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By Email, Courier and RESS

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Attention: Christine E. Long, Registrar and Board
Secretary

Dear Ms. Long:

**Re: Smart Meter Entity Annual Cost and Variance Account Report for 2020
(EB-2017-0290)**

On behalf of the Independent Electricity System Operator ("**IESO**") in its capacity as the Smart Metering Entity ("**SME**"), we are providing the Ontario Energy Board with the SME's Annual Cost and Variance Account Report for the year ended December 31, 2020.

The report was filed through the Board's RESS portal on May 28, 2021.

If you have any questions, please contact the undersigned at the address above.

Yours truly,



Patrick G. Duffy

PD/rw
Enclosure

cc. Sorana Ionescu, *IESO*
Adrian Pye, *IESO*
James Murphy, *IESO*
David Chong-Tai, *IESO*
Michael Bell, *OEB*
Registered Intervenor for EB-2017-0290

2020 Smart Metering Entity Annual Cost and Variance Account Report

The following Annual Cost and Variance Report provides an overview of the Smart Metering Entity's ("SME's") financial status as of the end of 2020, which is the third year of the 2018 – 2022 operating budget as approved in the Ontario Energy Board's ("OEB's") March 1, 2018 decision on the SME's Smart Metering Charge ("SMC") application, OEB file # EB-2017-0290 (the "SMC Application"). As the SMC Application decision approved the SMC for the period January 1, 2018 – December 31, 2022 the SME will file an application for a new SMC for 2023 - 2027 by Q2 2022.

More specifically, the 2020 Report provides:

1. **Operational Background**
2. **2020 Financials**
 - a) **Financial Results** – for the fiscal year ending 2020, the SME's budgeted, and actual, revenues and expenses. (**Table 1: 2020 Revenues and Expenses Compared to 2020 Budget**)
 - b) **SME Revenues** – provides the collected revenue for the fiscal year ending 2020.
 - c) **SME Expenses** – provides further details and variance explanations for the SME budget, an update on the MDM/R upgrade project completed in 2020, and the expenses compared to budget. (**Table 2: 2020 Expenses Compared to 2020 Budget**)
3. **SME Debt** – provides the balance of the outstanding SME debt at the start and end of 2020
4. **Service Level Credit Balance Account ("SLC")** – provides the outstanding service level credit 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 SLC 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, 2020 (**Table 5**), **2020 SME Financial Report Reconciliation to IESO Audited Financial Statements** (**Table 6**) and **Cumulative 2018, 2019 and 2020 Statements** (**Tables 7 and 8**)
7. **Terms & Definitions**

1. Operational Background

As set out in the *Electricity Act, 1998* – O.Reg. 393/07, the Independent Electricity System Operator (“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 over 5 million smart meters, 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 Energy IP 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 is built on.

This Annual Cost Variance Account report is provided to the OEB as identified in the original SMC Decision and Order of March 28, 2013, the Accounting Order issued May 14, 2013 and subsequent Decision and Orders issued by the OEB. The report presents a financial picture of the SME operations as of December 31, 2020, which is the third year of the SME's approved 2018-2022 operating budget. The SME will file an application for a new SMC for the 2023-2027 period by Q2 2022 as approval for the current SMC expires December 31, 2022.

As of December 31, 2020 the SME achieved an operating surplus of \$8.4 million which enabled the repayment of debt with a pending rebate of \$2.5 million after retaining a balance of \$2.5 million in the BVA as per the OEB decision and order in the SMC Application¹. Smart Metering debt at the beginning of the initial SMC collection period in 2013 was \$100.1 million and was \$3.4 million on January 1, 2020. The \$3.4 million was paid off in its entirety during the course of 2020 and the SME ended the year with a positive cash position of \$5.8 million.

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>).

¹ The Decision and Order approved returning to ratepayers any year-end balance in the BVA exceeding \$2.5 million and which results in a rebate to ratepayers of \$0.05 per meter or greater three months after the April 30th filing of the SME's annual report with the Board.

