

May 25, 2023

Submitted electronically.

Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON
M4P 1E4
Attn: Nancy Marconi, Registrar

Re: Independent Electricity System Operator (IESO) 2023-25 Revenue Requirement, Expenditures and Fees EDA Interrogatories Board File No. EB-2022-0318

Dear Ms. Marconi:

Attached please find EDA's interrogatories in the EB-2022-0318 proceeding on IESO 2023, 2024, and 2025 Fees, Expenditures, and Revenue Requirement submissions.

Please do not hesitate to contact me if you have any questions or require further information.

Respectfully,



Brittany Ashby
Senior Regulatory Affairs Advisor

Copy to: IESO Applicant (by email)
Intervenors listed in proceeding (by email)

Independent Electricity System Operator
2023-2025 Fees Case
EB-2022-0318

Electricity Distributors Association Interrogatories
May 25, 2023

1.0 Issue: Revenue Requirement, Operating Costs and Capital Spending

1.1 Is the IESO's Fiscal Year 2023 revenue requirement of \$208.4 million appropriate?

Evidence Reference: ExB-T1-S2 Page 17 / ExC-T2-S1 Page 1 / ExD-T1-S1 / ExD-T1-S2
EDA Question # 1

- a) In its 2022 rate application (EB-2022-0002) the IESO was approved \$201.5M for its 2022 revenue requirement. In the 2023 rate application the IESO has reported total adjusted expenses of \$196.7M in its 2023 Proforma Financial Statements which is lower than expected by \$4.8M (\$201.5M-\$196.7M). Please describe the \$4.8M variance.
- b) IESO's 2022 actual forecast for IESO usage fee is \$2.6M (\$204.1-\$201.5) higher than budgeted approved revenue. Please describe the reason for this variance between budget and actual. Show the calculation of this variance between usage fee **volume** and **dollars**.
- c) IESO's 2023 revenue requirement of \$208.4 million includes four new expense programs and accounts for an increase of \$5M total. These programs are Cyber Security, Strengthening Engagement, Culture Employees and Capabilities, and Sustaining Technology, Evolving Processes and Tools, please confirm that these programs were not historically considered within baseline expenses. Please provide more detail about these programs and how their budget will be monitored.
- d) Resource Transmission and Adequacy expenses are budgeted to significantly increase between 2022 – 2025 and support procurement initiatives directed by the Minister of Energy. Please provide the breakdown of the budgeted expenses for Resource Adequacy categorized by resource for additional staff (include FTEs required), legal and technical consultants, and design of procurement mechanisms.

Preamble ExA-T1-S5-page3/ ExC-T2-S1 page 1 / ExG-T1-S1:

*The IESO has identified and leveraged efficiencies in several areas to mitigate impacts of its **revenue requirements** to Ontario ratepayers. The IESO anticipates an increase in new contracted facilities over the next three years to meet electricity system needs. Through the Reliable Integration fee, IESO expenses associated with activities undertaken to connect new facilities **are offset by fees paid** by the project proponent and **thus impacts to Ontario ratepayers are reduced**. Further development of systems to track contracts, automate contract settlements, and introduce processes for streamlining energy efficiency contract approvals have also yielded operational efficiencies. Furthermore, the IESO continues to realize efficiencies by examining its long-term office space needs.*

- e) The leveraged efficiencies to mitigate impacts of the revenue requirement to Ontario ratepayers is referenced in multiple sections of the application and the IESO Business Plan. The Reliable Integration Fee approved in the EB-2022-0002 Settlement (Issue 3.1,

ExG-T1-S1) was made effective as of Dec 8, 2022. Please show using the Pro-Forma statements how IESO expenses associated with activities undertaken to connect new facilities (Transmission Connected, **and Distribution Connected**) have been considered within the revenue requirement offset by (ExC-3-1-Attachment 1) other fees paid by the project proponents. Please quantify the reduction to revenue requirement and describe the IESO's projection for the next three years, given how recent the fee was implemented and the lack of data available.

