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

BY EMAIL

May 13, 2022

Ms. Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Marconi:

Re: Ontario Energy Board (OEB) Staff Interrogatories
Independent Electricity System Operator (IESO)
Application for 2022 Revenue Requirement, Expenditures and Usage Fees
OEB File Number: EB-2022-0002

Please find attached the OEB staff interrogatories in the above referenced proceeding, pursuant to Procedural Order No. 1.

Please note, the IESO is responsible for ensuring that all documents that it files with the OEB, including responses to OEB staff interrogatories and any other supporting documentation, do not include personal information (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's *Rules of Practice and Procedure*.

Yours truly,

Andrew Bishop Digitally signed by Andrew Bishop Date: 2022.05.13 15:53:23 -04'00'

Andrew Bishop
Senior Advisor, Generation & Transmission

Encl.

cc: All parties in EB-2022-0002

INDEPENDENT ELECTRICITY SYSTEM OPERATOR

2022 Revenue Requirement, Expenditures and Usage Fees

EB-2022-0002

OEB STAFF INTERROGATORIES

May 13, 2022

ISSUE 1: Revenue Requirement, Operating Costs and Capital Spending

Issue 1.1: Is the IESO's Fiscal Year 2022 revenue requirement of $201.5 million appropriate?

1-Staff-1

a. Exhibit B / Tab 1 / Schedule 2 / p. 15

Preamble: On page 15 of the IESO's 2022-2024 business plan, the IESO states that the cumulative effect of its proposed revenue requirement increases over the 2022-2024 period for the average residential consumer are 2.3 cents per month, or 27 cents per year.

Question(s):

a) Please provide the IESO's definition of an "average residential consumer" and specify all relevant assumptions used to calculate the projected monthly and annual bill impact (e.g., assumptions related to the average residential consumer's annual electricity consumption).
b) Please provide the bill impact of only the 2022 revenue requirement on the bill of the average residential consumer. Please show the bill impact calculation.

1-Staff-2

a. Exhibit A / Tab 2 / Schedule 2 / Attachment 1 / p. 2

Preamble: Attachment 1 provides the IESO's "Year-end review of performance against IESO Performance measures and targets." Performance measure 3 is entitled "Operational Efficiency – Percentage of Strategic Initiatives that are completed within only 50% of schedule contingency". For 2021, the IESO targeted achieving 80% for this performance metric, however, the actual achievement was 50%.

Question(s):

a) Please identify the strategic initiatives reflected in performance measure 3 and show the performance of each initiative against its target.
    i. Please demonstrate how the 50% achievement was calculated.
b) For each underperforming initiative, please describe the reason(s) for the underperformance as well as any resultant operational impacts.
c) Please demonstrate the 2021 budgeted versus actual expenditures for each strategic initiative reflected in performance measure 3.
d) If applicable, please describe how the level of performance against this measure in 2021 has affected the financial approvals being sought by the IESO in its 2022 revenue requirement application.

<u>1-Staff-3</u>

a. Exhibit B / Tab 1 / Schedule 2 / p. 27 (2021 Annual Report p. 25)
b. Exhibit D / Tab 1/ Schedule 2 / p. 7

Preamble:

Effective January 1, 2011, the IESO adopted Canadian public sector accounting standards (PSAS) with a transition date of January 1, 2010. The adoption of PSAS was accounted for by retroactive application with restatement of prior periods subject to the requirements in Section PS 2125, First-time Adoption by Government Organizations.

The corresponding change to pension and other-post employment benefits resulted in previously unrecognized actuarial losses and past service costs of $98,832,000 at the date of transition being charged to the PSAS Transition Item's accumulated deficit.

Each year, the IESO recovers a portion of the PSAS Transition Item's deficit through the IESO's annual system fees revenue. The annual amount recovered is transferred from the Regulatory Deferral Account to the PSAS Transition Item accumulated deficit each year. OEB staff notes that a portion of the PSAS Transition Item's deficit is recovered as part of "Corporate Adjustments" which are included in the IESO's revenue requirement OM&A.

In its application, the IESO demonstrated its actual and budgeted Corporate Adjustments included in OM&A, as shown in OEB Staff Table 1 below. The IESO stated that its Corporate Adjustments are mainly comprised of the annual amortization of the accumulated deficit resulting from the PSAS transition item corresponding to the change in pension and other-post employment benefits; partially offset by the overhead cost recovery from other funding sources.

OEB Staff Table 1 – Overview of Corporate Adjustments

IESO Business Unit ($ millions)	2021 Budget	2021 Actual	2022 Budget
Corporate Adjustment	1.6	1.5	1.2

Question(s):

a) Please provide a breakdown for each year (e.g., 2021 Budget, 2021 Actual, 2022 Budget) of the Corporate Adjustments shown in OEB Staff Table 1, listing the PSAS Recovery Amount versus “other”. Please identify and explain any significant changes in the PSAS Recovery Amount, year-over-year, specifically 2021 Budget versus 2021 Actual, 2022 Budget versus 2021 Actual, and 2022 Budget versus 2021 Budget
b) Please confirm that there is no impact to capital expenditures or amortization from the Corporate Adjustments, in particular the recovery of PSAS transition items. If this is not the case, please explain.

