Capital Expenditure budget for Fiscal Year 2019 appropriate?
- **Issue 6.1:** Is the reporting on financial and operational performance of the Market Renewal Program for 2017, 2018, 2019, and proposed future reporting, appropriate?
- **Issue 6.2:** Are the IESO's forecast 2019 operational costs for the Market Renewal Program appropriate in the context of the scope and timing of the overall project?
- **Issue 6.3:** Are the IESO's forecast 2019 capital costs for the Market Renewal Program appropriate in the context of the scope and timing of the overall project?

3.1 Revenue Requirement

The IESO proposes to maintain the same revenue requirement for 2019 as approved in 2017 and 2018 – $190.8 million.[8] The $190.8 million revenue requirement proposed for 2019 is composed of two elements: (i) core operations totaling $179.1 million and (ii) MRP totaling $11.7 million. The average 2019 Full Time Equivalents (FTEs) for core operations and MRP are 717 and 97, respectively.

The IESO's proposed staffing levels for 2019 represent an increase of 111 FTEs compared to 2018.[9] The IESO attributes the increase in staffing to the need for additional support required for the MRP. In its Argument-in-Chief, the IESO reiterates that the associated costs and staffing levels are needed for the IESO to deliver its Business Plan priority initiatives, which include:[10]

[8] Exhibit A/Tab 1/Schedule 1/p. 1
[9] Exhibit I/Tab 1.3/Schedule 1.09 OEB Staff 9
[10] IESO Argument-in-Chief, p. 4

- 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
- Implementing conservation changes to better align the system and consumer needs and transition to the market of the future

The IESO's forecasted capital expenditures for core operations initiatives in 2019 are $17.3 million and $26 million for MRP.

Submission

OEB staff recommends approval of the $190.8 million revenue requirement and usage fees proposed by the IESO on an interim basis. OEB staff's rationale is provided below in detail, starting with concerns about the IESO's proposed expenditures on the MRP, followed by more general concerns related to the clarity and transparency of some of the IESO's evidence in support of its proposed revenue requirement.

3.2 Market Renewal Program

In light of the IESO's decision not to proceed with detailed design work on the Capacity work stream, it is not clear to OEB staff that the requested revenue requirement and staffing levels (which remain unchanged) remain appropriate.

The IESO's MRP is comprised of two work streams: Energy and Capacity. For each stream, the IESO's application identified that there were two phases – high level design (HLD) and detailed design – whereby the costs related to HLD are operating costs and the costs related to detailed design are capitalized (i.e., recovered in future years). The Energy work stream is comprised of three initiatives – Single Schedule Market (SSM), Day-Ahead Market (DAM) and Enhanced Real-time Unit Commitment (ERUC). In the initial application, the Capacity work stream was comprised of the Incremental Capacity Auction (ICA).

On July 16, 2019, the IESO announced that it was no longer proceeding with the detailed design work related to the ICA due to the IESO's updated annual planning outlook (APO). According to the IESO, the APO indicated there is sufficient energy available in the province for the next two decades and there was also a lack of stakeholder support to proceed with the ICA.[11] As a result, the IESO submitted an evidence update with a revised approach to the Capacity work stream on August 26, 2019.[12]

In response to an OEB staff interrogatory, the IESO provided information comparing updated MRP costs for 2019 against the initial budget. OEB staff has compiled that information in the following table:[13]

Table 1: 2019 MRP Total Costs – Updated Forecast vs Initial Budget

		Operating		Capital		Total	
Work Stream	**Cost Category**	**Updated Forecast**	**Initial Budget**	**Updated Forecast**	**Initial Budget**	**Updated Forecast**	**Initial Budget**
Energy	Compensation & Benefits	0.9	0.9	10.0	10.0	10.9	10.9
	Professional & Consulting	1.3	1.3	3.8	3.8	5.1	5.1
	Operating & Admin	0.1	0.1	12.2	12.2	12.3	12.3
	Energy Total	**2.3**	**2.3**	**26.0**	**26.0**	**28.3**	**28.3**
Capacity	Compensation & Benefits	3.6	3.5	-	7.0	3.6	10.5
	Professional & Consulting	0.9	1.1	-	3.3	0.9	4.4
	Operating & Admin	0.3	0.2	-	1.7	0.3	1.9
	Capacity Total	**4.8**	**4.8**	**-**	**12.0**	**4.8**	**16.8**
General	Compensation & Benefits	1.3	1.3	-	-	1.3	1.3
	Professional & Consulting	2.4	2.4	-	-	2.4	2.4
	Operating & Admin	0.9	0.9	-	-	0.9	0.9
	General Total	**4.6**	**4.6**	**-**	**-**	**4.6**	**4.6**
Program	Compensation & Benefits	5.8	5.7	10.0	17.0	15.8	22.7
	Professional & Consulting	4.6	4.8	3.8	7.1	8.4	11.9
	Operating & Admin	1.3	1.2	12.2	13.9	13.5	15.1
	Program Total	**11.7**	**11.7**	**26.0**	**38.0**	**37.7**	**49.7**

Submission

OEB staff notes that despite the significant changes to work activities resulting from the IESO's decision to not proceed with detailed design work on the Capacity work stream, the IESO remains of the view that they will require the same amount of money, from an operating cost perspective, for the purpose of its 2019 revenue requirement.[14]

As indicated in School Energy Coalition (SEC) interrogatory 26, the IESO's intent is to maintain the same number of staff, 25 FTEs, involved in the Capacity work stream at

