

Patrick G. Duffy
Direct: +1 416 869 5257
PDuffy@stikeman.com

May 30, 2023

By E-mail and RESS

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

Attention: Nancy Marconi, Registrar

Dear Ms. Marconi:

**Re: Smart Metering Entity Annual Cost and Variance Account Report for 2022
(EB-2022-0137)**

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 (the “**Board**”) with the SME’s Annual Cost and Variance Account Report for the year ended December 31, 2022 (the “**Annual Report**”).

The report was filed through the Board’s RESS portal on May 30, 2023.

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

Yours truly,



Patrick G. Duffy

PGD/sb
Enclosure

cc. All parties in EB-2022-0137 and EB-2021-0292

Smart Metering Entity

2022 Cost and Variance Account Report

This 2022 Cost and Variance Report (the “2022 Report”) provides an overview of the financial status of the Smart Metering Entity (“SME”) at December 31, 2022. This is the fifth and final year of the 2018 – 2022 operating budget and Smart Metering Charge (“SMC”) as approved in the Ontario Energy Board’s (“OEB’s”) decision on the 2018-2022 SMC application, (the “2018-2022 SMC”)¹. As set out in the *Electricity Act, 1998* – O.Reg. 393/07 the Independent Electricity System Operator (“IESO”) is designated as the SME.

1. Operational Background

The SME maintains and operates Ontario’s centralized meter data management repository (“MDM/R”) and is licenced 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 57 LDCs to invest in duplicative non-uniform infrastructure and ensures consistent, rigorous data processing regardless of the different metering technologies used by LDCs.

The MDM/R was built following the foundational principles of *Privacy by Design* as established by the Information and Privacy Commissioner of Ontario so that the data collected, stored and managed in the MDM/R complies with stringent industry protocols that ensure encrypted data transmitted over the internet is secure. 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 5.3 million smart meters, 200 billion centralized records and adding 125 million records every day.

The services provided by the MDM/R are delivered by an Operational Service Provider, a competitively procured vendor (IBM) 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,

¹ The OEB’s decision on the 2018-2022 SMC was issued March 1, 2018, OEB file # EB-2017-0290

- 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.

Activities undertaken by the SME to fulfill its requirements are funded through the SME’s budget, including expenses for IESO support functions².

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 OEB website (<https://www.oeb.ca>), and the Ministry of Energy(<https://www.ontario.ca>).

2. 2022 Financials

a) Financial Results:

The SME retains \$2.5 million in the BVA as per the 2018-2022 SMC decision³.

As of December 31, 2022 the SME achieved an operating surplus of \$7.0 million which will be rebated back to smart meter customers. This compares to the budgeted surplus of \$6.4 million to pay down a forecast negative balance in the BVA and achieve a balanced budget by the end of the 2018-2022 budgeting cycle.

As shown in Table 1 below, this variance of \$0.6 million results from lower than budgeted expenses by \$5.4 million, partially offset by lower than projected revenues (by \$4.8 million).

Table 1: 2022 Revenues and Expenses Compared to 2022 Budget

| (\$ millions) | YTD December 2022 | | |
|--|-------------------|------------|--|
| | Actual | Budget | Favourable/ (unfavourable) Variance |
| Total SME Revenue | 30.0 | 34.8 | (4.8) |
| Total SME Expenses | 23.0 | 28.4 | 5.4 |
| Total SME Operating Surplus/(Deficit) | 7.0 | 6.4 | 0.6 |

² 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.: EB-2018-0143, Exhibit C-3-1, Attachment 1

³ 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 smart meter customers of \$0.05 per meter or greater three months after the April 30 filing of the SME’s annual report with the OEB

Additional variance details can be found below.

b) Total SME Revenue

In the decision on the 2018-2022 SMC a SMC of \$0.57 per meter per month was approved and subsequently an interim SMC of \$0.43 per meter per month was approved for the period April 1, 2022 to December 31, 2022 in the 2023-2027 SMC decision⁴.

SME revenues collected in 2022 were \$30.0 million, which is \$4.8 million lower than the budgeted amount of \$34.8 million which was approved in the 2018-2022 SMC decision. This is due to the reduced interim SMC of \$0.43 per meter per month from April to December 2022 approved in the 2022-2027 SMC decision compared to the SMC of \$0.57 per meter per month approved in the 2018-2022 SMC decision, offset by a higher number of meters than budgeted⁵.

c) Total SME Expenses

Table 2 below outlines the SME's 2022 Expenses and variances against its 2022 budget.