2. 2020 Financials

a) Financial Results:

For the year 2020 the SME had a \$8.4 million operating surplus compared to a budgeted operating surplus of \$4.0 million. The SME's 2018-2022 budget filing assumed this budgeted surplus would be required to continue to pay down the negative balance in the BVA and achieve a balanced budget by the end of the budgeting cycle.

This surplus variance of \$4.4 million results from a combination of higher than projected revenues (by \$1.1 million) and lower than budgeted expenses (by \$3.3 million).

Table 1: 2020 Revenues and Expenses Compared to 2020 Budget

(\$ millions)	YTD December 2020		
	Actual	Budget	Variance
Total SME Revenue	35.2	34.1	1.1
Total SME Expenses	26.8	30.1	(3.3)
Total SME Operating Surplus/(Deficit)	8.4	4.0	4.4

Additional variance details can be found below.

b) Total SME Revenue

SME revenues collected in 2020 were \$35.2 million, which is \$1.1 million higher than the budgeted amount of \$34.1 million which was included in the SME's SMC application. This is due to a higher number of meters installed by the LDCs as per the 2019 Yearbook of Electricity Distributors, compared to budgeted² and this trend is expected to continue.

² Estimated meter count used in the SMC application was 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 2020 Expenses and variances against its 2020 budget.

Table 2: 2020 Expenses Compared to 2020 Budget

	YTD December 2020			
(\$ millions)	Actual	Budget	Variance	% Variance
Compensation & Benefits	3.8	4.0	(0.2)	5%
Professional & Consulting	13.0	15.6	(2.6)	17%
Operating & Administration	5.8	7.2	(1.4)	19%
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	4.2	1.0	3.2	320%
Total SME Expenses	26.8	30.1	(3.3)	11%

Total SME expenses were \$26.8 million for the year which is \$3.3 million lower than budgeted. The following is a summary and explanation of material variances over 10% as requested in previous years' filings.

- Compensation & Benefits expenses were \$3.8 million for the year which represents savings of \$0.2 million due to a temporary pause in student hiring associated to the pandemic and lower expenses for IESO support functions
- Professional & Consulting expenses were \$13.0 million for the year which represents savings of \$2.6 million. The primary drivers of these savings are as follows:
 - Savings of \$2.3 million in IBM operating service provider costs and contractors resulting from contract negotiations completed in 2018, which was after the decision on the SMC Application had been issued.
 - Savings of \$0.3 million primarily due to reduced scope of audit services and lower stakeholder engagement and legal services
- Operating & Administration expenses were \$5.8 million for the year, which represents savings of \$1.4 million.
 - Savings of \$1.2 million attained through discounts negotiated on software maintenance contracts and a contingency budget that was not utilized.
 - Savings of \$0.2 million attained through costs being less than the budgeted amounts in multiple areas, including: rent, subscriptions, the SME's MDM/R DataMart,

administrative expenses, staff training and travel and including the SME's cost allocation from the IESO³.

- There were no expenses against MDM/R Changes & Initiatives for the year, and this resulted in savings of \$2.0 million. This was primarily due to 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 interest charges are being capitalized to the MDM/R 8.6 Upgrade.
- The cost for the MDM/R 8.6 Upgrade was \$4.2 million for the year which is \$3.2 million higher than budgeted, primarily due timing differences between the budgeted and actual in-service dates of the project. The project was budgeted to go into service early 2020, but actually went into service in August 2020. The overall project cost was \$21.4 million vs. a budget of \$24.8 million for a total savings of 13%

3. SME Debt

The outstanding net debt to be collected by the SME was \$3.4 million on January 1, 2020, the beginning of the new budget period.

In 2020 the SME debt was paid off in its entirety, earlier than budgeted for and approved in the SMC Application, and the SME had a positive cash position of \$5.8 million as of December 31, 2020.

