

STIKEMAN ELLIOTT

Stikeman Elliott LLP Barristers & Solicitors

5300 Commerce Court West, 199 Bay Street, Toronto, Canada M5L 1B9
Tel: (416) 869-5500 Fax: (416) 947-0866 www.stikeman.com

Patrick G. Duffy
Direct: (416) 869-5257
E-mail: pduffy@stikeman.com

BY EMAIL & COURIER

April 30, 2013
File No. 101926.1050

Kirsten Walli
Board Secretary
Ontario Energy Board
Yonge-Eglinton Centre
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Smart Metering Charge
EB-2012-0100/EB-2012-0211**

Pursuant to the Board's Decision and Order dated March 28, 2013, we enclose our Responding Comments on the Draft Accounting Order.

Yours truly,


Patrick G. Duffy

PGD/il

cc: Registered Intervenors
Brian Rivard, IESO
Paula Lukan, IESO

TORONTO

MONTRÉAL

OTTAWA

CALGARY

VANCOUVER

NEW YORK

LONDON

SYDNEY

ONTARIO ENERGY BOARD

IN THE MATTER OF subsections 78(2.1), (3.0.1),
(3.0.2) and (3.0.3) of the *Ontario Energy Board Act*,
1998;

AND IN THE MATTER OF subsection 53.8(8) of the
Electricity Act, 1998;

AND IN THE MATTER OF Ontario Regulation
453/06 made under the *Ontario Energy Board Act*,
1998;

AND IN THE MATTER OF an Application by the
Independent Electricity System Operator as Smart
Metering Entity for an Order fixing a Smart Metering
Charge for July 1, 2012 to December 31, 2017.

AND IN THE MATTER OF a proceeding being
commenced on the Ontario Energy Board's own
motion, pursuant to section 19 of the *Ontario Energy
Board Act*, 1998.

RESPONDING COMMENTS ON THE DRAFT ACCOUNTING ORDER

April 30, 2013

STIKEMAN ELLIOTT LLP
Barristers & Solicitors
5300 Commerce Court West
199 Bay Street
Toronto, Canada M5L 1B9

Patrick G. Duffy
Tel: (416) 869-5257
Fax: (416) 947-0866

Counsel for the IESO

This is the response of the Independent Electricity System Operator (“IESO”) in its capacity as the Smart Metering Entity (“SME”) to comments received on the draft Accounting Order filed by the SME on April 8, 2013.

The only substantive comments received on the draft Accounting Order were those of Board Staff. In preparing this response, the SME met with Board Staff to fully understand the concerns of Staff.

The comments of Board Staff reflect the Board’s prescribed accounting practices. While these practices are appropriate for many utilities within the electricity sector, there are two significant differences between the accounting practices of the SME and the practices of other entities within the sector: (i) the IESO (including the SME) is a not-for-profit entity and (ii) the IESO adheres to the Public Sector Accounting Standards. Because of these differences, the SME requires an Accounting Order that deviates from the Board’s prescribed practices.

As detailed in the Settlement Proposal accepted by the Board, the purpose of the annual reporting is to identify differences between the forecasted budgeted amounts and the actual amounts. This reporting would allow for a possible trigger of a rate review or rate resetting. If the amounts differed, what to do with the differences would then be decided by a Board panel at the time of the review. The purpose of establishing the Costs and Revenue Accounts was not to allow for a clearing of any variances. As the SME is a not-for-profit entity, the

discussion of what to do with any surplus/deficit amounts in those accounts would be the matter for the SME's next rate application.

For ease of reference, the SME has numbered the paragraphs below to correspond to each of Board Staff's comments.

1. The SME accepts Board Staff's suggestion to include a general statement in relation to the Board's Decision and this accounting order. The SME proposes the following language to appear as an introductory paragraph:

This accounting order is intended to reflect the Board's Decision and Order in EB-2012-0100/EB-2012-0211 dated March 28, 2013.

2. The SME generally agrees with Board Staff's descriptions for each of the Costs, Revenue and Service Level Credit Accounts. However, the description should clearly state that the SME's actual costs and revenues are reconciled to the IESO's audited financial statements. The SME does not have its own audited financial statements; the SME's actual costs and revenues are included in the audited financial statements of the IESO (which are reported under the Public Sector Accounting Standards). The SME proposes the following language:

Costs Account

Description: The SME shall record and report on the difference between the actual costs incurred and the annual forecast budget costs in the Revenue Requirement for each calendar year in the period from January 1, 2013 to December 31, 2017. The variance amount shall be reported as of December 31

of each year. The reported total actual costs incurred will be reconciled to the audited financial statements of the IESO that include the actual costs incurred of the SME.

The forecast costs shall be the Revenue Requirement included in the table attached as Appendix "A" to the approved Settlement Proposal in EB-2012-0100/EB-2012-0211.

Revenue Account

Description: The SME shall record and report on the difference between the actual revenues accrued and the forecast budget revenues for each calendar year in the period from May 1, 2013 to October 31, 2018.

The variance amount (i.e., revenue surplus or deficiency) shall be reported as of December 31 of each year.

The forecast budget revenue shall be as provided in the table attached as Appendix "B" to the approved Settlement Proposal in EB-2012-0100/EB-2012-0211.

Service Level Credits Account

Description: The SME shall record and report on the amount of reduction in fees or recovered amounts (herein referred to as "credits") in relation to failure or breach resulting in a reduction of the fees payable to the Operational Service Provider by the SME or any amount recovered from the Operational Service provider in respect of any such failure or breach, on or after May 1, 2013 pursuant to section 7.6 of the SME/LDC Agreement.

