

# 2019 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 2019, which is the second year of the 2018 – 2022 operating budget as approved in the OEB’s March 1, 2018 decision on the SME’s Smart Metering Charge (“SMC”) application, OEB file # EB-2017-0290 (the “SMC Application”).

More specifically, the 2019 Report provides:

1. **Operational Background**
2. **2019 Financials**
  - a) **Financial Results** – for the fiscal year ending 2019, the SME’s high level budgeted and actual revenue and the budgeted and actual costs. (**Table 1: 2019 Revenues and Expenses Compared to 2019 Budget**)
  - b) **SME Revenues** – provides the collected revenue for the fiscal year ending 2019.
  - c) **SME Expenses** – provides further details and variance explanations for the SME budget and an update on the MDM/R upgrade project and the costs compared to budget. (**Table 2: 2019 Expenses Compared to 2019 Budget**)
3. **SME Debt** – provides the balance of the outstanding SME debt at the start and end of 2019 and the plans to recover the debt amount in the three years remaining in the Ontario Energy Board (“OEB”) approved five year operating budget period of 2018 - 2022.
4. **Service Level Credit Balance Account** – provides the outstanding service level credit (“SLC”) account balance. Payments are made into the SLC account when there are failures in the delivery of certain services from a major vendor of services to the SME.
5. **SME Balancing Variance Account (“BVA”)**– provides the total of the SME’s annual revenues, expenses, outstanding debt and the Service Level Credits Account balances in the form of the Sample Report set out by section 5 of the Accounting Order. (**Table 3: SME Variance Account Report and Table 4: SME Balancing Variance Account Reconciliation to SME Statement of Financial Position**)
6. **Appendices** – **SME Statement of Financial Position** as of December 31, 2019 (**Table 5**), **2019 SME Financial Report Reconciliation to IESO Audited Financial Statements** (**Table 6**) and **Cumulative 2018 and 2019 Statements** (**Table 7 and 8**)
7. **Terms & Definitions**

# 1. Operational Background

As set out in the *Electricity Act, 1998* – O.Reg. 393/07, the IESO is designated as the SME. The SME maintains and operates Ontario’s centralized meter data management repository (“MDM/R”) under licence issued by the OEB.

The MDM/R is the province’s central platform for smart meter data and processes all electricity consumption data that is used for residential and small general service customers (<50kW) billing by Ontario’s local distribution companies (“LDCs”). This central model avoids the need for Ontario’s 60+ LDCs to invest in duplicative non-uniform infrastructure and ensures consistent, rigorous data processing regardless of the LDCs different metering technologies.

The MDM/R was built following the foundational principles of *Privacy by Design* as established by the Information and Privacy Commissioner of Ontario (“IPC”) so that the data collected, stored and managed in the MDM/R complies with stringent industry protocols that ensure encrypted data is securely transmitted over the internet. The MDM/R also has a disaster recovery facility at a geographically separate location that will resume all MDM/R functions should a business interruption occur.

The MDM/R has grown over time into one of the largest shared service and transactional systems in the world, reliably supporting the LDCs as home to 200 billion centralized records and adding 120 million records every day.

The services provided by the MDM/R are delivered by an Operational Service Provider (“OSP”), a competitively procured vendor who is responsible for the day to day operations and service level obligations to the LDCs.

Other key vendor support services to the MDM/R operations include:

- providing the meter data management solution, the SME uses to support the LDC’s billing process and the EIP 8.6 MDM/R upgrade code maintenance and support,
- providing support and maintenance for the environment and licences required by the SME to operate software which supports the EIP 8.6 MDM/R upgrade,
- providing software licences, maintenance and support services for the IT Service Management Platform used by the SME to serve the LDCs, and
- providing support for the database technology platform on which the MDM/R DataMart, a replica data store of the MDM/R designed for analytics by the SME and LDCs, is built on.

This Annual Cost Variance Account report is provided to the OEB as identified in the original SMC Decision and Order, March 28, 2013, the Accounting Order issued May 14, 2013 and subsequent Decision and Orders issued by the OEB and presents a financial picture of the SME operations as of December 31, 2019, which is the second year of the SME's approved 2018-2022 operating budget.