[11] IESO Stakeholder Advisory Committee Meeting Notes – August 14, 2019, p. 5
[12] The IESO notes in its Argument-in-Chief that "there have been no material changes to the Energy work stream and this work stream continues to progress in line with expectations".
[13] Consolidation of tables provided at Exhibit I/Tab 6/Schedule 1.35 OEB Staff 35
[14] Exhibit I/Tab 6/Schedule 1.35 OEB Staff 35

year end for 2019 as there was at the time of filing the initial application.[15] At the same time, there appears to be no deliverable akin to the ICA for these staff that will “renew” Ontario’s electricity market. In response to OEB staff interrogatory 29, the IESO stated “the following work makes up the revised Capacity work stream:

- Final stakeholder clarification of feedback from the ICA HLD;
- Stakeholdering of the complementary capacity mechanisms to ensure adequate supply in Ontario in the future;
- Continued effort to finalize a number of 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 (i.e., after the completion of the formal TCA Project) including a cost/benefit assessment approved by the IESO Board.”[16]

It appears that these 25 FTEs will be continuing to engage stakeholders and tweak existing competitive mechanisms for a “limited” capacity need that will arise sometime over the next decade. OEB staff is unclear whether 25 FTEs are necessary to complete this work, particularly given that the IESO has indicated that there is no need for capacity for the foreseeable future.

In addition, an element of the revised Capacity work stream involves the IESO engaging stakeholders on alternative procurement approaches that could work in concert with capacity auctions to meet capacity needs. In response to questions in Association of Major Power Consumers in Ontario (AMPCO) interrogatory 37, the IESO was not able to provide a cost estimate or the number of staff resources required to carry out this work in 2019.[17]

The IESO also notes in its response to OEB staff interrogatory 33 that before the announced changes regarding cancellation of the detailed design work on the Capacity work stream, actual spending under the “General” category had been apportioned 50% - 50% between the two MRP work streams – Energy and Capacity.[18] This “General” category represents MRP support costs (i.e., IESO staff that assist on MRP but are not dedicated to the MRP). After cancellation of that Capacity-related detailed design work, the dollar amount being requested in relation to General support of the MRP did not change. Instead, according to the IESO, most of the budget was shifted to the other

[15] Exhibit I/Tab 6/Schedule 10.26 SEC 26
[16] Exhibit I/Tab 6/Schedule 1.29 OEB Staff 29
[17] Exhibit I/Tab 6/Schedule 13.37 AMPCO 37
[18] Exhibit I/Tab 6/Schedule 1.33 OEB Staff 33

work stream (i.e., Energy). The IESO specifically noted that "following the announced changes regarding the Capacity work stream, resource effort budgeted under 'General' has been re-directed to primarily support the Energy work stream … for the remainder of 2019".[19]

The IESO's response to AMPCO interrogatory 41 indicates that there will now be 15 General FTEs supporting 82 MRP FTEs (previously, those same 15 FTEs supported 110 MRP FTEs).[20] OEB staff notes there has been no material change in scope to the Energy work stream that would trigger the need for more non-MRP support resources since the initial application was submitted.[21] There was also no explanation in the updated evidence indicating why the Energy MRP staff will require more non-MRP staff to support them. As a consequence, OEB staff does not understand why there is not a reduction in the number of FTEs supporting the MRP.

Furthermore, as indicated in response to OEB staff interrogatory 31, the IESO's forecast of O&M spending on the Capacity work stream increased by $1.5 million to $2.6 million for the period of July 2019 to December 2019 (i.e., after the ICA was cancelled) relative to the initially budgeted amount (which was established based on the IESO's expectation that the ICA would be implemented).[22] The IESO underspent from January to June 2019 and then increased forecast spending for the second half of the year to the full budgeted amount. As the IESO explained in its interrogatory response, the increase in the latter half of the year includes the detailed design costs related to the ICA that need to be expensed due to the cancellation of the ICA.[23] However, OEB staff notes that amounted to only $0.5 million.[24]

OEB staff acknowledges the challenge the IESO faces in this current proceeding with managing the many deviations from its expectations related to the MRP since the application was initially filed. OEB staff's overall concern is that all of the deviations discussed above seem to suggest there should have been a reduction in the 2019 MRP portion of the revenue requirement, yet the IESO is requesting the same amount of money.

Further explanation of this in the IESO's reply submission, or if new evidence is required, further information in the IESO's 2020 fees application would be helpful.

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[19] *Ibid.*
[20] Exhibit I/Tab 6/Schedule 13.41 AMPCO 41
[21] On page 16, the IESO's Argument-in-Chief states "There have been no material changes to the Energy work stream of the MRP".
[22] Exhibit I/Tab 6/Schedule 1.31 OEB Staff 31
[23] *Ibid.*
[24] IESO Argument-in-Chief, p. 14

Consolidation of Capacity-related Work

OEB staff believes it is important to observe that the IESO Capacity-related work and associated spending is not limited to the MRP.

The focus of much attention at this time is currently on the Transitional Capacity Auction (TCA) since the IESO intends to implement the TCA in early December 2019. However, the TCA is not part of the MRP and is therefore separately funded through the IESO's Core budget. As such, the IESO essentially has a second Capacity work stream outside of MRP and the IESO estimates the TCA will cost between $7.4 million and $10 million over the next few years.[25]

Given the above, OEB staff is of the view that it would assist the OEB if the IESO clarified, based on the available information, how the IESO's revenue requirement involving Capacity-related work is being spent as efficiently as possible so that the value to ratepayers is being maximized. For example, OEB staff understands that the IESO has non-MRP staff leading stakeholder engagements to obtain input on Capacity-related issues in developing and evolving the Demand Response Auction into the TCA, while other MRP staff are leading separate stakeholder engagement processes on Capacity-related work.

