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

BY EMAIL

May 25, 2023

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 2023, 2024, and 2025 Revenue Requirement, Expenditures, and Usage Fees
OEB File Number: EB-2022-0318

Please find attached OEB staff's 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 questions 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,

Thomas Eminowicz
Digitally signed by Thomas Eminowicz
Date: 2023.05.25 14:39:39 -04'00'

Thomas Eminowicz
Senior Advisor, Generation & Transmission

Encl.

cc: All parties in EB-2022-0318

INDEPENDENT ELECTRICITY SYSTEM OPERATOR

Revenue Requirement, Expenditures and Usage Fees for 2023, 2024, and 2025

EB-2022-0318

OEB STAFF INTERROGATORIES

May 25, 2023

ISSUE 1: Revenue Requirement, Operating Costs and Capital Spending

1-Staff-01

a. Exhibit B / Tab 1 / Schedule 2 / p. 18 Pro Forma Statement of Operations

Preamble:

Exhibit B-1-2 is the IESO 2023-2025 Business Plan dated September 1, 2022. It contains the pro forma statement of operations with budgets for the years 2022 to 2025, inclusive, with the forecast for the year end 2022 at the time it was prepared.

Question(s):

a) Please complete the following table, using the latest available information the IESO may have for 2023. Please correct any inadvertent transcription errors.

Table 1: Pro Forma Statement of Operations – 2022 to 2025

$ Millions	2022 Budget	2022 Actual	2023 Budget	2023 Forecast	2024 Budget	2025 Budget
Baseline Expenses	172.8		175.4		181.4	187.7
Resource and Transmission Adequacy	1.7		6.0		8.8	7.3
Enabling Resources	0.4		0.8		0.9	0.9
Pathway to Decarbonization	1.3		-		-	-
Other Government Priorities	4.6		2.9		2.5	2.5
MRP – ongoing operation of new functions	0.5		1.9		3.0	4.2
Cybersecurity	-		1.6		1.6	2.1
Strengthening Engagement	-		0.7		1.1	1.6

Culture, Employees and Capabilities	-		0.8		0.8	1.0
Sustaining Technology, Evolving Processes, and Tools	-		1.9		2.3	2.2
Operating Expenses Sub-Total	181.3		192.0		202.2	209.4
Amortization	20.0		23.1		22.0	27.0
Net Interest	(5.0)		(11.5)		(9.7)	(9.2)
Registration Fee	-		(0.5)		(0.5)	-
Market Renewal Program	5.2		5.3		4.4	2.5
Total Expenses	201.5		208.4		218.4	229.7

b) Please provide any additional information the IESO deems relevant regarding notable deviations between the most current business plan forecast for 2023 and the 2023 budget.

1-Staff-02

a. Exhibit B / Tab 2 / Schedule 1 / p. 34 (2022 Annual Report)
b. Exhibit D / Tab 1 / Schedule 2 / p. 7 & 8

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 the 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 (OPEBs) 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 OM&A as part of its revenue requirement.

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 OPEBs, partially offset by the overhead cost recovery from other funding sources.

Table 1 – Overview of Corporate Adjustments

IESO Business Unit (million $)	2021 Actual	2022 OEB Approved	2022 Actual	2023 Budget	2024 Budget	2025 Budget
Corporate Adjustment	1.5	1.2	6.0	0.7	0.6	(0.1)

Question(s):

a) Please provide a breakdown for each year (e.g., 2021 Actual, 2022 OEB Approved, 2022 Actual, 2023 Budget, 2024 Budget, 2025 Budget) of the Corporate Adjustments shown in OEB Staff Table 1, listing the PSAS Recovery Amount, overhead cost recovery, and other.

b) Please provide and explain the variance analysis related to the PSAS Recovery Amount, year-over-year, specifically 2022 Actual versus 2021 Actual, 2022 Actual versus 2022 OEB Approved, 2023 Budget versus 2022 Actual, 2023 Budget versus 2022 OEB Approved, 2024 Budget versus 2023 Budget, and 2025 Budget versus 2024 Budget.

c) Please confirm that there is no impact on 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-03

a. Exhibit D / Tab 1 / Schedule 2 / p. 8
b. Exhibit D / Tab 1 / Schedule 1 / p. 2
c. Exhibit F / Tab 1 / Schedule 1 / p. 3

Preamble:

2022 Corporate Adjustments expenses were $4.8 million higher than 2022 OEB Approved primarily due to a $4.4 million one-time adjustment for OPEBs to reflect recently arbitrated settlement awards (i.e., the recognition of the liability from negotiated and arbitrated collective agreement settlements awarded in 2022).

The Forecast Variance Deferral Account (FVDA) balance as at December 31, 2022 was a credit surplus of $23.7 million.

OEB staff notes that the IESO trues up its revenues and costs to break-even through the use of the FVDA, such that all of its incurred costs are recovered by the IESO.

Question(s):

a) Please confirm that the IESO is seeking recovery of a debit of $4.4 million as part of the $23.7 million credit surplus of the FVDA as at December 31, 2022, relating to a one-time adjustment for OPEB to recognize the liability from negotiated and arbitrated collective agreement settlements awarded in 2022. If this is not the case, please explain.

b) Please explain this $4.4 million debit adjustment, including why the recovery of this amount is reasonable.

c) Please explain what controls and procedures are in place to ensure that all of the IESO's incurred costs are reasonable, given that all of its incurred costs are recovered by the IESO through the FVDA, if the FVDA balance is approved for disposition by the OEB.

