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BY EMAIL & RESS

April 25, 2014
File No. 101926-1078

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 2013
(EB-2012-0100/EB-2012-0211)**

On behalf of the Independent Electricity System Operator (the "IESO") in its capacity as the Smart Metering Entity ("SME"), we are providing the Board with the SME's Annual Cost and Variance Account Report for the year ended December 31, 2013 (the "2013 Report"). The 2013 Report is the first of the SME's annual filing with Board for the Smart Metering Charge ("SMC") that is in effect from May 1, 2013 to October 31, 2018.

The 2013 Report addresses the matters identified in section 1.4(d) of the approved Settlement Agreement dated March 28, 2013 (the "Settlement Agreement") and section 6 of the Accounting Order dated May 14, 2013 (the "Accounting Order") in EB-2012-0100/EB-2012-0211. The 2013 Report provides:

- the variances between the SME's budgeted and actual costs for 2013 presented in the form of the Sample Annual Cost Report attached as Appendix C to the Settlement Agreement; and
- the balances of the Costs Account, the Revenue Account and the Service Level Credits Account in the form of the Sample Report set by section 5 of the Accounting Order.

As shown in the 2013 Report, the SME's actual costs for 2013 were \$5,070,877 less than the budgeted amount for 2013 included in the SME's rate application in EB-2012-0100/EB-2012-0211. Under section 1.4(d) of the Settlement Agreement, the SME is required to bring an application to adjust the SMC when its annual costs are

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over or under forecast by more than \$2 million or explain why an application is not required:

If the SME's total actual costs for a calendar year are over or under the forecast for that calendar year by more than \$2 million, then the SME shall bring an application to adjust the SMC unless it provides a satisfactory explanation to the Board for why an application to adjust the SMC is not required.

The SME submits that an application to adjust the SMC is not warranted at this time. As detailed in the 2013 Report, a significant proportion of the variance between budgeted and actual costs is due to projects planned for 2013 that could not be completed before December 31, 2013 or were deferred to the 2014 financial year. In particular, the deferral of the following costs to 2014 represents the bulk of the variance between budgeted and actual costs:

- The SME is reporting variances of \$524,208 and \$1,579,255 for "Vendor Base Contract Costs" and "Vendor Change Order and Infrastructure Improvements". These costs are lower than budgeted because of vendor change orders that had not been implemented by year-end and the deferral of the infrastructure improvements project. The infrastructure improvements project was initiated in Q4 of 2013 with project delivery and associated expenditures now planned for Q3 2014.
- The Annual Cost Report shows variances of \$886,882 and \$538,747 for "Measurement Canada 2012 Solution and Required Upgrades" and "Release 7.6 and Measurement Canada 2012 Upgrade" respectively. These project costs were deferred to 2014 based on a decision to combine the Measurement Canada 2012 Solution and Release 7.6 into a single deployment to reduce costs to the SME and local distributors. The SME Steering Committee expressed unanimous support of this approach.
- Due to the deferral of the projects discussed in the preceding paragraphs, the SME incurred lower IESO staff costs and contractor costs (variances of \$734,323 and \$134,511 respectively) and lower financing costs (variance of \$275,311) in 2013.

The SME anticipates that these in-progress and deferred projects will be completed in 2014 and, for this reason, the SME expects the actual costs for 2014 may exceed the budgeted costs for that year listed in the SME's rate application in EB-2012-0100/EB-2012-0211. Because that the variance is largely due to the deferral of costs to the next financial year, the SME believes that it is unnecessary to adjust the SMC for 2014 collection year to account for this variance. Any unallocated revenues collected during 2013 will be utilized to reduce the SME's debt and associated financing costs.

By copy of this letter, we are providing the 2013 Report to all Board-approved intervenors in EB-2012-0100/EB-2012-0211 as required by the Settlement Agreement and the Accounting Order. The Settlement Agreement states that intervenors are to have an opportunity to submit comments on the 2013 Report to the Board.

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

Yours truly,

A handwritten signature in dark ink, appearing to read "PD-117", is written over the typed name.

Patrick G. Duffy

PD/il

c.c.: Przemek Tomczak, *IESO*
Jessica Savage, *IESO*
Registered Intervenors for EB-2012-0100/EB-2012-0211

encl.

Smart Metering Entity (SME) Financial Report

For the Year Ended December 31, 2013

1. SME Annual Cost Report

BUDGET Category			Calendar Year: 2013			Explanation
	Smart Metering Charge Revenue Requirement	Budget Transfer (1)	Budget	Actual	Variance (Budget - Actual)	
MDM/R OPERATIONS (Phase 3)						
IESO Costs						
IESO Project Team costs						
IESO Staff Costs	\$ 3,375,026	(\$ 33,706)	\$ 3,341,321	\$ 2,606,998	\$ 734,323	Staggered and deferred recruiting to 2014 and utilized lower cost temporary resources for specific tasks. Required less effort from the IESO business to support the SME.
Contractor Costs	\$ 2,775,030		\$ 2,775,030	\$ 2,637,519	\$ 137,511	Deferred to 2014 aligned with projects being delivered in 2014.
Total IESO Project Team Costs	\$ 6,150,057		\$ 6,116,351	\$ 5,244,516	\$ 871,835	
External Fees and Expenses	\$ 521,224	\$ 33,706	\$ 554,929	\$ 738,595	(\$ 183,666)	Pre-paid some costs to realize cost savings and favourable commercial terms for the 2013 to 2017 period.
Regulatory Process: Licensing & Cost Recovery	\$ 100,000		\$ 100,000	\$ 135,399	(\$ 35,399)	Intervener costs as ordered by the OEB.
IESO Communications Support	\$ 51,500		\$ 51,500	\$ 4,600	\$ 46,900	Avoided costs by leveraging software as a service platform for communicating with LDCs (under External Fees and Expenses). Deferred some expenditures to 2014.
Total IESO Costs	\$ 6,822,780	\$ 0	\$ 6,822,780	\$ 6,123,110	\$ 699,670	