It would assist OEB staff's understanding if the IESO clarified why the TCA cannot be included in the MRP, particularly with the cancellation of the ICA, in order to avoid potential duplication of effort and particularly in relation to stakeholder engagement. Due to that cancellation, the TCA is no longer transitional in nature. As a result, the TCA has been renamed the "Capacity Auction" by the IESO and it has become another approach to develop a form of the ICA which will evolve over time to include all resources.[26] The IESO may wish to address this specific matter in its reply submission.

Lack of a Board of Directors' Approved Business Case

OEB staff's final concern regarding the MRP encompasses both the Energy and Capacity work streams and relates to the fact that the IESO has submitted an application requesting approval of significant costs related to the MRP and the IESO has already spent a substantial amount, but has still not received IESO BOD approval of a business case to justify that actual and forecast spending. According to the response in SEC interrogatory 28, as at end of June 2019, the IESO had spent $1.7 million (of the $2.3 million operating cost budget) and $13.4 million (of the $26 million capital budget) in relation to the Energy work stream. The response to Vulnerable

[25] Presentation to IESO Board, Enhancing Ontario's Electricity Markets: MRP and TCA, June 12, 2019, page 20.
[26] IESO Argument-in-Chief, p. 12

Energy Consumers Coalition (VECC) interrogatory 14 indicates that the IESO spent a further $2.8 million of the operating cost budget in relation the Capacity and General work streams.

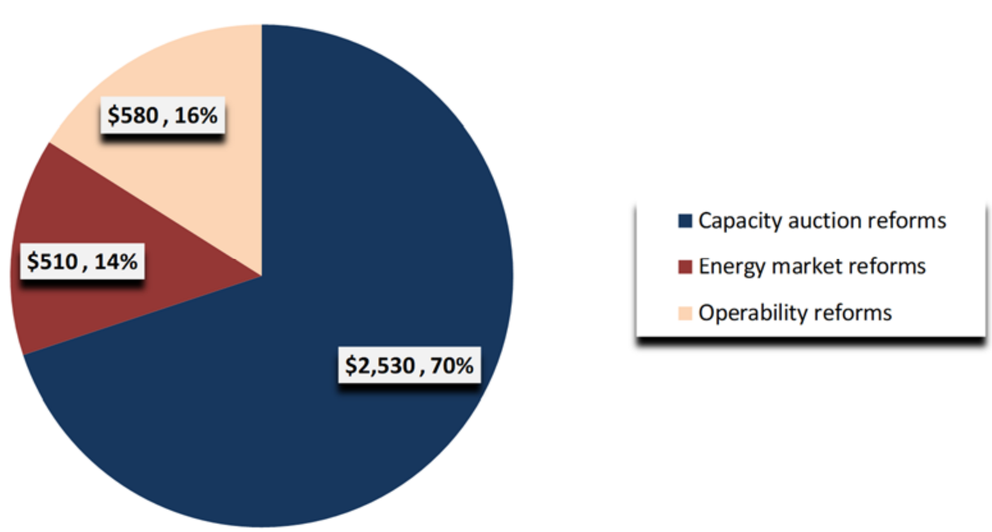
The IESO was asked in OEB staff interrogatory 25 to explain why the IESO considered it reasonable to spend on the MRP prior to the finalization of the MRP's business case.[27,28] The IESO response noted:

> The IESO hired [The Brattle Group] to assess whether a comprehensive [MRP] would yield benefits to the sector when compared to the expected costs … the 2017 Benefits Case concluded that the MRP is expected to deliver $3.4B in net benefits over a 10-year period based on costs of approximately $200M. The significant difference between the benefits and cost of the project provided the IESO with confidence that ongoing expenditure was warranted to develop the high level designs necessary to advance the project.[29]

OEB staff notes that, with the cancellation of the ICA, however, the benefits identified in the Brattle Group's report (Brattle Report) are now limited to the Energy Market reforms which represents 14% of the Brattle Group's original forecast, as shown in the chart below (i.e., the red slice).[30] In addition, OEB staff is uncertain whether that 14% is overstated since locational marginal pricing (LMP) was intended to apply to 100% of load customers connected to the IESO-controlled grid when the Brattle Report was prepared and the subsequent IESO SSM HLD was issued. However, the IESO decided to make a major change – not to apply LMP to non-dispatchable load customers. According to the Market Surveillance Panel, the remaining customers – dispatchable loads – that will pay LMP represent "only a few percent of all load" in Ontario.[31]

[27] Exhibit I/Tab 6/Schedule 1.30 OEB Staff 30
[28] Exhibit I/Tab 6.2/Schedule 1.25 OEB Staff 25
[29] *Ibid.*
[30] "The Future of Ontario's Electricity Market A Benefits Case Assessment of the Market Renewal Project" Brattle Report
[31] http://www.ieso.ca/-/media/Files/IESO/Document-Library/engage/mrpum/mrpum-20190702-market-surveillance-panel.pdf?la=en

Figure 1: Allocation of MRP Benefits ($M) - Brattle Report



The response to OEB staff interrogatory 25 referenced above claimed HLD work was warranted based on the Brattle Report.[32] However, the IESO has proceeded beyond the HLD work with spending on Detailed Design work (including on the ICA which will no longer be implemented).