1-Staff-04

a. Exhibit D / Tab 1 / Schedule 1 / p. 4-6
b. EB-2022-0002, Clarification 1-Staff-1, July 13, 2022

Preamble:

The IESO has provided the following variance analysis regarding the pension and OPEB amounts:

- 2023 Budget versus 2022 Actual – $1.4 million lower pension and OPEB expense projection

- 2024 Budget versus 2023 Budget – actuarial projected $1.8 million increase of pension and OPEB liability
- 2025 Budget versus 2024 Budget – $3.7 million increase in actuarial projected pension and OPEB liability

Question(s):

a) Please explain the drivers of the changes listed in the above preamble and comment on the reasonableness of these variances.

b) Please provide a description of the key actuarial assumptions made, specifically 2023 Budget, 2024 Budget, and 2025 Budget.

c) Please identify and explain the variance between 2022 Actual and 2022 OEB Approved for pension and OPEB.

d) Please provide a table showing the breakdown of the pension and OPEBs amounts by year (including a breakdown of the portion charged to OM&A and the portion charged to capital), for 2022 Actual, 2022 OEB Approved, 2023 Budget, 2024 Budget, and 2025 Budget, as well as the dollar changes and percentage changes. This table should be similar in format to OEB Staff Table 4 filed in the Clarification 1-Staff-1 question from the 2022 revenue requirement proceeding. Please also list 2022 Actual versus 2022 OEB Approved, 2023 Budget versus 2022 Actual, 2023 Budget versus 2022 OEB Approved, 2024 Budget versus 2023 Budget, and 2025 Budget versus 2024 Budget.

1-Staff-05

a. Exhibit B / Tab 2 / Schedule 1 / p. 36 & 37 (2022 Annual Report)

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, 2022.

The one-year actual return on the IESO's registered pension plan's assets as at September 30, 2022 was -8.4% per annum.

The Bank of Canada's policy interest rate was 0.25% as at January 1, 2022 and 4.25% as at December 31, 2022. The rate as at May 25, 2023 is 4.50%.

Question(s):

a) Please provide the most recent actuarial reports/ updates/ valuations for all pension and OPEB plans.

b) Please demonstrate how the pension and OPEBs amounts in the 2022 Actual, 2023 Budget, 2024 Budget, and 2025 Budget tie to the most recent actuarial reports/ updates/ valuations and the 2022 audited financial statements, as applicable.

c) If the balances in the actuarial reports/ updates/ valuations and the audited financial statements are different from the 2022 Actual, 2023 Budget, 2024 Budget, and 2025 Budget revenue requirements, please provide an explanation supporting why the amount in the revenue requirements is more appropriate.

d) 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 2022 Actual, 2023 Budget, 2024 Budget, and 2025 Budget, meaning that the higher the discount rate, the lower the present value. If this is not the case, please explain.

e) Given the large increase in the Bank of Canada's policy interest rate since the IESO's most recent actuarial valuation as at January 1, 2022, as well as poor investment returns incurred in 2022, please explain whether the IESO has performed an update since January 1, 2022. If not, why not.

f) If an update was performed, please also explain whether such update was incorporated in 2022 Actual, 2023 Budget, 2024 Budget, and 2025 Budget, as higher discount rates lead to lower pension and OPEB costs, but may be offset by poor investment returns.

1-Staff-06

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

Preamble:

In Exhibit D-2-1, the IESO explains market interest income earned on funds passing through the IESO wholesale market, in accordance with the Market Rules. The IESO identifies that approximately 50% of the 2022 operating surplus was due to upside in interest income caused by higher overnight interest rates, earned on the volume of funds described in reference a.

Question(s):

a) Please elaborate on the nature of funds that the IESO holds, in accordance with the Market Rules, and earns short-term interest income. What are the drivers that can cause the volume of funds to fluctuate month-to-month and year-over-year? Does the IESO forecast this volume within its business processes? If so, please comment on how accurate the IESO's previous forecasts have been compared to actuals. For example, has the IESO tended to over-forecast or under-forecast market interest income on funds?

b) Of the reported 2022 $6.5 million higher than budget gain on short-term investment income, approximately what proportion was due to higher than plan interest rates and what proportion was due to the IESO holding a higher than plan volume of funds that earned interest?

<u>1-Staff-07</u>

a. EB-2022-0318 Exhibit D / Tab 1 / Schedule 3 / Table 1
b. EB-2022-0002 Exhibit B / Tab 1 / Schedule 2 / p. 20

Preamble:

In Exhibit D-1-3 Table 1, the IESO provides actual and planned FTEs. Reference b. provides the planned FTE levels from the previous Business Plan for the overlapping years.

Question(s):

a) Please complete the following table, correcting any inadvertent transcription errors.

Table 1: FTE Additions, Actual and Plan – 2022 to 2025

	2022 Plan	2022 Actual	2023 YTD	2023 Plan	2024 Plan	2025 Plan

Gross FTE additions	N/A			N/A	N/A	N/A
Net FTE increase	53	25		115	12	(26)
Year-End Total FTEs	827	799	N/A	914	926	900

b) Please confirm if the IESO still maintains a 2023 FTE year-end target of 914. If the IESO deems this target achievable, please explain this assessment in light of the IESO reporting fewer FTEs than in the OEB approved plan in all historical years reported in Table 1 of D-1-3. If the IESO has revised the FTE target for 2023, what is the new target and what is the approximate impact on revenue requirement in 2023, 2024, and 2025?

c) What would be the approximate impact on Revenue Requirement in each of 2023, 2024, and 2025 if only 50% of the 2023 FTE increase was met? 75%? OEB staff would be satisfied with an approximate "order of magnitude" or "percentage" response.

d) Please explain the decision-making process and main factors that led the IESO to increase the budget FTE for 2023 from the 2022-2024 Business Plan of 852 to the current business plan amount of 914.