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 and this was rebated to the LDC's in the March 31, 2019 Settlement invoice as per the 2013-2015 Yearbook of Electricity Distributors published by the OEB. The SLC balance was \$0 at December 31, 2020.

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

5. SME Balancing Variance Account

The BVA is a summary statement of the SME's balance sheet with a December 31, 2020 BVA balance at \$2.5 million. This is the result of the opening balance of \$3.4 million, the 2020 operating surplus of \$8.4 million and the planned \$2.5 million rebate to smart meter customers as shown in Table 3 below. The SMC Application Decision and Order approved returning to ratepayers any year-end balance in the BVA exceeding \$2.5 million and which results in a rebate to ratepayers of \$0.05 per meter or greater three months after the April 30th filing of the SME's annual report with the Board

Table 3: SME BVA Position

(\$ millions)	Dec 31, 2018	Dec 31, 2019	Dec 31, 2020
Balance (as of Jan 1)	(5.8)	(7.4)	(3.4)
Total SME Revenue	34.5	34.9	35.2
Total SME Expenses	(35.7)	(31.4)	(26.8)
Service Level Credits	(0.4)	0.4	-
Rebate to Market			(2.5)
SME BVA (as of Dec 31)	(7.4)	(3.4)	2.5

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

(\$ millions)	Dec 31, 2018	Dec 31, 2019	Dec 31, 2020
SME BVA	(7.4)	(3.4)	2.5
Change in short-term prepaid expenses	0.1	-	0.5
Service level credit account balance	0.4		
Net Debt	(6.9)	(3.4)	3.0

6. Appendices

Table 5: SME Statement of Financial Position

(in \$ millions)	Dec 31, 2018	Dec 31, 2019	Dec 31, 2020
FINANCIAL ASSETS			
Cash			5.8
TOTAL FINANCIAL ASSETS	-	-	5.8
LIABILITIES			
Accounts payable & accrued liabilities	2.1	0.7	0.3
Rebate to Market Participants			2.5
Debt	4.8	2.7	-
TOTAL LIABILITIES	6.9	3.4	2.8
NET DEBT	(6.9)	(3.4)	3.0
NON-FINANCIAL ASSETS			
Meter Data Management/Repository (MDM/R)	13.1	13.9	14.8
Short-term prepaid expenses	0.8	0.8	0.3
TOTAL NON-FINANCIAL ASSETS	13.9	14.7	15.1
TOTAL ACCUMULATED SURPLUS / (DEFICIT)	7.0	11.3	18.1

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

SME Financial Report Reconciliation to IESO Audited Financial Statements	
(\$ millions)	
Smart metering charge - actual revenue	35.2
Smart metering charge - annual report	35.2
Amount to reconcile	-
Smart metering expenses - actual expenses	26.8
Smart metering expenses - annual report	26.0
Amount to reconcile	0.8
Total amount to reconcile	0.8
Add: capital spend in MDM/R	4.2
Less: amortization	(3.4)
Total reconciled	0.8

Table 7: 2018 - 2020 Cumulative Revenues and Expenses Compared to Budget

	Cumulative 2018-2020		
(\$ millions)	Actual	Budget	Variance
Total SME Revenue	104.6	101.3	3.3
Total SME Expenses	93.8	109.4	(15.6)
Total SME Operating Surplus/(Deficit)	10.8	(8.1)	18.9

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.

"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.

“LDC” means Ontario's local distribution companies

“IPC” means the Information and Privacy Commissioner of Ontario

“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 ongoing operation and maintenance of the MDM/R.

“SMC” means the current 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.

“SMC Application” means the March 1, 2018 decision on the SME's Smart Metering Charge application, OEB file # EB-2017-0290

“SLC” means the Service Level Credit Balance Account

“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.

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 the migration of core functions and data to a new system version named Energy IP 8.6.