

2019 Smart Metering Entity (SME)
Annual Cost and Variance Account Report Supplementary

1. The table below shows 2019 Revenue and Expenses compared to 2019 budget in the 2019 SME Annual Cost and Variance Account Report.

Table 1: 2019 Revenues and Expenses Compared to 2019 Budget

| | 2019 | | |
|--|---------------|---------------|-----------------|
| (\$ millions) | Actual | Budget | Variance |
| Total SME Revenue | 34.9 | 33.8 | 1.1 |
| Total SME Expenses | 31.4 | 34.4 | (3.0) |
| Total SME Operating Surplus/(Deficit) | 3.6 | (0.6) | 4.1 |

- a. Based on the data provided, the calculated difference between total SME revenue and expenses is a \$3.5 million surplus in Table 1 as compared to the \$3.6 million shown. Please review the reported total SME revenue and expenses figures such that the calculated total SME operating surplus is the \$3.6 million shown in the table.

Response to 1. a.

The rounding errors in the original table are corrected in the table below which will also be used in the annual report.

Table 1: 2019 Revenues and Expenses Compared to 2019 Budget

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

2. The table below summarizes SME actual vs budgeted expenses for the year 2019 in the 2019 SME Annual Cost and Variance Account Report. 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.

| (\$ 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 | - | 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% |
| Total SME Expenses | 31.4 | 34.3 | (3.0) | -9% |

- a. The sum of actual total SME expenses based on the data provided in Table 2 amounts to \$31.3 million as compared to the \$31.4 million shown. Please provide a correct breakup of figures that match the total \$31.4 million reported SME expenses.

Response to 2. a.

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% |
| Total SME Expenses | 31.3 | 34.3 | (3.0) | -9% |

- b. If the line item “MDM/R Changes & Initiatives” is zero, consider showing the reported value as “0.00”.

Response to 2. b.

The change was considered, however, the IESO does not believe the revision provides greater clarification.

- c. Please provide breakdowns by actual savings achieved in 2019 and expenses that are planned to be deferred to 2020 in the table below.

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

| (\$ millions) | Budget | Actual Cost Savings | Deferred Expenses (to 2020) |
|-----------------------------|--------|---------------------|-----------------------------|
| Compensation & Benefits | 3.7 | | |
| Operating & Administration | 7.0 | | |
| MDM/R Changes & Initiatives | 2.0 | | |
| MDM/R 8.x Upgrade | 6.6 | | |

Response to 2. c.

There are no deferred expenses from 2019 to 2020.

- d. Provide a detailed explanation of the key drivers/factors that have contributed to a deferral of 2019 expenses to 2020 for the following identified expenses, if any
 - a. Compensation & Benefits
 - b. Operating & Administration
 - c. MDM/R Changes & Initiatives
 - d. MDM/R 8.x Upgrade

Response to 2. d.

There are no deferred expenses from 2019 to 2020.

- e. What will be the potential impact on the operating results for 2020 as against the 2019 budgeted amount for the identified expenses, if any?
 - a. Compensation & Benefits
 - b. Operating & Administration
 - c. MDM/R Changes & Initiatives
 - d. MDM/R 8.x Upgrade

Response to 2. e.

There is no impact on the operating results for 2020 as there are no deferred expenses from 2019 to 2020.

3. As stated in the report, “the total cost for the MDM/R 8.6 Upgrade was \$5.6 million for the year which is \$1.0 million under budget, primarily due to reduced costs resulting from successful contract negotiations with the vendor.”
 - a. Please elaborate the drivers and the nature of upgrade, i.e. add-ons subscribed to enable additional features, subscription to a higher version or any other.

Response to 3. a.

The MDM/R 8.6 Upgrade project comprises a re-platforming to new hardware, an upgrade to the latest major release of the EnergyIP software, an upgrade of the Oracle database, and a replacement of the underlying operating system and middleware to industry open standards.

- b. Please describe the nature of the contract for MDM/R 8.6 upgrade, i.e. fixed contract, continuous annual contract or any other.

Response to 3. b.

The MDM/R 8.6 upgrade is a fixed price contract.

- c. Based on the responses for a and b above, please elaborate (if applicable) any future upgrades to give an idea on the actual vs budgeted MDM/R upgrades.

Response to 3. c.