1-Staff-08

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

Preamble:

Exhibit D-1-3 provides details regarding operating expenses and average number of employees, both capital and operating.

Question(s):

a) Please fill in the table below to show only the number of FTEs and staff compensation that correspond to the operations expense budget.

Table 1: Staffing Compensation from Operating Budget

	2022 Budget	**2022 Actual**	**2023 Budget**	**2024 Budget**	**2025 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					

b) Based on the table in a), please provide reasons for any changes in operations-related compensation per average employee from 2022 actual to and between the budgets in 2023, 2024, and 2025.

c) Please fill in the table below to show only the average number of FTEs and staff compensation that correspond to the capital expense budget.

Table 2: Staffing Compensation from Capital Budget

	2022 Budget	2022 Actual	2023 Budget	2024 Budget	2025 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					

d) Based on the table in c), please provide reasons for any changes in capital-related compensation per average employee from 2022 actual to and between the budgets in 2023, 2024, and 2025.

e) If applicable, please describe the reasons for any differences between the average budget compensations calculated for capital versus operating employees.

1-Staff-09

a. Exhibit E / Tab 2 / Schedule 1 / Table 1
b. Exhibit E / Tab 2 / Schedule 1 / p. 1-3
c. Exhibit G / Tab 2 / Schedule 1/ p. 6-7

Preamble:

In the above references, the IESO reports that it has underspent its capital plan in all reported years. Reference b. primarily cites reasons associated with the non-MRP capital plan. These include: the deferral of procurements in 2019 and 2020; delays in initiating projects in 2021; changes in timing of hardware purchases, reductions in vendor pricing, extending timelines, and delays from vendors in 2022. The IESO also notes in reference b. that some of the underspend was offset by working within its capital envelope to work on a new high priority project in 2020. Similar project reprioritization is cited in 2021 and 2022, offsetting the underspend in the respective years.

In references b. and c., the IESO details MRP related underspending, including the cancellation of work that was included in the 2019 OEB approved capital expenditure budget and delayed onboarding, and unused contingency in 2020. For 2022, the IESO states work related to market rules and manuals were completed with lower than planned costs, and that other work was completed with fewer person-hours than planned.

Based on the filed evidence, OEB staff note that the IESO has been approved a cumulative capital expenditures budget of approximately $235 million for the 2019 to 2022 period, inclusive. OEB staff note that reported capital expenditures for the same period are approximately $195 million. These figures include the cancelled Incremental Capacity Auction, since the OEB approved related amounts for capital expenditure and the IESO subsequently reported expenditures. OEB staff note that the IESO has underspent its cumulative OEB approved capital budget for 2019 to 2022, inclusive, by approximately 17%.

Question(s):

a) Exhibit E-2-1, on page 2 at lines 18 to 20, identifies that the 2021 actual MRP capital expenditure was $12 million lower than the OEB approved amount, and directs to Exhibit G-2-1 for details. OEB staff are unable to locate the explanation for this $12 million variance in 2021 in Exhibit G-2-1. Please direct staff to the explanation in filed evidence that provides the details of this $12 million underspend or provide it as a response to this interrogatory.

b) In light of the consistent underspending on capital reported in the above references, please justify the requested capital expenditures for 2023, 2024, and 2025. What lessons has the IESO learned that it has applied to more appropriately budget capital expenditures in this application?

c) What would be the usage fee impact in each of the requested years for each user type if the IESO reduced its capital expenditure budget by 10% in each of 2023, 2024, and 2025?

d) If the IESO receives its requested usage fees and underspent its capital expenditure budget by 10% in each of 2023, 2024, and 2025 in the application period, what would be the resultant operating surplus in each of the years? An estimate or approximation would be sufficient to satisfy this interrogatory.

1-Staff-10

a. Exhibit E / Tab 2 / Schedule 1 / Table 2
b. Exhibit E / Tab 2 / Schedule 1 / p. 8

Preamble:

In E-2-1, the IESO provides details on material capital projects, which are those with total project costs that exceed a $4 million threshold. Further, the IESO states that it focuses is project measures on the advancement of strategic initiatives.

Question(s):

a) Please confirm which of the projects in reference a. are deemed strategic initiatives.

b) Please also confirm whether there are any projects that are deemed strategic initiatives that do not meet the $4 million threshold to be also deemed material projects. If there are strategic initiatives that do not meet the threshold for a material project, please identify those projects. What is the capital budget for these projects for 2023, 2024, and 2025?

1-Staff-11

a. Exhibit E / Tab 2 / Schedule 1 / p. 3
b. Exhibit E / Tab 2 / Schedule 1 / p. 8
c. Exhibit A / Tab 1 / Schedule 5 / p. 5-6
d. Exhibit E / Tab 2 / Schedule 1 / Attachment 1 – Capital Projects (Appendix 2-AA)

Preamble:

In reference b., the IESO states that it focuses project measures on the advancement of strategic initiatives. Further, the IESO states that the remainder of the capital portfolio is made up of core business projects. Although important and often mandatory, there is often discretion on the timing of execution of these core business projects.

In reference a., the IESO provides the total capital budgets in each of 2023, 2024, and 2025, providing figures for “the IESO core project portfolio” and “for the MRP.” In this reference, the core project portfolio budget is the balance of the annual capital budget that is not related to MRP. For example: “For 2023, the IESO’s capital budget is $86 million, including $35 million for the IESO core project portfolio and $51 million for the MRP.” Reference c. identifies specific projects, other than MRP, that are categorized as strategic initiatives.

