COST BENCHMARKING

As part of the Package Settlement, the Parties accept that the IESO's fiscal 2016 net revenue requirement of $182.1 million is appropriate, subject to the following terms:

1) Intervenors believe that benchmarking of some or all of the IESO's activities would also be beneficial in informing the Parties and the Board with regard to the reasonableness of the IESO's proposed expenditures and requested fees. The IESO agrees to consider the issue of undertaking cost benchmarking of its activities, and to file with its next Revenue Requirement Submission filed with the Board either benchmarking information, or a rationale for why the IESO believes that benchmarking is not possible or appropriate.

The IESO examined the opportunity to undertake cost benchmarking of some or all of its activities for the purpose of informing the Parties and the Board with regard to the reasonableness of the IESO's proposed expenditures and requested fees. This review included identification of possible appropriate comparable entities to the IESO, outreach to these comparable entities to understand how the IESO is similar to or is materially different from them, to identify where similar benchmarking activities have already taken place or suitable information is available, and examination of available information *[**Internal NOTE**: Regulatory Affairs staff reached out to the IESO/RTO councils Regulatory and Legislative Committee (RLC) Chair and it was discussed at a bi-weekly RLC conference call. Also discussed with Alberta ESO Director, Interjurisdictional Affairs and Compliance.]* The IESO also leveraged the parallel regulatory scorecard development activities (See section B-1-1) to inform our conclusions.

Comparable entities

As the independent system operator for the province of Ontario, and because the structure of the Ontario electricity sector ensures the accountabilities and responsibilities of the agencies and companies are clearly defined with no overlap, no comparable Ontario entities to the IESO were identified. In Canada, only Alberta has structured their sector to include an independent system operator (Alberta Electricity System Operator or AESO), with the remaining provinces structuring their sector primarily as integrated utilities. The IESO is also a member of the ISO/RTO Council (of which the AESO is a member), which is made up of the North American Independent System Operators (ISO) and Regional Transmission Operators (RTO). These entities we examined as the closest comparable entities to the IESO.

Observations

ISO/RTOs under Federal Energy Regulatory Commission (FERC) jurisdiction submit information annually on a voluntary basis to participate in the *ISO/RTO Common Metrics Report* (Docket No. AD14-15). The metrics in scope of the initiative are primarily reliability and system operations activities and other market-specific data. FERC Staff publishes a *Common Metrics Report* based on analysis of the information collected. The most recent Staff Report was published in October 2016, available at https://www.ferc.gov/legal/staff-reports/2016/08-09-common-metrics.pdf . The IESO reviewed the staff report and identified that limited cost-benchmarking information was included.

FERC Staff identified caveats to using the information collected for comparing entities in a meaningful way, specifically:

"The metrics used in this report pertain to both RTOs and ISOs and non-RTOs and ISOs. However, several limitations preclude all but the most basic observations about the metrics submitted by RTOs and ISOs relative to those submitted by non-RTOs and ISOs. While the intent behind these metrics

is to compare areas in which RTOs and ISOs and non-RTOs and ISOs perform identical functions, Commission staff notes that there are significant differences in the scale of operations performed by the largest RTOs and ISOs as compared to non-RTO and ISO respondents with relatively smaller service territories (e.g., PJM's footprint covers territory in 13 states and the District of Columbia, whereas Arizona Public Service Company's territory covers 11 counties in Arizona). These data limitations and differences must be carefully considered when comparing metrics-related information submitted by RTOs and ISOs and non-RTOs and ISOs. As such, Commission staff has largely avoided drawing these types of comparisons. In addition, these metrics do not capture some of the potential benefits that are difficult to isolate and measure, e.g., benefits created by providing opportunities for input by a broad range of stakeholders."

On further discussions with representatives of the ISO/RTOs, which occurred after the FERC report was made public, the challenges of comparing ISO/RTOs to one another were seen to include:

- Lack of assurance of information quality or completeness because of the voluntary collection basis and lack of standardization of tools, scope and methodologies to collect information at the entity level.
- Inherent variations in market design, system size and complexity, geography and footprint, operating conditions (such as weather patterns), generation mix, policy and regulatory environments, and NERC functional model registration, among other possible differences that can have a material impact on underlying costs.
- Application of accounting policies and procedures to collect and report costs may vary.

The participating ISO/RTOs also noted that:

- They do not rely on the *ISO/RTO Common Metrics Report* for comparing or benchmarking against other entities.

- Providing additional organizational cost information to FERC under this initiative was not done to protect the confidentiality of the information.
- Significant effort (and cost) is required to collect the information for submission to FERC.

The IESO also notes that during the work with an expert and stakeholders to develop an IESO regulatory scorecard [see section B-1-1] that Elenchus Research Associates Inc. and participating stakeholders did not identify any entities with sufficient comparability for relevant scorecard measures. The IESO believes this lack of comparability results from the unique mandate of the IESO compared to other ISOs/RTOs such as the responsibility for contracting and overseeing Ontario's Conservation First Framework.

Cost Benchmarking

The *ISO/RTO Common Metrics Report* includes the following information items (in US dollars):

- Normalized five year average capital costs as a percentage of budgeted costs
- Normalized five year average non-capital costs as a percentage of budgeted costs
- Five year average administrative cost/MWh

The IESO is continuing to work with Elenchus Research Associates Inc. and stakeholders to develop a IESO regulatory scorecard. The IESO is considering including measures similar to the cost metrics included in the *ISO/RTO Common Metrics Report*. The IESO wishes to emphasize that despite the availability of this information, the IESO shares the concerns of FERC Staff and of the participating FERC jurisdictional ISO/RTOs (described above) that using the information to compare or to benchmark against these entities in a meaningful way is of limited usefulness. Useful comparison is further limited because of the need to make assumptions to estimate the conversion of the FERC-jurisdictional ISO/RTO information to Canadian dollars.

Conclusion

The IESO understands and appreciates the underlying desire for the Board and the Parties to look to the potential for cost benchmarking of some or all of its activities for the purpose of understanding the reasonableness of the IESO's proposed expenditures and requested fees. However, based on the analysis above, we respectfully submit that such an activity is not appropriate due to the lack of available information and the lack of suitable comparable entities to benchmark costs against.