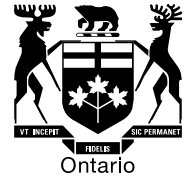


**Ontario Energy Board**  
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**BY EMAIL**

December 1, 2017

Ontario Energy Board  
P.O. Box 2319  
27th Floor  
2300 Yonge Street  
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: OEB Staff Interrogatories  
Independent Electricity System Operator/Smart Metering Entity  
Smart Metering Charge 2018-2022  
OEB File Number: EB-2017-0290**

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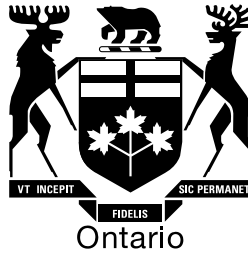
Pursuant to Procedural Order No. 2, please find attached OEB staff interrogatories prepared for the above referenced proceeding.

Yours truly,

*Original Signed By*

Michael Bell  
Project Advisor, Application Policy and Climate Change

cc: All Parties in EB-2017-0290



# **ONTARIO ENERGY BOARD**

## **OEB Staff Interrogatories**

**Independent Electricity System Operator/Smart Metering Entity  
Smart Metering Charge 2018-2022**

**EB-2017-0290**

**December 1, 2017**

**1.0 Is the SME’s proposed \$178.1 million revenue requirement for the January 1, 2018 to December 31, 2022 period appropriate?**

**1.0 Staff – 1**

Reference: Exhibit B, Tab 1, Schedule 1, Page 1 of 8

Preamble:

At Exhibit B, Tab 1, Schedule 1, Page 1 of 8, the SME states:

“The SME recognizes that additions and upgrades to hardware and software solutions will be undertaken during the January 1, 2018 to December 31, 2022 period and these costs are properly attributed to and recovered during this time period.”

Questions:

- a. The budget table entitled “Smart Metering Budget: 2018 – 2022” at Exhibit B, Tab 1, Schedule 1, Page 1 of 8 has been extracted and is shown as Figure 1. As demonstrated in Figure 1, the SME forecast that costs associated with hardware and software upgrades will be incurred during the 2018-2020 period. Please confirm that the SME will not incur any IT related upgrade costs in 2021 or 2022.

*Figure 1: Smart Metering Budget: 2018-2022*

(In millions of dollars)	2018	2019	2020	2021	2022	Total
Total Operating Budget	28.8	28.8	30.0	29.3	29.4	146.3
Total MDMR 8.x Upgrade Budget	17.2	6.6	1.0	-	-	24.8
Total Uncollected SME Debt	1.4	1.4	1.4	1.4	1.4	7.0
<b>Total Smart Metering Budget</b>	<b>47.4</b>	<b>36.8</b>	<b>32.4</b>	<b>30.7</b>	<b>30.8</b>	<b>178.1</b>

**1.0 Staff – 2**

Reference: Exhibit B, Tab 1, Schedule 1, Page 4 of 8

Preamble:

At Exhibit B, Tab 1, Schedule 1, Page 4 of 8, the SME states:

“The MDM/R Change Initiative budget includes provisions for MDM/R upgrades, maintenance, and changes outside of the operating costs of the MDM/R. This includes change requests from LDCs, costs associated with facilitating LDC mergers, and new initiatives similar to those described in Exhibit B-4-1, MDM/R Governance and Ongoing Stakeholder Outreach.”

Questions:

- a. The table presented in this section of the SME’s application demonstrates that a budget of \$15.0 million has been assigned to various MDM/R activities, including upgrades. Please clarify how this budget differs from the MDM/R 8.X upgrade budget of \$24.8 million presented at Exhibit B, Tab 1, Schedule 1, Page 5 of 8.
- b. Who is responsible for covering the costs of MDM/R changes required to support LDC mergers or CIS upgrades?
  - i. If applicable, what process is used to allocate and recover costs incurred by the SME to support mergers from LDCs?

### **1.0 Staff – 3**

Reference: Exhibit B, Tab 1, Schedule 1, Page 5 of 8

Preamble:

At Exhibit B, Tab 1, Schedule 1, Page 5 of 8, the SME states:

“This project will position the MDM/R with a simpler architecture to safeguard against future increases in the costs of maintaining and operating the MDM/R.”

At Exhibit B, Tab 1, Schedule 1, Page 5 of 8, the SME states:

“No provision has been made for material changes to the MDM/R or its operation.”

Question:

- a. Please clarify these statements given the significant investments occurring to the MDM/R through completion of the \$24.8 million MDM/R 8.X upgrade.