Question(s):

a) Please resolve the apparent discrepancy between references a. and c. by identifying each of the projects in reference d. that are deemed a strategic initiative, and thus subject to focused project measures, and each of those that are deemed core business projects, and thus subject to discretion on the timing of execution.

1-Staff-12

a. Exhibit A / Tab 2 / Schedule 2
b. Exhibit A / Tab 2 / Schedule 2 / Attachment 1
c. Exhibit A / Tab 2 / Schedule 2 / Attachment 2
d. Exhibit E / Tab 2 / Schedule 1 / p. 8

Preamble:

In Exhibit A-2-2, the IESO states that it has developed a new balanced scorecard to more closely align with key initiatives within the organization. Attachment 1 provides the 2023-2025 performance measures. Attachment 2 provides the 2022 performance measures results.

Question(s):

a) Please confirm that the IESO will no longer use the internal performance metrics in reference c. and that the IESO will only use those in reference b. If this is not the case, please list all the performance measures on the IESO’s scorecard for 2023, 2024, and 2025.

b) If part a) is confirmed, please reconcile the apparent discrepancy between the statement of focusing metrics on strategic initiatives and removing the metric for overall schedule adherence of strategic initiatives. If OEB staff’s interpretation is incorrect, please identify the internal performance measure(s) that are a part of the IESO's balanced scorecard that will monitor overall performance of executing strategic initiatives.

ISSUE 2: Usage Fees

2-Staff-13

a. EB-2020-0230, Exhibit C / Tab 1 / Schedule 1 / Attachment 1
b. EB-2022-0002, Exhibit C / Tab 1 / Schedule 1 / Attachment 1
c. EB-2022-0318, Exhibit C / Tab 1 / Schedule 1 / Attachment 1
d. EB-2022-0002, Exhibit H / Tab 5.1 / Schedule 13 – 5.1 SEC 19, Attachment 1, p. 5

Preamble:

Attachment 1 of Exhibit C-1-1 of successive applications has provided the forecast volumes that underly domestic and export user fees. The most recent attachment provides actual demand and transmission losses for previous years.

Question(s):

a) Please complete Table 1 for the years 2019 and 2020 and correct any transcription errors. Please provide references for the values for 2019 and 2020. The forecast and actual demand for domestic and export users are not including transmission losses.

Table 1: Forecast and Actual Demand, as applicable – 2019 to 2025*

(TWh)	2019	2020	2021	2022	2023	2024	2025
Forecast Domestic Demand			132.4	135.0	135.8	140.1	145.4
Actual Domestic Demand (Ref c.)	135.1	132.2	133.9	137.5	N/A	N/A	N/A
Forecast Export Demand			17.0	15.9	13.3	10.2	8.6
Actual Export Demand (Ref c.)	19.8	20.4	17.2	17.5	N/A	N/A	N/A
Forecast Transmission Losses			2.9	3.0	3.0	3.1	3.2
Actual Transmission Losses (Ref c.)	3.0	2.1	2.0	2.5	N/A	N/A	N/A

* Note: Reference a. provided the forecast values for 2021, reference b. provided the forecast values for 2022, and reference c. provided the forecast values for 2023, 2024, and 2025.

b) Please complete Table 2 and correct any transcription errors. The transcribed values in Table 2 are from reference d.

Table 2: Modelled and Actual Domestic and Export Revenue

($M)	2019	2020	2021	2022	2023	2024	2025
Modelled Domestic Class Revenue				185.4			
Actual Domestic Class Revenue					N/A	N/A	N/A
Modelled Export Class Revenue				16.1			
Actual Export Class Revenue					N/A	N/A	N/A

c) Based on the above tables, please comment on whether the IESO has generally under or over forecasted the electricity demand that underlie the usage fees in the 2019 to 2022 period.

2-Staff-14

a. Exhibit C / Tab 1 / Schedule 1 / p. 2
b. Exhibit C / Tab 2 / Schedule 1 / p. 6
c. EB-2022-0318, Exhibit C / Tab 1 / Schedule 1 / Attachment 1

Preamble:

The domestic and export usage fees were calculated for the IESO by Elenchus Research Associates Inc. using a model that allocates costs in the Business Plan between the two customer classes using the charge determinants. One of the charge determinants is the most recent forecast for withdrawals by domestic and export users. The most recent forecast for 2023 is provided by the Reliability Outlook (RO) and the 2024 and 2025 forecasts are provided by the Annual Planning Outlook (APO).

Question(s):

a) Does the IESO have a confidence interval or range of reasonably expected demand for each of the forecast years for each rate class? If not, why not? If yes, what are they?

b) How do any differences in assumptions, inputs, or methodology between the RO and APO affect the sensitivity or range of outputs of the resultant forecasts?

c) What are the main factors that the IESO expects could affect actual demand to deviate from forecast? For each of the factors, please describe how they would lead to higher or lower actual demand compared what the IESO presents in its forecasts.

2-Staff-15

a. IESO Letter regarding evidence correction dated May 11, 2023

Preamble:

On May 11, 2023, the IESO filed corrected evidence for this proceeding noting two corrections: corrections to Tables 2 through 4 of Exhibit C-2-1 and the requested usage fees for 2023, 2024, and 2025. The first correction relates to an error in Tables 2 through 4 of Exhibit C-2-1, where total demand was decreased to include line losses. The resulting correction had an immaterial impact on the allocation of line losses. The second correction related to 100% of the projected line losses being erroneously allocated to domestic customers. This correction led the IESO to file recalculated usage fees in each of the years of the application for both domestic and export customers.

