AMPCO INTERROGATORY 1

1.0 General

1.0 AMPCO-1

Reference: EB-2022-0318 IESO 2023-2025 Expenditures, Revenue Requirement, and Fees

Preamble:

As stated in the Decision and Order for the IESO's 2023, 2024 and 2025 expenditures, revenue requirement, and fees (previous application), the IESO may seek OEB approval to adjust the approved expenditures, revenue requirement, and fees in the event of a material unforeseen change. However, this would only occur if the balance of the Forecast Variance Deferral Account (FVDA) is less than zero in Year 1 of the three-year cycle, and any adjustment would be for Year 3. The IESO's current application does not rely on the adjustment mechanism described in the OEB-approved Settlement Agreement in EB-2022-0318.

Question(s):

Please explain why the IESO does not consider Ministerial Directives in the category of "material unforeseen change".

RESPONSE

Please see responses to 1.0 OEB 2-1 d) and 1.0 VECC 4 b) and c).

AMPCO INTERROGATORY 2

1.0 General

1.0 - AMPCO-2

Question(s):

Please provide the IESO’s materiality threshold.

RESPONSE

It is not clear if this interrogatory refers to the IESO’s materiality threshold for the purposes of reporting to its Executive Leadership Team and Board of Directors, or the material change threshold refered to in the Adjustment Mechanism. Accordingly, the IESO has provided both below.

The IESO’s internal materiality threshold for reporting to the Executive Leadership Team and Board of Directors is any variance of +/- 2%.

The material change threshold in reference to the Adjustment Mechanism as per Exhibit F-1-1 in EB-2022-0318 is defined 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 significant impact on the operation of the IESO

AMPCO INTERROGATORY 8

1.0 General

1.0 - AMPCO-8

Reference: Exhibit B-1-1, Minister's Letter on Powering Ontario's Growth Appendix

Question(s):

Please provide the IESO's current workplan to address the seven initiatives in the Minister's Letter.

RESPONSE

The high-level scope and key deliverables associated with each of the seven initiatives in the Minister's letter are described below. The IESO does not have a single workplan for all of the seven initiatives.

1) Bruce Nuclear New-Build Impact Assessment Cost Recovery Framework

The IESO reported back to the Minister in December of 2023 and completed its work with Bruce Power early in 2024 to develop a Cost Recovery Framework for a nuclear new-build Impact Assessment at the Bruce nuclear site.

2) Feasibility Study and Business Case for Future Nuclear Generation in Ontario

The IESO is supporting Ontario Power Generation's and Bruce Power's feasibility study and business case for potential future nuclear generation facilities in Ontario. The IESO is supporting the work through an assessment of system need, development of transmission system assumptions, and an examination of commercial options for new nuclear. The work is expected to be carried out through to the end of 2024.

3) Second Long-Term Request for Proposals (LT2 RFP)

The IESO reported back to Government on the proposed design of the LT2 RFP on March 15, 2024, in accordance with the December 7, 2023 Ministerial Directive which updated the timeline of the report back. This initiative is on-going and part of the IESO's broader Resource Adequacy Framework. The draft RFP and contract is expected to be ready in Q3 2024 and the final RFP and Contract in Q4 2024. The deadline for proponent proposal submissions is mid-2025 and the resources are expected to be in service in 2030. For more details see the IESO engagement web page[1].

4) Future Clean Electricity Fund

On December 31, 2023 the IESO submitted its report back to the Minister of Energy on options for a Future Clean Electricity Fund following the completion of the stakeholder engagement initiated in September, 2023, which included local distribution company, developers, transmitters, large industrial electricity consumers, municipalities, and Indigenous communities. For more information see the IESO web page[2].

5) Energy Efficiency and Conservation Framework

The key deliverables of the Energy Efficiency and Conservation Framework initiative are the delivery of a report back to the Minister on recommendations for the design of a new framework, which was completed in March, 2024, and the delivery of a report back on a one window approach to residential energy conservation programming in consultation with the OEB and Enbridge, scheduled for April, 2024.

6) Supporting Innovation Through Distributed Energy Resources (DER)

This IESO continues to work with the Ministry of Energy and Ontario Energy Board (OEB) to progress DER initiatives, for more information related to the on-going work for Distributed Enrergy Resources please see the IESO website[3]. No incremental work has been identified to support this initiative.

7) Transmission

As outlined in the Minister's letter and the Powering Ontario's Growth plan the Transmission

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[1] https://www.ieso.ca/Sector-Participants/Engagement-Initiatives/Engagements/Long-Term-RFP
[2] https://www.ieso.ca/en/Sector-Participants/Engagement-Initiatives/Engagements/Future-Clean-Electricity-Fund
[3] Distributed Energy Resources (DER) Roadmap (ieso.ca)

initiative has several work streams assigned to the IESO as described below.

- By the Summer of 2024, the IESO will report back to the Minister describing the proposed competitive transmitter selection process, including commercial options. For details on this work please see the IESO website.
- At the end of 2024, the IESO will provide an interim status update to the Minister including:
    - Recommendations in the Greater Toronto Area to accommodate the needs of the growing downtown core and the phase-out of natural gas.
    - Transmission reinforcement options to unlock new opportunities for growth in Northern Ontario and to enable the connection of renewable generation.
    - Identified corridors needed to address known bottlenecks in the transmission system, including between northern and southern Ontario and within the Greater Toronto Area to unlock opportunities for new nuclear, hydroelectric and renewable generation and support future growth.

This work will be completed and tracked as part of ongoing regional and bulk transmission planning studies, as applicable. More information on the timelines of regional plans can be found on the IESO website and timing and scope of upcoming and ongoing bulk plans is detailed in the Schedule of Planning Activities in the 2024 Annual Planning Outlook .

OEB STAFF INTERROGATORY 2-1

1.0 General

1.0 -OEB STAFF 2-1

Reference: Decision and Order (EB-2022-0318); OEB Staff Clarification Question 1 a); All Intervenors Clarification Question 2 c)

Preamble:

As stated in the Decision and Order for the IESO's 2023, 2024 and 2025 expenditures, revenue requirement, and fees (previous application), the IESO may seek OEB approval to adjust the approved expenditures, revenue requirement, and fees in the event of a material unforeseen change. However, this would only occur if the balance of the Forecast Variance Deferral Account (FVDA) is less than zero in Year 1 of the three-year cycle, and any adjustment would be for Year 3. (The detailed adjustment mechanism has been set out in the OEB approved settlement agreement in EB-2022-0318.) The IESO's current application does not rely on the adjustment mechanism described in the OEB-approved Settlement Agreement in EB-2022-0318.

Question(s):

a) The Minister's letter to the IESO, dated July 10, 2023, outlined the specific initiatives that the IESO was asked to carry out in support of the Power Ontario's Growth: Ontario's Plan for a Clean Energy Future (POG) plan. When did the IESO become aware that the Ministry would be asking IESO to carry out this work? What did the IESO know about it at that time? Why did the IESO not inform the parties to the previous proceeding when it was aware of this information?
b) What steps did the IESO take to determine whether it would be able to comply with the Ministry's request within the current OEB approved three year revenue requirement and fee-setting structure?
c) The IESO stated that it submitted an amendment to its 2023-2025 Business Plan (Amendment) to the Minister on September 1, 2023, which was approved by the Minister on November 28, 2024. When did the IESO's board of directors approve the Amendment?
d) In response to All Intervenors Clarification Question 2 c), the IESO indicated that it does not view the adjustment mechanism as deficient but rather that the current application is outside of the mechanism's objective and therefore the IESO is not relying on it. What is the IESO's understanding of the objective of the adjustment mechanism (as described

in the Preamble) approved in the previous proceeding? Why does the IESO believe that the current application is outside of this objective?

e) Does the IESO believe that a three-year structure with an associated adjustment mechanism continues to be appropriate for setting the IESO's revenue requirement and fees? Please explain why.

RESPONSE

a) The IESO has ongoing and continuous discussions with the Ministry of Energy on potential actions necessary to advance the decarbonization of Ontario's electricity system including following the release of the IESO's Pathways to Decarbonization Study in December 2022 and in the lead up to the release of the Government's Powering Ontario's Growth report in July 2023.

The IESO is unable to speak to government policy that is still under development by the government until the government has made a decision to act, engage or communicate on that policy. The IESO required time following the July 10th Minister's letter to the IESO to undertake an assessment on the resourcing needed to complete the government's requested actions and determine if it was necessary to amend to its 2023-2025 Business Plan. Section 25(1) of the Electricity Act, 1998 requires the IESO to obtain Ministerial approval of its expenditure and revenue requirements and proposed fees before it can submit them to the OEB.

b) In preparing the Interim Year Business Outlook (Exhibit B-1-4), the IESO considered achievements to date, as well as new developments in the sector and their subsequent impacts on resourcing and expenditures. The IESO determined that it is on track to deliver on the initiatives that were laid out in the 2023-2025 Business Plan within the total approved revenue requirements over the three years, as higher net interest income and increases in demand volumes offset various higher-than-expected costs. However, when adding the impact from Society of United Professionals (SUP) salary and benefit increases - awarded in the context of Bill 124 - the IESO would be challenged to comply with the Minister's direction to the IESO in accordance with POG within the current OEB approved three year revenue requirements and expenditures and usage fees. Therefore, given the significance that this work has in the government achieving its policy objectives of meeting growing demand for electricity into 2030 and beyond while transitioning to a clean electricity system, the IESO determined that additional funding was necessary to ensure the impact of this incremental work is well defined, staffed and prioritized within all the other deliverables of the 2023-2025 Business Plan, which remains approved.

c) The IESO's board of directors approved the Business Plan Amendment on August 30, 2023

d) As per Exhibit F-1-1 in EB-2022-0318, and the response to All Intervenors Clarification Question 2c), the IESO's understanding of the objective of the adjustment mechanism is to provide guardrails and assurance to the OEB and intervenors on a review process should the IESO be dramatically over budget (identified by a deficit balance in the FVDA) in Year 1 of the three-year cycle as a result of a material change. The current application does not rely upon the adjustment mechanism because the IESO has not incurred a FVDA deficit balance in Year 1 as a result of a material change. Nonetheless, as identified in the IESO's current application, a FVDA deficit balance is forecast for Years 2 and 3 as a result of the Ministerial direction received in Year 1, which the IESO considers a material change that warranted seeking Ministerial approval for an amendment of the 2023-2025 Business Plan.

