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**By Email and RESS**

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27th Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Smart Meter Entity Annual Cost and Variance Account Report for 2017  
(EB-2017-0290)**

On behalf of the Independent Electricity System Operator ("IESO") in its capacity as the Smart Metering Entity ("SME"), we are providing the Ontario Energy Board with the SME's Annual Cost and Variance Account Report for the year ended December 31, 2017.

By copy of this letter, we are providing a copy of the report to all Parties to EB-2017-0290 and Board Staff.

We trust the foregoing is satisfactory. If you have any questions, please contact the undersigned at the address above.

Yours truly,



Patrick G. Duffy

PD/pd  
Enclosure

cc. Sorana Ionescu, *IESO*  
Adrian Pye, *IESO*  
Michael Bell, *OEB*  
Registered Intervenors for EB-2017-0290

## 2017 Smart Metering Entity (SME) Annual Cost and Variance Account Report

The following Annual Cost and Variance Report provides an overview of the SME's financial status as of the end of 2017, which is the final year of the 2013 – 2017 operating budget as outlined for the previous SMC period (at \$0.79 per meter per month).

On March 1, 2018 the Ontario Energy Board (OEB) issued its decision on the SME's 2018-2022 rate application, EB-2017-0290, approving a new Smart Metering Charge (SMC) effective January 1, 2018 which will be in effect until December 31, 2022 (at \$0.57 per meter per month). The decision also allowed the recovery of \$6.9 million of remaining debt over the same period and the clearance of the December 31, 2017 balance of \$390,000 in the Service Levels Credit Account.

More specifically, the 2017 Report provides:

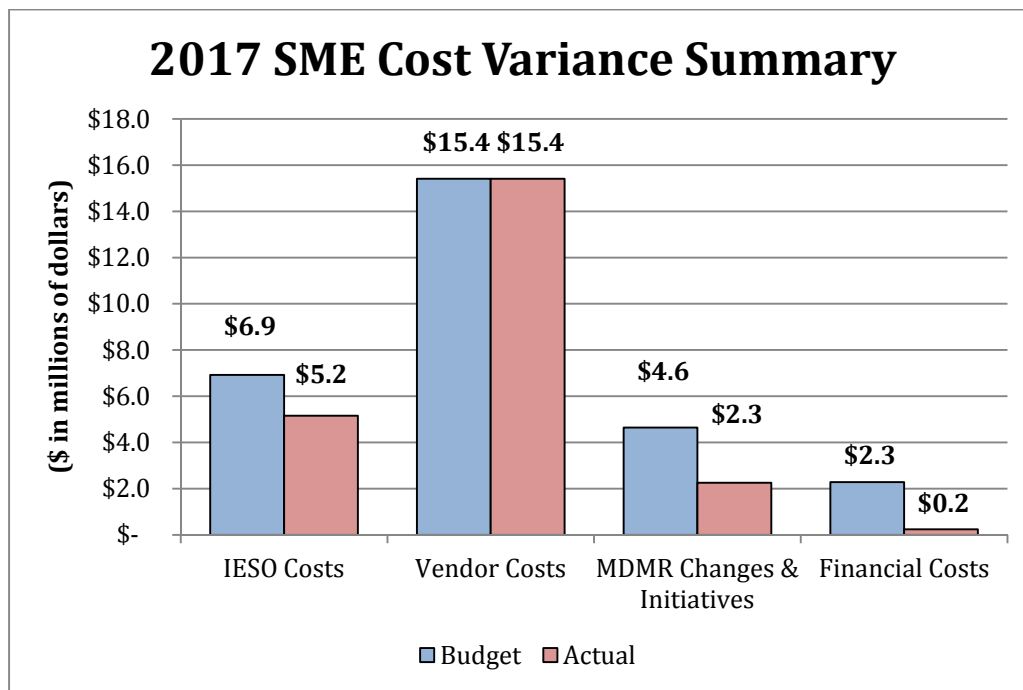
1. **Financial Results** – for the fiscal year ending 2017, the SME's budgeted and actual revenue and the budgeted and actual costs (Table 1 – 2017 SME Cost Variance Summary) with an explanation for any material variances.
2. **Smart Metering Debt** - providing the balance of the outstanding SME debt at the end of 2017 and the plans to recover the debt amount in the next five year operating budget 2018 - 2022. (Table 2 – Smart Metering Debt – Projected Recovery)
3. **Service Level Credit Balance** – providing current service level credits and an update on the return of funds to SMC ratepayers from the Service Level Credit variance account.
4. **Smart Metering Charge** - providing the background for the new SMC, which received OEB approval March 1, 2018.
5. **SME Annual Cost Report** – providing a breakdown of actual and budgeted revenues and cost with variance explanations (Table 3 – SME Variance Account Report)
6. **SME Variance Account Report** – providing the balances of the Costs Account, the Revenue Account and the Service Level Credits Account in the form of the Sample Report set out by section 5 of the Accounting Order (Table 4 – SME Variance Account Report)
7. **SME Statement of Financial Position** as of December 31, 2017 (Table 5) and **2017 SME Financial Report Reconciliation to IESO Audited Financial Statements** (Table 6).