In developing the current business case, the IESO also stated in its May 16, 2019 presentation to stakeholders that "[a]n approved Business Case is a pre-requisite to supporting the project for the Detailed Design and Implementation phases".[33] OEB staff agrees with this statement. However, the IESO formally announced, on August 22, 2019, that all future spending related to the MRP would focus on the Detailed Design phase related to the Energy stream, despite the absence of a business case being approved by the IESO BOD.[34]

As the OEB already stated in its Decision on Motion issued in May 2019, "[t]he lack of a business case on the record for the MRP means that information on which the OEB can base its assessment of the IESO's expenditures is limited".[35] In the IESO's application for 2008 fees, the OEB denied approval of an $8 million capital expenditure to build and implement the DAM, noting: "The IESO board of directors has yet to approve the DAM.

[32] Exhibit I/Tab 6/Schedule 1.25 OEB Staff 25
[33] http://www.ieso.ca/-/media/Files/IESO/Document-Library/engage/mrpum/mrpum-20190516-presentation.pdf?la=en
[34] http://www.ieso.ca/-/media/Files/IESO/Document-Library/engage/mrp-edd/energy-detailed-design-engagement-plan.pdf?la=en
[35] Decision on Motion and Procedural Order No. 4, May 31, 2019, p. 4

The cost-benefit analysis that is being prepared will no doubt be very useful to the IESO board of directors. This Board also requires that type of analysis."[36]

IESO responses to a number of interrogatories emphasize that the focus of the proceeding should be solely on 2019. OEB staff notes that to the extent that the scope of the MRP has changed over the course of this proceeding, an updated business case would better position the OEB to determine the appropriateness of both 2019 and future budgets.[37] As a result, OEB staff proposes that the 2019 revenue requirement and resulting usage fees should not be finalized at this time and is supportive of establishing a materiality threshold as discussed in Section 7 of this submission.

3.3 Other Considerations

The considerations outlined above focus on the IESO's activities related to MRP. Given that OEB staff is recommending that the proposed 2019 revenue requirement and usage fees be approved on an interim basis, OEB staff notes that there will be an opportunity for additional information in other areas that would help clarify the IESO's proposed expenditures, revenue requirement and fees for 2019. Most of the matters below may affect the 2019 revenue requirement and usage fees except for the discussion on MACD.

First, OEB staff requested more information from the IESO on the migration of staff, changes to budget or organizational structure, and impact on work programs in light of the new interim Conservation Framework,[38] the wind down of the Green Ontario Fund,[39] and a corporate realignment at the IESO,[40] in addition to the IESO's work on the MRP. Although variations in staff between 2018 and 2019 were provided in response to interrogatories, the IESO indicated that it does not utilize activity-based planning/costing, and that examination of department names could serve as a proxy for major activities and areas of focus.[41] Further, major work products, activities, or projects were not described in interrogatory responses, including for areas that have been subject to major changes in 2019.

[36] EB-2007-0816, Decision and Order, April 22, 2008, pp. 4-5. The OEB also noted on p. 5 that the proposed capital expenditure would have no impact on the revenue requirement for 2018.
[37] For example, according to the IESO's response to OEB staff interrogatory 34, the 2019 installment on the Dispatch Scheduling and Optimization (DSO) capital investment is about $13 million (i.e., 50% of the 2019 MRP capital budget). However, the current business case being developed by the IESO indicates the DSO will ultimately cost about $31 million: IESO Presentation - MRP Business Case, August 26, 2019, p. 52
[38] IESO website: http://www.ieso.ca/en/Corporate-IESO/Ministerial-Directives
[39] Exhibit B/Tab 1/Schedule 1/p. 5
[40] Exhibit A/Tab 2/Schedule 2/p. 6 IESO 2019-2021 Business Plan
[41] Exhibit I/Tab 1.3/Schedule 1.09 OEB Staff 9

Variations in staff between 2018 and 2019 highlight significant headcount additions in 2019, despite the IESO holding its budget to 2017 and 2018 levels. For instance, in 2019 the IESO is intending to add nine incremental staff in IT, three incremental staff in the Policy, Engagement and Innovation division, 12 additional staff in the general counsel group, one additional staff member in the contract management group, nine more staff in the corporate services division, one additional staff member in Human Resources, and 82 additional staff on the MRP. The IESO states that the majority of these additional FTEs are required to support the detailed design phase of the MRP.

Overall, the IESO has forecasted an incremental increase of 111 staff, or 15% organization wide. When asked by OEB staff about what program activities have been cancelled, modified, reduced, or replaced to make room for the new and expanded activities in 2019 given that the IESO is maintaining the same revenue requirement, the IESO only noted the discontinuation of the Conservation First Framework, but stated that this has no resourcing impact in 2019.

It is clear that at least some of the incremental headcount is being capitalized, but it is not clear how many of the incremental staff are being capitalized or how many of the incremental head count are full-time permanent and will be continuing even after the end of these capitalized projects, in other words leading to future revenue requirement increases. Given all the organizational changes at the IESO, it is also not clear what work each group is now undertaking and whether the headcount specified is appropriate to complete that work.

OEB staff appreciates that the IESO is proposing a flat budget for 2019. However, further information on why or how a lower revenue requirement is not possible or reasonable would be helpful.

Second, further clarity on how the IESO designed and delivered, directly or through contracted third parties, various programs funded through the Green Ontario Fund[42] and how the wind-down of the program in 2019 impacts the budget would be helpful.

