

## 2021 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 2021, which is the fourth 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 filed an application for a new SMC for 2023 - 2027 on March 31, 2022 that has been assigned OEB file # EB-2022-0137.

More specifically, the 2021 Report provides:

1. **Operational Background**
2. **2021 Financials**
  - a) **Financial Results** – for the fiscal year ending 2021, the SME's budgeted, and actual, revenues and expenses. (**Table 1: 2021 Revenues and Expenses Compared to 2021 Budget**)
  - b) **SME Revenues** – provides the collected revenue for the fiscal year ending 2021.
  - c) **SME Expenses** – provides further details and variance explanations for the SME budget and the expenses compared to budget. (**Table 2: 2021 Expenses Compared to 2021 Budget**)
3. **SME Debt** – provides the balance of the outstanding SME debt at the start and end of 2021
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, 2021 (**Table 5**) and 2021 SME Financial Report Reconciliation to IESO Audited Financial Statements (**Table 6**).
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 58 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 support and maintenance for the environment and licences required by the SME to operate software which supports the MDM/R,
- 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, 2021, which is the fourth year of the SME's approved 2018-2022 operating budget. The SME filed an application for a new SMC for the 2023-2027 on March 31, 2022 as approval for the current SMC expires on December 31, 2022.

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. 2021 Financials

### a) Financial Results:

As of December 31, 2021 the SME achieved an operating surplus of \$13.7 million to be rebated back to ratepayers after retaining a balance of \$2.5 million in the BVA as per the OEB decision and order in the SMC Application<sup>1</sup>.

This compares to a budgeted operating surplus of \$6.2 million, which was built on the SME's 2018-2022 budget assumptions that 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 \$7.5 million results from a combination of higher than projected revenues (by \$1.1 million) and lower than budgeted expenses (by \$6.4 million).

**Table 1: 2021 Revenues and Expenses Compared to 2021 Budget**

(\$ millions)	YTD December 2021		
	Actual	Budget	Variance
Total SME Revenue	35.6	34.5	1.1
Total SME Expenses	21.9	28.3	(6.4)
<b>Total SME Operating Surplus/(Deficit)</b>	<b>13.7</b>	<b>6.2</b>	<b>7.5</b>

Additional variance details can be found below.

### b) Total SME Revenue

SME revenues collected in 2021 were \$35.6 million, which is \$1.1 million higher than the budgeted amount of \$34.5 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 2020 Yearbook of Electricity Distributors, compared to budgeted<sup>2</sup> and this trend is expected to continue.

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<sup>1</sup> 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.

<sup>2</sup> Estimated meter count used in the SMC application was from the Yearbook of Electricity Distributors published by the Ontario Energy Board in September 2021. 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 2021 Expenses and variances against its 2021 budget.

**Table 2: 2021 Expenses Compared to 2021 Budget**

	YTD December 2021			
(\$ millions)	Actual	Budget	Variance	% Variance
Compensation & Benefits	4.0	4.1	(0.1)	2%
Professional & Consulting	13.1	14.6	(1.5)	10%
Operating & Administration	4.8	7.4	(2.6)	35%
MDM/R Changes & Initiatives	-	2.0	(2.0)	100%
Financing Costs	-	0.2	(0.2)	100%
<b>Total SME Expenses</b>	<b>21.9</b>	<b>28.3</b>	<b>(6.4)</b>	<b>23%</b>

Total SME expenses were \$21.9 million for the year which is \$6.4 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 \$4.0 million for the year which represents savings of \$0.1 million due to a temporary pause in student hiring associated to the pandemic and lower expenses for IESO support functions.
- Professional & Consulting expenses were \$13.1 million for the year which represents savings of \$1.5 million. The primary drivers of these savings are as follows:
  - Savings of \$1.1 million in contractor costs and IBM operating service provider costs resulting from contract negotiations in 2018, which were completed after the decision on the current SMC Application had been issued.
  - Savings of \$0.4 million primarily due to reduced scope of audit and legal services and lower stakeholder engagement event costs.
- Operating & Administration expenses were \$4.8 million for the year, which represents savings of \$2.6 million.
  - Savings of \$2.2 million attained as a result of negotiated discounts on software maintenance contracts and the unused contingency budget.
  - Savings of \$0.4 million attained through actual costs materializing as lower than the budgeted amounts in areas such as: rent, subscriptions, the MDM/R DataMart

operating costs, administrative expenses, staff training and the SME's cost allocation from the IESO<sup>3</sup>.