# 1. Financial Results

Smart Metering revenues collected in 2017 were \$47.3MM, which is \$2.1MM higher than the budgeted \$45.2MM included in the Smart Metering’s rate application in EB-2012-0100/ EB-2012-0211. This is due to the increased number of smart meters in use in the province as noted in the 2015 Yearbook of Electricity Distributors published by the OEB.

Smart Metering expenses for 2017 were \$23.1MM, which is \$6.6MM less than the budgeted amount for 2017 of \$29.3MM included in the SME's rate application. A summary and explanation of any material variances for each variance category is below and shown in the following table (Table 1 – SME Cost Variance Summary).

**Table 1 – 2017 SME Cost Variance Distribution**



The following is a summary and explanation of material variances:

- **SME Costs were \$5.2MM for the year which is \$1.7MM lower than planned (28% of the annual variance).**
  - The positive variance is the combined result of an average 2.5 FTE vacancies in 2017, temporary resources backfilling regular staff, lower overtime and student costs, and lower labour expenses for IESO support functions.
  - An effort was made to reduce the cost of contractors working on operational tasks

by performing knowledge transfer to internal and IBM resources that are contracted through the OSP agreement.

- **MDM/R Changes and Initiatives were \$2.3MM for the year which is \$2.3MM lower than planned (38% of the annual variance)**
  - The SME spent \$2.3 million in MDM/R Changes & Initiatives in 2017 which included the completion of the Energy IP 7.7 upgrade, purchase of Oracle licenses, LDC Merger testing, initial planning for the Energy IP 8.x MDM/R upgrade and key elements in support of the 2016 OEB orders for Third Party Access to the MDM/R data (project Roadmap development, stakeholder engagement, privacy analysis)
  - The largest source of variance in this category was due to initiatives that did not require outsourcing of external vendor costs such as, the Toronto Hydro MDM/R Integration for which the SME was able to leverage existing infrastructure, Validation, Editing and Estimation (VEE) services and SME personnel expertise already in place.
  
- **Financing Costs were \$0.2MM for the year which is \$2.1MM lower than planned (34% of the annual variance)**
  - This variance is the combined result of the lower interest rates and the accelerated pay down of the SME debt over the past five years. The accelerated pay down of debt is due to higher revenues collected than planned and ongoing costs savings due to ongoing operational savings and the re-planning of certain technical projects.

## 2. Smart Metering Debt

The Smart Metering debt at the beginning of the SMC collection period in 2013 was \$100.1MM. As of December 31, 2017 the Smart Metering debt was reduced to \$6.9MM (further down from \$29.0MM in December 2016). This favorable position represents an additional \$22.1MM of debt recovered versus the originally planned debt recovery schedule in the SME's Rate Application (EB-2012-0100/ EB-2012-0211).

The ongoing favourable variances in the Smart Metering variance accounts (Table 4 – SME Variance Account Report) have contributed to the accelerated recovery of the Smart Metering Debt. This has resulted in significant financing costs savings for ratepayers.

The remaining Smart Metering Debt of \$6.9 million is planned to be recovered over the new operating budget period of January 1, 2018 to December 31, 2022 as approved by the OEB on March 1, 2018 in EB-2017-0290.

### **3. Service Level Credit Balance**

The Operational Service Provider for the MDM/R has met all requirements under the MDM/R Agreement which resulted in no service level credits in 2017. The Service Level Credit variance account balance at the end of 2017 was \$390,000 (Table 4 – SME Variance Account Report). In the March 1, 2018 decision in EB-2017-0290 the OEB approved the clearance of the December 31, 2017 balance in the SLCA.