1-Staff-4

a. Exhibit F / Tab 1 / Schedule 1 / p. 2 & 3
b. Exhibit F / Tab 1 / Schedule 1 / p. 1
c. Exhibit B / Tab 1 / Schedule 2 / p. 24 (2021 Annual Report p. 22)

Preamble:

The IESO noted that in the OEB staff submission on the settlement proposal for the IESO’s 2020-2021 revenue requirement proceeding,[1] OEB Staff questioned “why certain amounts are included in the FVDA [Forecast Variance Deferral Account] as period charges in 2018, instead of grouping all amounts with those recorded in the PSAS Transition Item – Accumulated Deficit account, which is recovered over a long-term period.”

In the current application, the IESO stated that the $13.4 million is a current period expense and therefore reflected in the FVDA in the current period (fiscal year 2018). The reason this was not grouped in the PSAS Transition Item – Accumulated Deficit

[1] EB-2020-0230

account was because this amount is the additional expenses as a result of using "cost of borrowing", subsequent to adopting PSAS on the transition date of January 1, 2010. Therefore, this is required to be calculated as a current period expense under PSAS, as it is not a result of Section PS 2125.

The IESO further stated that it incurred a total increase to its liability of $31.3 million. The breakdown of the $31.3 million is as follows:

- $17.9 million that is calculated as prior period expenses (at the transition date of January 1, 2010)
- $13.4 million that is calculated as a current period expense (subsequent to the transition date of January 1, 2010 up until December 31, 2017)

The IESO stated that its practice is to seek OEB approval to return any surplus in excess of the reserve threshold of $10 million to market participants.

The 2021 Annual Report notes that the expected average remaining service life (EARSL) of employees covered by the pension plans is 14.5 years and other post-employment benefit plan is 17.2 years, for both 2020 and 2021.

Question(s):

a) Please explain any implications to the IESO if the OEB ordered, for regulatory purposes, that the $13.4 million be moved from the FVDA balance, as period charges in 2018, to the PSAS Transition Item – Accumulated Deficit account (which is amortized over a longer period using the EARSL).
b) Please confirm that in the scenario outlined in part a) of this question, the FVDA balance, as at December 31, 2021, would become $22.1 million ($8.7 million plus $13.4 million) and surpass the reserve threshold of $10 million. Please explain whether it would be the IESO's intention to return such surplus in excess of the reserve threshold of $10 million to market participants.

1-Staff-5

a. EB-2020-0230 / OEB Staff Submission / October 20, 2021 / p. 5
b. EB-2020-0230 / Response to OEB Staff Interrogatory 12 / September 9, 2021
c. EB-2020-0230 / Responses to Settlement Conference Question #2 / October 12, 2021

Preamble:

In the OEB staff submission on the settlement proposal for the IESO's 2020-2021 revenue requirement proceeding, OEB staff noted that the IESO had previously committed to reviewing its strategy on how it intends to collect the incremental $31.3 million associated with its accounting policy changes in 2018.[2]

OEB staff notes that there is no updated proposal from the IESO with respect to how it intends to collect the incremental $31.3 million. Absent any updated proposal, it is OEB staff's understanding that the IESO intends to maintain $13.4 million in the FVDA, while including $17.9 million in the PSAS Transition Item deficit account (with no intention to increase to the annual recovery amount of that deficit account). Whether retroactive charges are recorded in the FVDA, versus the PSAS Transition Item account, has ramifications with respect to the timing of recovery.

Question(s):

a) Please outline the IESO's proposal for how it intends to recover the $31.3 million amount (and any future deficits that may be reflected in the FVDA), and why that strategy is appropriate.
b) Please explain different potential strategies, other than the IESO's current practices noted in the response to 1-Staff-12 (and Responses to Settlement Conference Question #2), in the 2020-2021 revenue requirement proceeding, of:
    i. Recovering the PSAS Transition Item by including approximately $3.3 million in its revenue requirement annually (via the Corporate Adjustments in OM&A)
    ii. Deferring of the inclusion of additional revenue requirement in its budget to restore the $10 million operating reserve in the FVDA
c) Please provide a comparison of alternative recovery plans of each of the $13.4 million and $17.9 million (including the time period and the impact on ratepayers) and why the IESO's proposed alternative is appropriate.

<u>1-Staff-6</u>

a. Exhibit A / Tab 1 / Schedule 3 / p. 5
b. Exhibit B / Tab 1 / Schedule 2 / p. 27 (2021 Annual Report p. 25)
c. EB-2020-0230 / Response to OEB Staff Interrogatory 11 / September 9, 2021
d. Exhibit F / Tab 1 / Schedule 1 / p. 1

[2] EB-2019-0002; OEB Staff Interrogatory 4, April 30, 2019

Preamble:

The IESO stated that its 2021 opening balance in the FVDA was $1.3 million. The IESO's December 31, 2021 financial results recorded a surplus of $7.4 million, and the closing balance of the FVDA is $8.7 million.

The IESO indicated that the annual recovery of a portion of the PSAS Transition Item's deficit (through the IESO's annual system fees revenue) is transferred from the Regulatory Deferral Account – Accumulated Surplus/(Deficit) to the PSAS Transition Item accumulated deficit each year.

