

The most efficient and cost-effective way to levy the Smart Meter Charge (SMC) is to incorporate it into the existing IESO settlement, invoicing and payments process. The current market rule amendment, MR-00336-R00-R01, in front of the Technical Panel will allow the IESO and local distribution companies (LDCs) to use existing settlement and invoicing processes.

Below are IESO responses to questions raised by Technical Panel members about MR-00336. These questions are grouped under six main categories:

- market participant default;
- cross-subsidization;
- amendment clarifications;
- rate information;
- SME governance and operation; and
- other questions

#### Market Participant Default

**Q1:** What would happen if a market participant LDC makes a partial payment of an invoice that has both wholesale market charges and an SMC?

**A1:** If a market participant LDC makes a partial payment, and the LDC does not indicate how the payment should be allocated, the IESO will first allocate the partial payment to the wholesale market charges and then any remaining payment amount to the SMC. This ensures that the market participant LDC has the right to allocate funds to any outstanding debts it chooses, as would the case if the IESO issued a separate invoice for the SMC.

If the partial payment does not cover all wholesale market charges, the IESO would treat that as an event of default under the market rules. If the partial payment does cover all wholesale market charges, but not the SMC, the IESO would treat that situation as permitted under the SME framework. The SME framework does not provide for the equivalent of the “default levy.” In the event the monies were never recovered, the IESO intends to fund the shortfall using the SME deferral account which would be recovered within the calculation of future SMC rates.

#### Cross Subsidization

**Q2:** Is there a risk of cross-subsidization between IESO’s SME activities and the IESO’s role as the market and systems operator?

**A2: The purpose of the SMC is to recover costs directly associated with the IESOs role as the SME. The SMC is separate and distinct from the IESO administration charge and all costs associated with the SMC including staffing will be accounted for in the SMC.**

**The issue of cross-subsidization is within the purview of the OEB and its associated proceedings.**

**Q3: How will the IESO keep the functions of the IESO and the wholesale market separate from its SME responsibilities? Shouldn't the IESO keep these two functions as separate as possible?**

**A3: The IESO will take steps to ensure that costs related to the fulfillment of its SME responsibilities will be separately accounted for. This would include accounting for the activities of staff dedicated to the SME role and any other instance involving the usage of staff time or resources from elsewhere within the IESO organization.**

**Q4: Is it appropriate for the IESO to use wholesale market systems and processes for collection of charges that are outside of the wholesale market?**

**A4: Yes, the use of existing systems and processes will ultimately reduce costs to the end-use consumer as it will avoid the need for the IESO and the LDCs to develop new processes for reconciliation, invoicing, payment and notices of disagreement. In addition, this amendment will allow LDCs that are market participants to make a single payment to deal with all transactions involving the IESO.**

**The use of wholesale market systems and processes for other charges is not new. Currently, there are several charges whose structure are not governed by the market rules but are nonetheless administered via IESO systems and processes such as transmission charges, the debt retirement charge and the global adjustment. The IESO administers the collection and distribution of these charges (to MPs and non-MPs) by leveraging its existing processes and wants to use the same approach for the SMC. One significant difference between the proposed treatment of the SMC relative to the existing treatment of charges such as the debt retirement charge is that failure to pay these latter charges is an event of default under the market rules. Failure to pay the SMC is not an event of default under the market rules.**

**Q5: Is there a possible co-mingling issue by using the same bank account for the wholesale market charges and the SMC?**

**A5: No. The IESO will always know the balance of the SMC within the IESO settlement clearing account. This amendment allows the LDC to transact with the same bank account for all transactions with the IESO.**

**Q6: Does the IESO accept risks associated with potential future changes to the wholesale market rules that may adversely affect the SME and administration of the SMC?**

**A6: The IESO accepts the risks with this rule amendment where future changes to the wholesale market might negatively impact the implementation of the SMC. If such changes do occur, the IESO would review the impacts on the SME and SMC activities and make changes to those activities as appropriate.**

Q7: Is there potential for changes to market rules and processes to accommodate non-market participants paying the smart metering charge?

**A7: There is no potential for changes to the market rules and processes to accommodate non-MPs paying the SMC.**

### Amendment Clarifications

Q8: Has the IESO considered alternatives to the approach set out in MR-00336?

**A8: The IESO has not looked at any alternatives extensively. An alternative such as separate invoicing could be done using the existing software and would not cost that much to the IESO. With an alternative approach, the IESO and organizations using the meter data management and repository (MDM/R), would need to develop separate processes for reconciliation, invoicing, payment, notices of disagreement and other processes.**

Q9: Is the IESO imposing and exposing market rules and processes on entities that are not market participants?

**A9: The IESO does not have the authority under the Electricity Act, 1998 to require embedded LDCs to register as market participants and adhere to the market rules. Rather, each LDC that participates in the MDM/R will be contractually bound by the SME-LDC agreement to use the IESO's settlement and dispute resolution processes. The relevant market rules will be incorporated into the SME-LDC agreement that all LDCs will be required to sign before participating in the MDM/R. The agreement between the IESO, as SME, and the participating LDCs must be approved by OEB.**

Q10: If this market rule amendment is passed and, in the future, the IESO is no longer the SME, could the same processes be used?

**A10: Yes, as long as the regulatory framework surrounding the new SME would allow it.**

Q11: If the amendment fails, could the IESO still use the settlement clearing account?

**A11: No. The market rules define the uses of the settlement clearing account. Unless the market rules are amended to make an exception for the SMC, the settlement clearing account cannot be used.**

Q12: Does placing the smart metering charge on a market participant's invoice provide an obligation for the participant to pay it?