Overall, the SME's 2019 financial situation is favorable with an expense savings of \$3.0 million as compared to the budget. Some of the highlights are:

- SME's operation and administration costs (including financing charges) are flat to budget
- \$2.0 million in savings relating to Changes & Initiatives, and  
\$1.0 million in savings were related to the EIP 8.6 MDM/R upgrade. These savings were achieved through reconfiguring the assignment of work for a more efficient use of project resources. This resulted in lower charges from the Operational Service Provider.

More information about the provincial Smart Metering Initiative and the MDM/R is available on the IESO/SME website (<http://www.ieso.ca/sector-participants/smart-metering-entity>), the Ontario Energy Board website (<https://www.oeb.ca>), and the Ministry of Energy, Northern Development and Mines website (<https://www.mndm.gov.on.ca/en>).

## 2. 2019 Financials

### a) Financial Results:

For the year 2019 the SME had a \$3.6 million operating surplus compared to a budgeted operating deficit of \$0.6 million. This is a variance of \$4.1 million and results from a combination of higher than budgeted revenues (by \$1.1 million) and lower than budgeted expenses (by \$3.0 million).

**Table 1: 2019 Revenues and Expenses Compared to 2019 Budget**

(\$ millions)	2019		
	Actual	Budget	Variance
Total SME Revenue	34.9	33.8	1.1
Total SME Expenses	31.3	34.3	(3.0)
<b>Total SME Operating Surplus/(Deficit)</b>	<b>3.6</b>	<b>(0.5)</b>	<b>4.1</b>

Additional variance details can be found below.

### b) Total SME Revenue

SME revenues collected in 2019 were \$34.9 million, which is \$1.1 million higher than the budgeted amount of \$33.8 million which was included in the SME's SMC application. This is due to a higher number of actual meters registered, compared to estimated<sup>1</sup>.

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<sup>1</sup> Estimated meter count is from the Yearbook of Electricity Distributors published by the Ontario Energy Board in August 2017. This is available at: <https://www.oeb.ca/utility-performance-and-monitoring/natural-gas-and-electricity-utility-yearbooks>

## c) Total SME Expenses

The table below outlines the SME's 2019 Expenses and variances against its 2019 budget.

**Table 2: 2019 Expenses Compared to 2019 Budget**

	2019			
(\$ millions)	Actual	Budget	Variance	% Variance
Compensation & Benefits	3.1	3.7	(0.6)	-16%
Professional & Consulting	16.5	14.7	1.8	12%
Operating & Administration	6.1	7.0	(0.9)	-13%
MDM/R Changes & Initiatives	0.0	2.0	(2.0)	-100%
Financing Costs	0.0	0.3	(0.3)	-100%
MDM/R 8.x Upgrade	5.6	6.6	(1.0)	-15%
<b>Total SME Operating Surplus/(Deficit)</b>	<b>31.3</b>	<b>34.3</b>	<b>(3.0)</b>	<b>-9%</b>

Total SME expenses were \$31.4 million for the year which is \$3.0 million lower than budgeted. The following is a summary and explanation of material variances over 10% as requested in previous year's filing.

- Compensation & Benefits expenses were \$3.1 million for the year which is a savings of \$0.6 million. These savings resulted from an average 2.0 FTE vacancies in 2019, lower overtime, student costs and lower expenses for IESO support functions. There were no deferred costs under Compensation & Benefits.
- Professional & Consulting expenses were \$16.5 million for the year which is an increased expense of \$1.8 million. The primary drivers of this increase are as follows:
  - A contract extension clause was exercised in March 2018 to extend the Hosting agreement with the Operational Service Provider for an additional 5 years to March 2024. The contract required the OSP to replace the hardware that supports the MDMR and perform an upgrade of the MDMR EnergyIP software. As this upgrade was scheduled over an 18 month period, the OSP is required to host and manage duplicate environments for the duration of the project as we must maintain the production environment, while at the same time build and test the new environment.

