PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DÉFENSE DE L'INTÉRÊT PUBLIC

October 28, 2019 **VIA E-MAIL – 8 pages**

Ms. Christiane E. Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street
Toronto, ON
M4P 1E4

Dear Ms. Long:

Re: EB-2019-0002 – Independent Electricity System Operator
Submission of Vulnerable Energy Consumers Coalition (VECC)

As per Procedural Order No. 7 please find attached the Submission of the Vulnerable Energy Consumers Coalition with respect to the above-noted proceeding. We apologize for our late filing of VECC Submission.

As requested we have also directed a copy of same to all parties via e-mail.

Yours truly,

Original signed

John Lawford
Counsel for VECC

Cc: All parties

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PUBLIC INTEREST ADVOCACY CENTRE
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Independent Electricity System Operator

EB-2019-0002

Submission
Of the
Vulnerable Energy Consumers Coalition
(VECC)

October 28, 2019

Vulnerable Energy Consumers Coalition

Public Interest Advocacy Centre
613-562-4002
piac@piac.ca

Introduction- Summary

1. The Independent Electricity System Operator (IESO) is seeking review of its 2019 expenditure and the associated revenue requirement to be recovered from Ontario ratepayers. The Board allowed for a settlement conference and the parties filed a partial settlement of the issues which the Board accepted by way of its order on August 9, 2019. The unsettled issues are:

    1.1Is the IESO's Fiscal Year 2018 net revenue requirement of $190.8 million appropriate?

    1.3 Are the IESO's projected staffing levels and compensation (including salaries, benefits, pensions and other post-employment benefits) appropriate and reasonable?

    1.4 Is the IESO's Capital Expenditure budget for Fiscal Year 2019 appropriate?

    2.1 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? (Partial Settlement)

    4.1 Is the IESO's proposal to retain an Operating Reserve of $10 million in the Forecast Variance Deferral Account appropriate?

    4.2 Is the IESO's proposal to clear the 2018 Year-End balance in the Forecast Variance Deferral Account that is in excess of the $10 million operating reserve appropriate?

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

    6.1 Is the reporting on financial and operational performance of the Market Renewal Program for 2017, 2018, 2019, and proposed future reporting, appropriate?

    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?

    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. Subsequent to the Settlement Agreement the IESO filed updated evidence and the Board allowed further discovery on this new evidence. The updated dated evidence was to reflect a reduction in the capital expenditure envelope from $55.3 million to $43.3 million. The proposed net revenue requirement remained unchanged at $190.8 million. During the proceeding updates also revealed that actual 2018 costs were $2.2 million higher than forecast. Neither update provided cause for the IESO to change the requested relief.

3. The current IESO usage fees are $1.2402/MWh for domestic customers and 1.0115/MWh for export customers and were made interim effective January 1, 2019. The proposed fees are $1.227/MWh for domestic customers and $1.0125/MWh for export customers effective January 1, 2019.

4. Given the fact that 2019 will end in just more than 60 days we believe there is little value in arguing about minor changes to the revenue requirement of $190.8 million. It is evident from a consideration of the relative impact of the charge determinants as compared to the revenue being sought that small changes in the revenue requirement are outweighed by much larger uncertainty in the forecast volumes over which they will be collected. In any event as a matter practicality the Board is unlikely to decide the matter in time for a change to fees prior to January 1, 2020. This means that if the Board approves the proposed fees, and all other things remaining equal, the IESO will record a credit to the account of domestic customers and a debit to export customers in the FVDA to be disposed of at some later date. In our submission the Board should approve the new fees as applied for in 2019.

5. For this reason we have limited our submission to the matters affecting the future impact on consumers. In that vein we have made submissions on the following unsettled issues:

- The Market Renewal (Issues 6.x)
- The Forecast Variance Deferral Account – Operating Reserve (Issues 4.x)
- The Mercer Compensation Study (Issue 1.3)

At the Board's invitation we have also provided submissions on the setting of a materiality threshold for future filings by the IESO.

Market Renewal Program

6. The reduction in capital programs made after the original filing was related to the removal Incremental Capacity Auction from the Market Renewal Program. The tables below show the original and updated forecast actual and forecast capital envelopes[1].

