

2018 Smart Metering Entity (“SME”)

Annual Cost and Variance Account Report Supplementary

1. The table below shows 2018 Revenue and Expenses compared to 2018 budget.
 - a. In OEB staff’s view, any financial performance percentage change beyond a generally accepted +/-10% variation is unusual and warrants further explanation supported with data. The total SME expenses are \$9.3 million (or 21%) lower as compared to the budgeted amount for 2018.

Table 1: Actual vs Budgeted Revenues and Expenses for 2018

(\$ millions)	Actual	Budget	Variance	% Change
Total SME Revenue	34.5	33.4	1.1	3%
Total SME Expenses	35.7	45.0	(9.3)	-21%
Total SME Operating Deficit	(1.2)	(11.6)	10.4	-90%

Please provide a breakdown of the \$9.3 variance by actual savings achieved and expenses that were deferred to 2019 in the table below.

The breakdown of the \$9.3M variance is described in Question 2b below.

Table 1(i): Breakdown of Expense Variance by Actual Cost Savings and Deferred Expenses for 2018

(\$ millions)	Budget	Actual Cost Savings	Deferred Expenses (to 2019)
Total SME Expenses	45.0	7.1	2.6

NOTE: as shown in table 2 consultancy costs were \$0.4 million over budget

- b. Provide detailed explanations of the key drivers/factors that have contributed to a deferral of 2018 expenses to 2019, if any

Please refer to 2 b III

- c. What will be the potential impact of the 2018 deferred expenses (to 2019) against the 2019 budgeted expenses and the total SME operation deficit/surplus?

Please refer to 2 c III

2. The table below summarizes SME actual vs budgeted expenses for the year 2018.
 - a. In OEB staff's view, any financial performance percentage change beyond a generally accepted +/-10% variation is unusual and warrants further explanation supported with data. The operating & administrative, MDM/R changes & initiatives and MDM/R 8.x Upgrade expenses have variations of over 10% from the budgeted amount and are also amongst the key expense drivers.

Table 2: Actual vs Budgeted Expenses for 2018

(\$ millions)	Actual	Budget	Variance	% Change
Compensation & Benefits	2.8	3.5	-0.7	-20%
Professional & Consulting	15.7	15.3	0.4	3%
Operating & Administration	5.0	6.8	-1.8	-26%
MDM/R Changes & Initiatives	0.5	2.0	-1.5	-75%
Financing Costs	0.1	0.2	-0.1	-50%
MDM/R 8.x Upgrade	11.6	17.2	-5.6	-33%
Total SME Expenses	35.7	45.0	-9.3	-21%

Please provide breakdowns by actual savings achieved and expenses that were deferred to 2019 in the table below.

Table 2(i): Actual Cost Savings & Deferred Expenses

(\$ millions)	Budget	Actual Cost Savings	Deferred Expenses (to 2019)
Operating & Administration	6.8	1.8	-
MDM/R Changes & Initiatives	2.0	1.5	-
MDM/R 8.x Upgrade	17.2	1.2 & 1.8	1.6 & 1.0

- b. Provide a detailed explanation of the key drivers/factors that have contributed to a deferral of 2018 expenses to 2019 for the following identified expenses, if any

I. Operating & Administration

The items described below refer to cost savings achieved. There were no deferred expenses for Operating & Administration

Operating & Administration costs include rent, subscriptions, software support and maintenance and other administrative expenses.

In 2018,

- i. \$50K in savings was attained in the office space rent due to adjustments in space allocation for the SME.*
- ii. \$50K in savings was attained in subscriptions for professional services.*
- iii. \$50K in savings was attained due to our renegotiations of the ServiceNow® (Service Management platform for LDC) contract*
- iv. \$1.2M savings was attained on software support and maintenance due to the following:*
 - o \$500K savings from greater discounts pertaining to the software maintenance contract with Oracle.*
 - o \$500K of savings from a contingency budget that was not required to be spent (this is a 10% contingency on the SME total database support and maintenance budget).*
 - o \$200K of saving were monies not spent in 2018 as the new contract with Oracle became effective in March 2018 while it had been planned to be in effect throughout Q1 2018.*
- v. \$100K in savings was attained in the budget allotted for Change Request due to fewer operational changes than forecasted were required.*
- vi. \$200K in savings was attained in the budget allotted for the SME's DataMart, a replica data store of the MDM/R designed for analytics by the SME and LDCs, after an RFP was conducted to select a hosting and support provider.*
- vii. \$150K in savings was attained under the category of other administrative expenses due to lower than budgeted training, travel and overall administrative expenses.*

Total of the Savings above is \$1.8M.

Summarized table below.