Table 2: 2022 Expenses Compared to 2022 Budget

| | (\$ millions) | December 2022 | | | |
|---|-----------------------------|---------------|-------------|---|------------|
| | | Actual | Budget | Favourable/ (unfavourable) Variance | % Variance |
| 1 | Compensation & Benefits | 4.1 | 4.2 | 0.1 | 2% |
| 2 | Professional & Consulting | 13.2 | 14.5 | 1.3 | 9% |
| 3 | Operating & Administration | 5.7 | 7.6 | 1.9 | 25% |
| 4 | MDM/R Changes & Initiatives | - | 2.0 | 2.0 | 100% |
| 5 | Financing Costs | - | 0.1 | 0.1 | 100% |
| | Total SME Expenses | 23.0 | 28.4 | 5.4 | 19% |

Total SME expenses were \$23.0 million for the year which is \$5.4 million lower than budgeted. The following is a summary and explanation of the variances:

⁴ The decision approved the SMC for 2023 – 2027 was issued September 9, 2022, OEB file # EB-2022-0137

⁵ The meter count used is from the Yearbook of Electricity Distributors published by the OEB in September 2022. This is available at: <https://www.oeb.ca/utility-performance-and-monitoring/natural-gas-and-electricity-utility-yearbooks>

1. Compensation & Benefits expenses were \$4.1 million for the year, which represents savings of \$0.1 million and a variance of less than 10%. The primary driver of these savings is lower than forecast expenses for IESO support functions.
 - a. The support functions represent resources leveraged by the SME from the IESO's mainstream business as required, primarily in the areas of finance, settlements, legal, regulatory, information technology, and human resources. This support work is resourced on a time and material basis and the costs of IESO resources utilized by the SME are charged to the SME.
2. Professional & Consulting expenses were \$13.2 million for the year, which represents savings of \$1.3 million and a variance of less than 10%. The primary drivers of these savings are as follows:
 - a. Savings of \$0.9 million in contractor costs and IBM operating service provider costs resulting from contract negotiations in 2018, which were completed after the 2018-2022 SMC decision had been issued.
 - b. Savings of \$0.4 million primarily due to reduced scope of audit and legal services and lower stakeholder engagement costs.
3. Operating & Administration expenses were \$5.7 million for the year, which represents savings of \$1.9 million and a variance greater than 10%. The primary drivers of these savings are as follows:
 - a. Savings of \$1.5 million attained as a result of negotiated discounts on software maintenance contracts, which were completed after the 2018-2022 SMC decision had been issued.
 - b. Savings of \$0.4 million attained through actual costs being lower than the amounts budgeted for the MDM/R DataMart operating costs.
4. MDM/R Changes & Initiatives did not have any expenses in 2022, and this resulted in savings of \$2.0 million and a variance of 100%. 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.
5. Financing Costs did not have any charges in 2022, and this resulted in savings of \$0.1 million and a variance of 100%. There were no debt related interest charges in 2022 as the SME's historical debt was paid off in its entirety in 2020.

3. SME Debt

The SME debt balance was \$0 at December 31, 2022 as the SME's historical debt was paid off in its entirety in 2020, earlier than budgeted for and approved in the 2018-2022 SMC decision.

4. Service Level Credit Balance

The Service Level Credit balance was \$0 at December 31, 2022, as there were no MDM/R operational incidents requiring payment.

5. Third Party Access Requests Received In 2022

Access to smart meter data to Canadian Government Entities was officially launched on the IESO Website on October 13, 2022 and from the OEBs March 24, 2022 Order and Decision approving Third Party Access to that date the IESO worked to ensure its team, systems, processes and communications were ready to provide access to the smart meter data.

One request was received and approved for fulfillment in 2022, work on the request began in 2022 and fulfillment was completed in 2023.

- Name of the Requestor: Ivey School of Business (Western University)
- Data Requested: Hourly Consumption Data at the 6 Digit Postal Code Level for all of Ontario specifying the Distributor Rate Class, Commodity Rate Class, number of premises in each aggregation.
- Intended Use: Project: Retail Rate Design in a Decarbonizing Economy. This project intends to assess the equity and efficiency implications of the current approach to recovering the Global Adjustment (GA) from rate-regulated customers and to consider the implications of alternative rate recovery mechanisms on economic efficiency, equity and the incentives for households and small commercial businesses to invest in the electrification of various energy uses (i.e., space heating, electric vehicles, etc.).
- No other requests were received or denied in 2022.
- No complaints were received in 2022.

6. Third Party Access Variance Account

The amount reported is related to the time associated to the review, assessment of the request and preparation of the Data Use Agreement in 2022.

Third Party Access activities and associated revenues in 2022 were minimal. Third Party Access revenues and expenses in 2022 were \$653, as shown in Table 3 below. Additional costs were incurred in 2023 and the amount associated with this will be reported in the 2023 Cost and Variance Report.

Table 3: Third Party Access Variance Account

| (\$) | Dec 31, 2021 | Dec 31, 2022 |
|---------------------------------------|-----------------|-----------------|
| Opening Balance (as of Jan 1) | - | - |
| Third-Party Access Revenues | - | 653 |
| Third-Party Access Expenses | - | (653) |
| Closing Balance (as of Dec 31) | - | - |

7. SME Balancing Variance Account

The BVA is a summary statement of the SME's balance sheet with a December 31, 2022 BVA balance at \$2.5 million as shown in Table 4 below. This is the result of the opening balance of \$2.5 million, the 2022 operating surplus of \$7.0 million, \$0.8 million historical correction and the \$7.8 million planned rebate to smart meter customers as shown in Table 4 below.