### **4. Smart Metering Charge**

The SME had OEB approval to charge a smart metering charge of \$0.79 per meter per month until October 2018 as per the original 2013 – 2017 rate application (EB-2012-0100/ EB-2012-0211). A new SMC of \$0.57 per meter per month effective January 1, 2018 to December 31, 2022 was approved by the OEB on March 1, 2018 in EB-2017-0290.

## 5. SME Annual Cost Report

Table 3 – SME Annual Cost Report

BUDGET LINE ITEM DESCRIPTION	Calendar Year: 2017					
	OEB Approved Budget	Budget Transfer (1)	Budget	Actual	Variance (Budget - Actual)	
<b>MDM/R OPERATIONS</b>						
<b>SME Costs</b>						
<b>SME Project Team costs</b>						
SME Staff Costs	\$ 3,894,007	(\$ 219,739)	\$ 3,674,268	\$ 2,767,766	\$ 906,502	The positive variance is the combined result of an average 2.5 FTE vacancies in 2017, temporary resources backfilling regular staff, lower overtime and student costs, and lower labour expenses for IESO support functions.
Contractor Costs	\$ 2,278,359		\$ 2,278,359	\$ 1,461,376	\$ 816,984	An effort was made to reduce the cost of contractors working on operational tasks by performing knowledge transfer to internal and IBM resources that are contracted through the OSP agreement.
<b>Total SME Project Team Costs</b>	<b>\$ 6,172,366</b>	<b>(\$ 219,739)</b>	<b>\$ 5,952,627</b>	<b>\$ 4,229,142</b>	<b>\$ 1,723,485</b>	<b>This represent 26% of the total variance</b>
External Fees and Expenses	\$ 543,804	\$ 219,739	\$ 763,543	\$ 726,521	\$ 37,022	External fees and expenses is on budget.
Regulatory Process: Licensing & Cost Recovery	\$ 150,000	\$ -	\$ 150,000	\$ 195,851	(\$ 45,851)	A portion of the annual OEB cost allocation (\$165 thousand) paid by the IESO is allocated to the SME. The regulatory process budget in 2017 was for the 2018 - 2022 Smart Metering Charge application, these costs came in significantly under budget.
IESO Communications Support	\$ 57,964		\$ 57,964	0	\$ 57,964	
<b>Total SME Costs</b>	<b>\$ 6,924,134</b>	<b>\$ -</b>	<b>\$ 6,924,134</b>	<b>\$ 5,151,513</b>	<b>\$ 1,772,620</b>	
<b>Vendor Base Contract Costs</b>	<b>\$ 13,448,159</b>	<b>\$ -</b>	<b>\$ 13,448,159</b>	<b>\$ 13,488,110</b>	<b>(\$ 39,951)</b>	The variance is due to the operations fees for the Data Mart & Web Service Facility which were not a part of the original budget. This is offset by lower than planned MDMR operating fees.
Software Licenses	\$ 1,606,135	\$ 355,000	\$ 1,961,135	\$ 1,924,160	\$ 36,975	Software support and maintenance is on budget.
<b>Total Vendor Costs</b>	<b>\$ 15,054,294</b>	<b>\$ 355,000</b>	<b>\$ 15,409,294</b>	<b>\$ 15,412,270</b>	<b>(\$ 2,976)</b>	
<b>Total MDM/R Operations Costs</b>	<b>\$ 21,978,428</b>	<b>\$ 355,000</b>	<b>\$ 22,333,428</b>	<b>\$ 20,563,784</b>	<b>\$ 1,769,645</b>	<b>This represent 27% of the total variance, with the majority coming from Project Team Costs</b>
<b>MDM/R Changes and Initiatives</b>						
Total MDM/R Changes and Initiatives Costs	\$ 5,000,000	(\$ 355,000)	\$ 4,645,000	\$ 2,256,080	\$ 2,388,920	The SME spent \$2.3 million in MDM/R Changes & Initiatives in 2017 which included the completion of the Energy IP 7.7 upgrade, purchase of Oracle licenses, LDC Merger testing, initial planning for the Energy IP 8.x MDM/R upgrade and key elements in support of the 2016 OEB orders for Third Party Access to the MDM/R data (project Roadmap development, stakeholder engagement, privacy analysis)  The largest source of variance in this category was due to initiatives that did not require outsourcing of external vendor costs such as, the Toronto Hydro MDM/R Integration for which the SME was able to leverage existing infrastructure, Validation, Editing and Estimation (VEE) services and SME personnel expertise already in place.
<b>SUB-TOTAL (Before Financing Costs)</b>	<b>\$ 26,978,428</b>	<b>\$ -</b>	<b>\$ 26,978,428</b>	<b>\$ 22,819,863</b>	<b>\$ 4,158,565</b>	The over 90% positive variance is due to lower interest rates than planned and an accelerated pay down of debt resulting in lower financing costs of \$2.0 million, a significant savings for rate payers.
Financing Costs	\$ 2,282,252		\$ 2,282,252	\$ 237,565	\$ 2,044,686	<b>Overall MDMR costs for 2017 were 23% under budget, or by \$6.6 million</b>
<b>TOTAL</b>	<b>\$ 29,260,680</b>	<b>\$ -</b>	<b>\$ 29,260,680</b>	<b>\$ 23,057,429</b>	<b>\$ 6,203,251</b>	The variance is a result of more Smart Meters installed at the start of 2017, than planned (an additional 219,000). The Smart Metering Entity collected \$0.788/smart meters/month, within Ontario.
Revenue	\$ 45,206,527	\$ -	\$ 45,206,527	\$ 47,278,430	\$ 2,071,903	The variance is a result of more Smart Meters installed at the start of 2017, than planned (an additional 219,000). In 2017 the Smart Metering Entity collected \$0.788/smart meters/month, within Ontario.