The SME's fee submission inadvertently excluded this overlap charge as the upgrade project costs were not yet finalized (the fee submission was submitted in August 2017, prior to the renewal contract with the OSP which was finalized in

March 2018), but the Upgrade project is forecast to complete at \$2.5M under budget so the overlap will not impact the overall Upgrade project cost

- Operating & Administration expenses were \$6.1 million for the year, which is a savings of \$0.9 million.
  - Savings of \$0.9 million attained through discounts negotiated on software maintenance contracts and a contingency budget that was not utilized.
  - Savings of \$0.6 million in being less than the budgeted amounts in multiple areas, including: rent, subscriptions, the SME's DataMart, administrative expenses and staff training and travel, offset by
  - \$0.6 million of increased costs resulting from the SME's portion of cost allocation from the broader IESO
- There were no expenses against MDM/R Changes & Initiatives for the year, and this results in a savings of \$2.0 million. This is primarily due to lower costs attained as a number of projects that were budgeted to begin in 2018 were 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.
- Savings of \$0.3 million in operating financing costs as a result of the bulk of the interest charges being accumulated against the MDM/R 8.6 Upgrade
- The total cost for the MDM/R 8.6 Upgrade was \$5.6 million for the year which is \$1.0 million lower than budgeted, primarily due to reduced costs through vendor contract negotiations.

### 3. SME Debt

The SME's debt was \$6.9 million on January 1, 2019, the beginning of the new budget period, and this amount includes the 2018 operating deficit of \$1.2 million, \$5.3 million relates to the remaining unfunded start-up costs of the SME and the service level credit ("SLC") balance of \$0.4 million. The Smart Metering debt at the beginning of the SMC collection period in 2013 was \$100.1 million.

The SME's debt on December 31, 2019 was \$3.4 million. This reduction includes the impact of the 2019 operating surplus of \$3.6 million and the rebate of the December 31, 2018 SLC balance of \$0.4 million. This debt is planned to be recovered over the remaining budget period to December 31, 2022 as approved in the SMC Application decision.

## 4. Service Level Credit Balance

The SMC Application decision approved the clearance of the December 31, 2017 balance of negative \$0.4 million in the SLC Account. As there were no failures in service by the OSP in 2018 no additional funds were added to the SLC Account in 2018.

Note, the SLC balance was rebated to the LDC's in the March 31, 2019 Settlement invoice according to the 2013-2015 Yearbook of Electricity Distributors published by the OEB.

## 5. SME Balancing Variance Account ("BVA")

The BVA is a summary statement of the SME's balance sheet and the December 31, 2019 BVA balance is negative \$3.4 million. This is the result of the opening balance of \$7.4 million, the 2019 operational surplus of \$3.6 million and the rebate of the outstanding December 31, 2018 SLC balance of \$0.4 million as shown in Table 3 below. Although the balance in the BVA may be recovered sooner than end of current budget cycle of 2022, it will be only at the end of 2020 (more specifically, at the time of the next Variance Account Report reporting) when we will be able to project with more precision a breakeven point and further considerations for when the BVA may reach a material positive variance.

**Table 3: SME Balancing Variance Account**

<b>SME BVA (\$ millions)</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Balance (as of Jan 1)</b>	<b>(5.8)</b>	<b>(7.4)</b>			
Total SME Revenue	34.5	34.9			
Total SME Expenses	(35.7)	(31.4)			
Service Level Credits	(0.4)	0.4			
<b>SME BVA (as of Dec 31)</b>	<b>(7.4)</b>	<b>(3.4)</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Table 4: SME BVA Reconciliation to SME Statement  
of Financial Position**

<b>(\$ millions)</b>	<b>2018</b>	<b>2019</b>
<b>SME BVA</b>	<b>(7.4)</b>	<b>(3.4)</b>
Change in short-term prepaid expenses	0.1	0.0
Service level credit account balance	0.4	-
<b>Net Debt</b>	<b>(6.9)</b>	<b>(3.4)</b>

## 6. Appendices

Table 5: SME Statement of Financial Position

(in \$ millions)	Dec 31, 2019	Dec 31, 2018
<b>LIABILITIES</b>		
Accounts payable & accrued liabilities	0.7	2.1
Debt	2.7	4.8
<b>TOTAL LIABILITIES</b>	<b>3.4</b>	<b>6.9</b>
<b>NET DEBT</b>	<b>(3.4)</b>	<b>(6.9)</b>
<b>NON-FINANCIAL ASSETS</b>	<b>-</b>	<b>-</b>
Meter Data Management/Repository (MDM/R)	13.9	13.1
Short-term prepaid expenses	0.8	0.8
<b>TOTAL NON-FINANCIAL ASSETS</b>	<b>14.7</b>	<b>13.9</b>
	<b>-</b>	<b>-</b>
<b>TOTAL ACCUMULATED SURPLUS / (DEFICIT)</b>	<b>11.3</b>	<b>7.0</b>