1.0 Issue: Revenue Requirement, Operating Costs and Capital Spending

1.2 Is the IESO's Fiscal Year 2024 revenue requirement of \$218.4 million appropriate?

1.3 Is the IESO's Fiscal Year 2025 revenue requirement of \$229.7 million appropriate?

Evidence Reference: ExB-T1-S2 Page 17 / ExC-T2-S1 Page 1 / ExD-T1-S1 / ExD-T1-S2
EDA Question # 2

Questions:

Preamble (Exhibit A-T1-S5-page2)/ (Exhibit C-T2-S1 page 1)

*As part of its three-year filing, the IESO has provided historical OEB-approved data dating back to 2019 to support its **three-years of revenue requirements with variance explanations** that identify causal factors that drove material differences from approved expenditures. The evidence submitted as part of the submission includes material and relevant facts pertaining to operations and capital projects to facilitate the assessment of the IESO's expenditures, revenue requirements and usage fees as appropriate. This also **includes** discussion of specific programs, initiatives and results that would be helpful to the OEB and intervenors in their review of the application.*

Table 1: IESO's Revenue Requirements (\$ millions)

	2019 OEB Approved	2020 OEB Approved	2021 OEB Approved	2022 OEB Approved	2023 Budget	2024 Budget	2025 Budget
Revenue Requirement	190.8	188.6	191.8	201.5	208.4	218.4	229.7

- Please complete "Table 1: IESO's Revenue Requirement" from Exhibit C, Tab 2, Schedule 1 to include a comparison to actual revenue requirement for 2019 – 2022 and trend variance for \$ and % year over year.
- In the IESO's 2022 application (EB-2022-0002) pro forma statement of operations included minimal baseline expense increases between 1 to 2%, and in this application (EB-2022-0318) the baseline expense increases are now between 2 to 3.5%. IESO's original projections for baseline expenses in 2024 were \$178.2, and in the 2023 application projections for baseline expenses in 2024 have increased to \$181.4. Please provide a detailed summary of what items are included in baseline expenses of the Proforma statement of operations and itemize the \$10M budget increase between 2022 forecast actual spend of \$171.4, and the 2024 budget amount of \$181.4. Explain the IESO's new or changed assumptions that account for the difference between these two applications.

EB-2022-0002	2021	2022	2023	2024
Baseline Expenses	171.5	172.8	175	178.2
% Increase		0.8%	1.3%	1.8%

EB-2023-0318	2021	2022 - Forecast Actual	2023	2024	2025
Baseline Expenses		171.4	175.4	181.4	187.7
% Increase			2.3%	3.4%	3.5%

- c) Please explain the budget assumptions built into (Y2) 2024 financial revenue requirement to support moving to a multi-year revenue requirement and fees application?
- d) Please explain the budget assumptions built into (Y3) 2025 financial revenue requirement to support moving to a multi-year revenue requirement and fees application?
- e) As part of its three-year rate filing, please explain how the IESO is proposing to review its yearly financial results against board approved figures during (Y2) and (Y3). Is revenue requirement as proposed inclusive of inflationary considerations? If yes, what assumption was used?

1.0 Issue: Revenue Requirement, Operating Costs and Capital Spending

1.4 / 1.5 / 1.6 Is the IESO's 2023, 2024, 2025 projected staffing levels and compensation (including salaries, benefits, pensions, and other post-employment benefits) appropriate?

Evidence Reference: ExB-T1-S2 Page 17-20 / ExD-T1-S3 Page 1-11 Attachment 1 Appendix 2-K

EDA Question # 3

Preamble

After rigorous review, staffing levels will increase in 2023 as a number of strategic positions are added to support key initiatives (including the MRP). For 2023, the IESO anticipates an average of 914 full-time equivalent employees to deliver on core electricity system responsibilities and initiatives, as well as to support the MRP. Staffing levels will remain relatively flat in 2024 as the MRP begins to wind-down, with certain staff returning to core functions, concluding the transition in 2025 when the average full-time equivalent number of employees will be reduced to 900.

- a) The IESO was approved for a staffing level of 827 FTEs in 2022. IESO reports in this application that 2022 was understaffed by 28 FTEs and explains that this is a result of **labour market conditions** which led to an increase in voluntary attrition and retirements beginning in late 2021 and continuing through 2022.
 - Please describe what is meant by 'labour market' conditions. How has this been considered in future FTE considerations?
 - To determine the appropriateness of staffing levels, please provide an FTE summary for number of voluntary attritions and retirements from 2019 – 2022 and provide an explanation as to how these trend assumptions are built into the 2023- 2025 FTE forecast.
 - Please explain how the proposed additional FTE staff resources will be assigned to MRP implementation; please identify the number of staff resources that will be re-assigned to core operations in the 2024 and 2025 budget year.
- b) Please provide an updated FTE employee count as of April 30th, 2023.
- c) In 2024 the budget projects 26 additional non-management temporary positions, please describe the requirements for 26 temporary FTEs and the support function which they will be assigned to.
- d) Please provide a supporting table of FTEs assigned to the Business Unit Table for the years 2021 – 2025.