- (1) Budget transfer: IESO Board of Directors approved change in budget allocation of the operation of the MDM/R and for MDM/R Changes and Initiatives.

## 6. SME Variance Account Report

Table 4 – SME Variance Account Report

	For the 2017 Reporting Period		
Variance Account	SMC Revenue Requirement	Actual	Variance (SMC Revenue Requirement - Actual)
Cost	29,260,680	23,057,429	6,203,251
Revenue	45,206,527	47,278,430	(2,071,903)
Service Level Credit	0	0	0

	For the 2013-2017 Reporting Period		
Variance Account	SMC Revenue Requirement	Actual	Variance (SMC Revenue Requirement - Actual)
Cost	148,486,872	121,389,347	27,097,525
Revenue	210,963,794	216,024,412	(5,060,618)
Service Level Credit	0	(390,408)	390,408

## 7. Appendices

Table 5 – SME Statement of Financial Position

*Independent Electricity System Operator  
Statement of Financial Position  
Smart Metering Entity*

As at (in thousands of Canadian dollars) December 31, 2017 December 31, 2016

<b>FINANCIAL ASSETS</b>		
Regulated Asset - SME	0	21,622,840
<b>TOTAL FINANCIAL ASSETS</b>	<b>0</b>	<b>21,622,840</b>
<b>LIABILITIES</b>		
Accounts payable & accrued liabilities	762,130	778,415
Debt	6,923,157	29,032,088
<b>TOTAL LIABILITIES</b>	<b>7,685,287</b>	<b>29,810,504</b>
<b>NET DEBT</b>	<b>(7,685,287)</b>	<b>(8,187,663)</b>
<b>NON-FINANCIAL ASSETS</b>		
<b>Property &amp; Equipment</b>		
Meter Data Management/Repository (MDM/R)	6,063,077	7,721,718
Short-term prepaid expenses	682,690	465,946
<b>TOTAL NON-FINANCIAL ASSETS</b>	<b>6,745,766</b>	<b>8,187,663</b>
<b>TOTAL ACCUMULATED SURPLUS / (DEFICIT)</b>	<b>(939,520)</b>	<b>-</b>

**Table 6 – 2017 SME Financial Report Reconciliation to IESO Audited Financial Statements  
SME Financial Report Reconciliation to IESO Audited Financial Systems**

Smart metering charge - actual revenue	47,278,430
Smart metering charge - annual report	25,655,590
<u>Amount to reconcile</u>	<u>21,622,840</u>
Smart metering expenses - actual expenses	23,057,429
Smart metering expenses - annual report	24,716,070
<u>Amount to reconcile</u>	<u>(1,658,641)</u>
<u>Total amount to reconcile</u>	<u>19,964,199</u>
Add: change in regulated asset	21,622,840
Add: capital spend on MDMR	1,166,215
Less: amortization expenses	2,824,856
Less: service level credits	-
<u>Total reconciled</u>	<u>19,964,199</u>