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BY EMAIL & RESS

April 10, 2015
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 2014
(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, 2014 (the "2014 Report"). The 2014 Report is the second 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 2014 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 2014 Report provides:

- the variances between the SME's budgeted and actual costs for 2014 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 2014 Report, the SME's actual costs for 2014 were \$3,162,443 less than the budgeted amount for 2014 included in the SME's rate application in EB-2012-0100/EB-2012-0211. The reasons for the variance include the following:

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- The SME reduced IESO staff costs of \$407,419 by using lower cost temporary resources and contract resources for project and change initiatives.
- The SME did not require the full amount allocated for the “Provision for MDM/R Upgrades, Maintenance and Changes” resulting in a variance of \$1,725,000.
- Project costs for the “Release 7.6 and Measurement Canada 2012 Upgrade” were deferred from 2014 to 2015 resulting in a variance of \$1,441,246. The deferral was necessary due to a delay in receiving production ready code from the software vendor. Subsequently, the MDM/R was successfully upgraded to new software in March 2015. The delay did not increase the overall cost of the project because: (i) payments to the software vendor were tied to the delivery of quality software; and (ii) the SME managed costs aggressively to mitigate the impact of this delay.
- The SME incurred lower financing costs of \$513,655 due to lower interest rates and a lower overall debt load than was budgeted for 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 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 for the following reasons:

- A significant proportion of the variance between budgeted and actual costs is due to the deferral of project costs for “Release 7.6 and Measurement Canada 2012 Upgrade” to 2015. Remaining project costs will be incurred early 2015.
- The SME is dependent on the prevailing interest rate for financing its debt and is exposed to fluctuations in the rate. While interest rates remained at historic lows in 2014, the SME does not believe it is prudent to adjust the SMC on the assumption that rates will remain at the current level.
- Approximately 10% of the SME’s costs are exposed to fluctuations in the value of the Canadian dollar. Several components of the SME’s costs (including annual software maintenance and licence fees) are denominated in US dollars and have increased due to the declining value of the Canadian

dollar. For example, a 1% change in the US dollar relative to the Canadian dollar increases the SME's costs by approximately \$20,000 per year.

As of December 31, 2014 the IESO's SME related debt for the development, implementation and operation of the MDM/R (2006 to April 2013) was \$74.5 million. Any unallocated revenues collected during 2014 and 2015 will be utilized to reduce the SME's debt and associated financing costs. Paying down the SME's debt helps reduce the need for recovering financing costs associated with these historical costs from ratepayers in the future.

By copy of this letter, we are providing the 2014 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 2014 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,



Patrick G. Duffy

PD/il

c.c.: Przemek Tomczak, *IESO*
Paula Lukan, *IESO*
Nancy Marconi, *IESO*
Registered Intervenors for EB-2012-0100/EB-2012-0211
encl.

Smart Metering Entity (SME) Financial Report

For the Year Ended December 31, 2014

Issued April 2, 2015

1. SME Annual Cost Report

BUDGET Category			Calendar Year: 2014			Explanation
	Smart Metering Charge Revenue Requirement	Budget Transfer (1)	Budget	Actual	Variance (Budget - Actual)	
MDM/R OPERATIONS						
IESO Costs						
IESO Project Team costs						
IESO Staff Costs	\$ 3,489,975	(\$ 200,327)	\$ 3,289,648	\$ 2,882,229	\$ 407,419	The SME reduced IESO staff and contractor costs by using lower cost temporary resources and contract resources for project and change initiatives.
Contractor Costs	\$ 2,169,309	\$ -	\$ 2,169,309	\$ 2,136,782	\$ 32,527	
Total IESO Project Team Costs	\$ 5,659,284		\$ 5,458,957	\$ 5,019,011	\$ 439,946	
External Fees and Expenses	\$ 497,658	\$ 200,327	\$ 697,985	\$ 559,254	\$ 138,731	The SME's external fees and expenses were less than projected due to measures taken by the SME to aggressively manage such costs.
Regulatory Process: Licensing & Cost Recovery	\$ 10,000	\$ -	\$ 10,000	\$ 800	\$ 9,200	There were no intervenor objections to the SME's filing with the OEB in 2014, which lead to lower regulatory costs than projected in EB-2012-0100/EB-2012-0211.
IESO Communications Support	\$ 53,045	\$ -	\$ 53,045	\$ 72,284	(\$ 19,239)	Communications Support expenses were higher in 2014 than projected, but the SME's total spend on Communications Support for 2013 and 2014 is \$28,000 under the figure approved by the Board in EB-2012-0100/EB-2012-0211.
Total IESO Costs	\$ 6,219,986	\$ -	\$ 6,219,986	\$ 5,651,349	\$ 568,637	

(1) Budget transfer: IESO Board of Directors approved change in budget allocation 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, 2014