Over the remaining life of the contract with the Operational Service Provider for hosting the MDM/R to March 2024, only minor upgrades or patches are anticipated for the MDM/R Application software, Operating System, or Database software.

- 4. As stated in the report, "Compensation & Benefits expenses were \$3.1 million for the year, which is \$0.6 million lower than planned. This resulted from an average two FTE vacancies, hiring lags, lower overtime and student costs, and lower expenses for IESO support functions."
 - a. The explanation provided above is identical to last year's 2018 SME annual report. Please explain the resourcing plan for these two FTE vacancies and hiring lags for 2020.

Response to 4. a.

One vacancy was filled in Dec 2019 and the other in early 2020. The resulting costs will be shown in the 2020 actuals.

- 5. As stated in the report, "Professional & Consulting expenses were \$16.5 million for the year, which is \$1.8 million above budget. The increase resulted from an overlap in the execution of the renegotiated contract with the OSP into the first quarter of 2019, which was partially offset by reduced expenses in contractor, audit and legal services."
 - a. Provide detailed explanation of the increase due to overlap in the execution.

Response to 5. a.

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 did not include this overlap charge as the upgrade project costs were not finalized at the time the fee submission was submitted in August 2017. The renewal contract with the OSP was finalized in March 2018. The Upgrade project is forecast to complete at \$2.5M under budget so the overlap will not impact the overall Upgrade project cost.

The explanation provided above has been included the 2019 Annual Cost and Variance Account Report filed under EB-2017-0290.

- b. Provide detailed explanation of the outcomes of the renegotiated contract including the following
 - i. Changes to the original scope of work due to renegotiation

Response to 5. b. i.

The costs of the Upgrade, including Hardware and Professional Services, was built into the contract cost of the 5-year extension for Operating and Hosting the MDMR.

- ii. Changes to the contract price due to renegotiation

Response to 5. b. i.

The 5-year extension of the Hosting contract included an annual uplift cost of 3%. During the contract negotiations we achieved savings of approximately 12% over the 5 year contract which included all Hardware and Professional Services associated costs for the 18-month upgrade project.

- c. Provide actual vs budgeted professional & consulting expenses before applying any offsets due to reduction in expenses in contractor, audit and legal services.

Response to 5. c.

| Professional & Consulting | 2019 | | | |
|---------------------------|--------|--------|------------|----------|
| (\$ millions)* | Actual | Budget | % Variance | Variance |
| Contractor Costs | 0.9 | 1.5 | -36% | (0.5) |
| Audit Services | 0.2 | 0.4 | -47% | (0.2) |
| Stakeholder Engagement | 0.0 | 0.1 | -100% | (0.1) |
| Legal Services | 0.0 | 0.0 | -88% | (0.0) |
| MDMR Operating Costs | 15.3 | 12.8 | 20% | 2.5 |

| | | | | |
|---------------------------|-------------|-------------|--|------------|
| SME Third Party Contracts | 0.0 | 0.0 | | 0.0 |
| Total | 16.5 | 14.7 | | 1.8 |

* Numbers are rounded to millions

- d. Please explain if there will be any deferral of 2019 expense to 2020 under professional & consulting expenses.

Response to 5. d.

There was no deferral of expenses from 2019 to 2020.

6. Please provide any other information relevant to the OEB's review of the 2019 Annual Cost Variance Account.

Response to 6.

The IESO does not have any further information that it believes would be relevant.

7. The following is an excerpt from page 2 of the 2019 Annual Cost and Variance Account Report:

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. In addition, and in the case of a pandemic, the SME has the capability to allow staff to work from home and can support such arrangements for an extended period of time, thereby allowing the SME to continue to effectively provide service.

Questions

- a. The SME states that it has the capability to allow staff to work from home for extended periods.
- i. During the recent COVID-19 emergency, please identify if SME staff have been working from home.

Response to 7. a. i.

All SME staff have been working from home since March 16, 2020. This is consistent with the IESO's Pandemic Response Plan.

- ii. If applicable, please identify if these staff have remote access to the encrypted data collected, stored and managed in the MDM/R.

Response to 7. a. ii.

Access rights for SME staff are not altered from those available in the office if SME staff are working from home.