In the response to 1-Staff-11 in the 2020 and 2021 Revenue Requirement proceeding, the IESO provided the following FVDA table, which is shown in OEB Staff Table 2 below.

OEB Staff Table 2 – Breakdown of the FVDA

FVDA (in $ millions)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Beginning Balance	7.6	10.0	10.0	6.0	(4.7)	(1.0)	1.3
In year surplus/(deficit)	12.0	12.6	1.4	1.3	3.7	2.3	-
OEB decision and order - reduce operating reserve	-	-	(4.0)	-	-	-	-
Rebates to Market Participants	(9.6)	(12.6)	-	-	-	-	-
Impact of accounting policy change (discount rate)	-	-	-	(13.4)			
2017 surplus allocated to 2018 operating reserve deficit	-	-	(1.4)	1.4	-	-	-
Ending balance	10.0	10.0	6.0	(4.7)	(1.0)	1.3	1.3

Question(s):

a) Please extend the OEB Staff Table 2 continuity schedule, adding 2021 Actual and 2022 Budget values.
b) Please identify and provide an explanation for any significant changes in any components of the year-over-year balances, specifically, 2021 Actual compared to 2020 Actual (further to anything described at reference #d), 2021 Budget

compared to 2021 Actual, 2022 Budget compared to 2021 Actual, and 2022 Budget compared to 2021 Budget.

Issue 1.2: Are the IESO's 2022 projected staffing levels and compensation (including salaries, benefits, pensions and other post-employment benefits) appropriate?

1-Staff-7

a. Exhibit A / Tab 1 / Schedule 3 / p. 1
b. Exhibit A / Tab 1 / Schedule 3 / p. 3
c. EB-2020-0230 / Responses to Settlement Conference Questions #4 / October 12, 2021

Preamble:

The IESO stated that since 2017, it has maintained its revenue requirement at a relatively flat level, absorbing $14 million of inflation and collective agreement impacts by deferring investments in processes, tools and workspaces, and by finding efficiencies and prioritizing certain work over others.

The IESO further stated that it has made efforts to remain cost-effective in delivering its critical responsibilities including absorbing inflationary costs, mostly related to compensation and benefits, which are the IESO's single largest expense. Specifically, the IESO stated that it continues to implement initiatives and safeguards to ensure compensation, benefits and pension plans are cost effective while continuing to ensure that it remains competitive in the recruitment and retention of its employees to carry out the IESO's unique mandate.

During the 2020 and 2021 revenue requirement proceeding (the Settlement Conference Questions #4), the IESO confirmed significant increases in its pension and OPEB amounts. For example, versus 2019 OEB-approved, the 2021 Actual Pension & OPEB amounts increased by $5.2 million, or 28.6%, or 14.3% per year (over two years).

Question(s):

a) Please explain the IESO's statement that it has absorbed $14 million of inflation and collective agreement impacts, as well as its statements that it has made efforts to remain cost-effective, in the context of the increases in pension and OPEB amounts.

b) Please provide a breakdown of the pension and OPEBs amounts by year (including a separation of OM&A and capital), for 2021 Budget, 2021 Actual, and 2022 Budget.
c) Please identify and explain any significant changes related to pension and OPEB costs incurred year-over-year, specifically, 2021 Budget compared to 2021 Actual, 2022 Budget compared to 2021 Actual, and 2022 Budget compared to 2021 Budget. Please explain whether the changes are reasonable.

1-Staff-8

a. Exhibit D / Tab 1 / Schedule 1 / p. 2 & 3
b. Exhibit D / Tab 1 / Schedule 3 / p. 2

Preamble:

The IESO stated that its 2022 budgeted OM&A expenses of $186.5 million represent an increase of $12.2 million from the 2021 actual results. The net increase of $12.2 million included both increases and decreases of 2022 budgeted expenses versus 2021 actual. The decreases include a $4.0 million reduction of employee benefits costs, mostly driven by an actuarial update of pension liability.

The IESO noted that the reduction in costs in the 2022 budget reflects the IESO's actuarial provider assumptions for retirement benefits plans (Registered Pension Plan - RPP, Supplemental Employee Retirement Plan – SERP, and other post-employment and post-retirement benefits – OPEB Plan).

Question(s):

a) Please explain how the $4.0 million decrease (mostly driven by an actuarial update of pension liability) was derived, and how this decrease impacts the RPP, SERP, and the OPEB Plan, as applicable.
b) Please explain why there were no decreases in 2022 Budget versus 2021 Actual associated with the OPEB liability.
c) Please confirm that there is an inverse relationship between the discount rate and the present value of any pension and OPEBs obligations, as well as versus those incorporated into the pension and OPEB amounts included in the IESO's 2021 Actual and 2022 Budget, meaning that the higher the discount rate, the lower the present value. If this is not the case, please explain.

d) In the context to the response to part c), please explain how the general economic increases in interest rates have impacted the 2022 Budget values for pension and OPEB.
e) Please describe how each of the key actuarial assumptions by which the 2022 Budget pension and OPEB amounts were determined and why they are reasonable.