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

Smart Metering Entity (SME) Financial Report

For the Year Ended December 31, 2013

BUDGET Category			Calendar Year: 2013			Explanation
	Smart Metering Charge Revenue Requirement	Budget Transfer (1)	Budget	Actual	Variance (Budget - Actual)	
Vendor Costs						
Vendor Base Contract Costs	\$ 14,320,141		\$ 14,320,141	\$ 13,795,933	\$ 524,208	Deferred timing of operating fees in connection with Vendor Change Orders and Infrastructure Improvements.
Vendor Change Orders and Infrastructure Improvements	\$ 2,141,873		\$ 2,141,873	\$ 562,648	\$ 1,579,225	Infrastructure improvements project was initiated in Q4, with project delivery and associated expenditures planned for 2014.
Software Licenses	\$ 406,914		\$ 406,914	\$ 380,844	\$ 26,070	
LDC Testing Facilities	\$ 681,750		\$ 681,750	\$ 608,054	\$ 73,696	Savings associated with testing facilities included as part of Vendor Base Contract Costs effective Q4 2014.
Total Vendor Costs	\$ 17,550,678		\$ 17,550,678	\$ 15,347,479	\$ 2,203,199	
OSP Procurement	\$ 20,000		\$ 20,000	\$ -	\$ 20,000	OSP procurement was concluded in December 2012 with no changes required to the contract in 2013.
SME (MDM/R Co.) Corporate Costs	\$ 97,069		\$ 97,069	\$ -	\$ 97,069	Deferred pending further progress on the SME Governance Transition Plan.
Total MDM/R Operations Costs (Phase 3)	\$ 24,490,527		\$ 24,490,527	\$ 21,470,589	\$ 3,019,938	
MDM/R Changes and Initiatives						
Provision for MDM/R Upgrades, Maintenance and Changes	\$ 1,000,000	(\$ 950,000)	\$ 50,000	\$ -	\$ 50,000	
Measurement Canada 2012 Solution and Required Upgrades	\$ 2,091,890		\$ 2,091,890	\$ 1,205,009	\$ 886,882	Deferred project costs to 2014 based on decision to combine Measurement Canada 2012 solution and Release 7.6 upgrade to reduce costs to the IESO and LDCs.
Release 7.6 and Measurement Canada 2012 Upgrade		\$ 650,000	\$ 650,000	\$ 111,253	\$ 538,747	
MDM/R Data Access Analysis and Planning		\$ 300,000	\$ 300,000	\$ -	\$ 300,000	Project to develop business case for broader data access and analytics services with the Ministry of Energy is expected to be started and substantially completed in 2014.
Total MDM/R Changes and Initiatives Costs	\$ 3,091,890	\$ -	\$ 3,091,890	\$ 1,316,262	\$ 1,775,628	
SUB-TOTAL (Before Financing costs)	\$ 27,582,417	\$ 0	\$ 27,582,417	\$ 22,786,851	\$ 4,795,566	
Financing Costs	\$ 1,836,126		\$ 1,836,126	\$ 1,560,815	\$ 275,311	Slightly lower interest rates than budgeted, and lower financing costs due to deferred expenditures to 2014.
TOTAL	\$ 29,418,543	\$ 0	\$ 29,418,543	\$ 24,347,666	\$ 5,070,877	

Smart Metering Entity (SME) Financial Report

For the Year Ended December 31, 2013

2. Variance Account Report

Variance Account	Year: 2013			Cumulative (2013 to 2013)		
	Budget	Actual	Variance	Budget	Actual	Variance
Cost	\$ 29,418,543	\$ 24,347,666	\$ 5,070,877	\$ 29,418,543	\$ 24,347,666	\$ 5,070,877
Revenue	\$ 30,137,685	\$ 30,144,435	\$ (6,750)	\$ 30,137,685	\$ 30,144,435	\$ (6,750)
Service Level Credits	\$ -	\$ (260,867)	\$ 260,867	\$ -	\$ (260,867)	\$ 260,867

Smart Metering Entity (SME) Financial Report

For the Year Ended December 31, 2013

3. SME Financial Report Reconciliation to IESO Audited Financial Statements for the year ended December 31, 2013

(in thousands of Canadian dollars)

Smart metering charge - actual revenue	30,144
Smart metering charge - annual report	30,144
Amount to reconcile	-

Smart metering expenses - actual expenses	24,348
Smart metering expenses - annual report	26,531
Amount to reconcile	(2,183)

Add: capital spend on MDM/R	1,393
Less: amortization expense	3,836
Less: service level credits	(260)
Total reconciled	(2,183)