Question(s):

a) Please explain the relationship between the two corrections, if any exists. In other words, are they related? If yes, how are they related?

b) Please confirm whether any other elements of the application that affect the requests, e.g., revenue requirement or capital expenditures, need to be updated in light of the two above noted corrections. If so, please provide the updates, otherwise, please explain.

ISSUE 3: Operating Reserve

3-Staff-16

a. EB-2019-0002, Decision and Order, December 5, 2019, p. 13
b. Exhibit F / Tab 1/ Schedule 1 / p. 1 & 2

Preamble:

In the OEB's 2019 decision on the IESO's 2019 revenue requirement submission (EB-2019-0002), the IESO received approval to retain an operating reserve of $10 million.

However, OEB staff notes that in the above-noted decision, the OEB stated its expectations that this operating reserve will not be reviewed again for five years unless there is a material change to the operations of the IESO.

In the current application, the IESO is requesting to increase the FVDA balance to $15 million effective January 1, 2023, to manage cost or revenue variances that may arise over the planning horizon with the approval of all three years of the 2023-2025 Business Plan. This proposed increase recognizes the potential for additional unplanned events that may be material in scope and cost, given the scope and complexity of IESO's mandate and the expected transformation of the sector over the 2023-2025 Business Plan.

In the scenario where costs exceed the current level of the operating reserve, the IESO stated that it must fund these costs by either reducing invested funds or increasing borrowings because the IESO is a not-for-profit, non-taxable corporation. The IESO stated that these actions have net interest impacts that increase costs.

The IESO also noted that these expenditures would need to be restored in the next Business Plan and revenue requirement submission, and would therefore have a future impact on the IESO's revenue requirement and usage fees. The IESO believes that a $15 million FVDA balance will be a reasonable and adequate reserve against the uncertainties and impacts referred to above within the 2023-2025 planning horizon.

Question(s):

a) Given the OEB's expectations in its decision for the IESO's 2019 revenue requirement that the operating reserve of $10 million was not to be reviewed again for five years unless there was "a material change to the operations of the IESO", please explain why the IESO is of the view that a change to a $15 million reserve should be made effective for its January 1, 2023 revenue requirement.

b) Please describe whether there was "a material change to the operations of the IESO, as outlined in the OEB's 2019 revenue requirement decision as a pre-requisite to changing the IESO's operating reserve level.

c) Please list any material changes to the operations of the IESO that the IESO is anticipating may happen from 2023 to 2025.

d) If there was not an anticipated material change to the operations of the IESO, please provide reasons as to why the OEB should deviate from its findings in the 2019 revenue requirement decision (i.e., not to revisit the operating reserve for five years).

e) Please list any OEB precedents for such an increase in operating reserve, including the EB# and date.

3-Staff-17

a. Exhibit F / Tab 1 / Schedule 1 / p. 1-2
b. Exhibit C / Tab 2 / Schedule 1 / p. 2
c. Exhibit B / Tab 1 / Schedule 2 / p.23-26 (Appendix 2 of the 2023-2025 Business Plan)

Preamble:

In Exhibit F-1-1, the IESO outlines its request for an increase in its operating reserve, recognizing the potential for additional unplanned events that may be material in scope and cost. In Exhibit C-2-1, the IESO identifies some risks associated with forecast uncertainty: exchange rate, interest rates, change in demand, etcetera. The IESO further provides strategic and operational risks to achieving the IESO's strategic objectives with Appendix 2 of the 2023-2025 Business Plan: the undersupply of energy, maintaining credibility with the stakeholder community, cybersecurity risks, impairments to the IESO's efficiency mandate, and readiness to address transformation.

Question(s):

a) Please articulate how the operating reserve could or would be used to mitigate the impact of each of the risks identified in references b. and c. should they materialize over the 2023-2025 period.

b) Please explain how the quantum of additional operating reserve, i.e. an increase of $5 million or 50%, was derived based on the identified risks. Including, if available, the relative or absolute contribution of each of the above risks to determining the quantum.

c) Is the IESO concerned about any risks that are not identified in the filed evidence? If yes, what is the nature of the risk(s) and what are the potential impact(s)? How would the operating reserve that the IESO carries in the FVDA be used to mitigate to impact of these risk(s) if they materialize?

d) How would the IESO manage the increase in risk if the request to increase operating reserve was denied?

3-Staff-18

a. Exhibit F / Tab 1/ Schedule 1 / p. 4 & 6

Preamble:

The IESO proposes that if the balance of its operating reserve reaches above $30 million during the interim year period after the conclusion of the OEB proceeding, the IESO will refund this surplus over $30 million within a month of the publication of its Annual Report on March 31st.

However, the IESO also stated that it expects to carry surplus or deficits for the three-year period (2023 to 2025 revenue requirements) for dispensation at the next application.