The IESO advises that "[t]he provincial government announced the closure of the [Green Ontario Fund] programs delivered by the IESO in mid-2018"[43] and that in 2019, "[…] the IESO will be supporting the Green Ontario Fund as it draws its operations to a close."[44] The IESO states that "all of the work that the IESO is doing for the Green Ontario Fund does not impact the IESO's revenue requirement and is funded separately

[42] Exhibit A/Tab 3/Schedule 1/p. 32
[43] Exhibit I/Tab 1.1/Schedule 10.01 SEC 1/ Attachment 2/p. 20
[44] Exhibit B/ Tab 1/ Schedule 1/p. 5

through a Transfer Payment Agreement with the province. The IESO will be reimbursed for all of its termination and wind-up costs under the agreement."[45]

Further clarity on the IESO's work on the Green Ontario Fund and how it does not impact the IESO's 2019 revenue requirement, given that regular and temporary staff were hired by the IESO to support Green Ontario Fund activities, which are now winding down, would be helpful.[46,47]

There may also be opportunities in future applications to enhance clarity around the IESO's MACD which is funded through a combination of the IESO fees and a separate Adjustment Account established under the Market Rules.[48] The MACD budget is reviewed and approved by the Audit Committee of the IESO BOD.[49] The IESO states that it "[…] deposits penalty payments and other prescribed funds such as payment adjustments arising from resolution of settlement disputes and negotiated settlements into the Adjustment Account".[50] The IESO adds that it "[…] does not seek fee recovery for expenses reimbursed via the Adjustment Account".[51]

While the OEB has not expressed an interest for more clarity on this area in prior revenue requirement applications, given recent changes described above, it would be helpful if the IESO provided further explanation in future applications on how the IESO delineates MACD activities, budgets and spending between the Adjustment Account and OEB-approved IESO fees. OEB staff is not proposing that the 2019 revenue requirement be impacted by any further information that may be provided in this area in future applications.

[45] Exhibit I/ Tab 0/ Schedule 2.11 Building Owners and Managers Association, Greater Toronto 11
[46] EB-2018-0143, Exhibit A/Tab 2/Schedule 2/p. 19
http://www.rds.oeb.ca/HPECMWebDrawer/Record/607055/File/document
[47] EB-2018-0143 Exhibit I/ Tab 1.1/ Schedule 1.04 OEB Staff 4/p. 2
[48] Exhibit I/Tab 1.3/Schedule 1.10 OEB Staff 10
[49] *Ibid.*
[50] *Ibid.*
[51] *Ibid.*

4 USAGE FEES

The OEB staff submission on the following unsettled issue is addressed in this section:

- **Issue 2.1** (partial settlement on the methodology only, but not the level of the fees): Is the methodology used to derive the proposed IESO Usage Fees and the resulting Usage Fees of $1.227/MWh for domestic customers and $1.0125/MWh for export customers appropriate?

In its application, the IESO requests approval of a domestic usage charge fee of $1.227/MWh and an export usage fee of $1.0125/MWh. During the course of the settlement conference, the methodology used to derive the usage fees was settled, however, the level of the usage fees was not settled. For context, the IESO noted that the domestic usage fee and export usage fee approved by the OEB in the IESO's 2018 revenue requirement application[52] were $1.2402/MWh and $1.0115/MWh, respectively. When questioned on the underlying drivers for the changes from 2018 to 2019, the IESO attributed the changes in usage fees to:[53]

- Changing weather and economic conditions
- Higher TWh from embedded generation in 2019
- Higher forecast losses in 2019
- Decrease in withdrawals for domestic use

Submission

Section 25(4) of the *Electricity Act, 1998* states that the OEB may either approve the IESO's proposed expenditure and revenue requirement and the proposed fees, or the OEB may refer them back to the IESO for further consideration with its recommendations.

For the reasons described in this submission, OEB staff recommends that the $190.8 million revenue requirement and usage fees proposed by the IESO be approved on an interim basis.

[52] EB-2018-0143
[53] Exhibit I/Tab 2.1/Schedule 4.11 Energy Probe 11

5 FORECAST VARIANCE AND DEFERRAL ACCOUNT

The OEB staff submissions on the following unsettled issues are addressed in this section:

- **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 and Deferral Account that is in excess of the $10 million operating reserve appropriate?

The IESO proposes an operating reserve of $10 million in 2019 to fund operations in the event of revenue shortfalls or unanticipated expenditures. The proposed operating reserve is approximately 5% of the IESO's proposed 2019 net revenue requirement and represents a $4 million increase from the operating reserve approved in 2018.[54] The IESO noted that the primary objective of the operating reserve, retained in the FVDA, is to fund operations if a revenue shortfall occurs or unexpected expenditures are incurred and to minimize rate fluctuations to rate payers as a result of such events.[55] The IESO attributes the $4 million increase from the 2018 approved operating reserve to increased capital requirements and project complexities, as well as efforts pertaining to MRP, transmission capacity auctions and settlements replacement.[56]

The need for the $10 million operating reserve was further addressed in the IESO's updated evidence. The IESO noted that the reduced scale of the MRP project primarily reduced capital spending, and as a result, the reduction does not impact uncertainties in operating expenses nor is it related to operating reserve.[57] In its Argument-in-Chief, the IESO stated that the operating reserve of $10 million is appropriate given the complexity of its mandate.

