

Revised 2020-2022 Business Plan

IESO Audit Committee of the Board of Directors

August 25th, 2020

Purpose and Summary

Purpose of Item Recommendation for approval to the Board

Executive Summary

IESO completed a revision to its 2020-2022 business plan to incorporate outcomes of a strategy refresh and to update 2020 expenses for COVID-19 impacts to its operating environment. In addition, a three year approval approach is proposed.

For 2020, the IESO reduced its revenue requirement by 1.3% to \$188.6 million versus prior year. The IESO proposes to return to pre-COVID funding levels for 2021, and a 1% increase for 2022, which would, in effect, represent a 1% increase over the three-year planning period and the first increase since 2017. Further, the organization continues work to identify potential operating efficiencies within the 2020-2022 planning period.

Significant Issues, Risks and Opportunities: Government sensitivity to return to historical pre-COVID 19 funding levels for 2021 and proposed operating reserve recovery putting pressure on revenue fee rate in 2020-2022

Summary of Items for Approval

- Multi-year approval approach for Ministry and Ontario Energy Board
- Revised 2020-2022 Business Plan
 - IESO strategy refresh in early 2020 guides priorities in business plan
 - COVID-19 and Adjustments to Funding Levels
- Operating Reserve Recovery during the planning period

Three year Business Plan and Fees

Corrected: September 13, 2021, EB-2020-0230, Exhibit 1, Tab 1.1, Schedule 14.1.1 SEC 2, Attachment 1, Page 4 of 16

For its 2020 to 2022 business plan, the IESO is proposing a three-year approval approach, with annual fiscal outlooks within the three years to be provided to the Ministry. This will reduce regulatory and administrative burden and costs borne by the IESO and all stakeholders, and provide the IESO with more certainty to plan for future years

The annual outlook would highlight any changes or adjustments to the approved plan within the approved revenue requirement and provide an overview on a rolling 3 year basis

No legislative changes are needed for this proposal however IESO and Ministry will consider to document the process change through an update to Memorandum Of Understanding with the Ministry

This approach has received preliminary support from the Ministry and the Ontario Energy Board

Summary 5-Year Strategy

Corrected: September 13, 2021, EB-2020-0230, Exhibit I, Tab 1.1, Schedule 14 - 1.1 SEC 2, Attachment 1, Page 5 of 16

SUMMARY 5-YEAR STRATEGIC PLAN					
PURPOSE	<p><i>Electricity is the backbone of modern civilization.</i></p> <p>We are the heartbeat, ensuring affordable electricity is available where and when people need it</p>				
VISION	To be the trusted leader that guides Ontario's electricity future				
VALUES	Expertise with Humility	Commitment & Accountability	Genuine Caring	Purposeful Engagement	Openness to Change Collaboration & Teamwork
STRATEGIC OBJECTIVES	<ol style="list-style-type: none"> 1. AFFORDABILITY, RELIABILITY, SUSTAINABILITY: Deliver optimized balance to ensure best overall electricity outcomes for Ontario 2. CULTURE & WORKFORCE TRANSFORMATION: Align culture, mindset, skills & capabilities to deliver on strategy 3. STAKEHOLDER TRUST: Enhance stakeholders' trust in IESO to operate in the best interests of Ontario 				
CORE STRATEGIES	<p><i>Drive Business Transformation</i></p> <ul style="list-style-type: none"> Continue culture shift Establish / prioritize technology & data roadmap Determine office space configuration / evolve way of working 	<p><i>Advance Sector Leadership</i></p> <ul style="list-style-type: none"> Advance stakeholder and sector engagement to establish mutual expectations 	<p><i>Ensure Cost-Effective System Reliability</i></p> <ul style="list-style-type: none"> Capacity and resource acquisition Reliability and cost effectiveness Cyber security Market Renewal - Energy 	<p><i>Enable Competition</i></p> <ul style="list-style-type: none"> Enable resources to deliver on capacity / participate in markets 	<p><i>Prepare for the Future of the Sector</i></p> <ul style="list-style-type: none"> Establish scope and framework for 10-year plan

COVID-19 and Adjustments to Funding Levels

Corrected: September 13, 2021, EB-2020-0230, Exhibit I, Tab 1.1, Schedule 14 - 1.1 SEC 2, Attachment 1, Page 6 of 16

- Original 2020-2022 Business Plan was revised to include changes in the external environment.
- In response to COVID-19 impacts in Q1, IESO reduced its 2020 revenue requirement by 1.3%, inclusive of one-time pandemic-related expenses.
- IESO proposes return to pre-COVID funding levels for 2021, which are consistent with 2017-2019 funding levels.
- For 2022, a 1% increase is proposed, which represents the first increase since 2017.
- Further, the organization continues work to identify potential operating efficiencies within the 2020-2022 planning period.