3. The SME does not oppose Board Staff's request that the recording of interest carrying charges on the balances of each account be specified. However, in this case, the carrying charges are already included and reported in actual costs (under the "Financing Costs" line item in Appendix "A" to the Settlement

Proposal) and the SME is not proposing to charge additional carrying charges on the balances of each account as this would result in a “doubling-up” of financing costs being applied in respect of the SMC. Therefore, the SME proposes the following language:

No carrying charges shall be recorded on these accounts.

4. While the SME agrees with Board Staff that the disposition of the account balances should be specified, the SME does not agree that this will necessarily be done “in its next application to establish a new SME charge.” Under the Settlement Proposal, the disposition of the Costs and Revenue Accounts could be addressed by the Board prior to the next application to establish a new SMC if the mechanism in section 1.4(d) triggers an application to adjust the SMC. Section 7.6 of the SME/LDC Agreement specifies the triggers for a disposition of the Service Level Credits Account. In light of these triggers, the SME proposes the following language:

Costs Account

The SME shall seek approval to dispose of the balance of the Costs Account as part of its next application.

Revenue Account

The SME shall seek approval to dispose of the balance of the Revenue Account as part of its next application.

Service Level Credits Account

The SME shall apply to the OEB to clear the approved variance account on the earlier of (i) the date on

which the balance in the variance account meets or exceeds \$2 million, or (ii) January 26, 2016.

5. The SME agrees that record-keeping requirements in relation to the account balances should be specifically outlined. The Board Staff proposed that the information "include audited information in the SME's annual audited financial statements to support the variances recorded in each account." However, this language is not appropriate because, as noted above, the SME does not have its own audited financial statements.

Further, the costs, revenues and service credits referred to in the Settlement Proposal are presented in a different manner than the IESO's audited financial statements (i.e. under the Public Sector Accounting Standards, the total costs would be split between capital expenditures and operations rather than by budget category and phase).

For this reason, the SME proposes the following language:

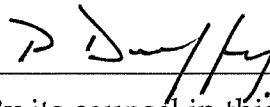
The SME shall maintain records to substantiate the balances reported in each account. The SME shall provide reconciliations of SME's actual costs, revenues and service level credits to the IESO's annual audited financial statements to support the variances reported in each account.

6. The SME has no concerns with the reporting requirements in relation to the accounts proposed by the Board Staff and will accept the proposed language.

A revised draft Accounting Order that includes the proposed language is attached as Appendix "A".

ALL OF WHICH IS RESPECTFULLY SUBMITTED

**INDEPENDENT ELECTRICITY SYSTEM
OPERATOR**

A handwritten signature in black ink, appearing to read "P. Duffy", is written over a horizontal line.

By its counsel in this proceeding

Patrick G. Duffy

APPENDIX "A"

SMART METERING ENTITY ACCOUNTING ORDER

EB-2012-0100 / EB-2012-0211

April 30, 2013

1. This accounting order is intended to reflect the Board's Decision and Order in EB-2012-0100/EB-2012-0211 dated March 28, 2013.
2. The Smart Metering Entity ("SME") shall establish the following variance accounts effective as of May 1, 2013:

Costs Account

Description: The SME shall record and report on the difference between the actual costs incurred and the annual forecast budget costs in the Revenue Requirement for each calendar year in the period from January 1, 2013 to December 31, 2017. The variance amount shall be reported as of December 31 of each year. The reported total actual costs incurred will be reconciled to the audited financial statements of the IESO that include the actual costs incurred of the SME.

The forecast costs shall be the Revenue Requirement included in the table attached as Appendix "A" to the approved Settlement Proposal in EB-2012-0100/EB-2012-0211.

The SME shall seek approval to dispose of the balance of the Costs Account as part of its next application.

Revenue Account

Description: The SME shall record and report on the difference between the actual revenues accrued and the forecast budget revenues for each calendar year in the period from May 1, 2013 to October 31, 2018.

The variance amount (i.e., revenue surplus or deficiency) shall be reported as of December 31 of each year.

The forecast budget revenue shall be as provided in the table attached as Appendix "B" to the approved Settlement Proposal in EB-2012-0100/EB-2012-0211.

The SME shall seek approval to dispose of the balance of the Revenue Account as part of its next application.

Service Level Credits Account

Description: The SME shall record and report on the amount of reduction in fees or recovered amounts (herein referred to as "credits") in relation to failure or breach resulting in a reduction of the fees payable to the Operational Service Provider by the SME or any amount recovered from the Operational Service provider in respect of any

such failure or breach, on or after May 1, 2013 pursuant to section 7.6 of the SME/LDC Agreement.

The SME shall apply to the OEB to clear the approved variance account on the earlier of (i) the date on which the balance in the variance account meets or exceeds \$2 million, or (ii) January 26, 2016.

Sample Report

	Year: [Year]			Cumulative (2013 to [Year])		
Variance Account	Budget	Actual	Variance	Budget	Actual	Variance
Cost						
Revenue						
Service Level Credits						

3. No carrying charges shall be recorded on these accounts.
4. The SME shall maintain records to substantiate the balances reported in each account. The SME shall provide reconciliations of SME's actual costs, revenues and service level credits to IESO's annual audited financial statements to support the variances reported in each account.
5. The SME shall, annually on or before May 1, beginning in 2014, report to the Board the balances in each of the Costs Account, Revenue Account and Service Level Credits Account.
6. The SME shall, annually on or before May 1, beginning in 2014, file a report with the Board that includes a table substantially in the form attached as Appendix "C" to the Settlement Proposal. The report will provide the SME's budgeted and actual costs for the prior calendar year; the SME's budgeted and actual revenue for the prior calendar year; and an explanation for any material divergence of actual costs from the forecast costs and revenue for that calendar year. The SME shall provide a copy of the report to all Board-approved intervenors in EB-2012-0100 and EB-2012-0211.