**1.0 Staff 4**

Reference: Exhibit B, Tab 1, Schedule 1, Page 4 of 8

Preamble:

At Exhibit B, Tab 1, Schedule 1, Page 4 of 8, the SME states:

“The operating and administration costs of the SME include...computer hardware and software costs, training and other staff expenses.”

Question:

The description of Operating & Administration costs found in the above referenced statement indicate that these costs are necessary to support, amongst other areas, SME hardware and software requirements. How are these costs different from those costs described in the MDM/R Change Initiative Budget and MDM/R 8.X Upgrade budget?

**1.0 Staff – 5**

Reference: Exhibit B, Tab 1, Schedule 1, Page 3 of 8

Preamble:

At Exhibit B, Tab 1, Schedule 1, Page 3 of 8, the SME states:

“The SME currently has 17 FTEs and is proposing to add up to three FTEs over the budgeting period, with one FTE added in each of 2018, 2019 and 2020, as needed.”

Questions:

- a. Please provide the SME's organizational chart, including demonstration of the SME's reporting relationship(s) to the IESO.
- b. Please provide the needs assessment undertaken by the SME that supports the requirement of adding three new staff.
- c. Did the SME receive internal approval for these three additional staff? If so, who provided approval and what process was followed to attain it?
- d. What would the implications be were the OEB to deny the approval of some of those proposed incremental FTEs?

**1.0 Staff – 6**

Reference: Exhibit B, Tab 1, Schedule 1, Page 3 of 8

Preamble:

At Exhibit B, Tab 1, Schedule 1, Page 3 of 8, the SME states:

“The compensation and benefits costs include the SME's costs to perform services pertaining to the operation of the MDM/R, including on-boarding and supporting LDCs, overseeing the Operational Service Provider's ('OSP'- IBM) support of the MDM/R, managing the design, testing and implementation of changes to the MDM/R, LDCs communications and training, and all of the other required functions of the SME.”

Questions:

The table presented in this section of the SME's application demonstrates a 5-year employee compensation budget of \$19.4 million. Based on the SME's proposed budget and staffing requirements, average all-in compensation (i.e., salary plus benefits) for SME staff ranges from \$194,444 in 2018 to \$210,000 in 2022.

- a. Please provide annual staff compensation separated between salary and benefits.

- b. Please provide average staff compensation (both salary and benefits) for 2016 and 2017. If applicable, why does the compensation range for the 2018-2022 period vary from 2016-2017 levels?
- c. Has the SME completed a compensation benchmarking study specifically for SME staff? If so, were the results of the study used to establish the proposed compensation levels?
- d. Through its application, the SME has indicated that additional resource costs will be incurred through use of IESO staff.
  - i. What is the full-time equivalent (FTE) of these staff?
  - ii. Please provide a specific budget for these resources and provide another table demonstrating FTEs, compensation and benefits of all resources required to implement SME functions.
- e. In its 2017 Revenue Requirement Application (EB-2017-0150), the IESO indicated that average all in compensation for employees over the 2017-2019 period ranged from approximately \$153,370 to approximately \$150,529, respectively (reference: Exhibit A-2-2, Page 13 of 31 within EB-2017-0150).
  - i. Please describe the drivers for the variance in compensation between IESO and SME staff.
  - ii. Please clarify why average all-in IESO compensation reduces over the 2017-2019 period while SME compensation increases.

## 1.0 Staff – 7

Reference: Exhibit B, Tab 3, Schedule 1, Page 1 of 5

Preamble:

At Exhibit B, Tab 3, Schedule 1, Page 1 of 5, the SME states:

**“Revenue Account:** The projected balance in the Revenue Account as of December 31, 2017 is a deficiency of \$32.6 million. The projected revenue deficiency is a result of the discrepancy between the revenue requirement period

approved in EB-2012-0100/EB-2012-0211 (up to December 31, 2017) and the collection period for the SMC (May 1, 2013 to October 31, 2018). Under the current SMC, the SME is forecast to collect a total of \$248.6 million by October 31, 2018.”

The Revenue Account budget table demonstrated at Exhibit B, Tab 3,

*Figure 2: Revenue Account Balance*

(In millions of dollars)	2016 Life-to-Date*	2017 Projected	2018	2013 - 2017 OEB Approved Budget
Revenue - Actual	168.7	47.3	-	216.0
Revenue - Budget	165.8	45.2	37.7	248.6
Cost Account Balance	3.0	2.1	37.7	(32.6)

\* As reported in the 2016 Annual Cost Variance Account Report to the OEB

Schedule 1, Page 2 of 5 has been extracted and is shown as Figure 2.