1-Staff-9

a. Exhibit B / Tab 1 / Schedule 2 / p. 30 (2021 Annual Report p. 28)

Preamble:

The IESO stated that the most recent actuarial valuation of the IESO registered pension plan for regulatory funding purposes was completed as at January 1, 2019.

Question(s):

a) Please explain whether there is a revised actuarial valuation of the IESO registered pension plan available, as typically an actuarial report would be filed no later than three years after the valuation date of the previous actuarial report.
b) Please provide the most recent actuarial reports/valuations for all pension and OPEB plans.
c) Please demonstrate how the pension and OPEBs amounts in the 2021 Actual and 2022 Budget tie to the most recent actuarial reports/valuations and the audited financial statements, as applicable.
d) If the balances in the actuarial reports/valuations and the audited financial statements are different from the 2021 Actual and 2022 Budget revenue requirements, please provide an explanation supporting why the amount in the revenue requirements is more appropriate.
e) Please quantify and explain whether the largest drivers of any decreases in pension and OPEB amounts in 2022 Budget versus 2021 Actual, and also 2022 Budget versus 2021 Budget, may be attributable to both actuarial assumption experience and actual experience, rather than driven by collective bargaining, plan design changes (e.g., employee contribution levels), or substantial membership changes.

1-Staff-10

a. Exhibit B / Tab 1 / Schedule 2 / p. 38 (2021 Annual Report p. 36)
b. EB-2020-0230 / Responses to Settlement Conference Question #8 / October 12, 2021

Preamble:

The 2021 Annual Report states that the RPP provides a maximum benefit of 70% of highest paid, pre-retirement pensionable earnings. As the Canada Revenue Agency limits the amount of pension payable from a registered plan, the IESO has a secured SERP to provide required pension income to meet the commitments of the RPP, above that payable from the registered plan.

Question(s):

a) As noted in the 2020-2021 revenue requirement proceeding (Responses to Settlement Conference Question #8) please clarify the IESO's statements that:
   i. "With regard to [the] SERP, the IESO consolidates employee contributions within the RPP… and employees are fully contributing their required percentage based on the pension plan contribution rates." Please explain whether this means that there is no room for the IESO to increase employee contributions for the SERP.
   ii. "Employees do not contribute to [the] OPEB [Plan], as this is a health benefit provided by the company in retirement." Please explain whether this means that it is not possible for the IESO to require employee contributions for the OPEB Plan.
b) Please explain the reasonableness of the structure of the SERP Plan, in particular any special pension arrangements and amounts paid that exceed those based on 70% of the highest paid, pre-retirement pensionable earnings.
c) Please also explain the reasonableness in light of the IESO's explanation (Responses to Settlement Conference Question #8), that it "views this [SERP] structure as reasonable due to the need to attract and retain talent." Please also explain why the SERP is a necessary feature in the IESO's overall compensation structure.

1-Staff-11

a. Exhibit D / Tab 2 / Schedule 1 / p. 1

Preamble:

The IESO has provided the following Interest amounts that are embedded into OM&A which are shown below in OEB Staff Table 3.

OEB Staff Table 3 – Interest Amounts

	2021 Budget	2021 Actual	2022 Budget
Interest	(2.5)	(5.2)	(5.0)

OEB staff is seeking additional information that demonstrates that the interest on the cumulative difference between cash and accrued pension and OPEBs amounts is being appropriately allocated to the revenue requirements.

Question(s):

a) Please confirm that for each year (e.g., 2021 Budget, 2021 Actual, 2022 Budget) the interest income shown in OEB Staff Table 3 includes calculated interest on the cumulative difference between the amounts collected under the cash basis versus amounts collected under the accrual basis for pension and OPEBs costs. If this is not the case, please explain.
b) Please provide the supporting calculation for the amount referred to in part b).

1-Staff-12

a. Exhibit D/ Tab 1 / Schedule 1/ p. 3

Preamble: Table 3 at the above reference demonstrates the incremental costs resulting in a projected year-over-year Operations, Maintenance and Administrative (OM&A) increase of $12.2 million.

Question(s):

a) Table 3 indicates that $3.1 million of the increase stems from “Collective agreements/escalations.” OEB staff interprets this to represent the increased remuneration costs associated with unionized staff (i.e., staff represented by either the Society of United Professionals or the Power Workers’ Union). A similar line demonstrating increases stemming from non-union/management staff is not provided in Table 3.

If applicable, please indicate how much of the $12.2 million increase stems from increases in remuneration for all non-unionized/management staff and provide a dollar figure of the amount.

b) OEB staff request that the IESO fill-in Table 4 to demonstrate the incremental year-over-year increases in both OM&A and capital remuneration budgets for both non-unionized/management staff and unionized staff. The IESO is welcome to alter the format of the table if appropriate.

