



EB-2011-0434

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*,  
S.O. 1998, c.15, Schedule B;

**AND IN THE MATTER OF** an application by Midland  
Power Utility Corporation for an order approving or fixing  
just and reasonable distribution rates related to Smart  
Meter deployment, to be effective May 1, 2012.

**BEFORE:** Ken Quesnelle  
Presiding Member

Marika Hare  
Member

**DECISION AND ORDER**  
**May 3, 2012**

Midland Power Utility Corporation (“Midland” or “the Applicant”), a licensed electricity distributor, filed an application with the Ontario Energy Board (the “Application”), received on December 19, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that Midland charges for electricity distribution, to be effective May 1, 2012.

Midland, in its Application, sought Board approval for the disposition and recovery of costs related to smart meter deployment, offset by Smart Meter Funding Adder (“SMFA”) revenues collected from May 1, 2006 to April 30, 2012. Midland requested approval of proposed Smart Meter Disposition Riders (“SMDRs”) and Smart Meter Incremental Revenue Requirement Rate Riders (“SMIRRs”) effective May 1, 2012. The Application is based on the Board’s policy and practice with respect to recovery of smart meter costs.<sup>1</sup>

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<sup>1</sup> *Guideline G-2008-0002: Smart Meter Funding and Cost Recovery*, issued October 22, 2008. On December 15, 2011, the Board issued *Guideline -2011-0001: Smart Meter Funding and Cost Recovery* –

The Board issued a Letter of Direction and Notice of Application and Hearing (the “Notice”) on January 25, 2012. The Vulnerable Energy Consumers’ Coalition (“VECC”) requested and was granted intervenor status and cost award eligibility. No letters of comment were received. The Notice established that the Board would consider the Application by way of a written hearing and established timelines for discovery and submissions.

While the Board has considered the entire record in this proceeding, it has made reference only to such evidence as is necessary to provide context to its findings. The following issues are addressed in this Decision and Order:

- Costs incurred with respect to Smart Meter Deployment and Operation;
- Interest on Smart Meter Funding Adder Revenues;
- Cost Allocation;
- Stranded Meter Costs; and
- Implementation.

### **Costs Incurred with Respect to Smart Meter Deployment and Operation**

In its Application, Midland sought the following approvals:

- SMDRs for one year effective May 1, 2012 of \$0.36 for Residential customers and \$0.84 for General Service <50 kW customers. These SMDRs reflect the Net Deferred Revenue Requirement of \$33,871.62 being the difference between the Deferred Incremental Revenue Requirement from 2006 to December 31, 2011 and SMFA revenues collected from 2006 to April 30, 2012, plus associated interest on the principal balances of SMFA revenues and OM&A and depreciation expenses;
- SMIRRs for one year effective May 1, 2012 in the amount of \$3.34 for Residential Customers and \$6.52 for General Service <50 kW customers. These SMIRRs reflect the Incremental Revenue Requirement associated with installed smart meters for the period May 1, 2012 to April 30, 2013 in the amount of \$302,306; and

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*Final Disposition* Midland used Smart Meter Model, Version 2.17, and prepared its application considering recent Board decisions on smart meter cost disposition and recovery.

- In the event that the Board is unable to issue its Decision and Order for rates effective May 1, 2012, Midland requested a rate adder of \$3.34 per month be included on all metered customer invoices until such time as the Decision and Order is issued herein.

With respect to the last item, the Board notes that Midland's current rates have been declared interim as of May 1, 2012.

In responses to interrogatories, Midland updated its evidence for actual December 31, 2011 balances, made corrections to various data in the Smart Meter Model and revised its proposed rate riders for smart meter cost recovery. The December 31, 2011 balances have been audited and represent 91% of the total smart meter balances.<sup>2</sup> This updated evidence is further discussed below.

Based on Midland's updated Smart Meter Model, the total costs for smart meter installations and operations to December 31, 2012, and related unit costs are as follows:<sup>3</sup>

**Table 1**  
**Unit Cost Calculation**

	<b>Cost</b>	<b>Meter Count</b>	<b>Unit Cost</b>
Smart Meter CAPEX	\$1,273,219	6,911	\$184.23
Smart Meter OPEX	\$220,376	6,911	
Total OPEX & CAPEX	\$1,493,595	6,911	\$216.12

Both Board staff and VECC noted in their respective submissions that Midland's capital costs per meter and combined capital and operating costs are generally higher than have been observed for other applications dealt with to date. VECC also noted that Midland's per meter costs for capital costs only and capital and operating costs are higher than the range for 9 out of 13 urban utilities, excluding Hydro One Networks Inc., as documented in Appendix A of the Board's Decision with Reasons EB-2007-0063. VECC additionally noted that the average capital cost per meter, based on data reported by all utilities to September 30, 2009, was \$186.76, and that updated data reported for the period ending September 30, 2010, showed an industry average capital cost of \$226.92.<sup>4 5</sup>

<sup>2</sup> Responses to Board staff Interrogatory 2 a. & 2 b.

