



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

BY EMAIL

July 20, 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 Staff Submission on Settlement Proposal
Independent Electricity System Operator
Application for Approval of 2022 Expenditures, Revenue Requirement, and
Fees
Ontario Energy Board File Number: EB-2022-0002**

In accordance with Procedural Order No. 1, please find attached the OEB staff submission on the Settlement Proposal dated July 13, 2022 filed by the IESO in the above referenced proceeding.

Yours truly,

Original Signed By

Andrew Bishop
Senior Advisor, Generation & Transmission

Encl.

cc: Parties to EB-2022-0002



ONTARIO ENERGY BOARD

OEB Staff Submission on Settlement Proposal

Independent Electricity System Operator

**Application for approval of 2022 expenditures, revenue requirement,
and fees**

EB-2022-0002

July 20, 2022

Background

On March 4, 2022, 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 of its 2022 expenditures, revenue requirement, and fees (Application).

The IESO proposed a revenue requirement of \$201.5 million that will be funded through usage fee revenue collected from both domestic and export customers.

The Application also included, amongst other things, requests for approval of its proposed 2022 capital expenditure envelope of \$71.2 million and approval 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.

Status of Issues

A settlement conference was held on June 13, 14 and 15, 2022. The IESO and the following intervenors participated in the settlement conference: Association of Major Power Consumers in Ontario, Canadian Manufacturers & Exporters, Canadian Renewable Energy Association, Energy Storage Canada, Ontario Waterpower Association, Coalition of Concerned Manufacturers & Businesses Canada, Electricity Distributors Association, Energy Probe Research Foundation, Environmental Defence, HQ Energy Marketing Inc., Ontario Sustainable Energy Association, Power Workers' Union, School Energy Coalition, Society of United Professionals Local 160, and Vulnerable Energy Consumers Coalition (collectively, the Parties).

The IESO filed a settlement proposal on July 13, 2022 (Settlement Proposal). All of the Parties supported the Settlement Proposal except for HQ Energy Marketing Inc. and the Power Workers' Union, who took no position on the Settlement Proposal, and Environmental Defence and Society of United Professionals Local 160, who only took positions on certain issues in the Settlement Proposal.¹

Per the OEB's *Practice Direction on Settlement Conferences*, OEB staff is required to file a submission commenting on two aspects of the Settlement Proposal: whether the settlement represents an acceptable outcome from a public interest perspective, and

¹ The Settlement Proposal specifies that Environmental Defence only takes a position on issues 1.1, 3.1, and 5.1, and takes no position on any of the other remaining issues, and that Society of United Professionals Local 160 takes no position on issue 1.2.

whether the accompanying explanation and rationale is adequate to support the settlement. OEB staff discusses both aspects below.

Submission

OEB staff submits that the Settlement Proposal is in the public interest, and that the accompanying explanation and rationale is adequate to support the Settlement Proposal. OEB staff's submission provides reasons for OEB staff's position by commenting on its most material aspects, rather than examining each issue on the approved issues list individually.

For the following reasons, OEB staff supports the agreement reached by the Parties:

- OEB staff is of the view that the Parties have provided sufficient explanation in the Settlement Proposal for why the agreed upon resolution is appropriate, including by citing the applicable sections of the evidence. Resulting from the settlement process, the IESO also filed additional evidence and corrected responses to interrogatories.
- The Application appears to be consistent, from both a budget and objectives perspective, with the IESO's Minister-approved Business Plan (Business Plan).

However, OEB staff notes that the IESO has acknowledged through its interrogatory responses² as well as in the Settlement Proposal³ that there is currently uncertainty with respect to the total cost and schedule of the Market Renewal Program (MRP) presented in the Business Plan. The Business Plan states that the IESO will complete its \$178 million dollar investment in the MRP by the of end 2023.⁴

To address these uncertainties, the IESO has committed in the Settlement Proposal to developing an updated MRP schedule and cost projection.⁵ Additionally, and as detailed under Issue 4.1 of the Settlement Proposal, the IESO has agreed to publicly report on the MRP's implementation beginning in the third quarter of 2022. These reports will be published quarterly on the IESO's website, within 30 days of the end of each quarter, and will include, at a minimum:

² IESO Response to OEB Staff Interrogatory 18

³ Settlement Proposal, p. 17

⁴ Exhibit B / Tab 1 / Schedule 2 / p. 15

⁵ Settlement Proposal, p. 17

- MRP Schedule Performance Index and Cost Performance Index metrics
- Actual MRP schedule progress against target
- Actual MRP year-to-date spend compared to annual budget, and actual total spend compared to total budget
- Any changes to the MRP's cost forecast, schedule forecast, or project scope that have occurred since the last quarterly report

Further, the Settlement Proposal states that the IESO has agreed to assess any changes to the MRP Energy Stream Financial Assessment since it was approved by the IESO's Board of Directors resulting from, amongst other things, changes to the MRP's schedule and budget. The IESO has committed to providing a full update publicly on the results of that assessment, including any revisions to the MRP Energy Stream Financial Assessment, within three months of the OEB decision on the Application.

OEB staff supports the commitments made by the IESO related to updating the MRP schedule, budget projections, and the Energy Stream Financial Assessment, as well as its provision of MRP quarterly updates.

The updated financial assessment will provide transparency into the level of ratepayer value the MRP is expected to deliver. This transparency is important given the number of changes that have occurred to the MRP's design since its inception. Timely updates to stakeholders should ultimately improve the implementation of the MRP.

With regard to future revenue requirement proceedings, the additional information will be of benefit to both the OEB and parties to future proceedings by enabling a more comprehensive understanding of the IESO's MRP-related activities and, most notably, the reasonableness of their associated costs.

- The IESO's proposed 2022 revenue requirement of \$201.5 million, which was accepted by the Parties, appears reasonable. The 2022 budget represents a \$9.7 million increase compared to the IESO's OEB-approved 2021 budget of \$191.8 million that is driven in part by new initiatives such as Resource Adequacy, Enabling Resources and the Pathway to Decarbonization. OEB staff is of the view that through the course of the proceeding the IESO has provided evidence to support its planned activities in 2022 that are driving its proposed expenditures.

The Settlement Proposal requires the IESO to engage an independent third party to conduct a jurisdictional review of the types of market and planning information and data that are made available in other comparable jurisdictions and how such information and data is made available. The results of the jurisdictional review are to be made public by the end of Q2 2023.⁶

OEB staff supports the third-party review that should be beneficial in developing an understanding of the types of data made available to stakeholders in other jurisdictions, and presumably, why and how provision of this data benefits the electricity sector. OEB staff notes, however, that in a letter dated April 28, 2022 (OEB Letter),⁷ the OEB committed to move forward on a recommendation from its Regional Planning Process Advisory Group to amend the IESO's licence to require the IESO to make planning information available to stakeholders. As identified in the OEB's implementation plan (attached to the OEB Letter), the OEB is targeting the fall of 2022 to proceed on that licence amendment. OEB staff is of the view that the jurisdictional review related to planning information, as set out in the Settlement Proposal, will not inhibit the OEB plans identified in the OEB Letter. Indeed, once the jurisdictional review has been completed, it may help inform whether refinements should be made to that licence obligation.

- The IESO's proposed 2022 capital expenditure envelope of \$71.2 million, which was accepted by the Parties, appears reasonable.

The OEB decision on the IESO's 2019 expenditure, revenue requirement, and fees application⁸ established a materiality threshold of \$4 million for capital projects. For each project that exceeded that amount, the OEB indicated that it expected the IESO to file business cases as part of future revenue requirement applications that included at a minimum: the purpose of the project, the outcomes that the IESO is expecting, the rationale to proceed with the project, options considered, the approach to completing the project (e.g., build in-house versus purchase), a risk assessment, and the governance for the project including performance reporting.

The Application identified seven capital projects as meeting the materiality threshold. Business cases for five of the seven capital projects were provided in

⁶ Settlement Proposal, pp. 6-7

⁷ OEB Letter: <https://www.oeb.ca/sites/default/files/OEBLtr-RPPAG-Response-to-Recommendations-20220428.pdf>

⁸ EB-2019-0002

the 2020-2021 revenue requirement application⁹, while the remaining two projects are newly introduced in the current Application.

