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Our File No. 175291

VIA RESS, EMAIL AND COURIER

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
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Attention: Kirsten Walli,
Board Secretary

Dear Ms. Walli:

**Re: IESO, SME Application for SMC 2018-2022
Board File No. EB-2017-0290**

Pursuant to Procedural Order No. 1, please find attached BOMA's Interrogatories.

Yours truly,

FOGLER, RUBINOFF LLP

Thomas Brett

TB/dd

cc: All Parties (*via email*)

ONTARIO ENERGY BOARD

**Independent Electricity System Operator /
Smart Metering Entity**

**Application for approval of smart metering
charge for 2018-2022**

**Interrogatories of
Building Owners and Managers Association,
Greater Toronto ("BOMA")**

December 4, 2017

Tom Brett
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Counsel for BOMA

Issue 1: Is the SME's proposed \$178.1 million revenue requirement for the January 1, 2018 to December 31, 2022 period appropriate?

BOMA Interrogatories Related to Issue 1.

1. Reference: EB-2017-0290, Exhibit A, Tab 1, Schedule 1, Page 3 of 5

The persons affected by this application are all LDCs licensed by the Board and their respective residential and general service <50kW customers.

Interrogatory: When and how will the SME engage the residential and general service <50kW customers?

2. Reference: EB-2017-0290, Exhibit B, Tab 1, Schedule 1, Page 1 of 8

The total revenue requirement of the SME inclusive of financing costs for the period from January 1, 2018 to December 31, 2022 is \$178.1 million. The proposed revenue requirement includes costs for operating the MDM/R; a necessary hardware and software refresh (Energy IP 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).

Interrogatory: Please provide the cost benefit analyses of all the options considered for the implementation of third party access to the MDM/R data. Please provide the work plan and the reasons for the selected option. It is expected that the work plan would include key milestones, the allocation of responsibilities and the expected results to be achieved by the end of each year in the five-year plan.

3. Reference: EB-2016-0290, Exhibit B-4-1. Attachment 1, Smart Metering Entity (SME), MDM/R Report, 2nd Quarter 2017. Page 4 of 10

In the second quarter of 2017, the MDM/R was operationally stable by exceeding service levels for 99.99% of meter reads, 100% of billing quantity requests, and 100% of master data updates.

Interrogatory: Given these high-performance levels why is a hardware and software refresh (Energy IP 8.X) necessary? Given that this was delayed from the original timing for the refresh, what reduction in performance levels resulted from previous levels.

4. Reference: EB-2017-0290, Exhibit B-1-1, Attachment 2, Page 3 of 10

MDM/R Changes and Initiatives were \$1.4MM for the year which is \$3.2MM lower than planned. The MDM/R 7.7 upgrade including deployment, testing and resources was able to deliver a successful implementation ahead of schedule. In addition, efforts dedicated to meeting the requirements of the OEB order (EB-2015-0297), specifically the collection of the additional information from the LDCs (postal codes, distributor and commodity rate classes and occupant change date) deferred the start of major technical projects such as the MDM/R 8.x upgrade strategy. Also, no significant effort was applied to the Toronto Hydro Integration as the project start date was moved back to 2017.

Interrogatory: Clearly financial resources were not limited, so what was the reason for the deferral of projects not associated with collecting additional information from the LDCs? Did the SME consider additional projects to enhance the value of the smart metering infrastructure? As smart metering is about so much more than the meter itself and the use of data for billing, what other initiatives were considered? Does the SME have an inventory of how the LDCs are using smart metering beyond billing?

5. Reference: EB-2017-0290, Exhibit C, Tab 1, Schedule 1, Page 1 of 8

THIRD PARTY ACCESS IMPLEMENTATION STATUS AND NEXT STEPS

Interrogatory: How does this initiative relate to the Green Button Initiative, the public sector energy and water O Reg 397/11 and the more recent regulation for all privately owned buildings over 50,000 square feet.

6. Reference: EB-2015-0297, Report on the Application for renewal of the Smart Metering Entity License and the extension of agreements between the Smart Metering Entity and Electricity Distributors, page 3. (Board Comment)

Innovation is about creating new value. The SME, through its provision of reliable provincial energy consumption data from over 4 million meters, was in part established to provide an opportunity for provincial electricity agencies, individual local distribution companies, and third parties seeking to create new value to benefit consumers. Ontario's head start on smart meters is an opportunity that could be leveraged to enhance innovation. The opportunity must be pursued in a timely way. The OEB is of the view that closer regulatory scrutiny is required to ensure that the SME move with increased speed to enhance the value of the MDM/R data.