1.0 Issue: Revenue Requirement, Operating Costs and Capital Spending

- 1.7 Is the IESO's 2023 capital expenditure budget of \$86 appropriate?
- 1.8 Is the IESO's 2024 capital expenditure budget of \$75.9 appropriate?
- 1.9 Is the IESO's 2025 capital expenditure budget of \$58.2 appropriate?

EDA Question # 4

Evidence Reference: ExE-T2-S1-Attachment 1 Excel Capital Projects

- a) Please describe how frequently the IESO Board of Directors reviews the capital envelope for schedule and budgeted dollars. What is the materiality considered using the envelope approach which must be approved by the board?
- b) The Capital Projects schedule in Exhibit E-S1-T2 Attachment 1 does not summarize total capital budget vs capital actual. Below is a summary comparing total board approved capital budget for Market Renewal Program vs capital actual for Market Renewal Program. The variance shows \$38.6M of potentially underspent approved capital.

Change Initiatives/ Projects	2019 Capital Budget	2019 Capital Actual	2020 Capital Budget	2020 Capital Actual	2021 Capital Budget	2021 Capital Actual	2022 Capital Budget	2022 Capital Actuals	Life to Date Capital Budget	Life to Date Capital Actuals	Variance
Market Renewal Program	\$26.0	\$10.3	\$25.9	\$25.0	\$44.6	\$24.0	\$35.4	\$34.0	\$131.9	\$93.3	\$38.6

Please reconcile the variance of the \$38.6M displaying budget shift considerations year over year and the % of completion to original budget.

- c) IESO requested \$51M of MRP spending in 2023 which is a \$17M increase over 2022 actual spending. Please provide a YTD report of current capital dollars spent in 2023 and the expected capital expenditure schedule for the remainder of this year.

1.0 Issue: Revenue Requirement, Operating Costs and Capital Spending

- 1.7 Is the IESO's 2023 capital expenditure budget of \$86 appropriate?
- 1.8 Is the IESO's 2024 capital expenditure budget of \$75.9 appropriate?
- 1.9 Is the IESO's 2025 capital expenditure budget of \$58.2 appropriate?

Evidence Reference: ExE-T3-S1-Page 1 / ExE-T1-Attachment 1 Excel – Service Life Comparison and Amortization Expense

EDA Question #5

Questions

- a) In the IESO's *Service Life Comparison and Amortization Expense* schedule the 2022 Actual Total amortization is reported as \$17.6 million, whereas the IESO's Revenue Requirement detailed in its *Financial Pro Forma Statement of Operations* includes an amount of \$18.5 as the projected actual amortization for 2022. Please reconcile the difference and provide the pro forma statement using the correct value.
- b) Asset additions represent assets under construction that are placed in service during the budget period, including some capital projects listed in Appendix 3 of the 2023 – 2025 Business Plan, in accordance with their expected in-service date. In the IESO's 2022 application the IESO was approved \$35.4M of asset additions in the Market Systems and Applications category. Actual 2022 asset additions indicate that this category was under spent by \$24.9M. Please provide an explanation for how the asset additions have been reallocated or cancelled.
- c) Closing Net Book Value in 2022 Actuals is reported as \$64.5M and the Budgeted Opening Net Book Value for 2023 Budget is reported inconsistently as \$90.1M. Discrepancies appear to be in the category opening for Market Systems and Applications. Please verify and update the attachment and tables for the corrected figure. Please also provide the calculated projection for amortization on existing assets and amortization on asset additions. Verify that this has been calculated/projected on the 2022 actuals in this calculation, not the original 2022 board approved assumptions.
- d) Please confirm the 2025 Budget asset addition of \$181.8M. Please provide a breakdown for this amount and the programs which contribute to this category.

2.0 Issue: Usage Fees

2.1 Is the methodology used to derive the IESO's proposed 2023 Usage Fees to be paid commencing January 1st, 2023, appropriate?

2.2 Is the methodology used to derive the IESO's proposed 2024 Usage Fees to be paid commencing January 1st, 2024, appropriate?

2.3 Is the methodology used to derive the IESO's proposed 2025 Usage Fees to be paid commencing January 1st, 2025, appropriate?