2020-2022 key cost drivers and trends

Total expenses during the business plan horizon are increasing by about one percent annually, driven by tight cost management and re-prioritization of projects in order to offset impact from collective agreement escalations and lower interest rates eroding interest income and increasing pension liabilities

- In 2020 costs were managed through risk-informed deferral or slower pacing of various initiatives, reduced contract services and consulting fees, and general and administrative cost reductions associated to stay-in-place orders
- 2021 cost drivers include deferred 2020 projects, work for enabling a more competitive electricity marketplace and market rule manual amendments; these will mostly be offset through judicious management of resources, process efficiencies and re-engineering how IESO delivers its core mandate
- 2022 cost increases due to higher pension liabilities, and continuation of market related projects, are partially offset by savings as IESO reconfigures its overall footprint

Detailed Financials

Corrected: September 13, 2021, EB-2020-0230, Exhibit I, Tab 1.1, Schedule 14 - 1.1 SEC 2, Attachment 1, Page 8 of 16

Pro Forma Statement of Operations
For the Year Ended December 31
(in Millions of Canadian Dollars)

(\$ Millions)	2019 Actual	2020 Budget	2021 Budget	2022 Budget
Revenue				
IESO Usage Fee	191.0	188.6	190.8	192.7
Total Revenue	191.0	188.6	190.8	192.7
Expenses				
Operating Expenses	168.6	170.1	170.5	172.9
Amortization	19.1	19.7	19.2	19.1
Net Interest	(9.0)	(3.3)	(2.5)	(3.5)
Total Core Operations	178.7	186.5	187.2	188.5
 Market Renewal - Energy	 3.1	 2.1	 3.6	 4.2
Market Renewal - Capacity (ICA)	5.5	-	-	-
Total Expenses	187.3	188.6	190.8	192.7
Operating Surplus/(Deficit)	3.7	-	-	-

2020 - 2022 Capital Projects

Capital (\$ Millions)	2019 Actual	2020 Budget	2021 Budget	2022 Budget
Core Operations Initiatives	20.6	28.2	30.0	30.0
Market Renewal - Energy	10.3	28.9	49.4	39.8
Total Capital Envelope	30.9	57.1	79.4	69.8

The 2020-2022 capital requirements reflect the following:

- Market Renewal - Energy requirements are aligned with the Business Case approved in 2019
- The core capital budget of \$28.2 million focuses primarily on facilitating the delivery of corporate priorities as well as refresh projects to replace or upgrade aging systems and infrastructure. The 2020 core capital portfolio has increased due to:
 - Carryover of in-flight projects from 2019
 - Cadence of cash flow for large projects has changed

2020-2022 Capital Projects

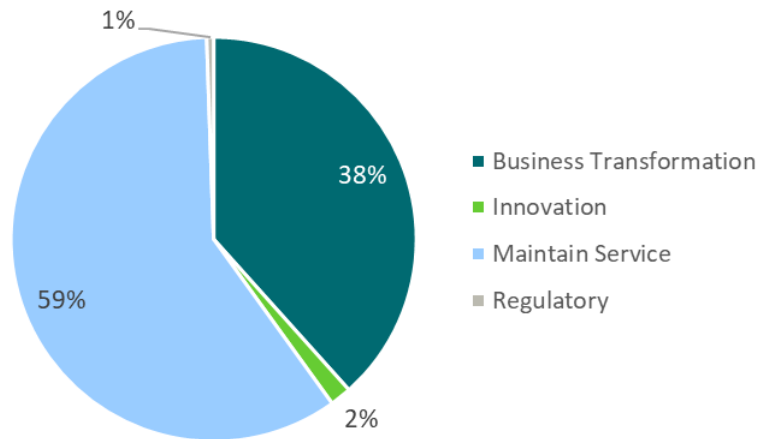
Corrected: September 13, 2021, EB-2020-0230 Exhibit I, Tab 1.1, Schedule 14 - 1.1 SEC 2, Attachment 1, Page 10 of 16

Composition of the Core Operations capital project portfolio increases focus toward Business Transformation and Innovation in 2021