While the IESO does not view the adjustment mechanism as deficient, the IESO is open to reviewing and refining the adjustment mechanism in the IESO's next revenue requirements and expenditures and usage fees application for 2026-2028 as the IESO and parties gain experience executing a three-year structure.

e) The IESO continues to be of the view that a three-year structure with an associated adjustment mechanism is appropriate for setting the IESO's revenue requirement, expenditures and fees. Notwithstanding the IESO's application for incremental expenditures and revenue requirement and revised usage fees for 2024 and 2025 in the current application, the IESO maintains that the key benefits of a three-year structure continue to be supported as described below.

First, the OEB's review of the current application is scoped to reflect the IESO's amendment to the 2023-2025 Business Plan, which is incremental in nature and materially smaller than the previous application. As such, regulatory efficiences resulting from the review of the IESO's previous application (EB-2022-0318) have not been undermined and will continue to accrue over the 2023-2025 period because the work underpining the previous application remains approved.

Second, the three-year structure continues to provide more certainty on the envelope of operating costs for multiple years in advance with respect to the previous application.

Third, the IESO believes the three-year structure and associated adjustment mechanism continues to alleviate key concerns regarding the IESO receiving approval of its usage fees well into the year in which those fees are utilized due to the timing of single-year applications. While the current application introduces a timing concern as it relates to the approval of revised usage fees for 2024, the impact is limited to the incremental aspect of the these fees.

SEC INTERROGATORY 1

1.1 What is the effect of the approved settlement proposal for the IESO's 2023-2025 Expenditures, Revenue Requirement, and Fees Application (and associated OEB decision), and the timing of the Minister of Energy's July 10, 2023 Letter upon the relief now sought by the IESO?

1.1 - SEC - 1

Reference: IESO Letter, March 20, 2024

Preamble:

The IESO states in its letter: "The adjustment mechanism in the Settlement Proposal was designed to provide the OEB and interveners with assurance that the IESO would review the appropriateness of its usage fees in the event of a negative Forecast Variance and Deferral Account balance at the end of Year 1 to avoid or minimize the use of debt. The existence of the adjustment mechanism in the Settlement Proposal does not preclude the IESO from seeking to adjust its usage fee during the three-cycle in the event of unplanned increases in operating costs in response to changes in government policy.

Question(s):

Please provide all references in the EB-2022-0318 record that show the IESO did not intend that their proposed adjustment mechanism did not "preclude the IESO from seeking to adjust its usage fee during the three-cycle in the event of unplanned increases in operating costs in response to changes in government policy

RESPONSE

Please see responses to 1.0 - VECC 4 b).

SEC INTERROGATORY 2

1.1 What is the effect of the approved settlement proposal for the IESO's 2023-2025 Expenditures, Revenue Requirement, and Fees Application (and associated OEB decision), and the timing of the Minister of Energy's July 10, 2023 Letter upon the relief now sought by the IESO?

1.1 - SEC - 2

Reference: All Intervenors CQ #2

Question(s):

Please confirm that the answer to part (b) is no, the IESO did alert parties to the agreement about the Minister's letter and the potential for a need to modify the settlement agreement.

RESPONSE

The IESO confirms that the answer to the All Intervenors Clarification Question 2 part b): "Did the IESO contact the parties to the agreement after it had determined in August 2023 that the incremental costs could not be accommodated within the agreed to framework of the settlement agreement? " is no. Section 25(1) of the Electricity Act, 1998 requires the IESO to obtain Ministerial approval of its expenditure and revenue requirements and proposed fees before it can submit them to the OEB. The IESO notified parties to the Settlement Proposal on December 8, 2023 after receiving Minister approval of the IESO's Amendment to its 2023-2025 Business Plan ("Amendment") in accordance with the Settlement Proposal approved by the OEB in EB-2022-0318.

SEC INTERROGATORY 3

1.1 What is the effect of the approved settlement proposal for the IESO's 2023-2025 Expenditures, Revenue Requirement, and Fees Application (and associated OEB decision), and the timing of the Minister of Energy's July 10, 2023 Letter upon the relief now sought by the IESO?

1.1 - SEC - 3

Reference: All Intervenors CQ #11, #12, #13

Question(s):

Please update the tables in each clarification response to account for changes to the 2015 volume forecast based on the 2024 Annual Planning Outlook.

RESPONSE

The IESO assumes that this question is seeking an update of the 2025 volume forecast based on the 2024 Annual Planning Outlook. Based on this assumption, please see below updated tables, including 2023 actuals and the "2024 Outlook" and "2025 Outlook" columns updated for most recent energy forecast (2023 Q4 Reliability Outlook for the "2024 Outlook" and the 2024 Annual Planning Outlook for the "2025 Outlook"):

1. Updated table to All Intervenors CQ #11

($ Millions)	2024 Outlook	2025 Outlook	2024 Outlook @ recent volumes	2025 Outlook @ recent volumes
Revenue	218.4	229.7	220.7	227.8

2. Updated table to All Intervenors CQ #12

Operating Reserve Balance (FVDA)	**2019 Actual**	**2020 Actual**	**2021 Actual**	**2022 Actual**		**2023 Actual**	**2024 Outlook**	**2025 Outlook**
Opening Balance	(4.7)	(1.0)	1.3	8.7		15.0	10.2	(0.1)
Surplus (Deficit)	3.7	2.3	7.4	15.0		(4.8)	(10.3)	(21.8)
Proposed Market Participants Rebate*				(8.7)		0.0		
Closing Balance	**(1.0)**	**1.3**	**8.7**	**15.0**		**10.2**	**(0.1)**	**(21.9)**

3. Updated table to All Intervenors CQ #13

Please see answer to 2.0 OEB STAFF 2-2 a)

SEC INTERROGATORY 4

1.1 What is the effect of the approved settlement proposal for the IESO's 2023-2025 Expenditures, Revenue Requirement, and Fees Application (and associated OEB decision), and the timing of the Minister of Energy's July 10, 2023 Letter upon the relief now sought by the IESO?

1.1 - SEC - 4

Preamble:

Question(s):

Please provide a table that shows the revised year-end balance of the FVDA balance for each of 2024 and 2025, based on currently approved usage fees for 2024 and 2025, based on a) the Application as filed, and b) revised information on 2023 actual costs, and updated volume forecasts.

RESPONSE

a) Refer to the detailed financials section of the Interim Outlook at Exhibit B-1-4 (page 11 of 18).

b) Please see the response to 2.0 OEB Staff 2-2 a)

VECC INTERROGATORY 4

1.0 General

1.0 - VECC - 4

Reference: Decision and Order, EB-2022-0318 August 29, 2023, IESO Letter March 20, 2024

Preamble:

Under the terms of the settlement proposal, the IESO may seek OEB approval to adjust the approved expenditures, revenue requirement, and fees in the event of a material unforeseen change. However, this would only occur if the balance of the FVDA is less than zero in Year 1 of the three-year cycle, and any adjustment would be for Year 3. While the settlement proposal does not call this an "off-ramp", the OEB agrees with OEB staff's use of this term in the event of a material unforeseen change" (OEB August 29/23)

The adjustment mechanism in the Settlement Proposal was designed to provide the OEB and interveners with assurance that the IESO would review the appropriateness of its usage fees in the event of a negative Forecast Variance and Deferral Account balance at the end of Year 1 to avoid or minimize the use of debt. The existence of the adjustment mechanism in the Settlement Proposal does not preclude the IESO from seeking to adjust its usage fee during the three-cycle in the event of unplanned increases in operating costs in response to changes in government policy." (IESO March 20/24)

Question(s):

a) Has the adjustment condition noted by the Board in its decision occurred?

b) What evidence (or agreement of the parties) in EB-2022-0318 is IESO referring to in support of its contention that the adjustment mechanism, if not triggered, does not preclude the IESO from seeking to adjust its fees during the rate period?

c) If, in the IESO's view, the adjustment mechanism was not meant to address changes in scope or responsibilities as directed by the Government of Ontario what events or occurrences was it meant to address?