Table 6: 2019 SME Financial Report Reconciliation to IESO Draft Financial Statements

<b>SME Financial Report Reconciliation to IESO Audited Financial Systems</b>	
<b>(\$ millions)</b>	
Smart metering charge - actual revenue	34.9
Smart metering charge - annual report	34.9
Amount to reconcile	0.0
Smart metering expenses - actual expenses	31.4
Smart metering expenses - annual report	30.6
Amount to reconcile	0.7
<b>Total amount to reconcile</b>	<b>0.7</b>
Add: capital spend in MDM/R	5.6
Less: amortization	(4.9)
<b>Total reconciled</b>	<b>0.7</b>



**Table 7: 2018 & 2019 Cumulative Revenues and Expenses Compared to Budget**

	<b>Cumulative 2018 &amp; 2019</b>		
<b>(\$ millions)</b>	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>
Total SME Revenue	69.4	67.2	2.2
Total SME Expenses	67.1	79.4	(12.3)
<b>Total SME Operating Surplus/(Deficit)</b>	<b>2.4</b>	<b>(12.2)</b>	<b>14.5</b>

## 7. Terms & Definitions

**"BVA"** is an OEB approved variance account which consolidates and tracks the total of the year end balances of outstanding debt, revenues, expenses and the SLC Balance.

**Change Request** means a technical change to the MDM/R system, operating manuals or Terms of Service. These are usually made at the request of one or more LDCs.

**"IESO"** means the Independent Electricity System Operator. The IESO is the operator of Ontario's high voltage electricity system and ensures there is enough power to keep the lights on, today and into the future.

**"MDM/R"** means the Meter Data Management and Repository. The MDM/R is the province's central platform for smart meter data and processes all electricity consumption data that is used for residential and small general service customers (<50kW) billing by Ontario's local distribution companies ("LDCs").

**"OEB"** means the Ontario Energy Board. The OEB is Ontario's independent energy regulator and makes decisions and rules to ensure that consumers are treated fairly and that the energy sector is reliable and sustainable.

**"OSP"** means the Operational Service Provider for the MDM/R. The MDM/R is operated by an MDM/R Operational Service Provider and the OSP is responsible for meeting and/or exceeding the requirements for the on-going operation and maintenance of the MDM/R.

**"SMC"** means the Smart Metering Charge. The OEB approved SMC of \$0.57 per smart meter per month is paid by residential and small commercial customers with smart meters.

**"SLC" Balance** means the penalties that are charged to the OSP if the OSP fails to deliver on certain services. To ensure the optimal operation of the MDM/R, the OSP must consistently meet all service level operating requirements for the MDM/R. In the event that a service level target is missed, the Operational Service Provider applies a service level credit.

**"SME"** means the Smart Metering Entity. The IESO is designated as the Smart Metering Entity by Ontario Regulation 393/07. The SME manages the MDM/R is the province's central platform for smart meter data and processes all electricity consumption data that is used for residential and small general service customers (<50kW) billing by Ontario's local distribution companies ("LDCs").

**SME Debt** means the current balance of the SME's outstanding debt. The current balance of debt includes historic debt incurred during the MDM/R build phase period, which occurred prior to a smart meter charge being set. The historic debt was \$100.1 million in 2013 when the initial Smart Meter Charge was approved by the OEB and first began to be collected.

## Budget Terms

**“Compensation & Benefits”** means the salary and benefits paid to the employees of the SME

**“Professional & Consulting”** means costs of the any operational service provider

**“Operating & Administration”** means the costs associated with any administrative charges applicable to the SME

**“MDM/R Changes & Initiatives”** means projected upgrades, maintenance and changes required to the MDM/R to support LDC requirements

**“Financing Costs”** means interest on remaining unfunded start-up costs.

**“MDM/R 8.x Upgrade”** means migration of core function and data to Energy IP 8.6.