Question(s):

a) Please explain whether the IESO made a typographical error and meant a surplus of $15 million instead of $30 million as described in the preamble to this interrogatory.

b) If this was not a typographical error, please explain why the IESO is proposing a $30 million surplus in only this one instance, as opposed to a $15 million surplus discussed in the remainder of the current application.

c) Please explain why the IESO has referred to disposing the balance in the FDVA both on an annual basis and in its next revenue requirement application (i.e., expected for its 2026 revenue requirement). Please clarify the IESO's proposal regarding the timing of the disposition of the balance in the FVDA.

d) Please explain whether the IESO would be supportive of an annual rebate to market participants within a month of the publication of its Annual Report on March 31st. A proposed rebate would occur in the event that the FVDA balance exceeds the OEB-approved operating reserve threshold for this account in any interim year (i.e., any year before its next application expected for the IESO's 2026 revenue requirement).

e) If the IESO executes an annual rebate to market participants within a month of the publication of its Annual Report on March 31st (i.e., before its next application expected for its 2026 revenue requirement), please explain what type of approval process the IESO would seek from the OEB.

f) Please provide the FVDA actual balance as at May 31, 2023 and the forecasted balance as at December 31, 2023.

g) Please explain the drivers of any material FVDA actual balance as at May 31, 2023 and the forecasted balance as at December 31, 2023.

3-Staff-19

a. Exhibit F / Tab 1/ Schedule 1 / p. 3
b. Exhibit A / Tab 1/ Schedule 2 / p. 2
c. EB-2020-0230, Response to OEB Staff Interrogatory #11, September 9, 2021
d. Exhibit B / Tab 2 / Schedule 1 / p. 33 & 35 (2022 Annual Report)

Preamble:

The IESO proposes that the increase to a $15 million operating reserve be funded by $5 million of the $13.7 million surplus and the remaining $8.7 million be refunded to market participants.

A credit of $8.7 million is shown in Exhibit F "Table 1: 2019 -2025 Balances and Transactions in the FVDA" in the column "2022 Actual".

The IESO stated that it will rebate the surplus to market participants proportionate to the fees collected in 2022. The rebates will be provided in the next billing cycle following the month in which OEB approval is received.

As noted in the response to an interrogatory in the IESO's 2020 and 2021 revenue requirements proceeding, the IESO rebated $9.6 million and $12.6 million to market participants in 2015 and 2016, respectively.

In its 2022 audited financial statements, Note 6, the IESO has shown an accumulated surplus of $10 million as at December 31, 2022 for its Regulatory Deferral Account. However, in its current application, the IESO has shown a surplus of $23.7 million in the FVDA as at December 31, 2022.

In its 2022 audited financial statements, Note 7, the IESO stated that in 2022 it recognized $13.7 million in rebates due to market participants regarding system fees.

Question(s):

a) Regarding the FVDA, please explain why the IESO's 2022 audited financial statements show a surplus of $10 million as at December 31, 2022, but the current application shows a surplus of $23.7 million.

b) Please explain why it is appropriate to use the prior-period operating surplus from 2022 to fund the requested increase in operating reserve.

c) Please explain why a credit of $8.7 million is shown in Exhibit F "Table 1: 2019 - 2025 Balances and Transactions in the FVDA" in the column "2022 Actual", instead of the column "2023 Budget", as it appears that this amount has not yet been refunded to market participants.

d) Please describe the rate design in the current application of refunding the $8.7 million surplus (in excess of a $15 million operating reserve) to market participants, as OEB staff is not clear whether this will be refunded in 2023 or has already been refunded in 2022.

e) Please describe the rate design in the current application of instead refunding the $13.7 million surplus (in excess of a $10 million operating reserve) to market participants, instead of a $8.7 million surplus (in excess of a $15 million operating reserve).

f) Please describe the rate design that the IESO plans to use for the interim rate period, in the event of a surplus or deficit.

g) Please explain why an accrual to rebate market participants of $13.7 million was made as at December 31, 2022 in the IESO's audited financial statements (and not yet rebated), but in the current application the IESO suggested to only rebate market participants $8.7 million.

h) Please explain how the IESO rebated its market participants $9.6 million and $12.6 million in 2015 and 2016 respectively. Please also explain whether the IESO proposes to use the same methodology to refund either $8.7 million or $13.7 million, as noted in the current proceeding.

3-Staff-20

a. Exhibit F / Tab 1/ Schedule 1 / p. 4
b. Exhibit B / Tab 2 / Schedule 1 / p. 35 (2022 Annual Report)

Preamble:

The IESO's proposal to increase the operating reserve to $15 million is expected to decrease the risk of unforeseen expenses or revenues exceeding the operating reserve. However, if unforeseen expenses or change in revenues cause the IESO's proposed operating reserve, and the balance of the FVDA, to reduce below zero in Year 1 of the three-year cycle (i.e., in 2023), the IESO proposes that the IESO may choose to re-apply to adjust its fees. The IESO proposed that any material unforeseen expenses in Year 2 or Year 3 would likely be reviewed in the next application.

If the $15 million threshold is exceeded, the IESO would review whether it is appropriate and feasible to apply for revised usage fees with the OEB.

The IESO's review would take into account items such as the availability of the IESO's letter of credit with the Ontario Electricity Financial Corporation (OEFC). The IESO currently has a $160 million unsecured credit facility agreement with the OEFC, with a $nil amount drawn down as at December 31, 2022.

OEB staff is seeking clarity on whether it is reasonable for the IESO to adjust its usage fees if the balance in the FDVA is a surplus greater than the OEB-approved operating reserve amount. This clarity is being sought given that the IESO is also proposing a different mechanism in the Application to refund such surpluses (i.e., rebates to market participants, rather than adjusting usage fees.

Question(s):

a) Please explain the different refund mechanisms that are being proposed (i.e., revise usage fees or issue rebates to market participants) in the event of a surplus in the context of the following:

i. Different amounts may actually be returned to customers based on the refund mechanism approved by the OEB
ii. Different timing of the two potential refund mechanisms
iii. Due to the differing timing, intergenerational equity issues may be incurred (i.e., different customers may benefit depending on the refund mechanism approved by the OEB)

b) Regarding the OEFC credit facility, please explain whether the IESO is in essence proposing that it be granted discretion to access an additional $160 million without OEB scrutiny on the reasonableness of that spend, if it deems necessary. This is because any over-spending of expenses would flow into the FVDA balance to be requested for clearance in a future application.