Evidence Reference: ExC-T2-S1-Attachment 1

EDA Interrogatory # 5

- a) IESO has requested approval to rely on and use the information provided to the IESO by LDCs on the amount of embedded generation in their service territories under O. Reg 429-04 in calculating the total usage fee to be billed to each LDC each billing period. The Domestic Customer Usage fee includes embedded generation reported from distribution networks and allocated losses to calculate this rate. Please describe in detail how the IESO has engaged with LDCs to report activity within their distribution systems to forecast embedded generation as a 10% increase from 2023's 7 TWh to 7.7 TWh in 2024, and 2025.
- b) Electrification is changing the shape of Ontario's demand. Accelerated electric vehicle adoption and charging profiles are expected to shift the overall annual system demand and exhibit strong and steady growth through the end of the 2030s. The new multi-year application has updated its assumptions to adopt the Annual Planning Outlook (APO) in its forecasted Ontario demand. Please provide the breakdown from IESO's 2022 Annual Planning Outlook for Ontario demand (TWh) that supports the following APO assumptions used in the IESO's load and forecast volumes.

2023 – 135.8 TWh

2024 – 140.1 TWh

2025 – 145.4 TWh

- c) Please provide a summary of the IESO Business Plan which allocates expenses between domestic and export customer classes to calculate the usage fees split for 2023, 2024, and 2025.
- d) Please provide the impact to the forecast charge determinants, both in total and of losses, which are attributable to IESO's pathways to decarbonization report. Please discuss how decarbonization policies are expected to impact the IESO's 2023, 2024, and 2025 charge determinants forecast used to derive the proposed domestic and export usage fees.

3.0 Issue: Operating Reserve

3.1 Is the IESO's proposal for a proposed Operating Reserve of \$15 million in the Forecast Variance Deferral Account (FVDA) appropriate?

3.2 Is the IESO's proposal to clear the amount of the 2022 year-end balance in the FVDA that exceeds the \$15 million Operating Reserve appropriate?

3.3 Is the IESO's proposal for seeking OEB approval to adjust its previously approved expenditures, revenue requirement and fees in the event of a material unforeseen change appropriate?

Preamble:

The IESO is requesting an increase of \$5 million to retain an operating reserve of \$15 million over the three-year planning and approval period. 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. As the IESO looks forward to the 2023-2025 planning period, the IESO believes that a \$15 million FVDA balance will be a reasonable and adequate reserve against the uncertainties and impacts referred to above (See Exhibit F-1-1 – Forecast Variance Deferral Account).

Evidence Reference: ExA-T1-S5 / Exhibit F-T1-S1

EDA Interrogatory # 6

- a) Proposal for Adjustment Due to Material Unforeseen Change: Please provide an analysis including volumes projected and realized to assess the risk of material unforeseen revenue change exceeding the operating reserve. Please explain the variances between historically forecasted revenues collected, and the actual revenues collected from domestic and export customers.

<u>Revenue Side Risk Calculation</u>		Actual	Actual	Actual	Actual	Budget	Budget	Budget
Revenues		2019	2020	2021	2022	2023	2024	2025
Forecasted:	Domestic TWh							
	Domestic \$							
Forecasted:	Export TWh							
	Export \$							
Total Revenue Requirement	IESO Usage Fee:							
		Actual	Actual	Actual	Actual	Budget	Budget	Budget
Revenues		2019	2020	2021	2022	2023	2024	2025
Actual:	Domestic TWh							
	Domestic \$							
Actual:	Export TWh							
	Export \$							
Total Revenue Requirement	IESO Usage Fee:							
		Actual	Actual	Actual	Actual	Budget	Budget	Budget
Variance		2019	2020	2021	2022	2023	2024	2025
Variance	Domestic TWh							
	Domestic \$							
Variance	Export TWh							
	Export \$							
Total Revenue Requirement	IESO Usage Fee:							
Variance								

- b) **Proposal for Adjustment Due to Material Unforeseen Change:** Please provide an analysis of material unforeseen expense change exceeding the operating reserve. Please explain the variances between historically forecasted requirement and total adjusted expenses.

<u>Expense Side Risk Calculation</u>		Actual	Actual	Actual	Actual	Budget	Budget	Budget
		2019	2020	2021	2022	2023	2024	2025
Forecasted Revenue Requirement								
Total Adjusted Expenses								
Variance:								

- c) Please explain the financial protocols that are in place to mitigate material unforeseen variances from occurring on the expense side exceeding board approvals. What is the IESO's internal materiality threshold for review?
- d) **Surplus Threshold:** The IESO proposes if the balance of its operative reserve reaches above \$30 million during the interim year period after the conclusion of the OEB proceeding the IESO will refund the surplus over \$30 million within a month of the annual publication of its Annual report on March 31st. Please confirm that the IESO is proposing a \$30M threshold, two times its operating reserve, 15% of approved revenue requirement for the refund **or charge** to customers during the interim period between rate applications. Explain the rationale for a \$30M threshold which triggers the settlement of the FVDA.