Questions:

- a. Please explain why the Costs Account includes a projected balance as of December 31, 2017 while the Revenue Account includes a revenue forecast up to October 31, 2018.
- b. Please explain why it is appropriate to recognize forecast revenue in 2018 as part of the uncollected SME debt and include 2018 revenues as part of the recovery of the revenue requirement over the 2018-2022 period.

## 1.0 Staff – 8

Reference: Exhibit C, Tab 1, Schedule 1, Pages 1 through 8

Preamble:

At Exhibit B, Tab 3, Schedule 1, Page 6 of 8, the SME states:

“The Roadmap aligns to the existing Third-Party Access Framework, design principles, and project schedule as submitted to the Board in September 2016 as a part of the SME’s licence renewal application (EB-2016-0284). The Roadmap also considers the pilot use cases that will be used to refine the Third-Party Access Framework and establish early success.”

EB-2016-0284 - Decision and Order (Application for renewal of Smart Metering Entity License). Page 5 of 8 of the Decision and Order states:



“With the application, the SME provided a document entitled Third Party Access Implementation Plan (the Implementation Plan). A number of high-level timelines and activities are described in the Implementation Plan. Foremost, the

Implementation Plan indicates that the SME will complete the implementation of the Order in five phases by the end of 2018. **As well, the Implementation Plan specifies that a detailed costing analysis associated with the project will be filed with the next SME fee application in 2017** (*emphasis added*).”

Questions:

- a. Through its Smart Metering Entity License renewal application (EB-2016-0284), the SME indicated that a detailed costing analysis associated with its Third Party Access Implementation Plan would be filed as part of its 2018-2022 Smart Metering Charge application. However, the SME has not included such a costing analysis within its application.
  - i. Why has the SME chosen not to include a detailed costing analysis of its Third Party Implementation Plan within its current application?
    - If a detailed costs analysis is now available, please provide it.
    - If a detailed costing analysis is unavailable, is the SME in a position to provide an estimate of the overall costs of administering the Third Party Implementation plan?
  - ii. Please provide specific detail on the anticipated scope of the SME’s planned 2018 Third Party Access submission as discussed at Exhibit C, Tab 1, Schedule 1, Page 7 of 8.

## 1.0 Staff – 9

Reference: Exhibit B, Tab 1, Schedule 1, Page 1 of 8

Preamble:

At Exhibit B, Tab 1, Schedule 1, Page 1 of 8, the SME states:

“The SME is proposing a 5-year budget and recovery period as this is consistent with current industry norms and with the expected life of information technology assets.”

At Exhibit B, Tab 1, Schedule 1, Page 5 of 8, the SME states:

“This project will position the MDM/R with a simpler architecture to safeguard against future increases in the costs of maintaining and operating the MDM/R.”

Question:

- a. Does the SME expect that the life of the IT assets invested in as part of the MDM/R 8.X upgrade to expire in 2022? If no, when does the SME anticipate these assets becoming obsolete and therefore requiring replacement?

## **1.0 Staff – 10**

Reference: Exhibit B, Tab 1, Schedule 1, Page 1 of 8

Preamble:

At Exhibit B, Tab 1, Schedule 1, Page 1 of 8, the SME states:

“The proposed revenue requirement includes costs for operating the MDM/R, a necessary hardware and software refresh (EnergyIP 8.X) that will be completed by the end of 2019; repayment of the remaining debt including associated financing costs; and preliminary provisions for implementing third party access to the MDM/R data as per the 2016 OEB Orders to the SME (EB-2016-0284).”

Questions:

- a. Table 1 demonstrates the annual variance between the SME’s proposed operating budget and the revenue it anticipates collecting based on the requested SMC of \$0.59. As demonstrated, rather than setting an annual SMC that would generate revenue equal to its annual operating budget, the SME has proposed to hold the SMC constant over the 5-year term of their application (i.e., a rate-smoothing approach). In the context of rate-payer value, please explain why the SME believes a rate-smoothing approach is

more appropriate than setting annual rates at a level that matches annual operating budgets?