Table 4: 2019 Capital Envelope compared to 2017 and 2018 – Filed January 28, 2019

Capital ($ millions)	**2017 Envelope**	**2017 Actuals**	**2018 Envelope**	**2018 Estimate***	**2019 Envelope**
Core Operations	25.0	15.4	22.6	14.4	17.3
Market Renewal Program	--	0.2	4.0	1.2	38.0
Total	25.0	15.6	26.6	15.6	55.3

*Finalized 2018 data will be available when the IESO's 2018 Audited Financial Statements are completed.

Table 4: 2019 Capital Envelope compared to 2017 and 2018 -Filed August 26, 2019

[1] Exhibit B, Tab 2, Schedule 1, page 3

Capital ($ millions)	2017 Envelope	2017 Actuals	2018 Envelope	2018 Estimate*	2019 Envelope
Core Operations	25.0	15.4	22.6	14.4	17.3
Market Renewal Program	--	0.2	4.0	1.2	26.0
Total	25.0	15.6	26.6	15.6	43.3

*Finalized 2018 data will be available when the IESO's 2018 Audited Financial Statements are completed.

7. Operating expenses to support the Capacity work stream in 2019 were budgeted at $4.8 million and, the IESO explains, the current 2019 forecast is in line with that budget.[2]

8. The MRP has yet to see a fully costed business case put before its Board of Directors. The economic return of the program was largely premised on the incremental capacity market designs. We now know now that this will not proceed. Yet the operating costs remain unchanged. This adds to our concerns that spending by the IESO in the absence of a disciplined financial analysis to underpin the remainder of the program is unwise and perhaps unwarranted.

Operating Reserve

9. The IESO is seeking to increase its operating reserve from $6 million to $10 million. The last time the IESO used the reserve was in 2017 to offset pension and OPEB costs. No concrete reason has been given for the need to increase the reserve. In the event of unanticipated credit needs the IESO has backstop facilities through the Ontario Electricity Financial Corporation[3]. In any event any shortfall is recoverable from the FVDA account in a subsequent year.

8. It would appear that, at least in part, the request to increase the FDVA arise due to the actual accumulation in the account as shown by the 2018 actuals below[4]:

[2] IESO Argument-in-Chief, October 11, 2019, page 14
[3] Exhibit I, Tab 4, Schedule 3.08 VECC 8
[4] Exhibit B, Tab 3, Schedule 1, , Plus Attachment, page 1 of 6, March 28, 2019

	2018		
($ millions)	**Actual**	**Budget**	**Variance**
Revenues	194.3	190.8	3.5
Costs			
Operating Costs	165.0	163.8	1.2
Amortization	19.6	17.7	1.9
Net Interest	(6.4)	(3.4)	(3.0)
Market Renewal Program	14.9	12.7	2.2
Total Costs	193.0	190.8	2.2
Operating Surplus	1.3	(0.0)	1.3
Accumulated Operating Deficit (opening balance)	(6.0)	6.0	(12.0)
Proposed Rebates to Market Participants	0.0	0.0	0.0
Accumulated Operating Deficit (closing balance)	(4.7)	6.0	(10.7)

9. In fact the IESO actual OM&A costs was $2.2 million higher than forecast, but is revenue was $3.5 million higher than forecast.[5] In spite of this it ended the year in a $4.7 million deficit position.

8. In our submission that the increase in the reserve fund is unwarranted. The current shortfall falls within the allowed operating reserve. Furthermore, increasing this account reduces financial discipline in two ways. First, it dilutes the incentives for budgetary rigour in the development of the budget. Second, it reduces management's responsibility to execute the budget efficiently by removing the disincentive inherent in the need to access other extra ordinary but undesirable credit sources which might otherwise cause governance oversight of management. Simply put, there is no pending threat to financing the budget of the IESO, rather there is a larger operating reserve makes life easier for IESO management. This situation is not in the interest of ratepayers.

Compensation Study

10. The IESO submitted in this proceeding, as agreed upon from prior proceedings, a compensation study. The Study was conducted by Mercer Canada. In essence the Study found IESO to be above the 50th percentile of its comparator group. In large the causes for this are aligned with the proportion of unionized labour and the benefits accruing from the defined benefit pensions offered to its employees. A summary of the results of the Study are shown below.

[5] Exhibit B, Tab 3, Schedule 1, Attachment 3, page 1.