- b. The SME states that “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.”
 - i. If applicable, please describe how the remote access to the MDM/R provided to SME staff working from home complies with the Privacy by Design principles established by the IPC.

Response to 7. b. i.

The SME does not receive any personal data or information on smart meter customers from LDC's. The same technical and access standards apply to the IESO issued computers staff use and the IT safeguards in place whether staff work remotely, including from home, or at the office. All remote access is via a Virtual Private Network (VPN) using two-factor authentication and full end to end encryption. All of which is consistent with Privacy by Design principles.

- ii. If applicable, please indicate if a third-party completed an assessment of the SME's remote MDM/R access construct to ensure compliance with the Privacy by Design principles established by the IPC. Please identify the third party who undertook this compliance assessment, as well as their credentials for providing this service.

Response to 7. b. ii.

As stated above, the SME does not receive any personal data or information on smart meter customers from LDC's.

The SME conducts annual penetration testing of the infrastructure that hosts the MDMR. The scope of the test is an external penetration test against all externally facing systems including Webservers, firewalls and File transfer servers. The test objective was to identify vulnerabilities that an attacker could exploit to gain unauthorized access to sensitive data or

systems. The most recent penetration test was completed in March 2020 by the IBM X-Force Security team.

8. At page 5 of the 2019 Annual Cost and Variance Account Report the SME identifies that professional and consulting expenses were \$16.5 million in 2019, \$1.8 million higher than budget. The SME indicates that a primary driver of the increase resulted from “an overlap in the execution of the renegotiated contract with the [Operational Service Provider] into the first quarter of 2019...”.
- a. Please fully explain what is meant by “an overlap in the execution of the renegotiated contract” as well as how this overlap drove a significant (i.e., greater than \$1.8 million) budget overspend.

Response to 8. a.

Please see the response to 5 a.

9. In the October 2019, the OEB denied the SME’s Third Party Access to Information application (EB-2018-0316). Please describe any impacts the OEB’s decision had on the SME’s 2019 financials.

Response to 9.

It was anticipated that any revenues generated by Third Party Access would be for the benefit of Smart Meter ratepayers and tracked in the OEB approved Balancing Variance Account if Third Party Access. As Third Party Access has not commenced no revenues have been generated.

10. At page 5 of the 2019 Annual Cost and Variance Account Report the SME indicates that Operating & Administrative (O&A) expenses were \$6.1 million in 2019, \$0.9 million below budget. With respect to the O&A budget, the SME states that its final balance was driven in-part by “\$0.6 million of increased expenses resulting from the SME’s portion of cost allocation from the IESO. This cost allocation was included in the IESO’s 2018 Revenue Requirement application (EB-2018-0143).”
- a. Please elaborate on the connection between the SME’s O&A budget and the IESO’s 2018 Revenue Requirement and why this connection resulted in an increased expense in 2019.

Response to 10. a.

The IESO has allocated OEB costs to the SME as recommended by the consultancy BDR in its report which was filed with the OEB as part of a prior IESO Revenue Requirement application¹. In their report BDR stated the following:

4.2.9 OEB Costs

OEB costs are relevant only to the regulated business units, which are the IESO core activity and SME. The OEB's charges to the IESO do not separate charges incurred on behalf of IESO core activities and those incurred with respect to the SME. The IESO has no direct information as to the resources used by the OEB in its various regulatory activities.

For this allocation, therefore, the IESO must use some proxy or judgment-based factor, and the IESO has chosen relative revenues.

- 11.** Table 2: 2019 Expenses Compared to 2019 Budget of the 2019 Annual Cost and Variance Account Report demonstrates that the SME underspent 100% against its 2019 budget for MDM/R Changes & Initiatives. At page 6, the SME provides rationale for underspend.

- a. Does the SME's 2020 budget include an amount for MDM/R Changes & Initiatives? If so, what amount of this budget is the SME forecasting to spend in 2020?

Response to 11.

The SME's 2020 budget includes a \$2,000,000 budgeted amount for MDM/R Changes & Initiatives as approved by the OEB in the Smart Meter Charge application. Currently there are no expectations that any dollars will be applied to this in 2020, however at this time we are unable to provide a definitive response as we are only partially through 2020 and there could be unforeseen expenditures in 2020.

¹ Filed: July 16, 2018, EB-2018-0143, Exhibit C-3-1, Attachment 1,