RESPONSE

a) As per the response to 1.0 OEB Staff Interrogatory 1-1 d), the adjustment condition noted by the Board in its decision has not occurred because there was not a deficit balance in the FVDA in Year 1 of the three-year cycle as a result of a material change.

b) As noted in the response to 1.0 OEB Staff Interrogatory 1-1 d) the approved Settlement Proposal in EB-2022-0318 does not by its terms state that the adjustment mechanisms was to be the sole means by which the IESO's fees could be adjusted during the 3-year period. The adjustment mechanism was designed as a guardrail that identified specific circumstances under which the IESO was required to consider an adjustment to its fees. The commitments in the Settlement Proposal explicitly recognized that government policy could result in unplanned material operating or capital budget increases, change the IESO's trajectory and require the IESO to report on any changes in the Interim Year Business Outlook:

> "The Interim Year Business Outlook will include reporting on the progress on the energy transformation which includes the IESO's response to any changes to government policy, a description of any significant variances in the budgeted/planned operating and capital amounts in the 2023-2025 Business Plan including identification of any unplanned material operating or capital budget increases over the 2023-2025 period and information on the trajectory of these "cumulative" initiatives and a clear indication of year over year changes to that trajectory."[1]

[1] OEB Order and Decision EB-2022-0318, page 7.

The IESO's annual reporting allows the parties to reassess the situation in the event of a change in trajectory as unplanned material operating or capital budget increases can result in the IESO's increased reliance on additional financing as detailed in 2-OEB Staff-2(d).

In any event, as a matter of law, the Settlement Proposal could not restrain the provisions governing the establishment of the IESO's annual fee following the Minister's approval of an amended Business Plan under Section 25 of the Electricity Act, 1998.

c) The adjustment mechanism is triggered when the IESO incurs material changes that result in a deficit balance of the FVDA in Year 1 of the three-year cycle. Material changes are described in Exhibit F-1-1 in the previous application (EB-2022-0318) and include changes that have a significant impact on the operation of the IESO and could compromise the IESO's ability to work within future year's revenue requirements and carry-out the activities in its 2023-2025 Business Plan. The IESO considers the Minister's direction to the IESO to support Powering Ontario's Growth plan a material change. However, this material change creates a deficit balance in the FVDA in Year 2 and Year 3, which is why the IESO considers the current application to be outside of the adjustment mechanism.

VECC INTERROGATORY 5

1.0 General

1.0 -VECC - 5

Reference: IESO Letter of March 13, 2024

Preamble:

However, the approved Settlement Proposal in EB-2022-0318 does not by its terms, and as a matter of law could not, restrain the provisions governing the review of the IESO's fee following the Minister's approval of an amended business plan under the Electricity Act, 1998.

Question(s):

a) What (statute and clause) is being referred to in this quote?

RESPONSE

a) Section 25 of the Electricity Act, 1998.

VECC INTERROGATORY 6

1.0 General

1.0 -VECC - 6

Reference: Decision and Order, EB-2022-0318 August 29, 2023

Preamble:

This document is called a "Settlement Proposal" because it is a proposal by the Parties to the OEB to settle the issues in this proceeding. It is termed a proposal as between the Parties and the OEB. However, as between the Parties, and subject only to the OEB's approval of this Settlement Proposal, this document is intended to be a legal agreement, creating mutual obligations, and binding and enforceable in accordance with its terms.

Question(s):

The OEB approved the referred to settlement proposal. The adjustment mechanism does not explicitly identify Ministerial direction from its application. If the terms of the adjustment mechanism have not been met then please explain how it is that the IESO is not resiling from a plain reading of the terms its agreement (which are binding and enforceable)?

RESPONSE

Please see response to 1.0 VECC-4.

VECC INTERROGATORY 7

1.0 General

1.0-VECC - 7

Reference: EB-2022-0318, Approved Settlement Agreement

Preamble:

The IESO's proposal, as set out in the Application and clarified through IRs, for adjustment due to a material change in circumstances is as follows:

If unforeseen expenses or changes in revenues cause the IESO's balance of the FVDA to reduce below zero at the end of 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 for Year 3 of the three-year cycle (i.e., for 2025). In this instance, the IESO would review whether it is appropriate and feasible to apply for revised usage fees. The IESO's review would take into account the timing of the Minister's review of a revised Business Plan, the timing of an OEB proceeding, economic conditions, the impact on ratepayers, and the cost of utilizing the IESO's line of credit.

If the IESO's FVDA balance reduces to below zero, and the IESO decides the best course of action is to revise its usage fees for Year 3, 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 usages fees for Year 3 necessary to recover some or all of the IESO's operating reserve as appropriate at the judgment of the IESO based on business needs, economic factors and impact on market participants.

In the case that the FVDA balance reaches below zero in year 1 of the three-year cycle the IESO proposes that a revised submission during interim years would adhere to the following process:

- IESO Annual Report completed in Q1 Year 2 confirms that the balance in the FVDA in Year 1 has reached below zero;
- IESO Business Plan is revised and re-submitted to Minister;
- After Minister approval received, revised application is filed with OEB;
- Revised application would request:
    - Approval to amend usage fees in Year 3 to recover some or all of the amounts that impacted the IESO's FVDA to reduce below zero.

IESO will notify the OEB and parties when a revised business plan has been approved by the Minister

Question(s):

a) Is IESO's application in this case being made due to a material change in circumstance? If so, what are those circumstances?

b) What parts of the agreement shown above limit the application of the mechanism to only those material changes in circumstances that are not the result of direction by the Ontario Government?

c) What material change in circumstance, other than those emanating from a direction of the Ontario Government, does the IESO believe the adjustment mechanism would apply to?

RESPONSE

a) Please see OEB Staff – Clarification Question 1 f)

b) Please see 1.0 VECC 4 c)

c) Please see 1.0 VECC 4 c)

<u>AMPCO INTERROGATORY 3</u>

2.0 Incremental Revenue Requirements

<u>2.0 AMPCO-3</u>

Question(s):

Please provide the cost savings due to vacant positions to date in 2024.

<u>RESPONSE</u>

Any savings driven by vacant positions is related to capital expenses. The $0.1 million in operating expense savings due to delayed hiring has been offset by higher overtime expenses.

AMPCO INTERROGATORY 4

2.0 Incremental Revenue Requirements

2.0 AMPCO-4

Question(s):

In light of 2023 actuals, please explain in detail why the new expenses for 2024 cannot be managed within the IESO's approved funding inclusive of operating reserve.

RESPONSE

Please refer to response to 2.0 OEB 2-1

AMPCO INTERROGATORY 5

2.0 Incremental Revenue Requirements

2.0 AMPCO-5

Reference: OEB staff Clarification Question 4

Question(s)

The responses states "The 2023 year-end balance in the FVDA is $10.2 million compared to $2.6 million in the Interim Year Business Outlook. This variance resulted from a reduced operating deficit compared to that forecast in the Interim Year Business Outlook, driven primarily by higher than expected demand volumes, and various other operational savings

a) Please identify and quantify the operational savings in 2023.
b) Please provide the current operational savings in Q1 2024 and the drivers.

RESPONSE

a) The 2023 operational savings when comparing Actual to the Interim Year Business Outlook Forecast is about $3.5 million. It is primarily due to reduced professional consulting expenses as a result of: work delayed to 2024, lower than expected litigation expenses and work managed by internal resources.
b) There are no material operational savings in Q1 2024 to report compared to the Interim Year Business Outlook.

<u>AMPCO INTERROGATORY 6</u>

2.0 Incremental Revenue Requirements

<u>2.0 AMPCO-6</u>

Reference: OEB staff Clarification Question 5

Question(s):

a) Please confirm there are lower than expected FTEs at the beginning of the year in 2024.

b) The response in Clarification Question 5 states "The 2023 actual average FTE was slightly below the forecast due to some vacancies taking longer time to fill than expected."
Please explain why some vacancies are taking a longer time to fill than expected and if these issues persist, or if there are new issues that have arisen with respect to filling vacancies in 2024.

<u>RESPONSE</u>

a) Please see response to AMPCO Clarification Question 3.

b) Please see response to 2.0 OEB STAFF 2-3 c)

AMPCO INTERROGATORY 7

2.0 Incremental Revenue Requirements

2.0 AMPCO-7

Reference: Exhibit D-1-3, Attachment 1

Question(s):

a) Please confirm the $3.1 million compensation and benefits budget for 2024 assumes all 22 FTEs are hired January 1, 2024.

b) Please confirm the $4.7 million compensation and benefits budget for 2025 assumes all 22 FTES are hired and the additional 8 FTEs in 2025 are hired January 1, 2025.

c) With respect to the 22 incremental FTEs in 2024, how many have been hired to date?

RESPONSE

a) The 22 FTEs represent the average through 2024 and the $3.1 million compensation and benefits corresponds to this average.

b) The 30 incremental FTEs to support POG are expected to be hired by the end of 2024, hence the average in 2025 is the 30 FTEs and the $4.7 million corresponds to this average.

c) A total of 6 employees have been hired to date.

AMPCO INTERROGATORY 10

2.0 Incremental Revenue Requirements

2.0 AMPCO-10

Reference: Exhibit F Tab 1 Schedule 1 Page 3

Question(s)

Please update Table 1 to include 2023 actuals and updates for 2024 and 2025.