The IESO's Business Plan also provides a detailed account of its 2022 capital plan for initiatives that do not meet the materiality threshold to validate its proposed capital expenditures.¹⁰

- With respect to the IESO's 2022 projected staffing levels and compensation, which were accepted by the Parties, OEB staff takes no issue. In particular, OEB staff notes that total pension and other post-employment benefits (OPEB) amounts included in the 2022 revenue requirement have decreased versus the 2021 revenue requirement by approximately \$4.3 million, or 18.7%.¹¹

The OEB-approved settlement proposal on the IESO's 2020/2021 revenue requirement application required the IESO to report on matters related to reaching the 50th percentile for total compensation. The Application was responsive to this requirement by including:

1. a forward-looking itemized plan identifying how the IESO proposed to make progress towards reaching the 50th percentile for total compensation, including incremental steps taken or planned to be taken,
2. an updated total compensation study, and
3. reporting on progress made towards reaching the 50th percentile for total compensation.

In the Settlement Proposal, the IESO agreed to continue to make progress towards reaching the 50th percentile for total compensation and committed to include the following in its next revenue requirement submission to demonstrate its complementary plans:

- Report on the progress of actions taken to make progress towards meeting the 50th percentile for total compensation
- A forward-looking itemized plan identifying how the IESO proposes to continue to make progress towards reaching the 50th percentile for total compensation, including incremental steps taken, or planned to be taken.

⁹ EB-2020-0230

¹⁰ Business Plan, pp. 29-34.

¹¹ Clarification 1-Staff-1, July 13, 2022

The plan will include forecast timelines for the actions identified in the itemized plan.

- Re-file the current total compensation study (Exhibit D-1-3 Staffing and Compensation Attachment 3 – Non-Executive Total Remuneration Review), as evidence.

Over the longer-term, the IESO also committed to:

- In 2024, undertake an updated total compensation study and file that study as evidence in the subsequent revenue requirement submission.
- Include a management bargaining mandate to work towards a 50:50 employee-employer pension and OPEB contribution ratio during upcoming collective agreement negotiations with both the Society of United Professionals and Power Workers Union. The IESO also indicated that it would work towards a 50:50 employee-employer pension and OPEB contribution ratio for management employees.

OEB staff supports the inclusion of the above additional information in future IESO revenue requirement applications, as this will allow parties to have a more comprehensive understanding of the IESO's overall compensation costs.

As discussed above, the Application included an updated total compensation study. The study, completed by Mercer Canada Limited, found that when compared to the energy sector, the IESO had improved its position as it relates to total compensation by 2% since the IESO's last review in 2018.¹² OEB staff recognizes the efforts the IESO has undertaken in response to previous OEB direction.

- The Settlement Proposal indicates that the Parties have accepted that 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 is appropriate. The Settlement Proposal notes the following:
 - The Reliable Integration Fee will be charged for work the IESO undertakes to reliably integrate new or modified facilities that participate in the IESO-Administered Markets, which includes all facilities that are connected to the transmission system and facilities that are connected to the distribution system that participate in the IESO-Administered Markets. The Reliable

¹² Exhibit D / Tab 1 / Schedule 3 / p. 3

Integration Fee will also be charged for work the IESO undertakes to reliably integrate new or modified facilities that are connected to the distribution system with an installed capacity greater than 10 MW, regardless of whether the proponent of those facilities will participate in the IESO-Administered Markets.

- The Reliable Integration Fee will be effective as of December 8, 2022, which aligns with the effective date for the final round of updates to the IESO's Market Rules and Manuals in 2022.

The Settlement Proposal indicates the IESO has agreed to provide aggregated data associated with the costs recovered from various resource types and sizes in the revenue requirement submission following the implementation of the Reliable Integration Fee.

OEB staff accepts that the calculation of the Reliable Integration Fee, as well as the rationale for it, appears reasonable.

- The methodology used to derive the IESO's proposed 2022 usage fees, which was accepted by the Parties, appears reasonable.

The 2020/2021 revenue requirement application directed the IESO to conduct a review of the OEB-approved cost allocation model that is used to derive both domestic and export usage fees.¹³ The purpose of the comprehensive review of the cost allocation model was to ensure it remains an effective tool for determining usage fees.

The results of the comprehensive review, completed by Elenchus Research Associates Inc., concluded that the model remains reasonable. It is on this basis that OEB staff accepts the methodology used to derive the IESO's proposed 2022 usage fees.

~All of which is respectfully submitted~

¹³ The cost allocation model was approved in the IESO's 2016 revenue requirement proceeding (EB-2015-0275).