

### **IESO Treatment of Smart Metering Costs**

On March 28, 2007, the IESO was designated as the Smart Metering Entity (SME) by Ontario Regulation 393/07 made under the *Electricity Act, 1998*. The regulation came into effect on July 26, 2007.

In order to recover the costs associated with the SME the IESO will bring a separate application before the Ontario Energy Board (Board). As such, recovery of SME costs will be independent of the IESO's current fee structure and of revenues derived from the wholesale market.

Costs associated with the SME include the development and delivery of the Meter Data Management/Repository (MDM/R), as well as annual operating expenses, including program costs, amortization and interest.

All direct and incremental costs associated with the SME, for example direct staff costs and the incremental costs of additional computer equipment, are being and will continue to be tracked and charged separately from all other IESO wholesale market related costs. The IESO is not separately charging a pro rata percentage of its corporate overhead costs, such as utilities and building costs, to the SME since this is estimated to be approximately 0.2% of the total IESO operating costs.

For transparency and clarity, a separate financial section for SME costs has been included in Section B of IESO's Business Plan on pages 48 – 49. Revenue projections use a model which recovers the SME costs over a six year period. Any SME required debt financing over this period will be obtained through the IESO's cash balances and corporate credit facility. The Projected Balance Sheet shows that from 2007 to present

the SME has been funded through IESO cash with corresponding interest charges. For 2009 and subsequent years the SME is expected to use the IESO's corporate funding facility, again with corresponding interest charges. This short-term debt is reported on page 49 of the Business Plan and is budgeted to amount to \$30.1 million in 2009. The majority of the 2009 borrowing will be used to repay the IESO's cash used to the end of 2008 in the amount of \$29.1 million. The line "Payable to IESO" relates to the use of IESO cash, and "Short-Term Debt" relates to the use of the IESO's corporate facility.

Similarly the IESO's Financial Statements on page 43 of the Business Plan report that receivables from the SME for 2008 are projected to be \$29.1 million and that they are budgeted to be nil starting in 2009. The Financial Statements also identify the IESO's use of short-term debt for its own purposes. This is budgeted to amount to \$45.5 million in 2009 following the repayment of the IESO's long term debt.

The Consolidated Financial Statements found at pages 50 - 51 of the Business Plan set out the consolidated IESO – SME financial position, including the combined short-term debt for 2009 of \$75.6 million which consists of \$30.1 million for the SME and \$45.5 million for the IESO wholesale market.