RESPONSE

Please see response to 1.1 SEC 3

<u>**OEB STAFF INTERROGATORY 2-1**</u>

2.0 Incremental Revenue Requirements

<u>2.0 OEB Staff 2-1</u>

Reference: All Intervenors Clarification Question 12; OEB Staff Clarification Question 1 f) and g)

Question(s):

a) In response to OEB Staff Clarification Question 1 f) and g), the IESO confirmed that the proposed incremental budget in support of the POG plan is viewed as a material change and the IESO cannot work within its approved revenue requirements to carry out the incremental work for the POG plan. In response to All Intervenors Clarification Question 12, the IESO provided the updated forecast for 2024 closing balance of the FVDA in a deficit of $0.1 million. Does the IESO still believe that it cannot work within the approved revenue requirements for 2024 to carry out the incremental work? If the IESO believes that it cannot work within the approved revenue requirements for 2024, please explain why.

b) What are the alternatives to the IESO's current proposal to meet the additional revenue requirement associated with the POG plan? What alternatives did the IESO consider?

<u>**RESPONSE**</u>

a) In the response to All Intervenors Clarification Question 12, the IESO projected the FVDA balance for 2024 based only on updated revenues (using an updated energy forecast and existing usage fees) without accounting for an update to expenses. This is not a balanced approach for determining whether the IESO can work within the approved revenue requirement in 2024. There are risks of higher expenses in 2024 which would increase the IESO's deficit, including:

- The outcome of the Power Worker Union collective agreement negotiations;
- Accounting guidelines for recognizing cloud computing solutions as operating expenses; and,

- Potential incremental volume of work associated with POG initiatives not included in the Amended Business Plan. This could include more scope and/or complexity of POG initiatives than planned, and/or implementation of recommendations made through IESO report backs to the Minister, should the Minister choose to do so.

  The IESO will have a more accurate sense of the impact of these expense risks when it develops its annual Interim Outlook, which is submitted to the Minister 120 days before the beginning of its fiscal year.

  Nevertheless, the IESO does not believe it is good practice, nor management, to operate with a fully exhausted operating reserve as a means of funding known/planned work that has been directed and approved by the Minister of Energy in support of his government's POG plan. Doing so would introduce unnecessary risk to effectively managing the business. Further, irrespective of the forecasted FVDA in 2024, the cumulative deficit over the three-year period is projected to be significant. Please refer to 2-OEB Staff 2-2.

b) The alternatives include stopping work outlined in the IESO's 2023-2025 Business Plan or relying on additional financing, if available, to fund the incremental work. Stopping work outlined in the 2023-2025 Business Plan would introduce risk for the IESO in meeting its strategic objectives and commitments given the business plan remains approved by the Minister as per its letter to the IESO on November 28, 2023, in Exhibit B-1-3. Securing additional financing, if available, has risks and is a more costly alternative than updating the IESO's usage fees as a result of interest. In 2023 the IESO secured a $190 million credit facility from the Ontario Financing Authority (OFA), available until June 2026, and almost 50% has already been used. The OFA would not be able to advance any new funds to the IESO, unless properly justified as not funded through usage fees. If the IESO were to obtain additional financing from commercial banks, it would be at a much higher cost, not just reflected in higher interest rates but also in standby fees, which ultimately would be borne by the future electricity rate payers of Ontario.

OEB STAFF INTERROGATORY 2-2

2.0 Incremental Revenue Requirements

2-OEB STAFF 2-2

Reference: Exhibit B-1-4 Interim Year Business Outlook 2023-2026 (Outlook), page 11, "Detailed Financials" Table; Exhibit B-1-6 2023 Annual Report and Audited Financial Statements

Preamble:

On page 11 of the Outlook, the IESO provided the following table to outline the 2023-2026 revenues and expenses:

For the Year Ended December 31
(Millions of Canadian Dollars)

($ Millions)	2023 Budget	2024 Budget	2025 Budget	3 Year Total	2023 Forecast	2024 Outlook	2025 Outlook	3 Year Total	2026 Outlook
Revenue									
IESO Usage Fee	**208.4**	**218.4**	**229.7**	**656.5**	**209.3**	**218.4**	**229.7**	**657.4**	**273.2**
Expenses									
Expenses Included in Business Plan	208.4	218.4	229.7	**656.5**	199.5	220.1	237.3	**656.9**	267.9
Bill 124 - Society Compensation & Benefits	-	-	-	**-**	21.2	6.4	6.9	**34.5**	-
Sub-Total	**208.4**	**218.4**	**229.7**	**656.5**	**220.7**	**226.5**	**244.2**	**691.4**	**267.9**
Powering Ontario's Growth	-	-	-	**-**	1.0	4.5	5.4	**10.9**	5.4
Total Expenses	**208.4**	**218.4**	**229.7**	**656.5**	**221.7**	**231.0**	**249.6**	**702.3**	**273.2**
Operating Deficit	**-**	**-**	**-**	**-**	**(12.4)**	**(12.6)**	**(19.9)**	**(44.9)**	**-**
Operating Reserve Variance Account Ending Balance	**10.0**	**10.0**	**10.0**	**10.0**	**2.6**	**(10.0)**	**(29.9)**	**(29.9)**	**(29.9)**

On April 3, 2024, the IESO filed its 2023 Annual Report and Audited Financial Statements as Exhibit B-1-6 of the current application.

Question(s):

a) Please update the "Detailed Financials" table with the same layout as presented in the Outlook with the following items: (Please note that the updated table should include <u>all columns and rows</u> as set out in the Outlook.)

   a. Please insert a column for 2023 Actual and update the amounts in light of the 2023 Annual Report and Audited Financial Statements.

   b. For the "2024 Outlook" and "2025 Outlook" columns, please update the entries with the most recent energy forecast (and provide the data source).

b) Based on the updated table in response to part a) of this question, please produce two further updated tables (complete Detailed Financials tables) to incorporate any interest implications and identify the amount of interest that may accrue under two scenarios: one assuming the approval of the IESO's proposed 2024 and 2025 funding request and the other assuming that the OEB does not approve the request. Please provide related explanations.

RESPONSE

a) Please see below updated table, including 2023 actuals and the "2024 Outlook" and "2025 Outlook" columns updated for most recent energy forecast (2023 Q4 Reliability Outlook for the "2024 Outlook" and the 2024 Annual Planning Outlook for the "2025 Outlook"):

For the Year Ended December 31st

($ Millions)	2023 Budget	2024 Budget	2025 Budget	3 Year Total	2023 Forecast	2023 Actual	2024 Outlook	2025 Outlook	3 Year Total	2026 Outlook
Revenue										
IESO Usage Fee	**208.4**	**218.4**	**229.7**	**656.5**	**209.4**	**213.4**	**220.7**	**227.8**	**661.9**	**273.2**
Expenses										
Expenses Included in Business Plan	**208.4**	**218.4**	**229.7**	**656.5**	**199.5**	**195.5**	**220.1**	**237.3**	**652.9**	**267.9**
Bill 124 - Society Compensation & Benefits	-	-	-	-	21.2	22.0	6.4	6.9	**35.3**	-
Sub-Total	**208.4**	**218.4**	**229.7**	**656.5**	**220.7**	**217.5**	**226.5**	**244.2**	**688.2**	**267.9**
Powering Ontario's Growth	-	-	-	-	1.0	0.7	4.5	5.4	**10.6**	5.4
Total Expenses	**208.4**	**218.4**	**229.7**	**656.5**	**221.7**	**218.2**	**231.0**	**249.6**	**698.8**	**273.2**
Operating Deficit	-	-	-	-	**(12.4)**	**(4.8)**	**(10.3)**	**(21.8)**	**(36.9)**	-
Operating Reserve Variance Account Balance	**15.0**	**10.0**	**10.0**	**10.0**	**2.6**	**10.2**	**(0.1)**	**(21.9)**	**(21.9)**	**(21.9)**

b)

1) Scenario 1 – Approval of the IESO's proposed 2024 and 2025 funding request, with updated demand to most recent energy forecast:

For the Year Ended December 31st

($ Millions)	2023 Budget	2024 Budget	2025 Budget	3 Year Total	2023 Forecast	2023 Actual	2024 Outlook	2025 Outlook	3 Year Total	2026 Outlook
Revenue										
IESO Usage Fee	**208.4**	**218.4**	**229.7**	**656.5**	**209.4**	**213.4**	**223.0**	**233.2**	**669.6**	**273.2**
Expenses										
Expenses Included in Business Plan	**208.4**	**218.4**	**229.7**	**656.5**	**199.5**	**195.5**	**220.1**	**237.3**	**652.9**	**267.9**
Bill 124 - Society Compensation & Benefits	-	-	-	**-**	21.2	22.0	6.4	6.9	**35.3**	-
Sub-Total	**208.4**	**218.4**	**229.7**	**656.5**	**220.7**	**217.5**	**226.5**	**244.2**	**688.2**	**267.9**
Powering Ontario's Growth	-	-	-	**-**	1.0	0.7	4.5	5.4	**10.6**	5.4
Powering Ontario's Growth - Addtl. Borrowing Cost	-	-	-	**-**	-	-	0.1	0.1	**0.2**	
Total Expenses	**208.4**	**218.4**	**229.7**	**656.5**	**221.7**	**218.2**	**231.1**	**249.7**	**699.0**	**273.2**
Operating Deficit	**-**	**-**	**-**	**-**	**(12.4)**	**(4.8)**	**(8.2)**	**(16.5)**	**(29.4)**	**-**
Operating Reserve Variance Account Balance	**15.0**	**10.0**	**10.0**	**10.0**	**2.6**	**10.2**	**2.0**	**(14.5)**	**(14.5)**	**(14.5)**

This assumes that the IESO recovers half of the POG related expenses in 2024 considering the timing of any approval by the OEB of the current application and the full amount in 2025. The remaining deficits are assumed to be funded through additional borrowing, incurring incremental interest expenses.