	Operating & Administration Expenses Savings (\$M)	
<i>Item</i>		
<i>i.</i>	<i>Rent</i>	\$0.05
<i>ii.</i>	<i>Subscription</i>	\$0.05
<i>iii.</i>	<i>ServiceNow</i>	\$0.05
<i>iv.</i>	<i>Software Support & Maintenance</i>	\$1.2
<i>v.</i>	<i>Change Requests</i>	\$0.1
<i>vi.</i>	<i>DataMart</i>	\$0.2
<i>vii.</i>	<i>Other Administration Expenses</i>	\$0.15
	Total	\$1.8

II. MDM/R Changes & Initiatives

\$1.5 million lower than budgeted, which includes the final costs related to the MDM/R Upgrade which was required to extend the life of the current MDM/R version until the MDM/R 8.6 upgrade is completed. These lower costs were attained as a number of projects that were budgeted to begin in 2018 have been deferred to 2019 or beyond, due to refocus of key resources to the MDM/R 8.6 upgrade later than expected filing of the Third Party Access program to the OEB and no advances on potential projects such as the integration of Commercial & Industrial meters in the MDM/R and the OEB Rate Design (GS 10 – 50kW Customer Class) assessment.

III. MDM/R 8.x Upgrade

\$5.6 million lower than budgeted, which resulted from a combination of reduced costs through vendor contract negotiations (\$3 million) and the subsequent deferral of software purchases and vendor resource costs (\$2.6 million).

The budget for this project is \$24M over 2 years. \$17.2M of this amount was allocated to the first year for the upfront purchase of Oracle database licenses (this is a separate contract with Oracle

from the contract mentioned above under Software Support and Maintenance) and software from other vendors.

Savings:

- *\$1.2M in savings were attained realized through negotiated new Oracle database licenses costs to support the upgraded MDM/R.*
- *\$1.8M in savings were attained due two factors:*
 - *\$0.5M due to lower than expected startup costs for a cloud based testing environment, and*
 - *\$1.3M due to lower than budgeted professional service hours from vendors during the application build, configuration and testing.*

Deferrals:

- *\$1.6M in expenses were deferred due to the late start of the project as no professional service hours were charged to the project in Q1 2018. This project was originally scheduled and budgeted to start in Q4 2017, however extended negotiations and legal contract reviews, which resulted in lower rates with the OSP, resulted in an April, 2018 start date of the re-negotiated contracts.*
- *\$1M in expenses related to the DataMart refresh were deferred due to the delayed start of the DataMart refresh until after the MDM/R 8.6 upgrade to ensure there is an alignment in technologies.*

c. What will be the potential impact on the operating results for 2019 as against the 2019 budgeted amount for the identified expenses, if any?

I. Operating & Administration

\$0.5M in savings due to the reduced software support and maintenance costs for Oracle will also be achieved in 2019.

II. MDM/R Changes & Initiatives

It is reasonable to assume that savings will continue in the

foreseeable future if potential projects as indicated in 2 b II are not initiated. If however, the OEB decides to proceed with any of these projects and will require the SME's support for implementation, the SME will have the funds to accommodate such innovative initiatives within the 2018-2022 budget cycle.

III. MDM/R 8.x Upgrade

. The 2019 budget for the MDM/R 8.6 upgrade costs are expected to remain as forecast.

3. Please provide detailed explanations on the status of the MDM/R 8.x Upgrade with respect to its expected completion date and the total forecast costs compared to its overall budget costs.

The MDM/R 8.x Upgrade project was budgeted at \$24M and scheduled over a 2-year period, from the start of Q1 2018 to Q4 2019. Under the new schedule the project began in Q2 2018 and is expected to be completed by Q2 2020, a delay of 3 months to the initial start and end dates of the project.

The total project cost is under budget by \$3M, as explained in 2 b III. The major milestone of system build has been completed and data migration testing is on schedule.

4. Regarding "5. Appendices" Tables 5 and 6, please provide the reasons:

- a. Why the "smart metering - actual expenses" did not match the "smart metering expense – annual report" in the IESO's 2018 annual report (\$35.7 million vs. \$28.4 million) as should be expected?

The SME accounts for its revenue and expenses on a cash basis, while the IESO's audited financial statements report revenue and expenses on an accrual basis. This is consistent with the budgeting and methodology as submitted to the OEB.

The difference between the cash and accrual basis of reporting is in the treatment of capital expenses and amortization

- On an accrual basis – capital expenses are setup as assets and the expenses are amortized over the life of the asset.*

- *On a cash basis – capital expenses are expensed upon purchase of the asset, there is no amortization.*

Table 6 - 2018 SME Financial Report Reconciliation to IESO Audited Financial Statements, is used to reconcile those differences.

- b. Why were capital spend in MDM/R and amortization expense (\$11.8 million and \$4.5 million respectively) excluded in the IESO's audited annual report?

Capital spend in the MDM/R and amortization expense are included in the IESO's audited annual report and these costs are reported on an accrual basis. (see note above under 4a).

5. Compensation & Benefits expenses were \$2.8 million for the year which is \$0.7 million lower than planned. The positive variance is the combined result of an average 2.0 FTE vacancies in 2018, lower overtime and student costs, and lower expenses for IESO support functions. Please explain if these reductions and variances will continue.

The average 2.0 FTE vacancies in 2018 are currently expected to continue into 2019 but it may be reduced over time as demands on projects arise (these are budgeted FTE's as per the SME's approved budget for the 2018-2022 period). The overtime, student and IESO support function costs are managed as the need arises.

6. OEB staff would like to recommend that definitions be provided for each of the accounts identified in the report.

The definitions have been provided in the revised submission of the original variance report.

7. Please provide any other information relevant to the OEB's review of the 2018 Annual Cost Variance Account, if any.

There is no further relevant information at this time.