Table 4: Incremental 2022 Remuneration Costs

($ Millions)	2022 Budget
2021 Total capital and OM&A remuneration costs	
Incremental remuneration costs for 2022:	
non-unionized/management staff – capital	
non-unionized/management staff – OM&A	
Unionized staff – capital	
Unionized staff – OM&A	
Total 2022 remuneration budget	

1-Staff-13

a. Exhibit D / Tab 1 / Schedule 3 / p. 1-2

Preamble:

At the above reference, the IESO states that due to staff attrition the 2021 average full-time employees (FTEs) were below budget. The IESO explains that staff turnover was a result of voluntary attrition and retirements prompted by the newly introduced hybrid work model and vaccination policy for IESO employees. For 2022, the IESO proposes an average of 827 FTEs, representing an increase of 53 FTEs on average from 2021 actuals.

Table 5 below is an extract from reference a.

Table 5: Staffing and Operating Compensation Expenses

	2021 Budget	2021 Actual	2022 Budget
Average Number of Employees (Capital and Operating expenses FTEs)			
Executive	7	7	8
Management	127	147	144
Non-Management Regular	596	570	585
Non-Management Temporary	64	51	90
Total	**794**	**774**	**827**
Operating expenses figures below are in $ millions			
Total Compensation (Salary, Wages & Benefits)			
Executive	4.5	4.4	4.7
Management	25.6	29.5	28.9
Non-Management Regular	89.8	88.1	89.2
Non-Management Temporary	5.4	4.9	6.7
Total	**125.3**	**126.9**	**129.5**

Question(s):

a) Please indicate how many of the planned 53 FTEs for 2022 the IESO has hired to-date.
   i. Has the IESO revised its budgeted number of FTEs for 2022? If so, please provide the revised FTE projection as well as the impact of the revised projection on the IESO's 2022 compensation and benefits budget.

b) Table 5 as provided in the application indicates both operating and capital FTEs, however, related expenses are only shown for operating (i.e., OM&A) staff. Accordingly, please fill in Table 6 below to show only the average number of FTEs and staff compensation that correspond to the operations expense budget.

Table 6: Staffing Compensation from Operating Budget

	2021 Budget	2021 Actual	2022 Budget
Average Number of Employees (Operating expenses FTEs)			
Executive			
Management			
Non-Management Regular			
Non-Management Temporary			
Total			
Total Compensation for Operating Expenses ($M) (Salary, Wages & Benefits)			
Executive			
Management			
Non-Management Regular			
Non-Management Temporary			
Total			
Compensation per Average Operating Employee			
Executive			

Management			
Non-Management Regular			
Non-Management Temporary			
Total			

c) Based on the IESO's response to b), please provide reasons for any changes in operations-related compensation per average employee from 2021 actual to 2022 budget.

d) As stated, Table 5 as provided in the application indicates both operating and capital FTEs, however, related expenses are only shown for operating staff. Accordingly, please fill in Table 7 below to show only the average number of FTEs and staff compensation that correspond to the capital expense budget.

Table 7: Staffing Compensation from Capital Budget

	2021 Budget	2021 Actual	2022 Budget
Average Number of Employees (Capital expenses FTEs)			
Executive			
Management			
Non-Management Regular			
Non-Management Temporary			
Total			
Total Compensation for Capital Expenses ($M) (Salary, Wages & Benefits)			
Executive			
Management			
Non-Management Regular			
Non-Management Temporary			
Total			
Compensation per Average Capital Employee			
Executive			
Management			
Non-Management Regular			
Non-Management Temporary			
Total			

e) Based on the answer to d), please provide reasons for any changes in capital-related compensation per average employee from 2021 actual to 2022 budget.

f) If applicable, please describe the reasons for any differences between the average 2022 compensation calculated for capital versus operating employees.

Issue 1.3: Is the IESO's 2022 capital expenditure envelope of $71.2 million for capital projects for Fiscal Year 2022 appropriate?

1-Staff-14

a. Exhibit B / Tab 1 / Schedule 2 / pp. 31 & 34

Preamble: Exhibit B/ Tab 1/ Schedule provides details of the IESO's 2022-2024 capital plans. OEB staff's questions relate to the following two listed capital projects: "Data Excellence Program" and "Meter Data Management System Replacement".

Question(s):

a) The description of the Data Excellence Program states that "…this program establishes an evolved data management and analytics framework to support IESO business needs, and enhance third-party access to data and information."
   a. Please describe the degree to which the Data Excellence Program supports the Smart Metering Entity's (SME) efforts to provide de-identified electricity consumption data to third parties.
   b. If the project supports, in whole or in part, the SME's third-party access efforts, please describe how the IESO's intends to recover associated costs (i.e., will costs be recovered through IESO usage fees, the Smart Metering Charge or other?).

b) The description of the Meter Data Management System Replacement (MDM/R) project states the MDM/R requires replacement when it reaches end of life as an upgrade to the current version is not available.
   a. Please confirm that the MDM/R replacement is being undertaken to support the SME's business requirements. If the replacement supports another requirement, please describe it.
   b. Please describe how the IESO intends to recover the costs associated with the MDM/R replacement (i.e., will costs be recovered through IESO usage fees, the Smart Metering Charge or other?).

ISSUE 2.0: Usage Fees

Issue 2.1 Is the methodology used to derive the IESO's proposed 2022 Usage Fees of $1.3329/MWh for domestic customers (including embedded generation) and $1.0126/MWh for export customers to be paid commencing January 1, 2022 appropriate?