3-Staff-21

a. Exhibit F / Tab 1/ Schedule 1 / p. 4

Preamble:

The IESO defines the material change threshold as follows:

- A change in revenue or expenses that results in an operating reserve deficit
- Occurs in Year 1 after receiving three-year approval of IESO usage fees
- A change that has a significant impact on the operation of the IESO

Question(s):

a) Please explain whether the material change threshold is intended to address both operating reserve deficits and surpluses.

b) If the material change threshold is not intended to also address surpluses, please explain.

c) Please define what is meant by the word “significant” in terms of the IESO’s reference to a “significant impact on the operation of the IESO.”

3-Staff-22

a. Exhibit F / Tab 1/ Schedule 1 / p. 5 & 6

Preamble:

The IESO stated that if the material change threshold is reached, and the IESO decides the best course of action is to revise its usage fees, then the IESO would file a revised Business Plan with the Minister of Energy (The Minister) and following the Minister's approval of the revised Business Plan, file a revised revenue requirement submission to the OEB for revised usage fees.

The IESO would request approval of revised usage fees necessary to recover some or all of the IESO's $15 million operating reserve as appropriate at the judgment of the IESO based on business needs, economic factors, and impact on market participants.

The IESO has listed the benefits of its adjustment proposal, but has been silent on the cons and risks.

Question(s):

a) In the absence of a material change, please explain whether the IESO plans to annually update its business plan in the interim period and seek the Minister's approval on the revised business plan.

b) Please explain how any revised business plan in the interim period would impact 2024 Budget and 2025 Budget and if the IESO plans to revise such revenue requirement requests, even in the absence of a material change.

c) Please describe the reasonableness of the IESO's proposal to revisit usage fees in the event of either a deficit or surplus in the interim period (i.e., 2023 to 2025), before the filing of its next application expected for its 2026 revenue requirement.

d) Please confirm that if the IESO applies to revise its usage fees in the interim period, in the event of either a deficit or surplus, it would be seeking OEB approval to also adjust its previously approved expenditures and revenue requirement(s). If this is not the case, please explain why the IESO's proposal is asymmetric.

e) If the IESO's usage fees are proposed to be revised in the event of a FVDA deficit or surplus, please explain why a revised revenue requirement submission would be required in the interim period (i.e., 2023 to 2025), rather than the IESO waiting to be made whole at the filing of its next application expected for its 2026 revenue requirement.

f) Please explain why the revised usage fees would be required to recover “some or all of the IESO’s $15 million operating reserve”, as opposed to bringing the IESO to a break-even level.

g) Please describe the cons and risks of the IESO’s adjustment proposal.

3-Staff-23

a. Exhibit F / Tab 1/ Schedule 1 / p. 5
b. Filing Requirements For Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications - Chapter 3 Incentive Rate-Setting Applications May 24, 2022, p. 21 & 22
c. Report of the Board on 3rd Generation Incentive Regulation for Ontario’s Electricity Distributors, July 14, 2008

Preamble:

For the revised revenue requirement submission, the IESO proposes a limited scope of review focused on the unforeseen expense and its direct impact on the IESO’s budget in order to maintain the regulatory efficiency of a multi-year approach. A limited scope of review would be requested to achieve the approval of revised usage fees prior to January 1st of Year 3.

The IESO would specify the costs that impacted the IESO’s operating reserve in detail and demonstrate that these impacts could not be accommodated within the approved IESO budget.

OEB staff notes that the IESO’s limited scope of the review focused on the unforeseen expense is similar to a Z-factor request.

In the OEB’s filing requirements for electricity distribution rate applications, distributors may request to recover costs associated with unforeseen events that are outside the control of a distributor’s ability to manage. This is referred to as a claim for a “Z-factor” event. The cost to a distributor must be material and its causation clear.

To recover these amounts, a distributor must follow the guidelines discussed in the OEB’s Report on 3rd Generation Incentive Regulation for Ontario’s Electricity Distributors. The materiality thresholds, described in the above noted OEB report, must be met on an individual event basis for the distributor to apply for recovery of the relevant costs.

To be eligible for a Z-factor claim, a distributor must demonstrate that its achieved regulatory return on equity (ROE), during its most recently completed fiscal year, does not exceed 300 basis points above its deemed ROE embedded in its base rates.

Question(s):

a) Given that the IESO does not have a ROE built into its rate structure, please explain how the IESO would satisfy the OEB's requirements for a Z-factor. Specifically what would the IESO propose to satisfy the OEB's requirement that its achieved ROE, during its most recently completed fiscal year, does not exceed 300 basis points above its deemed ROE embedded in its base rates?

   For example, if the IESO incurs any profit at all in any given year from 2023 and forward (i.e., a profit incurred before its true-up to break-even with the offset recorded in the FVDA), would the IESO be agreeable to zero recovery of its "unforeseen expense"?

b) Rather than using the IESO's proposed approach for unforeseen amounts, please explain whether the IESO would be amenable to applying for a Z-factor claim under the OEB's filing requirements for electricity distributors (including the requirements set out in the Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors). This would include satisfying such requirements rather than filing a revised revenue requirement submission.