In response to an interrogatory from VECC, the IESO stated that it last required its operating reserve in 2017.[58] This occurred as part of the IESO finalizing its 2018 audited financial statements in March of 2019, when the IESO retroactively applied a change in its accounting policy regarding the discount rate used to value the IESO's supplemental employee pension and other post-employment benefits (OPEB) plans' liabilities. By retroactively applying the accounting policy change, the IESO incurred an additional

[54] EB-2018-0143
[55] Exhibit I/Tab 4.1/Schedule 1.18 OEB Staff 18
[56] Exhibit I/Tab 4.0/Schedule 3.08 VECC 8
[57] Exhibit I/Tab 6.0/Schedule 1.36 OEB Staff 36
[58] Exhibit I/Tab 4.0/Schedule 3.08 VECC 8

expense of $13.4 million in the FVDA – resulting in a deficit of $4.7 million in the FVDA in 2018.

In response to an interrogatory, the IESO highlighted that in instances where the operating reserve is insufficient, and the FVDA account is in a deficit balance, the IESO will seek to recover operating reserve revenue deficits in the subsequent revenue requirement submission. The IESO stated that such a circumstance would result in rate volatility for the IESO or additional pressure on operating costs. However, the IESO is not proposing to increase its revenue requirement for fiscal 2019 to recover the $4.7 million FVDA deficit.[59] Instead, the IESO is in the process of developing a strategy to address the deficit-funding gap and will address this matter in future rate filings with the OEB.

Submission

OEB staff is not persuaded that there is a need to increase the operating reserve to $10 million for 2019. Rather, OEB staff submits that the IESO should maintain its operating reserve of $6 million for 2019 (i.e., the same amount as that approved in the 2018 IESO revenue requirement proceeding). The IESO's reasoning for the $4 million increase in the operating reserve is attributed to increases in capital requirements and project complexities associated with the IESO's key risks. OEB staff notes, however, that every year the IESO is faced with uncertainty and project complexities. In addition, when questioned by OEB staff on specific examples of potential volatilities that could drive uncertainty, and thus the need for an increase in the operating reserve, the IESO did not provide specific examples.[60]

Examination of the FVDA and whether it has been in a surplus or deficit position from 2015 to 2018 reveals that the ending balance of the FVDA has consistently been a surplus, with the exception of the impact of the retroactive adjustment. For example, the IESO rebated $9.6 million and $12.6 million to Market Participants in 2015 and 2016, respectively.[61] As a result, OEB staff submits that the reasoning for the $4 million increase in the IESO's operating reserve does not appear to be sufficiently justified based on its historical usage and a lack of specific, incremental risks arising in 2019.

In the event the IESO requires additional funds, it has the option of accessing the line of credit provided by the Ontario Electricity Financial Corporation.[62] However, based on

[59] Exhibit I/Tab 4.1/Schedule 1.18 OEB Staff 18
[60] *Ibid.*
[61] *Ibid.*
[62] Exhibit I/Tab 4.0/Schedule 3.08 VECC 8

the historical use of its operating reserve, it does not seem likely that the operating reserve will be used.

The IESO stated that as a result of its retroactive application of an accounting policy change, the IESO is now in an operating deficit position as of the end of 2018. However, the IESO is not proposing to recover its current operating deficit position. Instead, the IESO has highlighted that it will address the deficit-funding gap in future filings. OEB staff agrees that the IESO can address the deficit-funding gap in future revenue requirement filings.

With respect to the impacts of the IESO's retroactive accounting policy changes, OEB staff notes that the total adjustment in 2017 for pension and OPEB was $31.3 million.[63] Of this amount, $13.4 million has been recorded in the FVDA while $17.9 million has been recorded in the Public Sector Accounting Board (PSAB) Transition Item – Accumulated Deficit account.

The PSAB Transition Item – Accumulated Deficit sub-account was established on January 1, 2011 by the IESO as it recorded unrecovered PSAB transition items in accumulated deficit upon adoption of Canadian Public Sector Accounting Standards. The IESO includes the annual amortization of the accumulated deficit resulting from the PSAB transition items in the IESO's annual expenditures reported to the OEB for recovery through system fees. Similar to the operating deficit in the FVDA, the IESO stated that it intends to address the $17.9 million increase to the PSAB Transition Item – Accumulated Deficit account in a future application.[64]

In its Argument-in-Chief, the IESO argued that "the accounting restatement … confirms the merit for the $10 million operating reserve."[65] OEB staff does not agree with the IESO that the retroactive application of an accounting policy change (particularly for a non-cash item) warrants an increase in an operating reserve, which is intended to fund unforeseen operating costs that require a short-term cash outlay. The $13.4 million impact on the FVDA could simply be separated into another deficit account, similar to the PSAB Transition Item account, in which case it would have no impact on the FVDA operating surplus/deficit.

OEB staff does not oppose the inclusion of the $13.4 million in the FVDA, provided that these amounts are appropriately disclosed as a separate line item within the FVDA when the IESO brings forth its cost recovery strategy in its 2020 revenue requirement application. This option does not however change OEB staff's view on whether the operating reserve needs to increase at this time. The OEB and all parties in the 2020

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[63] Exhibit I/Tab 1.1/Schedule 1.04 OEB Staff 4
[64] *Ibid.*
[65] IESO Argument-in-Chief, p. 10

application must be able to assess how much of the 2019 operating surplus, if any, has been applied to offset the historical pension and OPEB costs in the FVDA, as well as whether or not that form of cost recovery is appropriate.

OEB staff is also of the view that any adjustments to the amortization of the PSAB Transition Item account should be appropriately disclosed with respect to how the $17.9 million increase in that account has been addressed in the IESO's recovery proposal.