Above Comparator Market (>5%) **Within Comparator Market (±5%)** **Below Comparator Market (<5%)**

Compensation values are stated in CAD $000s

		IESO			ENERGY SECTOR			PUBLIC SECTOR			PRIVATE SECTOR		
GROUP	GRADE	Base ($)[1]	TTC ($)[2]	TREM ($)[3]	BASE SALARY ($)	TTC ($)	TREM ($)	BASE SALARY ($)	TTC ($)	TREM ($)	BASE SALARY ($)	TTC ($)	TREM ($)
MGMT	MANAGEMENT TOTAL	$151	$151	$187	$144 2%	$165 -11%	$197 -7%	$135 10%	$148 0%	$176 5%	$137 10%	$163 -8%	$189 -1%
SOC	SOCIETY TOTAL	$121	$121	$160	$108 11%	$117 3%	$139 15%	$104 17%	$107 13%	$126 27%	$106 15%	$115 6%	$133 22%
PWU[3]	PWU TOTAL	$86	$86	$116	$81 5%	$85 1%	$101 13%	$68 26%	$69 23%	$84 37%	$64 34%	$68 26%	$81 43%
	OVERALL	$122	$122	$160	$111 9%	$121 0%	$144 11%	$105 16%	$109 11%	$130 22%	$107 15%	$117 5%	$136 16%

(1) Reflects salary structure job rates, which consider target compensation for a fully competent employee. Typically the midpoint or endpoint of a range.
(2) Reflects IESO salary structure job rates as the IESO does not provide short-term incentives. In the market, it includes salaries plus target short-term incentives, if provided.
(3) Total remuneration ("TRem") reflects target total cash compensation plus the value of long-term incentives (if provided), pensions, active benefits and post-retirement benefits.

10. The IESO holds that they are most comparable to the Energy Sector. We disagree. In fact we think the IESO is most comparable to the public sector and is in fact required to adhere to certain government policies with respect to compensation. In any event, it is clear that the IESO compensation is above market however measured. Given the inherent difficulty in addressing this issue in a predominately unionized environment one would expect the IESO to mitigate these costs through reduction in the FTEs/Headcount when the opportunity presents itself. The cancellation of a significant portion of the MRP would have seemed to be an ideal event for this to be demonstrated. Yet we see little evidence of downsizing to lower costs and benefit ratepayers even though significant cost saving opportunities were made available.

11. Finally, while a "typical" compensation study is a good first step the fact remains there is large wage inequality between those who provide electricity service, like the IESO, and the majority of consumers who pay for it. Compensation studies, like that provided, suffer from their inherent circularity of the comparator groups. Even when firms outside the energy sector are chosen we note they tend to be selected for their inherent high wage similarity. As an example we note that among the "private sector" comparators to IESO was NAV Canada. NAV Canada provides air traffic control services and its employees rank, like utility employees, among the highest paid in Canada. If one looks among the best paid to see how well one is doing then we are unlikely to see the inequality between the providers and payers of electricity service to shrink.

Materiality Threshold

9. In Procedural Order No. 4 the Board sought parties' submissions with respect to establishing a filing guideline for a materiality threshold for capital projects and OM&A programs. In our submission there is no reason the same materiality threshold the Board uses for other regulated utilities should not be applied. This would result in value of approximately $1

million. The objective of such filing requirements is to overlay regulatory discipline in the absence of market incentives. It is clear by the legislative structure that the Minister of Energy in approving the high level budget relies on the Board to take a “deeper dive” and to ensure the details of that budget are robust. Setting a materiality threshold for filing details works toward that objective.

10. We would also observe that it has largely been the work of intervening parties over the year that has resulted in a level of application detail that is meaningful. Yet it remains that the IESO still largely relies on pre-existing documents in lieu of a detailed application filing. This makes understanding the basis of the budget difficult. For example, VECC has concerns about the revenues arising out of the MACD compliance functions. Specifically what those revenues are, how they are spent and whether what is being done – not at the program level – but with the resulting funds - is in the best interest of consumers. Unfortunately at this time the level of detail provided in IESO fees applications makes it difficult to make comprehensive or coherent submissions on that issue.

Costs

21. VECC submits that it has acted responsibly and efficiently during the course of this proceeding and requests that it be allowed to recover 100% of its reasonably incurred costs.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

OCTOBER 28, 2019