- 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 Net Metering or the integration of Commercial & Industrial meters in the MDM/R.
- Savings of \$0.2 million in operating financing costs as there were no debt related interest charges in 2021.

### **3. SME Debt**

The SME debt was paid off in its entirety in 2020, earlier than budgeted for, and approved in the SMC Application, and as a result the SME is in a positive cash position of \$16.4 million and, as such, the SME debt balance was \$0 at December 31, 2021.

### **4. Service Level Credit Balance**

The SLC balance was \$0 at December 31, 2021, as there were no MDM/R operational incidents requiring payment.

### **5. SME Balancing Variance Account**

The BVA is a summary statement of the SME's balance sheet with a December 31, 2021 BVA balance at \$2.5 million. This is the result of the opening balance of \$2.5 million, the 2021 operating surplus of \$13.7 million and the planned rebate to smart meter customers as shown in Table 3 below. The SMC Application Decision approved returning to ratepayers any year-end balance in the BVA exceeding \$2.5 million, 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.

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<sup>3</sup> 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

**Table 3: SME BVA Position**

(\$ millions)	Dec 31, 2018	Dec 31, 2019	Dec 31, 2020	Dec 31, 2021
<b>Balance (as of Jan 1)</b>	<b>(5.8)</b>	<b>(7.4)</b>	<b>(3.4)</b>	<b>2.5</b>
Total SME Revenue	34.5	34.9	35.2	35.6
Total SME Expenses	(35.7)	(31.4)	(26.8)	(21.9)
Service Level Credits	(0.4)	0.4	-	-
Rebate to Market	-	-	(2.5)	(13.7)
<b>SME BVA (as of Dec 31)</b>	<b>(7.4)</b>	<b>(3.4)</b>	<b>2.5</b>	<b>2.5</b>

## 6. Appendices

**Table 5: SME Statement of Financial Position**

(in \$ millions)	Dec 31, 2018	Dec 31, 2019	Dec 31, 2020	Dec 31, 2021
<b>FINANCIAL ASSETS</b>				
Cash			5.8	16.4
<b>TOTAL FINANCIAL ASSETS</b>	<b>-</b>	<b>-</b>	<b>5.8</b>	<b>16.4</b>
<b>LIABILITIES</b>				
Accounts payable & accrued liabilities	2.1	0.7	0.3	0.2
Rebate to Market Participants			2.5	13.7
Debt	4.8	2.7	-	-
<b>TOTAL LIABILITIES</b>	<b>6.9</b>	<b>3.4</b>	<b>2.8</b>	<b>13.9</b>
<b>NET DEBT</b>	<b>(6.9)</b>	<b>(3.4)</b>	<b>3.0</b>	<b>2.5</b>
<b>NON-FINANCIAL ASSETS</b>				
Meter Data Management/Repository (MDM/R)	13.1	13.9	14.8	9.4
Short-term prepaid expenses	0.8	0.8	0.3	0.8
<b>TOTAL NON-FINANCIAL ASSETS</b>	<b>13.9</b>	<b>14.7</b>	<b>15.1</b>	<b>10.2</b>
<b>TOTAL ACCUMULATED SURPLUS</b>	<b>7.0</b>	<b>11.3</b>	<b>18.1</b>	<b>12.7</b>

**Table 6: 2021 SME Financial Report Reconciliation to IESO Draft Financial Statements**

<b>SME Financial Report Reconciliation to IESO Audited Financial Statements</b>	
<b>(\$ millions)</b>	
Smart metering charge - actual revenue	35.6
Smart metering charge - annual report	21.9
Amount to reconcile	13.7
Smart metering expenses - actual expenses	21.9
Smart metering expenses - annual report	27.3
Amount to reconcile	(5.4)
<b>Total amount to reconcile</b>	<b>8.3</b>
Add: rebate	13.7
Less: amortization	(5.4)
<b>Total reconciled</b>	<b>8.3</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.

"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.