



EB-2012-0008

**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 Peterborough  
Distribution Inc. 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**

**June 14, 2012**

Peterborough Distribution Inc. (“PDI”) a licensed electricity distributor, filed an application (the “Application”) with the Ontario Energy Board (the “Board”), received on January 20, 2012, 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 PDI charges for electricity distribution, to be effective May 1, 2012.

PDI, 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. PDI 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>

The Board issued a Letter of Direction and Notice of Application and Hearing (the "Notice") on February 17, 2012. The Vulnerable Energy Consumers' Coalition ("VECC") requested and was granted intervenor status and cost award eligibility. One letter of comment was 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;
- Smart Meter Installations Prior to Authorization ;
- Cost Allocation; and
- Implementation.

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

In its Application, PDI sought the following approvals:

- SMDRs for two years effective May 1, 2012 of \$0.75 for Residential customers and \$2.45 for General Service <50 kW customers. These SMDRs reflect the Net Deferred Revenue Requirement of \$779,715 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; and

---

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

- SMIRRs for one year effective May 1, 2012 in the amount of \$1.46 for Residential Customers and \$5.11 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 \$770,557.

PDI filed its Application with its December 31, 2010 audited balances, and estimated December 31, 2011 balances. In response to an interrogatory PDI confirmed that the December 31, 2011 balances were consistent with the audited balances.<sup>2</sup> This balance represents 100% of the capital costs for the smart meters project.

Based on PDI's 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 Costs Calculation**

	<b>Cost</b>	<b>Meter Count</b>	<b>Unit Costs</b>
Smart Meter CAPEX	5,535,936	35,363	156.55
Smart Meter OPEX	172,327	35,363	4.87
Total CAPEX & OPEX	5,708,263	35,363	161.42

Both Board staff and VECC did not take issue with PDI's costs. VECC noted that Appendix A of the Combined Proceeding Decision compares data for 9 out of 13 utilities and shows the total cost per meter ranged from \$123.59 to \$189.96, with Hydro One Networks Inc. being the main exception at \$479.47.<sup>4</sup> VECC also 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>5</sup>

Authorization to procure and deploy smart meters has been done in most instances 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

<sup>2</sup> Response to Board staff Interrogatory 2 b.

<sup>3</sup> Smart Meter Model V. 2.17

<sup>4</sup> VECC, Submission, April 26, 2012, page 3, referencing the Board's Decision in the Combined Proceeding EB-2007-0063, September 21, 2007

<sup>5</sup> VECC, Submission, April 26, 2012, page 3, referencing the Board's *Sector Smart Meter Audit Review Report*, dated March 31, 2010.

thus a significant degree of cost control discipline that distributors, including PDI, are subject to in smart meter procurement and deployment. The Board however does note that there were smart meters acquired prior to obtaining authorization. This is discussed below.

The Board finds that PDI's documented costs related to smart meter procurement, installation and operation are appropriate subject to findings below on the unauthorized purchases of smart meters. The Board approves the disposition for recovery of the costs for smart meter deployment and operation based on the methodology set out below.

### **Smart Meter Installations Prior to Authorization**

PDI installed 3,303 smart meters at a cost of \$476,351 prior to being authorized under Ontario Reg. 427/06, as amended by Ontario Reg. 235/08 on June 25, 2008.<sup>6</sup> This represents 9.4% of the total smart meters installed, and 8.4% of the total capital and OM&A costs of \$5,707,283 which PDI is requesting.<sup>7</sup> Board staff pointed out that PDI was not authorized to deploy smart meters in the period from 2006 to mid-2008. VECC stated that it took no issue with the nature or quantum of PDI's smart meter costs.<sup>8</sup>

PDI stated that the smart meters were acquired prior to authorisation for two different purposes: 1) To facilitate implementation of its Conservation and Demand Management ("CDM") Plan, and 2) as replacement meters.<sup>9</sup>

PDI submitted that the smart meters acquired for the CDM plan were necessary for a 3<sup>rd</sup> Tranche CDM Plan to enable Time of Use billing in 120 social housing units along with 75 load shifting devices in customer homes. The costs of the smart meters were not included in the CDM Plan.

### ***Smart Meters Acquired for CDM***

The Board notes that O. Reg. 427/06 Section 1. (1) provides for the following activities as authorized discretionary metering activities:

---

<sup>6</sup> Board staff Submission page 3

<sup>7</sup> Response to Board staff Interrogatory 7 a.

<sup>8</sup> VECC Submission page 4

<sup>9</sup> Responses to Board staff Interrogatories 7 b. 7 c.