The 2018-2022 SMC decision approved returning to ratepayers any year-end balance in the BVA exceeding \$2.5 million and which results in a rebate to smart meter customers of \$0.05 per meter or greater three months after the April 30 filing of the SME's annual cost and variance report with the OEB.

The resulting rebate to each smart meter customer is approximately \$1.47 and calculated by dividing the rebate amount of \$7.8 million by the 5,313,051 residential and small commercial customers listed in the OEB's 2021 yearbook of electricity distributors.

Table 4: SME BVA Position

| (\$ millions) | Dec 31, 2018 | Dec 31, 2019 | Dec 31, 2020 | Dec 31, 2021 | Dec 31, 2022 |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Balance (as of Jan 1) | (5.8) | (7.4) | (3.4) | 2.5 | 2.5 |
| Total SME Revenue | 34.5 | 34.9 | 35.2 | 35.6 | 30.0 |
| Total SME Expenses | (35.7) | (31.4) | (26.8) | (21.9) | (23.0) |
| Third-Party Access Variance Account | - | - | - | - | - |
| Service Level Credits | (0.4) | 0.4 | - | - | - |
| Historical correction | | | | | 0.8 |
| Rebate to Smart Meter Customers | - | - | (2.5) | (13.7) | (7.8) |
| SME BVA (as of Dec 31) | (7.4) | (3.4) | 2.5 | 2.5 | 2.5 |

As agreed to in settlement and approved in the 2023-2027 SMC Decision the BVA has been replaced by the Operating Reserve Balance Account ("ORBA") effective January 1, 2023. The closing balance in the BVA has been transferred to the ORBA and any 2023 year-end balance in the ORBA will be rebated to smart meter customers where the balance exceeds the operating reserve of \$2.0 million and would result in a rebate of \$0.05 per meter or greater.

The historical correction is a result of findings made while preparing for the move from cash accounting to accrual accounting and is to correct the opening balance of the BVA which was incorrectly reported.

8. Appendices

Table 5: SME Statement of Financial Position

| (in \$ millions) | Dec 31, 2018 | Dec 31, 2019 | Dec 31, 2020 | Dec 31, 2021 | Dec 31, 2022 |
|--|--------------|--------------|--------------|--------------|--------------|
| FINANCIAL ASSETS | | | | | |
| Cash | | | 5.8 | 16.4 | 10.4 |
| TOTAL FINANCIAL ASSETS | - | - | 5.8 | 16.4 | 10.4 |
| LIABILITIES | | | | | |
| Accounts payable & accrued liabilities | 2.1 | 0.7 | 0.3 | 0.2 | 0.1 |
| Rebate to Smart Metering Customers | | | 2.5 | 13.7 | 7.8 |
| Debt | 4.8 | 2.7 | - | - | - |
| TOTAL LIABILITIES | 6.9 | 3.4 | 2.8 | 13.9 | 7.9 |
| NET DEBT | (6.9) | (3.4) | 3.0 | 2.5 | 2.5 |
| NON-FINANCIAL ASSETS | | | | | |
| Meter Data Management/Repository (MDM/R) | 13.1 | 13.9 | 14.8 | 9.4 | 5.5 |
| Short-term prepaid expenses | 0.8 | 0.8 | 0.3 | 0.8 | 0.8 |
| TOTAL NON-FINANCIAL ASSETS | 13.9 | 14.7 | 15.1 | 10.2 | 6.3 |
| TOTAL ACCUMULATED SURPLUS | 7.0 | 11.3 | 18.1 | 12.7 | 8.8 |

The rebate showing in Table 6 is for 2022 in-year surplus, compared to Table 5 which includes the correction to the opening BVA balance.

Table 6: 2022 SME Financial Report Reconciliation to IESO Draft Financial Statements

| SME Financial Report Reconciliation to IESO Audited Financial Statements | |
|---|------------|
| (\$ millions) | |
| Smart metering charge - actual revenue | 30.0 |
| Smart metering charge - annual report | 23.0 |
| Amount to reconcile | 7.0 |
| Smart metering expenses - actual expenses | 23.0 |
| Smart metering expenses - annual report | 26.9 |
| Amount to reconcile | (3.8) |
| Total amount to reconcile | 3.2 |
| Add: accrued rebate in annual report | 7.0 |
| Less: amortization | (3.8) |
| Total reconciled | 3.2 |

9. 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 Service Level Credit 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.

“**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.

“**SMC**” means Smart Metering Charge.

“**SME**” means the Smart Metering Entity.

“**SME Debt**” means the year-end balance of the SME’s outstanding debt.

“**2018-2022 SMC**” refers to the application and/or the decision on the SME’s 2018-2022 SMC, OEB file # EB-2017-0290.

“**2023-2027 SMC**” refers to the application and/or the decision on the SME’s 2023-2027 SMC, OEB file # EB-2022-0137.

Budget Terms

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

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

“**Operating & Administration**” means the costs associated with any administrative expenses

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

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