



Ontario  
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**BY EMAIL**

July 28, 2023

Ms. Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto ON M4P 1E4  
[Registrar@oeb.ca](mailto:Registrar@oeb.ca)

Dear Ms. Marconi:

**Re: Ontario Energy Board Staff Submission on Settlement Proposal  
Independent Electricity System Operator  
Application for Approval of 2023, 2024, and 2025 Expenditures, Revenue  
Requirement, and Fees  
Ontario Energy Board File Number: EB-2022-0318**

In accordance with Procedural Order No. 1, please find attached the OEB staff submission on the Settlement Proposal dated July 21, 2023, filed by the IESO in the above referenced proceeding.

Yours truly,

*Original Signed By*

Thomas Eminowicz  
Senior Advisor, Generation & Transmission

Encl.

cc: Parties to EB-2022-0318



# **ONTARIO ENERGY BOARD**

## **OEB Staff Submission on Settlement Proposal**

**Independent Electricity System Operator**

**Application for Approval of 2023, 2024, and 2025 Expenditures,  
Revenue Requirement, and Fees**

**EB-2022-0318**

**July 28, 2023**

## **Background**

On March 29, 2023, 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 2023, 2024, and 2025 expenditures, revenue requirement, and fees (Application).

The IESO proposed revenue requirements of \$208.4 million, \$218.4 million, and \$229.7 million for 2023, 2024, and 2025, respectively. Usage fee revenue collected from both domestic and export customers will fund these revenue requirements. The Application also included requests for approval of: its proposed capital expenditure budgets of \$86.0 million, \$75.9 million, and \$58.2 million in each of the respective years; approval regarding when and how to issue rebates to market participants relating to surpluses in the Forecast Variance Deferral Account (FVDA); an increase to the operating reserve balance; and an off-ramp proposal in the event of material unforeseen events that result in a deficit in the FVDA in 2023.

## **Status of Issues**

A settlement conference was held June 26 to 29, 2023. The IESO and the following intervenors participated in the settlement conference: Association of Major Power Consumers in Ontario, Association of Power Producers of Ontario, Canadian Manufacturers & Exporters, Canadian Renewable Energy Association, Energy Storage Canada, Ontario Waterpower Association, Electricity Distributors Association, Energy Probe Research Foundation, Environmental Defence, HQ Energy Marketing Inc., 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 21, 2023 (Settlement Proposal). All the Parties supported the Settlement Proposal except for: HQ Energy Marketing Inc., who took no position on the Settlement Proposal; and Environmental Defence, Association of Power Producers of Ontario, and Society of United Professionals Local 160, who only took positions on certain issues in the Settlement Proposal.<sup>1</sup>

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

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<sup>1</sup> The Settlement Proposal specifies that although Environmental Defence does not oppose the settlement of issues 3.1 and 3.2, it does not agree with the reduction to the IESO's proposed operating reserve; Association of Power Producers of Ontario does not take a position on the addition of environmental or policy groups constituency in the IESO's next call for nominations to the Strategic Advisory Committee; and Society of United Professionals Local 160 takes no position on issues 1.4, 1.5, and 1.6.

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 are adequate to support the Settlement Proposal. OEB staff's submission provides reasons for OEB staff's position by commenting on the Settlement Proposal's most material aspects, rather than examining each issue on the approved issues list individually. As a result of the settlement process, the IESO also filed additional evidence.

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

- Consistency with Business Plan: The Application appears to be consistent, from both a budget and objectives perspective, with the IESO's Minister-approved Business Plan for 2023 to 2025 (Business Plan).

The IESO has committed to pursue reporting on the basis of activities or initiatives through the settlement of Issues 1.1/1.2/1.3. The settlement of these issues also commits the IESO to providing Interim-Year Business Plan Outlooks. The commitments related to issues 1.7/1.8/1.9 further support transparency regarding the IESO's strategic initiatives. The IESO also plans to complete the Market Renewal Program (MRP) within the Application's term. OEB staff supports the IESO's commitments regarding increased public MRP reporting specifically related to the risks facing the project and milestone progression, as per Issue 4.0. These commitments will assist OEB staff and parties with examining the IESO's execution of the Business Plan in future proceedings.

- Revenue Requirement: The Parties accept, and OEB staff supports, settlement of the IESO's revenue requirement request. The IESO's proposed revenue requirements, with relative increases, are shown in the following table with the 2022 approved amount:

<b>Revenue Requirement</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Total (\$M)	201.5	208.4	218.4	229.7
Year Over Year Variance (\$M)		6.9	10.0	11.3
Year Over Year Variance (%)		3.4%	4.8%	5.2%

OEB staff is of the view that, through the course of the proceeding, the IESO has provided evidence to support its planned activities that are driving its proposed expenditures.