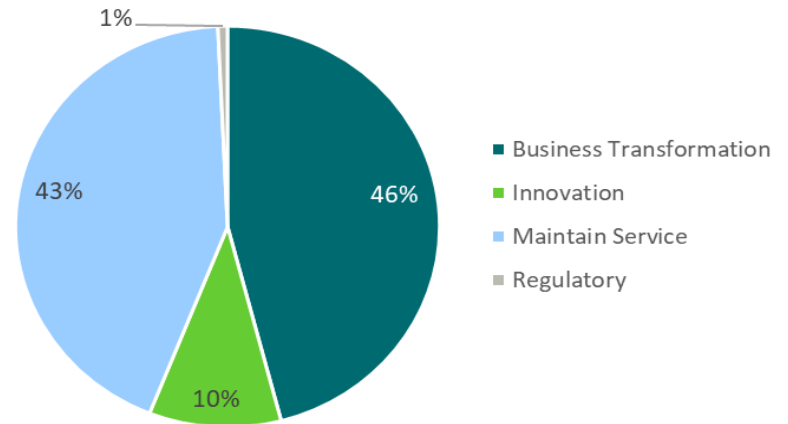
2020 focus directed toward refresh projects to replace or upgrade aging systems and infrastructure

2021 includes increased investments to support business transformation, innovation and to ensure reliability, with the advancing of Wide Area Visualization Environment Phase 2 and Dynamic Limits in Real Time (DLRT) projects, making further investments in Data Excellence, new Data Warehouse and enabling resources to participate in markets while examining further mechanisms to secure capacity

2020 Project Portfolio - Budget Allocation



2021 Project Portfolio - Budget Allocation



2020 - 2022 Staffing

Corrected: September 13, 2021, EB-2020-0230, Exhibit I, Tab 1.1, Schedule 14 - 1.1 SEC 2, Attachment 1, Page 11 of 16

Staffing levels are relatively flat over the planning period, with a few strategic positions added, after rigorous review, to support key initiatives

Key staffing change drivers:

- Redeployment of 2019 Incremental Capacity Auction (ICA) staff to core operations and other priorities
- Core staff increases due to enabling resources initiatives, IESO culture enhancements, and the reallocation of previously externally funded staff back to core operations
- Market Renewal – Energy staff levels will reach 70 in 2020, which is consistent with the approved business case. The key drivers of the staffing increase include addition of internal IT and other market design and implementation resources, as well as staff to support change management activities. Resource increases in 2021-2022 are required to complete market rule amendments and documentation.

Full Time Equivalents (FTEs)	2019 Actual	2020 Budget	2021 Budget	2022 Budget
Core Operations	689	709	713	716
Market Renewal – Energy	49	70	72	76
Market Renewal – Capacity (ICA)	31	-	-	-
Total FTEs	769	779	785	792

2020-2022 MRP – Energy Financials

Corrected: September 13, 2021; EB-2020-0230; Exhibit I, Tab 1.1, Schedule 14 – 1.1 SEC 2 Attachment 1, Page 12 of 16

- Market Renewal – Energy project business case was approved by IESO's Board in late 2019
- The business case cost estimates to deliver the Energy work stream, including contingency, range from \$151 million to \$194 million. The 2020-2022 business plan financials reflect the mid-range number of \$172 million
- The annual Market Renewal – Energy project costs within 2020-2022 are consistent with the business case, with some adjustments in timing and dollars between years
- The project is on track and on budget to its in-service date in Q1 2023

Market Renewal Financial Summary

(\$ Millions)	2019 Actuals	2020 Budget	2021 Budget	2022 Budget
Market Renewal Program - Operating				
Market Renewal - Energy	3.1	2.1	3.6	4.2
Market Renewal - Capacity (ICA)	5.5	-	-	-
Total Operating Expenses	8.6	2.1	3.6	4.2
Total Capital Expenses	10.3	28.9	49.4	39.8