Issued April 2, 2015

BUDGET Category			Calendar Year: 2014			Explanation
	Smart Metering Charge Revenue Requirement	Budget Transfer (1)	Budget	Actual	Variance (Budget - Actual)	
Vendor Costs						
Vendor Base Contract Costs	\$ 14,073,879	\$ -	\$ 14,073,879	\$ 14,037,843	\$ 36,036	Operating fees associated with some Vendor services were deferred to 2015.
Vendor Change Orders and Infrastructure Improvements	\$ 951,873	\$ -	\$ 951,873	\$ 2,050,031	(\$ 1,098,158)	The variance relates to the Infrastructure Improvements project (Data Mart and Web Service Facility) that was substantially completed in 2014 following planning and procurement in 2013. The 2014 variance is due to the deferral of costs initially planned for 2013. The project is expected to be completed in 2015 following testing by the SME and LDCs.
Software Licenses	\$ 1,345,784	\$ 375,000	\$ 1,720,784	\$ 1,704,493	\$ 16,291	An amount of \$375,000 was reallocated from the budget for Provision for MDM/R Upgrades, Maintenance and Changes to cover higher software license and maintenance fees that are denominated in US dollars.
Total Vendor Costs	\$ 16,371,536	\$ 375,000	\$ 16,746,536	\$ 17,792,367	(\$ 1,045,831)	
Total MDM/R Operations Costs	\$ 22,591,523	\$ 375,000	\$ 22,966,523	\$ 23,443,716	(\$ 477,194)	

Smart Metering Entity (SME) Financial Report

For the Year Ended December 31, 2014

Issued April 2, 2015

BUDGET Category			Calendar Year: 2014			Explanation
	Smart Metering Charge Revenue Requirement	Budget Transfer (1)	Budget	Actual	Variance (Budget - Actual)	
MDM/R Changes and Initiatives						
Provision for MDM/R Upgrades, Maintenance and Changes	\$ 5,000,000	(\$ 3,275,000)	\$ 1,725,000	\$ -	\$ 1,725,000	A total of \$3,275,500 was transferred from the budget for Provision for MDM/R Upgrades, Maintenance and Changes to: (1) \$2,600,000 to Release 7.6 and Measurement Canada 2012 Upgrade (2) \$300,000 to MDM/R Changes, and (3) \$375,000 Software Licenses.
Release 7.6 and Measurement Canada 2012 Upgrade	\$ -	\$ 2,600,000	\$ 2,600,000	\$ 1,158,754	\$ 1,441,246	Project costs were deferred from 2014 to 2015 resulting in a variance of \$1,441,246. The deferral was necessary due to the delays in receiving production ready code from the software vendor. Subsequently, the MDM/R was successfully upgraded to new software in March 2015. The delay did not increase the overall cost of the project because: (i) payments to the vendor were tied to delivery of a quality software; and (ii) the SME managed costs aggressively to mitigate the impact of the delay.
MDM/R Data Access Analysis and Planning	\$ -	\$ -	\$ -	\$ 5,000	(\$ 5,000)	This project is to support the Ministry of Energy sponsored initiative to develop a business case to assess the benefits, costs and implementation considerations for a provincial data access platform (the MDM/R Data Access Platform). This project was initiated in Q4 2014 and is expected to be completed in 2015. Project expenditures remain within authorized budget of \$300K
MDM/R Changes	\$ -	\$ 300,000	\$ 300,000	\$ 335,264	(\$ 35,264)	Total spend and projected spend for MDM/R Changes remains within the amounts projected in EB-2012-0100/EB-2012-0211.
Total MDM/R Changes and Initiatives Costs	\$ 5,000,000	(\$ 375,000)	\$ 4,625,000	\$ 1,499,017	\$ 3,125,983	
SUB-TOTAL (Before Financing costs)	\$ 27,591,523	\$ -	\$ 27,591,523	\$ 24,942,734	\$ 2,648,789	
Financing Costs	\$ 1,830,755	\$ -	\$ 1,830,755	\$ 1,317,101	\$ 513,655	Variance due to lower interest rates than projected resulting in lower financing costs.
TOTAL	\$ 29,422,278	\$ -	\$ 29,422,278	\$ 26,259,835	\$ 3,162,443	

Smart Metering Entity (SME) Financial Report

For the Year Ended December 31, 2014

Issued April 2, 2015

2. Variance Account Report

	Year: 2014		
Variance Account	SMC Revenue Requirement	Actual	Variance (SMC Revenue Requirement - Actual)
Cost	\$ 29,422,278	\$ 26,259,835	\$ 3,162,443
Revenue	\$ 45,206,527	\$ 45,735,079	\$ (528,551)
Service Level Credits	\$ -	\$ (107,844)	\$ 107,844

	Cumulative (2013 to 2014)		
Variance Account	SMC Revenue Requirement	Actual	Variance (SMC Revenue Requirement - Actual)
Cost	\$ 58,840,821	\$ 50,607,501	\$ 8,233,320
Revenue	\$ 75,344,212	\$ 75,879,514	\$ (535,301)
Service Level Credits	\$ -	\$ (368,710)	\$ 368,710

Smart Metering Entity (SME) Financial Report

For the Year Ended December 31, 2014

Issued April 2, 2015

3. SME Financial Report Reconciliation to IESO Audited Financial Statements for the year ended December 31, 2014 (in thousands of Canadian dollars)

Smart metering charge - actual revenue	45,735
Smart metering charge - annual report	45,735
Amount to reconcile	-

Smart metering expenses - actual expenses	26,260
Smart metering expenses - annual report	27,869
Amount to reconcile	(1,609)

Add: capital spend on MDM/R	2,826
Less: amortization expense	4,543
Less: service level credits	(108)
Total reconciled	(1,609)