ISSUE 4: Market Renewal Program (MRP)

4-Staff-24

a. Exhibit G / Tab 1 / Schedule 1 / p. 7
b. EB-2022-0002 Exhibit I / Tab 1 / Schedule 1 / p. 15
c. https://www.ieso.ca/en/Market-Renewal/Background/Market-Renewal-Program-Project-Status, as accessed May 19, 2023

Preamble:

In reference a. the IESO provides its response to the commitment made in the EB-2022-0002 Settlement Agreement as part of Issue 4.1. As per reference b., the IESO agreed to provide a quarterly report on MRP financial and operational performance, and to make it public. Reference a. provides two links: a link to the public website, which is also reference c, and a link to the Q3 2022 report.

Question(s):

a) Please explain why historical reports are not easily accessible from reference c.

b) Please explain how interested parties could access historical reports. If the reports are not freely accessible and require contacting someone at the IESO, please explain the IESO's view as to how this meets the Settlement Agreement's intent of providing transparency on MRP's financial and operational performance?

c) Please provide all available reports that the IESO has published to fulfill its commitment made in the EB-2022-0002 Settlement Agreement in relation to this item as attachments to this interrogatory response.

ISSUE 5: Commitments from Previous OEB Decisions

5-Staff-25

a. Exhibit D / Tab 1/ Schedule 3 / Attachment 3 / p. 3 (Mercer Compensation Study)
b. EB-2022-0002 / Exhibit D / Tab 1 / Schedule 3 / p. 3 – 7 "Table 2: Ongoing and Planned Efforts to Make Progress towards the 50th Percentile for Total Remuneration"
c. Exhibit D / Tab 1 / Schedule 3 / p. 4 – 10 Table 2: "Ongoing and Planned Efforts to Make Progress towards the 50th Percentile for Total Remuneration"
d. EB-2022-0002 / Settlement Proposal / Exhibit I / Tab 1 / Schedule 1 / p. 10 / July 13, 2022

Preamble:

In the current application, the IESO has filed the same Mercer Study that was filed in its application for 2022 revenue requirement. This study notes that the IESO's positioning above the 50^{th} 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 also notes that the IESO has not made any improvements related to the high employer-provided value of pension plans in place. Specifically, OEB staff has compared the Table 2: "Ongoing and Planned Efforts to Make Progress towards the 50th Percentile for Total Remuneration" filed in the current application to the same table filed in the application for 2022 revenue requirement and no progress has been made by the IESO with respect to pension and OPEB.

The settlement proposal for the 2022 revenue requirement application suggested that the IESO will work towards a 50:50 employee-employer pension and OPEB contribution ratio for both represented employees (in collective agreement negotiations) and management employees.

Question(s):

a) Please explain why no progress has been made by the IESO with respect to pension and OPEB, as observed by comparing Table 2: “Ongoing and Planned Efforts to Make Progress towards the 50th Percentile for Total Remuneration” filed in the current application to the same table filed in the application for 2022 revenue requirement.

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 (i.e., unrepresented staff).

c) Please confirm that the amounts reflected in the Mercer Compensation Study to calculate the 50th percentile positioning are:

    i. Driven by the level of employer contributions for pension and OPEB, and are different from the amounts reflected in the revenue requirements, which are determined by the IESO’s actuary.
    ii. Reflect the IESO’s actual compensation remuneration values which are compared to a variety of organizations, but actual compensation is put forth in the revenue requirements requests.

d) If either of the above noted in part c) is not the case, please explain.

e) Please discuss any progress made by the IESO to work towards a 50:50 employee-employer pension and OPEB contribution ratio for both represented and un-represented employees, since its settlement proposal was filed in its 2022 revenue requirement application.

5-Staff-26

a. Exhibit E / Tab 2 / Schedule 1 / p. 7-8

Preamble:

In Exhibit E-2-1, the IESO states that it has fulfilled its obligations outlined in the 2022 Revenue Requirement Submission Settlement Agreement (EB-2022-0002) with respect to capital project execution. The IESO quotes the obligation it committed to meet as follows:

> The IESO will include *in its next revenue requirement submission* a metric (*including results*) for cost performance of its strategic initiatives that mirrors its current "Operational Efficiency – Percentage of Strategic Initiatives that are completed on time" measure included in its 5-year Strategic Objectives (emphasis added)

The IESO then identifies that it will report on the results of the newly created performance measure in the 2026-2028 Revenue Requirement Submission.

Question(s):

a) Since this application, EB-2022-0318, is the first subsequent revenue requirement application since EB-2022-0002, please provide the results for 2022 actual project execution as provided in E-2-1. Namely, please provide:

> The percentage of "Strategic Initiatives that are progressing according to their approved schedule," which the IESO has stated is measured as the percentage of "Strategic Initiatives that are in-flight in any particular year that are progressing on schedule according to the approved project charter or integrated project plan."
> And,
> The percentage of "Strategic Initiatives that are progressing according to their approved budget," which the IESO has stated is measured as the percentage of "Strategic Initiatives that are in-flight in any particular year that are progressing on budget according to the approved project charter or integrated project plan."

b) Please explain how each of the percentages were calculated.

c) Please identify the strategic initiatives that are not progressing according to the schedule and the strategic initiatives that are not progressing according to the budget as set out in the approved project charter or integrated project plan. Please explain why they are not progressing according to the planned schedule or not progressing according to the planned budget.

d) Of the strategic initiatives that were in-flight in 2022, please identify any that have had their target in-service dates revised since the IESO filed its 2022 fees application, EB-2022-0002. Please provide the new in-service date and what was in the plan in 2022, with the reason for the schedule revision.