2-Staff-15

a. Exhibit A / Tab 1 / Schedule 3 / p. 2

Preamble:

Table 8 summarizes the IESO usage fees approved in the 2020/2021 IESO proceeding, and the ones proposed in the current application. At the above noted reference, the IESO states, "[t]he 2022 proposed usage fees for domestic customers represents a 4.8% increase relative to 2021 OEB approved usage fees, and the 2022 proposed usage fees for export customers represents a 7.5% decrease relative to 2021 OEB approved usage fees."

Table 8: Staffing Compensation from Capital Budget

IESO Usage Fees ($/MWh)	Approved 2021	Proposed 2022	% Change (Approved 2021 vs. Proposed 2022)
Domestic	1.271	1.3329	4.8%
Export	1.0943	1.0126	-7.5%

Question(s):

a) What are the driving factors leading to the domestic usage fee increase?
b) What are the driving factors leading to the export usage fee decrease?

ISSUE 3: Application and Reliable Integration Fee

Issue 3.1: Is the IESO's proposal to charge proponents a Reliable Integration fee at an hourly rate of $145/hour for activities the IESO undertakes to reliably integrate new or modified facilities to the IESO-Controlled Grid appropriate?

3-Staff-16

a. Exhibit C / Tab 3 / Schedule 1

Preamble: The Application requests approval to charge proponents a Reliable Integration Fee at an hourly rate of $145/hr. The Application states that the fee will be charged for the activities the IESO undertakes to reliably integrate new or modified facilities to the IESO-Controlled Grid.

Question(s):

a) Please identify the differences between the tasks normally undertaken by the IESO to complete System Impact Assessments (SIA) versus the tasks the IESO proposes be subject to the Reliable Integration Fee (RIF).
b) Please confirm if proponents are charged at any hourly rate of $145/hr for the tasks the IESO completes in support of SIAs and Technical Feasibility Studies.
   i. If a different charge model is used, please describe the model.
c) Please describe how the IESO determined that a rate of $145/hr was appropriate to charge proponents of all applicable studies and assessments, including the requested RIF.
d) Please identify the number of hours the IESO anticipates being required to fulfill the tasks associated with a typical request subject to the RIF. Please confirm the total amount that would be charged to the proponent for fulfillment of this typical request.
   i. If each request is unique – i.e., a typical request does not exist – please provide what the IESO considers to be a reasonable range of the number of hours and costs that it anticipates incurring/charging to fulfil requests.
e) Please provide an estimate of the average amount charged by the IESO to proponents for completion of SIAs.
f) On average, annually, what costs does the IESO incur to fulfil the tasks it proposes be covered by the RIF?

<u>Issue 3.2: Application Fee for Market Participation.</u>

<u>3-Staff-17</u>

Preamble: The market participation application fee is charged to organizations that wish to participate in the IESO-administered market. The purpose of the fee is to compensate the IESO for the administrative effort its employees expend to register and authorize market and program participation. The current $1,000 fee was last approved by the OEB in its decision on the IESO's 2020/2021 revenue requirement application.

OEB staff's questions relate to whether a flat fee approach remains appropriate, given the IESO's recent requests for OEB approval to charge for comparable services on a cost recovery basis as further described below.

The Application seeks OEB approval to charge a RIF that will allow the IESO to recover from organizations the costs it incurs to reliably integrate new or modified facilities to the IESO-controlled grid. The proposed RIF is $145 per hour and would be calculated based on the total number of hours taken to perform the reliable integration activities. The IESO states that:

- the RIF fee proposal is consistent with the fees the IESO charges for System Impact Assessments and optional Technical Feasibility Studies[3], and
- the objective of the RIF is to reduce cross-subsidization by identifying and recovering the costs directly attributable to a proponent seeking to reliably integrate its new or modified facilities into the IESO-controlled grid.[4]

In another instance, the IESO (in its capacity as the Smart Metering Entity) requested OEB approval of a similar cost-recovery model in its application to provide third-party access to de-identified electricity consumption data.[5] Consistent with that proceeding's settlement proposal, the OEB decision established that the IESO would charge third parties a rate of $145 per hour – the IESO's stated fully allocated labour cost – to complete both standard and non-standard data requests.

Question(s):

a) The market participation application, RIF and third-party access fees serve the same purpose: to compensate the IESO for the costs it incurs to provide a service. Accordingly, please describe why or why not it would be appropriate to transition the market participant application fee from a flat to variable fee, consistent with the requested RIF and OEB-approved third-party access charges.
b) Please identify the number of hours the IESO normally requires to complete the tasks associated with a typical market participation application.
    i. If each undertaking is unique – i.e., a standard number of hours isn't available – please provide what the IESO considers to be a reasonable range of hours it spends to fulfil requests.
c) In the IESO's view, are there reasons why a rate of $145/hr would not be an appropriate rate to apply to the activities it completes in support of the market participation application fee? That is, would an hourly rate other than $145/hr better reflect the actual costs the IESO incurs to complete related tasks? If so, what rate would the IESO propose and why does the IESO believe the alternative rate is more appropriate.