2) Scenario 2 – No Approval of the IESO's proposed 2024 and 2025 funding request, with updated demand to most recent energy forecast:

For the Year Ended December 31st

($ Millions)	2023 Budget	2024 Budget	2025 Budget	3 Year Total	2023 Forecast	2023 Actual	2024 Outlook	2025 Outlook	3 Year Total	2026 Outlook
Revenue										
IESO Usage Fee	**208.4**	**218.4**	**229.7**	**656.5**	**209.4**	**213.4**	**220.7**	**227.8**	**661.9**	**273.2**
Expenses										
Expenses Included in Business Plan	**208.4**	**218.4**	**229.7**	**656.5**	**199.5**	**195.5**	**220.1**	**237.3**	**652.9**	**267.9**
Bill 124 - Society Compensation & Benefits	-	-	-	**-**	21.2	22.0	6.4	6.9	**35.3**	-
Sub-Total	**208.4**	**218.4**	**229.7**	**656.5**	**220.7**	**217.5**	**226.5**	**244.2**	**688.2**	**267.9**
Powering Ontario's Growth	-	-	-	**-**	1.0	0.7	4.5	5.4	**10.6**	5.4
Powering Ontario's Growth - Addtl. Borrowing Cost	-	-	-	**-**	-	-	0.2	0.3	**0.5**	
Total Expenses	**208.4**	**218.4**	**229.7**	**656.5**	**221.7**	**218.2**	**231.2**	**249.9**	**699.4**	**273.2**
Operating Deficit	**-**	**-**	**-**	**-**	**(12.4)**	**(4.8)**	**(10.5)**	**(22.1)**	**(37.4)**	**-**
Operating Reserve Variance Account Balance	**15.0**	**10.0**	**10.0**	**10.0**	**2.6**	**10.2**	**(0.3)**	**(22.4)**	**(22.4)**	**(22.4)**

Assumes that the IESO borrows to fulfil its entire POG need and incurs incremental interest costs as a result.

OEB STAFF INTERROGATORY 2-3

2.0 Incremental Revenue Requirements

2.0 OEB Staff 2-3

Reference: AMPCO Clarification Question 3; Exhibit B-1-4 Outlook, pages 12-13

Preamble:

The IESO provided the following table in its response to AMPCO Clarification Question 3.

Average FTE by Business Units	Approved 2023 Budget	2023 Actual	Approved 2024 Budget	Incremental 2024	Amended 2024	Approved 2025 Budget	Incremental 2025	Amended 2025
Markets & Reliability	213	202	225	4	229	230	5	235
Planning, Conservation & Resource Adequacy	133	129	140	12	152	126	12	138
Corporate Relations, Stakeholder Engagement & Innovation	69	64	75	5	80	79	12	91
Information & Technology Services	146	144	145	-	145	155	-	155
Legal Resources & Corporate Governance	78	75	85	1	86	86	1	87
Market Assessment & Compliance Division	7	6	7	-	7	14	-	14
CEO Office	3	3	3	-	3	3	-	3

Corporate Services	130	125	132	-	132	137	-	137
Human Resources	26	30	26	-	26	26	-	26
Market Renewal	109	83	88	-	88	44	-	44
Total IESO	**914**	**861**	**926**	**22**	**948**	**900**	**30**	**930**

Question(s):

a) The IESO indicated, in response to AMPCO Clarification Question 3 b), that fewer than planned Market Renewal FTEs (26) were required to deliver the planned work according to schedule. It's also noted on page 12 of the Outlook that the IESO has been able to manage the Market Renewal Program (MRP) workload by leveraging existing staff and support form third-party vendors. Please discuss whether the efficiency realized (saving in FTEs) through leveraging existing staff in carrying out MRP work in 2023 would continue to be effective and bring OM&A savings in 2024. If yes, please quantify the approximate savings.

b) Given that the planned 2024 average FTEs in MRP is 21 FTEs lower than the 2023 planned average, does the IESO still anticipate that it will require five more average FTEs in MRP (from 2023 actual of 83 to 2024 budgeted of 88) in 2024? If not, please estimate the equivalent savings in operating with fewer than planned MRP FTEs for 2024.

c) In response to AMPCO Question 3 b), the IESO noted that one of the factors that caused the 2023 actual average FTEs to be 53 lower than the 2023 approved FTEs is that there were lower than expected FTEs at the beginning of the year, due to:

- higher than usual attrition rates in 2022
- the number of vacancies exceeded the number of candidates available in the market, leading to a very competitive labor market

Does the IESO anticipate that it may have similar difficulties in filling FTEs in 2024 for these same reasons? If so, how many of these FTEs does the IESO anticipate might not be filled, and what would the associated impact on forecast costs be?

d) In response to AMPCO Clarification Question 3 b), the IESO noted that the lower FTEs at the beginning of the year meant that it would have to hire more headcount at faster pace than expected to meet the approved average FTEs for 2023. The IESO also noted on page 12 of the Outlook that it had taken multiple actions to intensify the acquisition of talent and ensure that the planned year-end 2023 headcount was achieved. What actions did the IESO take in 2023 to intensify the acquisition of talent? How effective were the actions?

e) The 2023 actual average FTEs is less than the 2024 approved average FTEs by 65. With this level of lower-than-expected FTEs at the beginning of the year of 2024, please discuss the possibility of actually meeting the approved 2024 FTEs of 926 plus the incremental FTEs of 22 for the POG plan (948 in total).

f) In 2024, has the IESO taken (or planned to take) any actions to intensify the acquisition of talent and meet the approved 2024 FTEs? Please discuss the detail.

RESPONSE

a) The work being performed by the majority of Market Renewal Program (MRP) FTEs is for the development and implementation of the MRP solution, and are thus considered capital expenses. Therefore, the fewer than planned MRP FTEs in 2023 resulted in capital expenses savings and not OM&A. The IESO does not anticipate OM&A savings in 2024 on this basis.

b) The IESO's 2024 projection of MRP FTEs has not changed, as they are still required for the development and implementation of the MRP solution.

c) The IESO is not expecting to have challenges in filling FTEs by the end of 2024. The actions taken by the IESO described in d) and e) below have successfully supported to date the acquisition of talent.

d) In 2023 the IESO took the following actions to support the acquisition of talent:

- Increased the Talent Management team by two Talent Acquisition Advisors to assist with the volume of requisitions
- Expanded the candidate pool, by promoting the IESO's Greater Toronto Area Top Employer Award
- Promoted the Canadian Human Resources Award for Excellence in Diversity and Inclusion (sponsored by CCDI)
- Attended career fairs and events
- Expanded partnerships with educational institutions
- Leveraged recruitment agencies for hard-to-fill roles
- Offered a hybrid work model
- Posted roles on sites for underrepresented populations (e.g. Indigenous Link Careers)

The IESO believes these actions were effective because by the end of 2023, except for MRP (as explained in a) above), the IESO achieved its planned headcount.

e) As of March 2024, the IESO's talent acquistion efforts have increased the average FTE to 894, representing an increase of 33 above the 2023 actual average FTE. The IESO has demonstrated the success of its talent acquisition efforts in previous years – for example, the IESO's actual average FTE in 2023 was 62 FTE higher than the actual average FTE in 2022 (861 in 2023 vs 799 in 2022). The IESO will continue to leverage these talent acquisition efforts, as noted in parts d) and f), in 2024. Nevertheless, the IESO is giving due consideration to the optimal organizational structures required to ensure the added headcount can lead and enable the sector's transition, and that professional development and career development continues to be supported.

f) To meet the approved headcount by the end of 2024, the IESO is continuing some of the successful actions taken in 2023 listed above in part d), and is working on the following additional actions in 2024:

- Applying for The Top 100 Employers for Canada Award
- Articulating the IESO's Employee Value Proposition as part of hiring[1]

[1] https://careers.ieso.ca/content/What-We-Offer/?locale=en_US

<u>OEB STAFF INTERROGATORY 2-4</u>

2.0 Incremental Revenue Requirements

<u>2.0-OEB STAFF 2-4</u>

Reference: EB-2022-0318 Exhibit D-1-3 Table 1

Preamble:

OEB staff constructed the following table based on the data provided in EB-2022-0318 Exhibit D-1-3 Table 1 and the current application. Please note that the 2024 FTE has been adjusted to include the incremental FTE of 22 for the POG plan.

	2020	2021	2022	2023	2024
Approved Average FTEs (A)		794	827	914	948
Actual FTEs (B)	772	774	799	861	-
Planned Increase of FTEs from Prior Year's Actual (C) = current year (A) – prior year (B)		22	53	115	87
Achieved Increase of FTEs from Prior Year's Actual (D) = current year (B) – prior year (B)		2	25	62	
% of Achieved FTE Increase (D) / (C)		9%	47%	54%	

Question(s):

a) Please confirm the accuracy of the table (and correct any errors with explanations).

b) In response to OEB Staff Interrogatory 1.0-OEB Staff-7 c) in EB-2022-0318, the IESO stated that the annual impact would be approximately $7 million if 50% of the 2023 operating FTE increase was met, and approximately $3 million if 75% of the FTE increase was met. What would be approximate impact on annual revenue requirement in each of 2024 and 2025 if only 50% and 75% of the 2024 FTE increase was met?