Capital expenditures: The Parties accept, and OEB staff supports, settlement of the IESO's proposed capital expenditures envelopes. The IESO's proposal is summarized, with the approved 2022 amounts, in the following table:

<b>Capital Envelope (\$ Millions)</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Core Operations	30.0	35.0	43.6	43.6
Market Renewal Program	41.2	51.0	32.3	14.6
Total	71.2	86.0	75.9	58.2

In addition to MRP, the IESO is undertaking other initiatives related to the future of Ontario's electricity system and the energy transition. The Application identified fourteen capital projects that meet the \$4 million materiality threshold for which the IESO provides the business case for the project. The Application also provides information regarding projects and initiatives that do not meet the materiality threshold to validate its proposed capital expenditures.<sup>2</sup>

- Staffing levels and compensation: The staffing levels and compensation reflect the IESO's assessment of its needs to meet the Business Plan. Except for one Intervenor who took no position, Parties agreed to the proposed staffing plan. The IESO acknowledged difficult labour market conditions with higher than plan attrition rates and situations of vacancies exceeding the number of candidates.<sup>3</sup> The IESO also acknowledged that a recently negotiated collective agreement has higher compensation than what is presented in the Application.<sup>4</sup>

OEB staff supports the IESO's reaffirmation of its EB-2022-0002 commitments: working towards reaching the 50<sup>th</sup> percentile for total compensation, a bargaining mandate towards a 50:50 employee-employer pension and other post-employment benefits (OPEB) contribution ratio, and the same 50:50 ratio for management employees. The IESO also committed to updating its total compensation study and to file it as evidence in the next revenue requirement submission.<sup>5</sup> This updated study may also provide insight into how the 50<sup>th</sup> percentile marker itself may have changed in response to the above noted labour

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<sup>2</sup> Exhibit E-2-1

<sup>3</sup> IESO Response to EDA Interrogatory 3

<sup>4</sup> IESO Response to OEB Staff Interrogatory 18

<sup>5</sup> IESO Response to OEB Staff Clarification Question 2

market conditions. OEB staff also observes notable fluctuations in budgeted and actual pension and OPEB amounts.<sup>6</sup> OEB staff supports the inclusion of an updated compensation study. These commitments will support understanding the IESO's labour market conditions and overall compensation budgets and costs.

- Usage fee methodology: The methodology used to derive the IESO's proposed 2023, 2024, and 2025 usage fees, which was accepted by the Parties, appears reasonable. The previous IESO Fees Application included a comprehensive review of the model used to derive the usage fees.<sup>7</sup> As part of the Settlement Proposal, the IESO has committed to a comprehensive review of the cost allocation methodology. The results of this review will be filed in the IESO's next revenue requirement submission.
- Forecast Variance Deferral Account: OEB staff supports the proposed settlement of the FVDA-related issues, as OEB staff takes the view that an appropriate balance has been struck across all the FVDA-related requests.

Exhibit F-1-1 details the FVDA related requests. Prior to the Application, the IESO had an approved operating reserve of \$10 million, which is carried in the FVDA. Except for one Intervenor, the Parties agree, and OEB staff supports, the following:

- As proposed in the Application, the IESO will rebate \$8.7 million of the 2022 surplus to accumulate a \$15 million operating reserve as of January 1, 2023.
- The IESO will retain an operating reserve of \$10 million in the FVDA, where the IESO requested to increase its operating reserve to \$15 million.
- For the 2023 and 2024 years before the IESO files its 2026-2028 revenue requirement application, if the year-end FVDA balance exceeds \$15 million, the IESO will rebate to market participants the amount to return the balance to \$10 million. The IESO requested to rebate balances that exceed \$30 million to return the balance to \$15 million.<sup>8</sup>
- When the year-end FVDA balance exceeds \$15 million for these years, the IESO will provide a report with the balance in the FVDA and an explanation of the excess balance by April 30. OEB staff and Parties will have ten days to ask questions.

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<sup>6</sup> IESO Response to OEB Staff Interrogatory 4; IESO Response to OEB Staff Clarification Question 1

<sup>7</sup> EB-2022-002, Exhibit G-1-1 Attachment 5

<sup>8</sup> IESO Response to OEB Staff Interrogatory 18

- The IESO will submit this report to the OEB by May 31 and, unless directed otherwise by the OEB, issue the rebate within three months.<sup>9</sup>

The IESO's proposed process for rebates was clarified through interrogatories and refined during the settlement process itself. The proposed annual report provides the IESO with a process to issue rebates without an application and order, while allowing OEB staff and Parties the opportunity to scrutinize the details. The intention is to provide timely rebates to market participants while minimizing the effort of doing so. FVDA surpluses result from operating surpluses generated by unmaterialized expenses or greater than planned revenues. OEB staff is of the view that the proposed settlement of Issues 3.1 and 3.2 provides an appropriate balance between providing the IESO a tool to manage reasonable and unexpected variances from the Business Plan while returning operating surpluses to market participants on a timely basis.

As stated above, Environmental Defence does not support operating reserve level reductions from the IESO's requests in the Application. Notwithstanding this position, Environmental Defence does not oppose the Settlement Proposal.

- Process for adjustment due to material unforeseen change: The IESO proposed a process to seek OEB approval to adjust the approved revenue requirement, expenditures, and fees in the event of an IESO-defined material unforeseen change. OEB staff support the process outlined in the Settlement Proposal. The IESO may pursue this off-ramp and may choose to re-apply to adjust its usage fees if the FVDA goes into a deficit at the end of the first year of this Application's period (i.e., 2023). The second notable prerequisite for such an application is a revised business plan that is approved by the Minister of Energy. OEB staff supports the IESO's commitment to notify the OEB and Parties when the revised business plan is approved. The revised application to the OEB would present this new business plan and seek amended usage fees to recover some or all of the amounts that impacted the FVDA to reduce below zero.

~All of which is respectfully submitted~

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<sup>9</sup> This process for filing a report with the year-end balance and issuing a rebate to market participants is based upon the process established for the IESO's Smart Meter Entity