[3] Application, C-3-1, p. 1.
[4] Application, C-3-1, p. 2.
[5] EB-2021-0292

ISSUE 4.0: Market Renewal Program (MRP)

Issue 4.1: Is the reporting on financial and operational performance of the MRP appropriate?

4-Staff-18

a. Exhibit B / Tab 1 / Schedule 2 / p. 15
b. Exhibit G/ Tab 2/ Schedule 1 / p. 5

Preamble: On page 15 of the IESO's 2022-2024 business plan, the IESO states that it will complete its $178 million dollar investment in the MRP by the of end 2023.

Question(s):

a) Please provide a table with two columns that demonstrates the IESO's total actual and budgeted MRP operating and capital spending to-date. Please provide the financial information in a format consistent with Table 2 found at Exhibit G-2-1, p. 5 of the MRP Cost Report. I.e., list actual and budgeted spending by the same lines items shown in Table 2.

4-Staff-19

a. Exhibit G/ Tab 2/ Schedule 1

Preamble: Exhibit G-2-1 is the IESO's MRP Cost Report. At Exhibit G-2-1, p. 3 the IESO states that "[t]he IESO Board approved a revised [MRP] budget and schedule in March 2021, including a go-live date of November 2023 plus six months of contingency."

At Exhibit G-2-1, p. 7 the IESO states that it "expects that adjustments to timelines will be needed as the project moves closer to in-service" and a similar statement is made at Exhibit A, Tab 1, Schedule 3, p. 5.

Question(s):

a) Please clarify the IESO's statement "adjustments to timelines will be needed as the project moves closer to in-service". That is, does the IESO foresee challenges in achieving a go-live date of November 2023 (plus six months of contingency).
b) If different from November 2023 (plus six months of contingency), what is the IESO's most recent projection for when MRP will go-live?

    i. If applicable, please fully describe the reasons for any delays in implementation as well as the potential impacts of delays on MRP budgets and/or the MRP's benefits case.
    ii. If applicable, please provide a revised Schedule Performance Index score for 2021 based on the IESO's revised go-live projection.

c) At Exhibit G-2-1, p. 6 the IESO lists the four factors which resulted in its capital expenses being $12 million lower than budget in 2021. Amongst those factors, the IESO listed "[d]elays in gathering business and vendor requirements, which has resulted in the deferral of internal and external IT implementation costs" as a reason.
    i. Please describe the reasons for these delays as well as any steps the IESO plans to take to mitigate these delays in future years.
    ii. If applicable, please describe the relationship between these delays and any challenges associated with achieving the targeted MRP go-live date of November 2023.
    iii. Please describe how much of the $12 million underspend in 2021 will be made-up for in 2022 and beyond.

4-Staff-20

b. Exhibit G/ Tab 2/ Schedule 1 / pp. 8

Preamble: Table 8 at the above reference demonstrates that MRP FTEs will increase by 16 in 2022 compared to 2021 actuals, and 3 when compared to budget.

Question(s):

a) Please describe the relationship, if any, between the IESO's significantly lower than budgeted FTE complement in 2021 and MRP implementation delays.
    i. As part of its response, the IESO is requested to specifically describe the direct impacts of the lower-than-budgeted headcount on MRP rollout.

b) Please indicate how many of the planned 97 FTEs for 2022 the IESO hired to-date.
    i. Has the IESO revised its budgeted number of MRP FTEs for 2022? If so, please provide the revised FTE projection as well as the impact of the revised projection on the IESO's 2022 MRP compensation and benefits budget.

ISSUE 5.0: Commitments from Previous OEB Decisions

Issue 5.1: Has the IESO responded appropriately to outstanding OEB directions from previous proceedings?

5-Staff-21

a. Exhibit D / Tab 1 / Schedule 3 / pp. 3-7

Preamble:

Table 2 at the above reference lists the ongoing and planned efforts being undertaken by the IESO to advance towards the 50th percentile of total renumeration. Table 2 organizes the ongoing and planned efforts by the following categories: Compensation, Pension, Benefits and Culture and Values.

Question(s):

a) Target area one indicates efforts related to a reduced number of Society employees compensated above a revised maximum salary range. Please indicate if the IESO has also revised the maximum salary range for non-represented/Management employees.
   i. If applicable, please describe the revision made to the non-represented/Management employee salary range.
   ii. If a revision to the non-represented/Management salary range has not been made, please describe the reasons for why.

b) Target area three references Guidelines and Oversight. It describes the guidelines the IESO follows with respect to the amount of compensation that can be applied to certain hiring decisions. Exhibit D-1-3 Attachment 2 details these compensation guidelines.
   i. Please specifically identify all revisions that have been made to the compensation guidelines shown at Exhibit D-1-3 Attachment 2 since the OEB required to IESO to bring total renumeration towards the 50th percentile in its Decision on the IESO's 2019 Revenue Requirement application.

c) Amongst other things, Table 2 describes actions being taken by the IESO related to benefits. The actions identify specific areas of benefits-related cost savings being sought in collective agreements. Please identify the specific areas of benefits-related cost savings (including those related to pensions) being pursued related to non-Unionized/Management positions. If there are none, please explain why.