Interrogatory: What additional strategic initiatives has the SME considered beyond Third Party Access to realize this vision? If not, why not?

7. Reference: Ontario's Long-Term Energy Plan, page 64

Now is the time to build on our investments in smart meters and the smart grid. A study by an expert third party in 2015 found that Ontario's consumers and businesses stand to gain \$6.3 billion in economic, environmental and reliability benefits if the grid is modernized over the coming decades. A modern grid would be more resilient to the effects of climate change and utilize the real-time data needed to respond to problems or address them before they happen. However, that same study found there were several barriers to modernizing the grid further in Ontario. LDCs, for example, are challenged by diffuse benefits. This is when they bear the costs of technologies such as energy storage, but do not get the benefits, which can accrue to customers other parties in the electricity sector. Without clear rules for addressing diffuse benefits, LDCs are less motivated to explore solutions that may be more cost-effective and provide greater benefits to the grid. Ontario is committed to removing these barriers so that utilities can make the right investments.

Interrogatory: It has almost been a decade since the SME was established. What are the reasons that the SME has apparently not perceived itself as a catalyst for this vision?

8. Reference: EB-2017-0290, Exhibit B Tab 1, Schedule 1. Page 4 of 8

Compensation and Benefits: 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. The incremental FTEs will help support third-party access and other change initiatives as later described.

Interrogatory: What decision criteria will be used to determine “as needed”? The average compensation and benefits cost per FTE almost \$200,000. What is the highest cost and what is the lowest cost?

9. Reference: EB-2017-0290, Exhibit B, Tab 1, Schedule 1, Page 4 of 8

The professional and consulting costs include all externally contracted resources in support of the MDM/R operations. These costs include provisions for the core operating MDM/R services provided by the OSP; other MDM/R change initiatives; the annual CSAE 3416 audit and other audits; privacy and security projects; external legal services; and LDC communications and stakeholder engagements among other requirements. The forecasted professional and consulting costs total 74.9 million over the 5-year plan.

Interrogatory: On average each FTE appears to manage almost \$1 million dollars of professional and consulting per year. How are these contracts procured and managed? Given that the function is not going to be transferred to the Electricity Distributors Association, is this approach sustainable or advisable in the long term?

10. Reference: EB-2017-0290, Exhibit B Tab 1, Schedule 1, Page 6 of 8

The SME's conservative business model given the planned transition from the IESO to the EDA (this matter was concluded in the fall of 2015 with the EDA indicating they are no longer interested in assuming governance of the SME)

Interrogatory: Will the SME develop a different business model given the references from the in Interrogatories #6 and #7?

11. Reference: EB-2017-0290, Exhibit B-1-1, Attachment 1, Page 1 of 1

Smart Metering Budget: 2018 - 2022 (By Category)

Interrogatory: Please provide the previous smart metering budget and actual expenditures for the previous five years using the same categories in this exhibit.

12. Reference: EB-2017-0290, Exhibit B, Tab 3, Schedule 1, Page 5 of 5

The SME faces risks in both its revenues and operating expenses. The SME's expenses and revenues are forecast based on both the experience of IESO and SME staff and the best information available at the time. While the SME and the IESO strive to reduce uncertainty in the inputs in order to make the resulting revenue requirement and SMC as robust as possible, all forecasts are inherently uncertain. Some of the potential risks the IESO faces may be anticipated but not quantifiable, while others are simply not known. A number of risks and potential other sources of variances to the SME's forecasts have been identified, including:

- *the US-Canada exchange rate which has, and will potentially further impact, the SME's operating expenses as some invoices are billed in US dollars;*
- *increases in interest rates which would increase financing costs;*
- *the potential impacts of new or changing policy initiatives or requirements, including any related to provincial initiatives such as net metering or expanding service to additional customer classes;*
- *the potential expanding scope of the SME's business model in light of third-party access requirements; and*
- *potential technical enhancements as requested by LDCs.*

Interrogatory: How do any of these risks differentiate the SME from any regulated entity? Has the SME considered developing a proactive approach, plan and budget which would enhance the value of Ontario rate payers' significant investment in smart metering given the references in Interrogatories #6 and #7?