<sup>3</sup> Response to Board staff Interrogatory 10

<sup>4</sup> VECC, Submission, March 17, 2012, page 2, referencing the Board's *Sector Smart Meter Audit Review Report*, dated March 31, 2010.

Board staff and VECC however submitted that Midland's costs included expenses incurred for beyond minimum functionality, and that there were 340 A3 Alpha meters installed for the GS<50 kW class out of 742 smart meters. These meters are more expensive. Both Board staff and VECC submitted that Midland had adequately provided explanations for these higher costs. The Board notes VECC's observation that Midland took steps to keep installation costs down by using internal staffing resources for the installation of GS<50 kW smart meters.<sup>6</sup>

Authorization to procure and deploy smart meters has been done in accordance with government regulations, including successful participation in the London Hydro RFP process, overseen by the Fairness Commissioner, to select vendors for the procurement and/or installation of smart meters and related systems. There is thus a significant degree of cost control discipline that distributors, including Midland, are subject to in smart meter procurement and deployment.

Midland has participated as one of the member utilities of the Cornerstone Hydro Electric Concepts ("CHEC") group.<sup>7</sup> As documented in Midland's Application, CHEC participation has enabled the member utilities to address common issues and to seek efficient solutions for issues related to smart meter deployment and operations and to Time-of-Use implementation.

The Board finds that Midland's documented costs, as applied for, related to smart meter procurement, installation and operation, and including costs related to TOU rate implementation, are reasonable. As such, the Board approves the disposition for recovery of the costs for smart meter deployment and operation.

### **Interest on Smart Meter Funding Adder Revenues**

Midland, in its Application, forecasted SMFA revenues to May, 2012 on Tab "8 Funding Adder Revs" in the Smart Meter Model, but did not include interest past December 2011. Midland updated the evidence to replace estimated revenue with actual revenues

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<sup>5</sup> Ibid., referencing the *Monitoring Report Smart Meter Investment – September 2010*, March 3, 2011

<sup>6</sup> VECC, Submission, March 17, 2012, page , referencing the Application, 16. Cost Variances, p. 14

<sup>7</sup> CHEC is a collaborative initiative by the following utilities to seek synergies in various utility operations, procurement and regulatory processes: Centre Wellington Hydro, COLLUS Power, Innisfil Power, Lakefront Utilities, Lakeland Power Distribution Ltd., Midland Power, Orangeville Hydro, Parry Sound Power, Rideau St. Lawrence Distribution, Wasaga Distribution, Wellington North Power, and West Coast Huron Energy. See Lakeland's Application, pg. 2.

for October 2011 to December 2011, and reset the forecast revenues for January 1, 2012 to May 2012 to \$14,140.43, which is lower than the \$14,481.18 in the Application.

<sup>8</sup> This lower forecast is based on the December 2011 actual.<sup>9</sup>

Midland included May 2012 revenues in the SMFA in the Smart Meter Model, but did not calculate interest on that month's revenues. Board staff submitted that Midland bills its customers one month after consumption, and therefore the estimated May revenues from the SMFA should be included in the interest calculation. Midland disagreed, stating that the May revenues from the SMFA are accrued, and that accrued interest is only calculated on the opening balance, and so in this case would be zero.<sup>10</sup> Midland also pointed out that effective May 1, 2012 all revenues received up to April 30th, 2012 along with OM&A and capital will be transferred into Midland operating and capital accounts from the regulatory variance accounts. Any interest improvement on the projected revenues to be received in May, 2012 would therefore be immaterial, which Midland calculated to be \$17.66.

The Board accepts Midland's proposal and will not direct it to include an interest component for May 2012.

### **Cost Allocation**

In its Application, Midland proposed class-specific SMDRs and SMIRRs. The initial allocation to each class was based on:

- Allocating the return and depreciation based on customer weighted smart meter costs;
- Allocating the OM&A based on the number of meters; and
- Allocating the PILs based on the allocated revenue requirement.

In the PowerStream Smart Meter Decision, the Board recognized that, as there would be significant differing costs in different customer classes, the principle of cost causality would support class-specific cost recovery.<sup>11</sup> This recognition was in a large part due to the costs of the meters themselves, and to the extent that accurate data was available from the utility's records. To this end, the Board's guidelines have indicated that a utility

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<sup>8</sup> Response to Board staff Interrogatory 6

<sup>9</sup> Submission, Midland Power Utility Corporation p. 6

<sup>10</sup> *ibid*

<sup>11</sup> *PowerStream Smart Meter Decision; EB-2011-0128, November 21, 2011*

is expected to address the allocation of costs in its application seeking the disposition of smart meter costs recorded in accounts 1555 and 1556.<sup>12</sup> Further, in recent decisions, the Board has reviewed and approved the evolution of approaches for calculating class-specific rate riders.<sup>13</sup>

While the proposal by Midland relied on cost causality to determine the allocators of the various cost components, the allocation of return and depreciation was questioned. The customer weighted smart meter costs Midland used as an allocator was based on actual costs for installing residential and GS<50 kW smart meters.<sup>14</sup> Board staff pointed out that Midland, in response to a VECC interrogatory, only recorded installation costs for the work performed by its contractor.<sup>15</sup> Installations made by Midland technicians, which were for the GS<50 kW class, did not include installation costs. Board staff pointed out in its submission that this introduced a bias in the allocation, and submitted that meter costs without installation costs would be a better allocator. Midland agreed with Board staff. VECC agreed, but pointed out that this approach is neither full cost allocation nor the methodology used by PowerStream.