5-Staff-22

a. Exhibit D / Tab 1 / Schedule 3 / Attachment 3

Preamble:

At the above reference, the IESO provides a report entitled “Non-Executive Total Renumeration Review (Mercer Report).” The report demonstrates the movement made by the IESO towards the 50^{th} percentile of total compensation since the last report was issued in 2018 (2018 Report).

Question(s):

a) At Exhibit D-1-3, p. 3, the IESO states that:

Mercer Canada Limited (“Mercer”) was engaged to assist the IESO in conducting a Total Remuneration review for non-executives. The results from the review show positive movement towards the 50th percentile since the IESO’s last review in 2018. When comparing the IESO roles to the energy sector, the IESO has improved its position as it relates to Total Remuneration by 2%. In 2018, the IESO was positioned 11% over market (50th percentile) and in 2021 is now 9% over market.

Tables 9 and 10 have been created by OEB staff. They compare changes in total remuneration (TREM) for management, Society and PWU grade employees between the 2018 Report and the Mercer Report.

Table 9: IESO TREM Comparison

	2018 Report	Mercer Report	Variance	
	IESO TREM (000)	IESO TREM (000)	$(000)	%
Management	$187	$203	$16	9%
Society Total	$160	$174	$14	9%
PWU Total	$116	$123	$7	6%

Table 10: Energy Sector TREM Comparison

	2018 Report	Mercer Report	Variance	
	Energy Sector TREM (000)	Energy Sector TREM (000)	$(000)	%
Management	$197	$199	$2	1%
Society Total	$139	$156	$17	12%
PWU Total	$101	$102	$1	1%

As shown, results of the Mercer Report show that IESO TREM for the Management grade has increased by $16,000, or 9% since the 2018 Report whereas the Energy Sector comparable has only increase by $2,000, or 1%.

In response to OEB staff IR 30 (a) from the IESO's 2020/2021 Revenue Requirement proceeding, the IESO stated the following related to management staff:

Since the OEB direction provided in the 2019 revenue requirement decision, the IESO has made a number of concessions to help work toward compensation that is at the market median.

For the management cadre, the IESO used the direction from the OEB to guide their annual salary increase (merit) recommendations. ***As such the IESO provided conservative and modest increases to the management salaries and pay bands in both 2019 and 2020 (2021 to be determined in Q1 2022).***

In 2019, the average merit increase provided in the Energy sector was 2.9%. *With the OEB decision in mind, the IESO recommended to the Board of Directors a modest merit envelope of 2%. In 2019, the IESO also recommended to the Board a nominal increase to the salary range of 1.7% which again was below the Energy sector benchmark for 2019 salary range increases.*

In 2020, the average merit increase provided in the Energy sector was 2.2%*. Again, with the OEB decision in mind, the IESO recommended to the Board of Directors a modest merit envelope of 2% again below the average merit increases in the Energy sector. In 2020, the IESO also recommended a 1.8% increase to its salary bands which was below the average increase to the ranges in the Government/Public sector average of 2% and in line with the Energy Sector average.*

The IESO stated in its response to OEB staff IR 30 a) that for the management grade, the average merit increase provided in the Energy Sector in 2019 and 2020 were 2.9% and 2.2%, respectively, and that the IESO's merit increases were set based on these amounts. However, as shown in 6, according to the Mercer Report, the Energy sector TREM for management grade employees has only increased by 1% in total since the 2018 Report was completed. Please explain how the IESO determined that the average merit increase provided in the Energy sector for 2019 and 2020 were 2.9% and 2.2%, respectively, as well as why these increases were not reflected in the Mercer Report.

b) In response to 1-Staff-13, amongst other things, the IESO was requested to calculate both “management” and “non-management regular” compensation per average capital employee in 2022 and compensation per average operations employee in 2022.

   If applicable, please fully explain any variances between the average compensation calculated for both “management” and “non-management regular” employees in response to 1-Staff-13 and the TREMs shown in the Mercer Report.

5-Staff-23

a. Exhibit D / Tab 1/ Schedule 3 / Attachment 3 / p. 3 (Mercer Compensation Study)
b. EB-2019-0002 / Exhibit C / Tab 4 / Schedule 1 / Attachment 1 / p. 3 / January 28, 2019
c. EB-2019-0002 / Decision and Order / December 5, 2019 / p. 8

Preamble:

The Mercer Study filed in the current application notes that the IESO’s positioning above the 50th percentile on a total remuneration basis is primarily a result of the high employer provided value of pension plans in place at the IESO for PWU and the Society represented jobs.

OEB staff notes that a similar finding regarding the value of pension plans was made in the prior Mercer Study submitted in the 2019 revenue requirement proceeding, which was also referenced in the OEB decision of that proceeding.

Question(s):

a) Please discuss the IESO’s interpretation of the Mercer results. Specifically, given Mercer’s findings in the study filed in the 2019 revenue requirement proceeding regarding the value of pension plans, are there any reasons for why the IESO has not made more progress towards bringing its compensation to the market median levels?
b) Regarding pension and OPEB amounts, please provide an update on how the IESO is continuing its efforts to control costs in collective bargaining meetings, as well as costs applicable to management/non-union staff, including potentially increasing employee contributions.