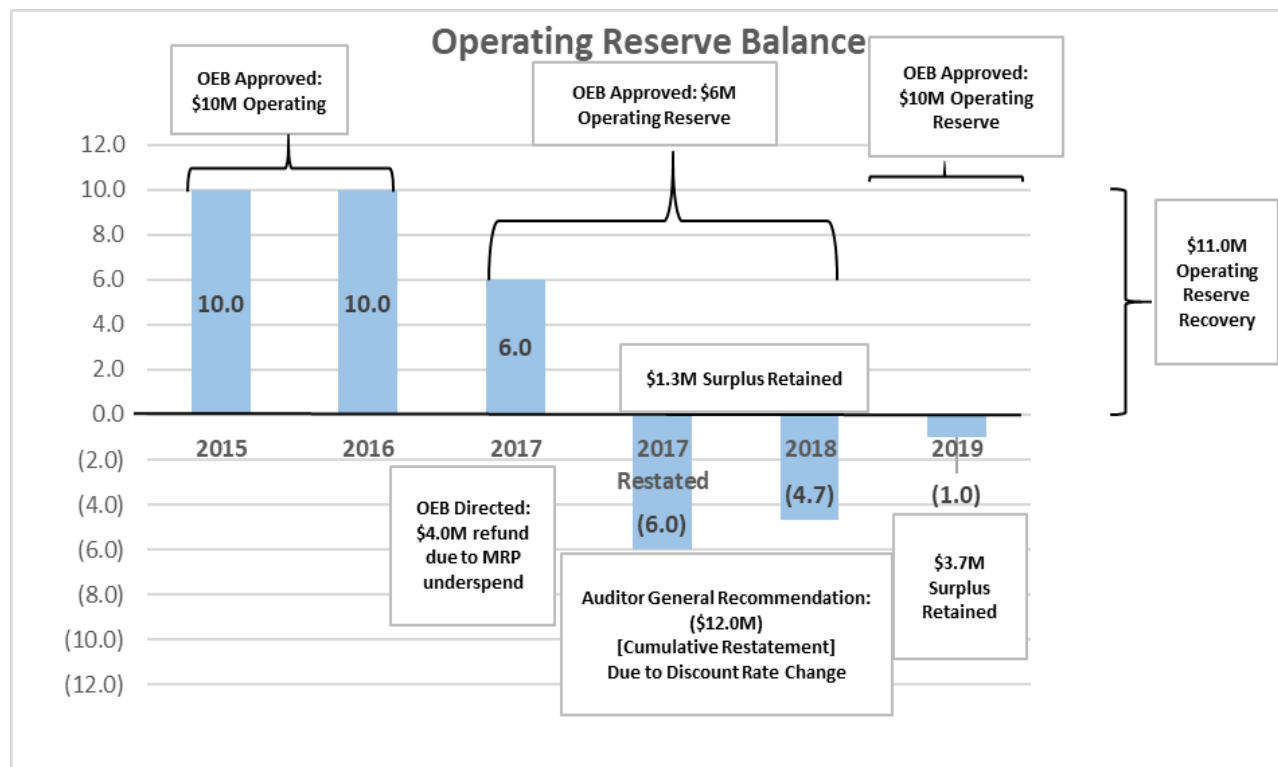
IESO Operating Reserve Recovery – Context

Corrected: September 13, 2021, EE-2020-0230, Exhibit I, Tab 1.1 Schedule 14 - 1.1 SEC 2, Attachment 1, Page 13 of 16

- Proposed operating reserve recovery is a separate approval item in addition to and not included in IESO's operating expenses within the Business Plan
- Within its 2019 fees case proceeding, the Ontario Energy Board approved IESO's \$10 million operating reserve level and directed the IESO to address its recovery within the 2020 filing
- The IESO proposes an annual recovery of \$1 million over 2020-2022 planning period, and to continue afterwards until the IESO reaches \$10 million, which puts some upward pressure on its fees rates
- Market Renewal – Energy going into service in 2023 will have a material impact on IESO's fee rates as the investment and interest costs for the program are recovered through amortization
- The Operating Reserve recovery in 2020-2022 is an opportunity to build up the reserve and serve as a rate smoothing mechanism to MRP rate impacts in 2023

IESO Operating Reserve Recovery

Corrected: September 13, 2021, EE-2020-0250, Exhibit I, Tab 1.1 Schedule 14 - 1.1 SEC 2, Attachment 1, Page 14 of 16



- The IESO's operating reserve is currently in a deficit position due to prior year accounting policy change
- In 2019, Ontario Energy Board approved the IESO to restore its operating reserve to \$10 million level during the 2020-2022 planning period
- The IESO is proposing to recover an estimated \$3 million over 2020-2022 rates for a total operating reserve of \$2 million by end of 2022. The funding for this recovery is in addition to IESO's core revenue requirement and will therefore have additional impact on fees.

Business Plan Risks

- **Government sensitivity**, in the context of the current fiscal environment, with respect to:
 - Return to historical pre-COVID-19 funding levels for 2021 from a reduced funding level in 2020
 - Proposed Operating Reserve recovery putting upward pressure on IESO's revenue fee rates in 2020-2022

IESO's Business Plan has aligned priorities and resources to support decision-making in consideration and mitigation of the strategic risks as outlined in the Enterprise Risk Management agenda item

Next steps/ Implementation

- **August 11:** Present overview of Business Plan to the Stakeholder Advisory Committee (SAC)
- **August 19:** Brief Ministry on Business Plan
- **August 25:** Board approval of Business Plan
- **September 1:** Deliver Business Plan to the Minister of Energy, Northern Development and Mines
- **October/November:** File multi-year revenue requirement submission with the Ontario Energy Board