The Board notes that the proposed allocation of revenues for determining the SMDR is based on the allocation of the total revenue requirement.<sup>16</sup> Midland provided the SMFA revenues by rate class.<sup>17</sup> The Board is of the view that an appropriate determination of the SMDR should be based on the direct assignment of class SMFA revenues. This would be consistent with the Board's findings in the PowerStream decision.<sup>18</sup> In that Decision, the Board found that the allocated revenue requirement by class should be reduced by the SMFA revenues collected by class. Any SMFA amounts collected from classes other than residential and GS<50 kW would be used to further reduce the allocated revenue requirements for the residential and GS<50 kW classes. This finding is based on the same cost causality principles relied on in the PowerStream Smart Meter Decision, where the Board found that the class specific revenue requirements

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<sup>12</sup> See footnote 1.

<sup>13</sup> The Board's decisions with respect to PowerStream Ltd.'s 2010 and 2011 smart meter applications (respectively, EB-2010-0209 and EB-2011-0128) confirmed approaches for allocating costs and calculating class-specific rate riders for recovery of smart meter costs. The approach approved in Decision EB-2011-0128, or an analogous or improved approach is expected where data of adequate quality at a class level is available.

<sup>14</sup> Application, p. 17

<sup>15</sup> Response to VECC Interrogatory 6

<sup>16</sup> Application p. 18, Table #5.

<sup>17</sup> Response to VECC Interrogatory 8 c)

<sup>18</sup> *PowerStream Smart Meter Decision; EB-2011-0128, November 21, 2011*

should be reduced by class specific revenues in situations where the distributor has the data available to reasonably do so.<sup>19</sup>

The Board finds that Midland is to allocate the return and depreciation on smart meters using the costs of smart meters only as an allocator in determining the SMIRR and SMDR rate riders. The Board notes that this is the method submitted by Board staff and that VECC accepted Board staff's submission & that Midland ultimately agreed as well.

### **Implementation**

As proposed by Midland, the Board finds that the approved SMDRs will be in effect for twelve months from May 1, 2012 to April 30, 2013. The SMIRRs will remain in effect until the effective date of Midland's next cost of service rate application. As Midland is scheduled to rebase its rates for the 2013 rate year, the Board notes that the SMIRR will be in effect from May 1, 2012 until April 30, 2013. At that point, the capital and operating costs will be directly incorporated into Midland's rate base and revenue requirement.

In granting its approval for the historically incurred costs and the revenue requirement projected for 2012, the Board considers Midland to have completed its smart meter deployment. Going forward, Midland is not to record any capital and operating costs for new smart meters and any costs for operations of smart meters in Accounts 1555 and 1556. Instead, the costs shall be recorded in regular capital and operating expense accounts (e.g. Account 1860 for meter capital costs) as is the case with other regular distribution assets and costs.

Midland is authorized to continue to include stranded meters in its asset account. The balance for stranded meters should be brought forward for disposition in Midland's next cost of service application.

### **THE BOARD ORDERS THAT:**

1. Midland's new distribution rates shall be effective May 1, 2012.

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<sup>19</sup> *ibid*

2. Midland shall file with the Board, and shall also forward to VECC, a draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision and Order within **7 days** of the date of the issuance of this Decision and Order.
3. Board staff and VECC shall file any comments on the draft Rate Order with the Board and forward to Midland within **4 days** of the date of filing of the draft Rate Order.
4. Midland shall file with the Board and forward to intervenors responses to any comments on its draft Rate Order within **3 days** of the date of receipt of intervenor comments.

### Cost Awards

The Board will issue a separate decision on cost awards once the following steps are completed:

1. VECC shall submit its cost claims no later than **7 days** from the date of issuance of the final Rate Order.
2. Midland shall file with the Board and forward to VECC any objections to the claimed costs within **14 days** from the date of issuance of the final Rate Order.
3. VECC shall file with the Board and forward to Midland any responses to any objections for cost claims within **21 days** from the date of issuance of the final Rate Order.
4. Midland shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

All filings to the Board must quote file number **EB-2011-0434**, be made through the Board's web portal at, [www.errr.ontarioenergyboard.ca](http://www.errr.ontarioenergyboard.ca) and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at

[www.ontarioenergyboard.ca](http://www.ontarioenergyboard.ca). If the web portal is not available parties may email their document to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 2 paper copies.

**DATED** at Toronto, May 3, 2012

**ONTARIO ENERGY BOARD**

*Original Signed By*

Kirsten Walli  
Board Secretary