**A12: The obligation to pay the SMC is formed by the SME-LDC agreement, and not the market rules, even in cases where the LDC is also a market participant. The IESO does not consider the SMC to be a charge under the market rules. Accordingly, the SMC will not be a factor when calculating a market participant's prudential support obligation and failing to pay the SMC will not constitute an event of default under the market rules.**

Q13: Why is the rule amendment necessary? Can't the SME-LDC agreement specify the use of the account?

**A13: The rule amendment is necessary to use the settlement clearing account. As noted above, the market rules govern the usage of the settlement clearing account.**

Q14: What will this proposal cost embedded LDCs that are not currently market participants?

**A14: The only potential cost would be for an LDC to set up Electronic Funds Transfer capability with its bank so that it can remit the SMC to the IESO. The LDC will also need to get access to the IESO reports site, where it will be able to retrieve its settlement statement and invoice, but there is no associated cost. It is up to the individual non-MP to decide the extent to which they utilize the settlement statement for reconciliation purposes**

### Smart Metering Charge Rate

Q15: Has the IESO applied for the SMC rate order from the OEB and what body has jurisdiction over the rate order?

**A15: The IESO has not yet applied for the rate order. Currently, the IESO does not know whether the Ministry of Energy or OEB will formulate the initial rate structure, but the OEB will have long term authority over it.**

Q16: Who will monitor compliance of the SMC?

**A16: Compliance related to the smart metering initiative relates to adherence to the SME-LDC agreement including non-payment of the SMC. The role of compliance is different with the SME than it is in the wholesale market. SME staff and the MDM/R operational service provider will monitor interactions between the MDM/R and the MDM/R service recipient (LDC, retailer, agent, etc).**

Q17: Will LDCs pass on the SMC to end-use consumers?

**A17: The method of cost recovery will be decided by the OEB.**

Q18: What is the rate structure of the SMC?

**A18: This has not yet been determined. See answer to the rate application question (Q15) above.**

Q19: Shouldn't the payment of the smart metering charge, a non-wholesale market charge, be on a more commercial basis of invoicing (e.g. payment within 30 days instead of 2 business days)?

**A19: The IESO appreciates that LDCs are concerned about being open to short payments on the SMC from their end-user customers. The IESO is not opposed to invoicing the SMC based on the previous month's activity (rather than the billing period to which the invoice pertains (as is the case with most other settlement amounts) if the OEB's rate order will allow for this practice.**

Q20: Will the SMC cover all the smart metering costs?

A20: **No. The SMC will cover the IESO's costs in procuring and administering the MDM/R, but will not include any costs incurred by individual LDCs to access the MDM/R. The precise scope of the SMC is subject to regulation by the Ministry of Energy and/or the OEB.**

### SME Governance and Operation

Q21: Would the use of the IESO's settlement system make it more difficult to transfer the SME function to a different entity in the future?

A21: **Assignment of the SME function is the prerogative of the Minister of Energy. Given that the bulk of the IESO's SME functions are fulfilled through an agreement with an external Operational Service Provider, this role could be easily transferred to another entity. In the event of a transfer, the use of the IESO's settlement systems could be unwound through amendments to the SME-LDC agreement.**

Q22: Does the IESO have the authority to be the SME?

A22: **The IESO was named as the Smart Metering Entity by Ontario Regulation 393/07 made under the Electricity Act, 1998. The appointment of the IESO is consistent with the IESO's statutory objects to "plan, manage and implement" and to "oversee, administer and deliver" the smart metering initiative or any aspect of the initiative (see Ontario Regulation 452-06).**

Q23: Does the OEB's Affiliate Relationship Code (ARC) apply to the SME and the IESO?

A23: **The ARC applies to licensed transmitters and distributors in Ontario and requires the separation of a monopoly function (e.g. distribution wires business) from a competitive function (e.g. retail marketer) within the same organization. The ARC does not apply to the provision of MDM/R services by the SME. Further, as a non-profit corporation whose activities are constrained by the objects set out in the Electricity Act, 1998, the IESO could not use any customer information obtained from an LDC through the MDM/R to engage in a business that competes with the LDC. In any event, the IESO will not require LDCs to store data that would identify its customers (such as names, addresses, etc.) in the MDM/R,**

### Other Questions

Q24: Will the MDM/R provide reports for the reconciliation of the SMC?

A24: **Reports from both the MDM/R and settlement statements will provide data that will allow for reconciliation of the SMC. The nature of the data provided from the MDM/R is contingent on the structure of the SMC.**

Q25: Are there implications for a host LDC?

**A25: No. Both directly connected and embedded LDCs will be required to sign the SME-LDC agreement, and the SMC charge will be invoiced to all signatories of the agreement. The host will not be held liable for any shortfalls for their embedded LDCs.**

Q26: Could the IESO issue manual invoices for the SMC?

**A26: Yes, but that would eliminate the efficiency gains made by using existing IESO processes for settlements, notice of disagreements, etc. By using the existing framework, existing MPs would reconcile the SMC in the same way as other charges.**

Q27: What is the timeline for implementation of the SMC? Is the timeline dependent on the installation of the smart meters?

**A27: A timeline for the implementation of the SMC has not yet been established. As stated above, the rate structure for the SMC will be set by the Ministry of Energy or the OEB and the IESO will implement the SMC in accordance with those directions. The enrollment of an LDC's smart meters in the MDM/R will not be gated by when the LDC's have all their smart meters installed. The plan is to enroll most, if not all, LDCs with only a subset of their planned full compliment of smart meters. Subsequently installed smart meters would be added to the MDM/R incrementally via a routine process.**