RESPONSE

a) IESO confirms the table above is accurate, and reflects the total operating and capital FTEs, therefore the % of Achieved FTE reflected in the table is not a direct correlation to operating expense savings and thus revenue requirement impact.

b) The approximate impact on annual revenue requirement for 2024 and 2025 in the unlikely event that only 50% and 75% of the 2024 operating FTE increase is met, and not hired at all in 2025, is provided in the table below.

Impact to Revenue Requirement ($ Millions)	2024	2025
50% of Incremental OPEX FTE	4.2	4.3
75% of Incremental OPEX FTE	2.1	2.2

OEB STAFF INTERROGATORY 2-5

2.0 Incremental Revenue Requirements

2.0-OEB STAFF 2-5

Reference: All Intervenors Clarification Question 14; All Intervenors Clarification Question 1; Exhibit D-1-2

Preamble:

In response to All Intervenors Clarification Question 14, the IESO discussed the process it took after receiving the Minister's July 10, 2023, letter to determine the need for additional resources and budget to carry out the POG plan initiatives.

In response to All Intervenors Clarification Question 1, the IESO noted that Exhibit D-1-2 presents the budget per business unit as per the IESO's budgeting practice. OEB staff notes that in Exhibit D-1-2, the IESO explained why effort and resources are required from the four affected business units to support the POG plan initiatives.

Question(s):

a) Please provide further detail about how the IESO determined that a total of 30 incremental headcount (as opposed to another number) was necessary to carry out the work.

b) Please explain why the average fully burdened rate of $140 to $160 thousand per FTE is considered reasonable in estimating the budget.

c) Please discuss how the IESO determined the 2024 and 2025 incremental budget associated with the POG plan for each of the four business units as presented in Exhibit D-1-2.

RESPONSE

a) As described in All Intervenors Clarification Question 14, in the months following the receipt of the Minister's letter related to the Powering Ontario's Growth (POG) plan, the IESO conducted an analysis of the work required to support the POG initiatives. This analysis included developing an understanding of the scope of initiatives, the expected deliverables, and their timing. Each division directly impacted by the work outlined in the POG directive, undertook an assessment of the effort required to execute the initiatives considering the scope, deliverables and timelines to report back, and the impact on the deliverables in the 2023-2025 Business Plan. Based on this assessment, each division determined the incremental resources required to execute the POG initiatives using their experience carrying out work of similar complexity and scope, and by assessing the skills and experience required to deliver the work. Several touch points took place with various IESO business units to understand the interdependencies of the work and thus identify additional resources required from other business units in the form of direct or in-direct support. The assessment of required resources also considered constraints including those from hiring plans underway and other hiring trends observed inside the IESO and within the labour market in general. Ultimately, the 30 incremental FTEs required to implement the POG initiatives has been determined based on the effort required in 2024 and 2025 and timelines that reflect when the incremental resources could be on-boarded.

b) Although the IESO did not have detailed information on job levels for each of the FTEs planned to be hired to execute the IESO's work associated with POG, the IESO recognized that the successful candidates would require a range of skills and experience. Therefore, based on the latest IESO compensation structure the IESO assumed a reasonable average range of $140-$160 thousand per FTE to reflect the different levels of skills and experience.

c) Based on the information described in answers a) and b) above, the total compensation and benefit costs were determined and the additional consulting estimates were added to arrive to the total incremental POG expenditure requirements.

SEC INTERROGATORY 5

2.1 Is the IESO's Fiscal Year 2024 incremental revenue requirement of $4.5 million appropriate?

2.1 - SEC - 5

Reference: All Intervenors CQ #14

Question(s):

Please provide a copy of all instructions to, and responses from, each IESO business unit and division regarding incremental resources and/or costs required to complete the work outlined in the Minister's letter regarding Powering Ontario's Growth plan.

RESPONSE

Please see response to 2.0 VECC 1 a) and b)

SEC INTERROGATORY 6

2.1 Is the IESO's Fiscal Year 2024 incremental revenue requirement of $4.5 million appropriate?

2.1 - SEC - 6

Reference: All Intervenors CQ #1

Question(s):

The IESO was asked to provide the incremental budgets for each of the activities contained in the Minister's letter regarding the Powering Ontario's Growth plan. In its response, it states that the IESO does not budget by activity and so cannot respond to the question. Please provide a breakdown of the incremental costs sought for approval for each year, by each of the activities set out in the Minister's letter regarding the Powering Ontario's Growth plan. As the IESO does not budget based on activity, please attempt to breakdown the costs by activity using simplifying assumptions. Please detail those assumptions.

RESPONSE

As described in the response to All Intervenors Clarification Question 1, the IESO's budgeting is not done by activity. As part of the Settlement Proposal in EB-2022-0318, the IESO has agreed to present forecast and historic spending by major activity and initiative basis, with the understanding that the reporting may involve assumptions, including with respect to time allocation, in the 2026-2028 Revenue Requirement Submission. This approach will take time to develop and, as such, the IESO's current application was not developed on this basis. Further, the IESO does not consider the activities set out in the Minister's letter regarding the POG plan as major activities or initiatives on an individual basis. As such, the IESO does not support the breakdown of costs by POG initiative.

Notwithstanding these limitations, in an effort to be responsive to this interrogatory, the IESO has provided a simplified breakdown of the budget in the current application by activity set out in the Minister's letter regarding the POG plan in the table below. This simplified breakdown assumes the following:

1. In cases where a division is involved with many of the initiatives but more heavily with one in particular, the total costs are assigned to that initiative alone. For example, the Transmission Planning division is involved in the Transmission and Feasibility Study and Business Case for Future Nuclear Generation in Ontario POG initiatives. Since this division is mostly involved with the Transmission POG initiative, all the incremental costs for this division have been allocated to the Transmission POG initiative.

2. For divisions that support several initiatives, i.e., Government Affairs, Corporate Communications, Stakeholder and Community Engagement, General Counsel and Regulatory Affairs, the estimated allocation is based on an assumption of equal effort across all initiatives where these groups are anticipated to be involved. This simplifying assumption has been made as it is difficult to assess individual allocation at this time as it will depend on the complexity and issues that arise in carrying out the work.

3. Only the incremental costs required to support the POG initiatives have been allocated. Therefore, the simplified breakdown provided does not represent the total costs to deliver the POG initiatives as portions of the work may already be captured by the initiatives in the 2023-2025 Business Plan. For example, the Second Long-Term Request for Proposals initiative does not include the costs of the Resource Adequacy division because these costs are already reflected in the 2023-2025 Business Plan.

	BUSINESS UNITS								
	Corporate Relations, Stakeholder Engagement & Innovation			Legal Resources and Corporate Governance			Planning, Conservation and Resource Adequacy		Budget Estimations (in millions)
Initiative	Government Affairs	Corporate Communications	Stakeholder and Community Engagement	General Counsel	Contract Management	Market Rules and Regulatory Affairs.	Demand Side Management	Transmission Planning	
Bruce Nuclear New-Build Impact Assessment Cost Recovery Framework	✓	✓		✓	✓				$0.3- $0.4
Feasibility Study and Business Case fo Future Nuclear Generation	✓				✓			✓	> $0.1
Second Long-Term Request for Proposals (LT2 RFP)	✓		✓		✓				$0.4 - $0.5
Future Clean Electricity Fund	✓	✓	✓	✓	✓				$1.7 -$1.8
Energy Efficiency and Conservation Framework	✓		✓				✓		$1.0 - $1.1
Supporting Innovation Through Distributed Energy Resources (DER)	✓	✓	✓	✓		✓			-
Transmission	✓	✓	✓	✓	✓			✓	$3.9 - $4.0

SEC INTERROGATORY 7

2.3 What are the alternatives to the IESO's proposal to meet the additional revenue requirement? What alternatives did the IESO consider?

2.3 - SEC - 7

Reference: OEB Staff CQ #1 c

Question(s):

Please explain why certain incremental costs require a change in the IESO's fees (i.e. those related to the Power Ontario's Growth Plan), and others do not (i.e. impact of Bill 124).

RESPONSE

Please see response to 2.0 VECC-2 part c

SEC INTERROGATORY 8

2.3 What are the alternatives to the IESO's proposal to meet the additional revenue requirement? What alternatives did the IESO consider?

2.3 - SEC - 8

Question(s):

Please confirm that if the OEB does not approve the application, the IESO can still incur incremental costs which will be captured as part of the approved FVDA.

RESPONSE

The OEB's authority under subsection 25(4) is either to approve the IESO's expenditure and revenue requirements and the proposed fees as approved by the Minister or refer these items back to the IESO for further consideration. If the IESO decided to proceed without the proposed fee increases, the incremental costs would be captured in FVDA as this account captures the sum-total of the IESO's budget variances. Please see response to 2.0 OEB STAFF 1 for the IESO's position on the consequences and appropriateness of this approach.