6 COMMITMENTS FROM PREVIOUS OEB DECISIONS

The OEB staff submission on the following unsettled issue is addressed in this section:

- **Issue 5.2:** Is the Total Compensation Study for represented and non-represented staff appropriate?

As part of its agreement on Issue 5.4 in the OEB-approved settlement of its 2017 revenue requirement,[66] the IESO agreed to undertake a study to examine the 2018 compensation of represented and non-represented, non-executive, employees.[67] The study, conducted by Mercer (Canada) Limited (Mercer), examined elements such as base salary, active employee benefits, post-retirement benefits and pensions relative to the markets that the IESO competes with for talent. The study determined that on an overall organization basis, the IESO's total remuneration, including the value of all cash compensation, benefit and pension plans is positioned 11%, 22% and 18% above the market 50th percentile for energy, public and private sector peer groups, respectively.[68] Positioning above the 50th percentile on a total remuneration basis is primarily a result of the high employer provided value of pension plans. Contrasting this, the non-bargaining group is below the market competitive range of the energy peer group at -7% of the 50th percentile, however, it is within the market competitive range of the public and private sector peer groups at 5% and 1%, respectively.[69] In response to an interrogatory from Energy Probe, the IESO highlighted that it agreed with the study findings.[70]

To conduct the analysis, Mercer and the IESO collectively identified benchmark positions that provided a reasonable sample of the IESO's organizational functions and levels to compare to market. The benchmarking used for the study represents approximately 52% of employees at the IESO. Mercer considered the compensation levels to be within a "competitive range" if they fell within 10% of the target market positioning on a position-by-position basis and 5% on an overall organization basis when compared to target positioning.[71]

When questioned on the methodology used for the study, it was determined that market rates do not reflect any adjustment for cost of living.[72] Further, Mercer sent out

[66] EB-2017-0150
[67] Specifically, the employee groups considered in the study consisted of non-executive management (or non-union) and positions represented by the Power Workers' Union and the Society of United Professionals.
[68] Exhibit C/Tab 4/Schedule 1/Attachment 1/p. 2
[69] Exhibit C/Tab 4/Schedule 1/Attachment 1/pp. 2-6
[70] Exhibit I/Tab 5.2/Schedule 4.18 Energy Probe 18
[71] Exhibit C/Tab 4/Schedule 1/Attachment 1/p. 1
[72] Exhibit I/Tab 5.2/Schedule 1.21 OEB Staff 21

compensation surveys to each peer company, of which 82% of invited organizations shared data, and also used the existing Mercer database to attain information for the study.[73] Data sourced from Mercer's database was effective April 1, 2017, but was adjusted by the expected value of increases to bring it to May 1, 2018 levels in order to have the same effective date as that of the survey data. However, in response to an interrogatory, it was noted that to protect the confidentiality of organizations sharing compensation data with Mercer, the study did not identify the number of jobs for each organization that provided data.[74] In its Argument-in-Chief, the IESO submitted that it has fully and appropriately complied with its requirements regarding a non-executive total compensation study.[75]

Submission

As part of the OEB-approved settlement proposal for the IESO's 2017 revenue requirement, the IESO agreed to hire a third party consultant "[…] to conduct a total compensation study, including all components of compensation and benefits, for its represented and non-represented staff, excluding IESO executives" to file in its 2019 revenue requirement submission.[76] OEB staff notes that the Mercer study included in the IESO's 2019 revenue requirement application aligns with the requirements that parties agreed to in the 2017 settlement proposal.

OEB staff does not object to any of the findings presented in the Mercer study, however, the study highlights that the compensation for IESO staff, on an organizational basis, is higher than its peer groups. As indicated above, the Mercer study concludes that the IESO's compensation is 11% higher than energy sector peers. It is notable that Ontario Power Generation (OPG) is one of the energy peer groups of the IESO. The OEB has made disallowances related to excessive compensation levels in all four of OPG's previous payment applications.[77] For example, in the OEB's most recent Decision and Order on OPG payment amounts, it was determined that an annual reduction of $75 million was appropriate due to disallowances for excessive compensation, including direct compensation, pension, benefits and excessive allocated corporate costs.[78]

The IESO states that it has negotiated significant plan changes with staff members represented by the Society of United Professionals though, and the IESO indicates that

[73] Exhibit I/Tab 5.2/Schedule 9.05 Society of United Professionals 5
[74] Exhibit I/Tab 5.2/Schedule 10.14 SEC 14
[75] IESO Argument-in-Chief, p. 11
[76] EB-2017-0150, Settlement Proposal, p. 19
[77] EB-2016-0152, Decision and Order, December 28, 2017, page 74. ($35 million in EB-2007-0905, $145 million over two years in EB-2010-0008, and $200 million over two years in EB-2013-0321)
[78] *Ibid*., p. 84

the changes are designed to better align the IESO with its peer group comparators in the energy sector and are scheduled to become effective in 2025.

In order to ensure that the IESO is undertaking best efforts to align compensation with peer group comparators in the energy sector, OEB staff suggests that the IESO provide a report on progress in future revenue requirement applications. OEB staff further submits that this expectation should recognize the 2025 timeline for these efforts so that progress towards significant plan changes can be appropriately monitored.