*Table 1: Annual SME Budget vs. Revenue Variance Analysis (\$ millions)*

	2018	2019	2020	2021	2022	Total
<b>Proposed Operating Budget</b>	\$47.4	\$36.8	\$32.4	\$30.7	\$30.8	\$178.1
<b>Collected Revenue</b>	\$35.6	\$35.6	\$35.6	\$35.6	\$35.6	\$178.1
<b>Annual Over/Under Collection</b>	(\$11.80)	(\$1.20)	\$3.20	\$4.90	\$4.80	\$0

- b. Per Table 1, how will the SME finance the under-collection of revenue (i.e., debt) incurred in years 2018 and 2019? If applicable, what is the anticipated cost to rate-payers associated with the financing of this debt?
- c. Table 2 demonstrates the annual SMC that would allow the SME to annually recover the costs of their budgeted expenditures.
  - iii. What administrative challenges would be introduced if the SME was required to set their annual SMC to the amounts demonstrated in Table 2?
  - iv. In the opinion of the SME, to what extent would any administrative challenges associated with annual rate changes be offset by the benefits provided to rate-payers?

*Table 2: Annual SME Budget vs. Revenue Variance Analysis (\$ millions)*

	2018	2019	2020	2021	2022
<b>SMC Required Match Operating Budget</b>	\$0.79	\$0.61	\$0.54	\$0.51	\$0.51

**7.0 *Is the proposal to establish the Balance Variance Account appropriate?***

**7.0 Staff – 11**

Reference: Exhibit B, Tab 3, Schedule 1, Page 3 of 5

Preamble:

At Exhibit B, Tab 3, Schedule 1, Page 3 of 5, the SME states:

“The SME seeks to establish a new variance account, the Balance Variance Account (“BVA”), and to have the Costs Account, the Revenue Account and the Service Level Credits Account made sub accounts of the BVA.”

Questions:

- a. Please describe the SME’s rationale for establishing the BVA. What advantages does the proposed BVA have over the SME’s current process of tracking and reporting variance accounts?
- b. How will the BVA benefit the SME as well as the ability of the OEB and other stakeholders to scrutinize related expenditures?
- c. Please describe any changes that the introduction of the BVA would have on the current processes used to financially track and report activities within the Cost Account, the Revenue Account and the Service Level Credits Account.

**7.0 Staff – 12**

Reference: Exhibit B, Tab 3, Schedule 1, Page 3 of 5

Preamble:

At Exhibit B, Tab 3, Schedule 1, Page 3 of 5, the SME states:

“The SME is seeking to accumulate a reserve of \$2.5 million in the BVA and retain this amount as an operating reserve, similar to the \$10 million the IESO has approval to retain in its Forecast Variance and Deferral Account (FVDA).”

Questions:

- a. The requested BVA represents approximately 5% of the SME's total 2018 budget of \$47.4 million. This is consistent with the IESO's approved FVDA which is also set at approximately 5% of the IESO's total annual budget. From years 2019 through 2022, the SME's annual budget declines from 2018 levels. Consequently, the requested BVA grows to represent approximately 6.7% to 8.1% of the SME's total annual budget over this period.
  - i. Please provide the rationale for why the SME requires a reserve of greater than 5% of total budget in years 2019-2022.
  
- b. The SME suggests that a primary reason for accumulating the \$2.5 million reserve is to mitigate risks associated with both its revenues and operating expenses. The SME describes these risks at Exhibit B, Tab 3, Schedule 1, Page 5 of 5.
  - i. Please describe the process used by the SME to determine that \$2.5 million is the appropriate amount to accumulate as a reserve to provide reasonable protection against these identified risks.
  - ii. Please describe how the SME's business planning activities consider these risks as well as the steps the SME has taken – or plans to take – in order to mitigate risks. For planned activities, please identify when the risk mitigation step will be implemented. Please also describe how the steps taken by the SME to limit ratepayers' exposure to those identified risks.

**13.0 *Are the current stakeholder efforts undertaken by the SME sufficient and do these efforts meet the specific needs of all LDCs?***

**13.0 Staff – 13**

Reference: Exhibit B, Tab 4, Schedule 1, Page 2 of 4

Preamble:

At Exhibit B, Tab 4, Schedule 1, Page 2 of 4, the SME discusses the recently held “Enhancing the Value of Data” session.

Questions:

- a. What were the key takeaways as well as SME obligations resulting from this session?
- b. How have the SME’s obligations and/or commitments resulting from the session been reflected in this SMC application?

### **3.0 Staff – 14**

Reference: Exhibit B, Tab 4, Schedule 1, Page 4 of 4

Preamble:

At Exhibit B, Tab 4, Schedule 1, Page 4 of 4, the SME states:

“In 2016, the MDM/R Annual CSAE 3416 Audit resulted in a 7<sup>th</sup> consecutive year of “no qualifications” result.”

- a. Please describe all meaningful findings/recommendations resulting from each annual audit undertaken as well as how the SME has responded to recommendations.