VECC INTERROGATORY 1

2.0 Incremental Revenue Requirements

2.0 VECC - 1

Reference: Exhibit A

Preamble:

Through these applications the IESO is seeking OEB approval of $9.9 million in incremental expenditure and revenue requirement over 2024 and 2025 to support specific initiatives outlined in the Minister's letter to the IESO, dated July 10, 2023 (see Exhibit B-1-1) in support of its Powering Ontario's Growth: Ontario's Plan for a Clean Energy Future plan"……. The 2023-2025 Business Plan remains unchanged

The incremental expenditure and revenue requirements for 2024 and 2025 are $4.5 million and $5.4 million respectively. The incremental amounts represent an increase of 2.0%, and 2.4% as compared to the expenditure and revenue requirements previously approved for 2024 and 2025 in the OEB's Decision and Order in EB-2022-03183

Question(s):

a) The annual increase related to the incremental government requirements is a relatively small portion of the approved IESO annual budget. Please explain the efforts of IESO executive management to achieve these requirements within the approved budgetary envelope? Specifically, please provide any memos or executive direction provided to the various business units leadership.

b) Please provide each Business Unit's budget proposal to address the incremental requirements of Powering Ontario's Growth (POG).

c) Please provide the presentation provided to IESO executive management presenting the recommended incremental budget.

RESPONSE

a) Please refer to response to 1.0 OEB STAFF 1-1 b). The IESO undertook an analysis, which is documented in the Interim Outlook (Exhibit B-1-4) and Amended Business Plan (Exhibit

B-1-2). As such, there is no executive direction to work within the approved budgetary envelope.

b) The Business Unit’s proposals are captured in Exhibit D-1-2. The process to develop these proposals is described in 2.0 OEB Staff 2-5.

c) The IESO provided a memo to its Board of Directors recommending the incremental budget, and the IESO’s executive leadership team reviewed this memo as part of preparations for distribution to the Board of Directors. Please refer to attachment (Attachment 1 - Board Memo Interim Year Business Outlook and Amendment for 2023-2025 Business Plan)

Memorandum

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To: **The Audit Committee of the IESO Board of Directors**

Presenter: Lesley Gallinger, President and CEO, IESO
Ernest Chui Vice President, Corporate Services and CFO
Jeannette Briggs, Director Corporate Finance

Date: August 28, 2023

Re: Interim Year Business Outlook and Amendment for 2023 – 2025 Business Plan

Purpose of Item: Recommendation for approval to the Board

Executive Summary:

During the approved 2023 - 2025 Business Plan years, the IESO is required to present an Interim Year Business Outlook that addresses any significant changes in work or funding to the approved business plan and provides high-level plans for the years beyond 2025. The recently executed Memorandum of Understanding defines elements to be included in the Interim Year Business Outlook.

The first Interim Year Business Outlook, which covers the period from 2023 to 2026, reflects no material change within the planned operating expense funding approved in the three-year Business Plan, and the slight overspend ($0.5M) will be managed through higher demand volume revenue. The recently awarded salaries and benefits expenses related to Bill 124 were not included in the approved three-year Business Plan; however, the expenses will be managed within the approved funding inclusive of the operating reserve. The incremental impact of these expenses is likely to result in an operating reserve deficit needing recovery in the 2026 -2028 Business Plan.

The capital envelop projection over the 2023-2025 horizon is $12.6 million or 6% higher than the approved Business Plan. The increase is due to IESO's decision to purchase and renovate the Back-Up Operating Centre (BOC), driven by lack of specialized service providers available and a number of operational benefits.

The Outlook includes an initial estimate of $10.9 million in operating expenses for incremental work to support the government's new policy initiatives related to Powering Ontario's Growth plan. Given the significance that our initiative work has in helping the government achieve its policy objective of meeting growing demand for electricity into 2030 and beyond while transitioning to a clean electricity system, the IESO management recommends submitting an amendment to the 2023 - 2025 Business Plan with the submission of the Interim Year Business Outlook on September 1, 2023.

Significant Issues, Risks and Opportunities:

The timeline for submitting a revised Business Plan is very short, as revisions must be submitted at least 120 day before January 1, 2024. When negotiating the level of credit required for the OFA revolving credit facility, Bill 124 expenses were not included, liquidity management will be required until a recovery is determined in the next Business Plan.

Background:

The first Interim Year Business Outlook ["Outlook"] reflects no material change within the planned operating expense funding of three-year approved 2023-2025 Business Plan. The slight overspend of operating expenses will be managed through higher demand volume revenue.

The unforeseen results of Bill 124 is a separate line item to highlight its impact on the 2023-2025 Business Plan. In 2023, the IESO's Society of United Professionals was recently awarded, in the context of Bill 124, salary and benefit increases that were well over the 2023-2025 Business Plan assumptions. Incremental expenses over the three-year Business Plan horizon amount to $34.5 million. This expense significantly exceeds the IESO's approved operating reserve and its ability to absorb through prioritization or efficiencies; therefore, the IESO will manage this overspend as best as possible understanding that any operating reserve deficit, which is likely, will be recovered within the 2026 – 2028 business plan.

The 2026 estimates indicate a potential 19% operating expense increase compared to the 2025 Business Plan year. This increase is due to the higher than planned salary base and benefits associated with the Society rate updates, full year impact of MRP amortization, the incremental spending to support Powering Ontario's Growth plan and Energy Efficiency staff returning to be funded from the IESO usage fee in accordance with the restructuring of the Conservation Framework expected in 2025. While the total operating expenses are projected to be higher in 2026, the IESO believes that demand volume would also have a material growth, mitigating the impact to ratepayers of the IESO usage fee. Further, the IESO will continue to assess the incremental needs and work to find efficiencies to moderate, as much as possible, the projected expenses in future years.

The capital envelope projection over the 2023-2025 horizon is $12.6 million or 6% higher than the approved Business Plan, primarily driven by higher spending for the IESO's Back Up Operating Centre (BOC).

The BOC costs reflect the decision to purchase and renovate a property rather than acquire a specialized service provider as assumed when developing the 2023- 2025 Business Plan. Through the planning phase, the IESO determined that the total cost of ownership was less than leasing a property to host the BOC, and the market scan revealed that there were no viable specialized service providers to support IESO's specific operating needs. The decision to own and operate the BOC also provides a number of operational benefits including full operational control, long-term stability and the ability to customize fully the facility to meet IESO's unique operational needs.

Market Renewal Program capital costs are aligned with the approved program spending and in-service date, with a total increase of $2.0 million or 2% variance over the 3 year Business Plan due to timing of spending from 2022 shifting to future years.

The Outlook includes an initial estimate of $10.9 million in operating expenses for incremental work to support the government's new policy initiatives related to Powering Ontario's Growth plan. These funds are necessary to develop a transmitter selection framework, a number of transmission plans to support investment projects and future lines, support for the Clean Energy Credit program, ensuring Ontario's system operability during this transition, and preparing for a new Conservation and Demand Management Framework. Given the significance that this works has in helping the government achieve its policy objective of meeting growing demand for electricity into 2030 and beyond while transitioning to a clean electricity system, IESO management recommends submitting an amendment to the 2023 - 2025 Business Plan by September 1, 2023. Doing so ensures the impact of this incremental work is well defined, staffed and prioritized within all the other deliverables of the 2023 -2025 Business Plan.

Summary and Next Steps:

IESO Management recommends that the Board of Directors approve the Outlook and 2023 – 2025 Business Plan amendment. Subsequently, IESO Management will deliver the Outlook and the 2023 -2025 Business Plan amendment reflecting the Powering Ontario's Growth initiative funding to the Minister of Energy by September 1, 2023 and to the Ontario Energy Board following Ministry review and approval.

The Committee is asked to approve the following resolution:

WHEREAS the IESO presented the 2023- 2026 Interim Year Business Outlook and 2023 -2025 Business Plan Amendment to the Audit Committee for its review and recommendation to the Board of Directors;

AND WHEREAS by approving the 2023- 2026 Interim Year Business Outlook and 2023 -2025 Business Plan Amendment, the Board of Directors will be approving the elements as set forth within the 2023- 2026 Interim Year Business Outlook and 2023 -2025 Business Plan Amendment;

NOW THEREFORE the Audit Committee approves recommending the approval of the 2023- 2026 Interim Year Business Outlook and 2023 -2025 Business Plan Amendment by the Board of Directors.

VECC INTERROGATORY 2

2.0 Incremental Revenue Requirements

2.0 - VECC - 2

Reference: Exhibit A / IESO OEB Staff Clarification Questions 1 & 2

Preamble:

The IESO's Society of United Professionals (SUP) salary and benefit increases awarded in the context of Bill 124 are not part of its incremental expenditures and revenue requirement and revised usage fees application and will be managed within the IESO's approved funding inclusive of operating reserve, and any deficit balance over the planning period will be recovered in the 2026-2028 Business Plan.

In the context of Bill 124 – salary and benefit increases that were higher than the IESO's 2023-2025 Business Plan assumptions, resulting in $34.5 million of incremental expenses over the three-year Business Plan horizon. This amount will be managed within the IESO's approved funding inclusive of operating reserve, and any deficit balance over the planning period will be recovered in the 2026-2028 Business Plan.

The impact to the 2026-2028 Business Plan from the potential deficit resulting from the $34.5 million is yet to be determined. It would depend on the expenditures and revenue requirements and usage fees for the 2026-2028 period, and the actual remaining deficit at the end of the 2023-2025 period.