7 MATERIALITY THRESHOLD

In Procedural Order No. 4, issued May 31, 2019, the OEB expressed its interest in receiving submissions from parties on whether it is appropriate to establish a materiality threshold for the IESO, and if so, at what level. This stemmed from a motion filed by SEC, which argued that the IESO had filed insufficient information for the OEB to determine whether the capital expenditures for material capital projects should be approved. As a result, SEC was of the view that a business plan, project plan, or similar documentation for each material capital project should be provided. The OEB noted in Procedural Order No. 4 that it does not have filing requirements for the IESO, however, the lack of a business case on the record for certain projects, such as MRP, would cause a limited assessment of IESO expenditures. As a result, in an effort to clarify matters for future proceedings, the OEB sought submissions on the establishment of a materiality threshold, and at what level that threshold should be set. Although the OEB does not have a definition of materiality for a system operator, such as the IESO, the OEB has established materiality thresholds for electricity distributors and transmitters. If an electricity distributor or transmitter exceed an established financial threshold for a proposed project/program, an approved business case or similar documentation would be required. For existing projects and programs, justification for year-over-year changes to its rate base, capital expenditures, OM&A and other items would be provided.

The IESO, in response to the request, addressed the matter of a materiality threshold in its Argument-in-Chief. The IESO submitted that a materiality threshold would only be appropriate if the threshold took into account the following considerations:[79]

1) The governing legislation provides that the business and affairs of the IESO are to be carried on without the purpose of gain[80] and the IESO does not make capital investments or carry on its activities for the purpose of earning a return;

2) The objects of the IESO include important electricity system matters such as planning, reliability and security[81] 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;

3) 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

[79] IESO Argument-in-Chief, pp. 18-19
[80] *Electricity Act, 1998*, s. 6(2)
[81] *Electricity Act, 1998*, s. 6(1)

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

The IESO also addressed the matter of what level the threshold should be by proposing a materiality threshold of capital projects with a total cost exceeding $4 million. This threshold would be consistent with the internal thresholds the IESO uses to determine if an IESO BOD approval is required for a project as IESO BOD approval is required for multi-year projects with total capital costs of $4 million or more.[82] However, the IESO notes that their internal materiality threshold is subject to periodic amendments following approval of the IESO BOD.

Submission

OEB staff submits that the establishment of a materiality threshold, above which an approved business case or variance analysis would be required, is appropriate, but that the IESO's proposed threshold level of $4 million appears high relative to other regulated entities in the sector. With regards to the IESO's proposal of a capital envelope rather than a fixed set of specific projects or initiatives, OEB staff notes that other utilities receive an envelope. However, it does not imply that the utilities do not have to justify that envelope based on specific projects with a business case.

When considering the $4 million threshold relative to the proposed 2019 revenue requirement of $190.8 million, OEB staff notes that it represents 2.1% of the IESO's proposed revenue requirement. For context, the OEB currently uses the following materiality thresholds for other regulated entities:

- **Electricity Distributors:** 0.5% of distribution revenue requirement for a distributor with a distribution revenue requirement greater than $10 million and less than or equal to $200 million.

- **Electricity Transmitters:** 0.5% of transmission revenue requirement for a transmitter with a transmission revenue requirement greater than $10 million and less than or equal to $200 million.

For utilities with a revenue requirement above $200 million, the OEB uses the following materiality thresholds:

- **Electricity Distributors:** $1 million for a distributor with a distribution revenue requirement of more than $200 million.

[82] IESO Argument-in-Chief, p. 19

- **Electricity Transmitters:** $3 million for a transmitter with a transmission revenue requirement of more than $200 million.

Based on the above comparison, it appears that the IESO's $4 million threshold would exceed those the OEB currently has in place for electricity distributors and transmitters – when calculated from the proposed 2019 revenue requirement of $190.8 million. If the same 0.5% threshold was utilized for the IESO, a threshold of approximately $1 million would result, and it may make sense to use a threshold of this level for consistency with other regulated entities. Similarly, if the IESO's revenue requirement were to exceed $200 million, a threshold of $3 million could be utilized, as it would maintain consistency with regulated electricity transmitters.

The OEB could also, however, choose to implement the materiality threshold level of $4 million given its consistency with the IESO's internal BOD approval and revisit whether the level is appropriate in future IESO revenue requirement applications, after some experience has been gained around the $4 million threshold and the types of projects that are brought forward by the IESO.

8 RECOMMENDATIONS AND CONCLUSION

OEB staff submits that the IESO has not established that its proposed revenue requirement of $190.8 million and the fees derived from that revenue requirement are appropriate, in view of the significant changes to the scope of the MRP since the application was filed, and for the other reasons provided above.

Nevertheless, OEB staff submits that the revenue requirement and fees should be approved on an interim basis, pending further and better evidence on the MRP and other core activities being filed in the IESO's application for 2020.

Given that the IESO's application for 2020 is expected soon, it makes more sense to address the concerns expressed by OEB staff in that application, rather than to refer the 2019 application back to the IESO "for further consideration with the Board's recommendations" under section 25(4) of the *Electricity Act, 1998*. It would be impractical for the IESO and for the OEB to have two applications in progress at the same time, one for 2019 and one for 2020.

In addition, the 2019 load forecast, in combination with a flat revenue requirement, would result in lower fees for domestic customers in 2019, and so referring the application back to the IESO would result in the unfortunate situation of charging these customers more than necessary until new fees are put in place. Finally, OEB staff does not take issue with the majority of the revenue requirement.

As a result, OEB staff suggests that the current interim fees be replaced with a new interim order, effective January 1, 2019, for the usage fees as proposed in this application. OEB staff supports the IESO's proposal to defer disposition of the 2018 FVDA balance to a future proceeding.

Accepting the IESO's revenue requirement and usage fees on an interim basis leaves them subject to a future adjustment, or finalization as proposed, as determined appropriate by the OEB.

All of which is respectfully submitted.