Question(s):

Is the $34.5 million a defined amount? That is, has IESO calculated its compensation liability associated with Bill 124 adjustments with certainty?

What is the annual incremental cost increase related to the impact of the resolution of Bill 124 related compensation adjustments? Please provide the response in annual dollar amounts and as compared (%) to the expenditure and revenue requirements previously approved for 2024 and 2025.

Please explain why IESO is unable to determine the impact of this $34.5 million dollar adjustment, yet has been able to determine it requires to make fee adjustments for the considerably lessor amount of $9.9 million associated with incremental POG requirements.

RESPONSE

The $34.5 million is the 3 year estimate of the impact of Society of United Professionals (SUP) salary and benefit increases awarded in the context of Bill 124; however, more than 60% of this amount ($21.9 million) materialized already in 2023 as $13.7 million one-time adjustment to Other Post Employment Benefits (OPEB) was recognized, $5.7 million was paid out to employees for the retroactive impact of compensation increases, and $2.5 million was calculated as the difference between the actual in-year salaries paid and what was planned for in the budget. The OPEB adjustment is in accordance to Public Sector Accounting Standards accounting rules, where the present value of the estimated impact of changes to retiree health and dental benefits must be recognized within the year when the enhancements are granted.

Please see below the estimated annual amount of the SUP compensation adjustment related to Bill 124 included in the Interim Year Business Outlook (Exhibit B-1-4) and the percentage this represents out of total compensation and revenue requirement previously approved for 2023-2025:

	2023	2024	2025
Estimated compensation increase ($ millions)	21.2	6.4	6.9
% of approved compensation expenses	15%	4%	5%
% of approved revenue requirement	10%	3%	3%

The IESO is unable to determine the impact to the 2026-2028 Business Plan of the potential future recovery of the $34.5 million, as it will depend on the expenditures and revenue requirements and usage fees for the 2026-2028 period. The need to request revised usage fees for 2024 and 2025 to recover the costs of the work requested by the Minister in accordance with POG is articulated in the response to OEB Staff Clarification Question 1 h). Further, please see also the response to 2.0 OEB Staff 2-1.

VECC INTERROGATORY 3

2.0 Incremental Revenue Requirements

2.0 VECC - 3

Reference: Exhibit A, page 5 / ALL INTERVENORS CLARIFICATION QUESTIONS 6 & 14

Preamble:

For 2024, the IESO has budgeted an additional 22 full-time equivalents (FTEs) for the new initiatives in support of Powering Ontario's Growth plan. For 2025, the IESO has budgeted 8 additional FTEs, for a total of 30 FTEs, for the new initiatives in support of Powering Ontario's Growth plan.

The 22 incremental FTEs required are yet to be hired therefore the IESO does not have the information [**job classification, position salary band, and indication of the bargaining unit, or if contract, for each position, each classification, please provide the number of FTEs**] to provide a response, the classification information available has been provided in exhibit D-1-3 Employee Costs (Question 6)

As a result, a total of 30 incremental headcount were deemed necessary to carry out the work between 2023-2025, along with needs for additional consulting, research, and legal services. The incremental needs were then scheduled in accordance with deliverables deadlines to determine the budget needed in each year. Assuming an average fully burdened rate of $140 to $160 thousand per FTE, based on the nature of the work. (Question 14)

Question(s):

a) How was the burdened rate of $140-160k per FTE determined if the IESO did not forecast the job classification and position for the noted 30 positions.

RESPONSE

a) Please see response to 2.0 OEB STAFF 2-5 b)

VECC INTERROGATORY 8

2.0 Incremental Revenue Requirements

2.0 VECC - 8

Reference: Exhibit D, Tab 1, Schedule 3

Preamble:

Employee Costs

	2024 OEB Approved	Incremental 2024 Budget per Amendment	Revised 2024 Budget Per Amendment	2025 OEB Approved	Incremental 2025 Budget per Amendment	Revised 2025 Budget Per Amendment
Average Number of Employees (Capital and Operating expenses FTEs)						
Executive	8	0	8	8	0	8
Management	155	0	155	152	0	152
Non-Management Regular	660	22	682	664	30	694
Non-Management Temporary	103	0	103	77	0	77
Total	**926**	**22**	**948**	**900**	**30**	**930**

Question(s):

a) Please update the above Table to show the actual FTEs as of April 1, 2024.

b) Please explain why the incremental FTEs are assigned as regular as opposed to temporary FTEs.

RESPONSE

a) Updated table below:

Employee Costs

	2024 YTD Average Actual
Average Number of Employees (Capital and Operating FTEs)	
Executive	8
Management	159
Non-Management Regular	657
Non-Management Temporary	70
Total	894

To align with the values presented across the table, the figures above reflect the average YTD March 2024 rather than April 1 point-in-time actuals.

b) The IESO determined that the work required to support the government's Powering Ontario's Growth plan is longer term, as it ensures the province meets the growing demand for electricity in the 2030s and beyond while transitioning to a clean electricity system; therefore, the IESO projected the incremental resources to be regular as opposed to temporary FTEs.

VECC INTERROGATORY 9

2.0 Incremental Revenue Requirements

2.0 VECC - 9

Reference: Exhibit B-1-1, Minister's letter of July 10, 2023

Preamble:

- Undertaking pre-development work on new nuclear generators;
- Decision making and supporting initiatives that would lower costs to consumers;
- Designing future competitive procurements to acquire new clean electricity resources including wind, solar, hydroelectric, storage and bioenergy;
- Advancing assessment of the advanced long-duration pumped storage projects in Meaford and Marmora and preparing for a future procurement for additional long duration storage;
- Supporting the development of local markets for distributed energy resources(DERs); and
- Accelerating the development of new transmission infrastructure in Northern Ontario, the Ottawa Region and Eastern Ontario.

Question(s):

a) The Minister letter sets out six discrete areas of work for the IESO to undertake. Some areas would appear to require specific skill sets (for example pre-development work on nuclear generators). Please provide the number of FTEs and the budgeted amount for each of these areas that resulted in the proposed incremental revenue requirement. If the IESO did not budget according to these specific requirements, please explain how it derived both the incremental FTE amount and the average amount per FTE.

RESPONSE

a) Please refer to response in OEB Staff 2-5 and in All Intervenors Clarification Question 14 for an explanation on how the IESO derived the incremental FTE amount for the initiatives assigned to the IESO in the Minister's letter. Please refer to 2.0 OEB STAFF 2-5 for an explanation on the average amount per FTE and to 2.0 SEC 6 for discussion on simplified incremental budgets by each of the POG initiatives described in the Minister's letter.

AMPCO INTERROGATORY 9

3.0 Usage Fees

3.0-AMPCO-9

Reference: Exhibit C Tab 2 Schedule 1 Page 2

Question(s):

a) Please update Table 2 to reflect current energy volumes.

b) Please update Table 3.

c) Please update Table 4.

RESPONSE

The values in Tables 2, 3 and 4 use data from the 2023 Q4 Reliability Outlook for 2024, and from the 2024 Annual Planning Outlook for 2025.

Table 2: Energy Volumes for 2024 and 2025 Usage Fees

	2024		**2025**	
	Domestic (TWh)	**Export (TWh)**	**Domestic (TWh)**	**Export (TWh)**
Energy Volumes	143.6	13.5	150.8	6.5
Total Energy Volume	157.1		157.3	

Table 3: 2024 IESO Domestic and Export Usage Fees as Calculated by Elenchus

	Usage Fee
Domestic	**$ 1.4471/MWh**
Export	**$ 1.1309/MWh**

Table 4: 2025 IESO Domestic and Export Usage Fees as Calculated by Elenchus

	Usage Fee
Domestic	**$1.4897/MWh**
Export	**$1.6191/MWh**

OEB STAFF INTERROGATORY 3-1

3.0 Usage Fees

3.0 – OEB Staff 3-1

Preamble:

In this application, the IESO is seeking approval of the proposed revised 2024 fees to be effective on the next billing cycle following the month in which the OEB's approval is received.

Question(s):

Assuming the OEB approves the IESO's proposed 2024 incremental fund and revised fees, does the IESO plan to collect the portion of the incremental revenue for the months before (and including) the month in which the OEB's approval is received? If yes, please discuss the method to be used to collect this part of the incremental revenue from customers.

RESPONSE

a) The IESO does not plan to apply the 2024 revised usage fees retroactively. The IESO will apply its revised 2024 usage fees in the next billing cycle following OEB's approval.

SEC INTERROGATORY 9

3.1 Are the IESO's proposed 2024 and 2025 Usage Fees appropriate?

3.1 - SEC - 9

Reference: F-1-1, p.3, Table 1; All Intervenors CQ #13

Question(s):

Considering the updated 2024 revenue forecast indicates that the year-end FVDA balance has decreased from -5.5M to -0.1M, please explain why any 2024 fee increase is required.

RESPONSE

Please see response to 2.0 OEB STAFF 2-1

SEC INTERROGATORY 10

3.1 Are the IESO’s proposed 2024 and 2025 Usage Fees appropriate?

3.1 - SEC - 10

Question(s):

Based on the most up to date information (i.e. 2023 actuals, and 2024 and 2025 revenue forecast), please provide the updated proposed 2024 and 2025 fees.

RESPONSE

Please see response to 3-AMPCO-9 b) and c).