“1. Metering activities conducted pursuant to the distributor’s Conservation and Demand Management Plan approved by a Board order referenced as RP - 2004 - 0203, including pursuant to a reallocation of funds within an approved Conservation and Demand Management Plan as authorized by the Board order approving the Conservation and Demand Management Plan or that is otherwise approved by the Board. “

The Board views the metering activities related to the 120 social housing units and the 75 installations of load shifting devices to be authorized as per the referenced section of the regulation. The Board, therefore, will allow these costs to be recovered from ratepayers.

### ***Replacement and New Installation Meters***

PDI submitted that the unauthorized purchases were, in part, to minimize the cost of replacing conventional meters, and minimize the cost of the stranded meters. PDI submitted in its Reply Argument (“Reply”) that it acted in an efficient and prudent manner to minimize the value of the stranded asset recovery by replacing conventional meters with smart meters and installing smart meters in new homes.<sup>10</sup>

It is clear that PDI was not authorized to acquire all 3,303 smart meters (i.e. other than those that were part of the CDM program) as it contravened Section 53.18 (1) of the Act which states:

“On and after November 3, 2005, no distributor shall conduct discretionary metering activities unless the distributor is authorized to conduct the activity by this Act, a regulation, the Energy Consumer Protection Act, 2010, an order of the Board or a code issued by the Board or it is required to do so under the Electricity and Gas Inspection Act (Canada).”

Section 53.18 continues and defines discretionary metering in Section 53.18 (2):

“discretionary metering activity’ means the installation, removal, replacement or repair of meters, metering equipment, systems and technology and any associated

---

<sup>10</sup> Reply Argument page 3

equipment, systems and technologies which is not mandated by the Electricity and Gas Inspection Act (Canada), by regulation, by an order of the Board or by a code issued by the Board or authorized by a regulation made under this Act.

Board staff pointed out that PDI also acted contrary to O. Reg. 427/06 as the regulation clearly defines what is an authorized metering activity and it defines a process for acquiring smart meters. Ontario Regulation 426/06 deals with the Board's jurisdiction with respect to reviewing and approving the recovery of smart meter costs. It is clear that costs are recoverable for authorized metering activities. It is clear that the purchases prior to PDI meeting O.Reg 427/06 requirements were unauthorized.

Central to the Board's considerations in the disposition of this deferral account balance is whether or not the assets to be accounted for in rate base were a prudently made investment. There is no dispute that a portion of PDI's Smart Meter acquisitions (those not required for CDM purposes) were purchased and installed prior to it being authorized to do so. The Board does not consider PDI's investment decision with respect to the early purchase of these assets to have been prudent.

The Board notes PDI's argument that its Smart Metering activity, prior to authorization, was intended to minimize the cost of replacing conventional meters and to minimize the value of the stranded asset. While the intent, considered in isolation, may appear to be reasonable, it is not reasonable to ignore the fact that a provincial regulation existed with the explicit purpose of ensuring that the very activity that PDI undertook was avoided.

A general purpose of the regulatory rules pertaining to the roll out of Smart Meters was to control the pace and development of its implementation. This was considered important in order to mitigate the potential of the system being fragmented and potentially unworkable.

The Board considers the prudence of a prior investment in the context of what was reasonable given the information available to the investor at the time of its investment. PDI knew of the regulations and furthermore, although not determinative of this matter, PDI ought to have understood the general purpose of the regulatory direction. PDI's unauthorized investment carried with it the inherent risk of causing the suboptimal situation that the regulation was designed to avoid. PDI chose to make its investment anyway. In this context, the Board considers PDI's investment, prior to being

authorized, to have been imprudent irrespective of any subsequent eventualities that may have resulted in the realization of an economic benefit. The Board will not allow costs associated with the early purchase and installation of these assets to be recovered from ratepayers.

As it stands now the assets that were purchased prior to PDI being authorized to do so are installed, being used and are useful. The Board finds it appropriate to account for these assets in rate base commencing from the date that PDI was authorized to invest in them. The Board will not allow the recovery of costs associated with the costs of capital, depreciation costs, associated carrying costs or related PILs prior to June 25, 2008.

To be clear, the accounting amortization schedules associated with these assets remain the same with the original entries to be maintained. For rate making purposes, only those costs associated with the identified assets that remain as of June 25, 2008 will be collected from ratepayers.

The Board does not consider the effort that would likely be required to identify and remove any additional operation and maintenance costs associated with this small population of new assets to be warranted given that it is likely to be immaterial.

## Cost Allocation

PDI applied for a SMDR and a SMIRR determined by using the allocation methodology approved in the PowerStream application, EB-2010-0209.<sup>11</sup> PDI allocated costs using the following method:

- Capital costs related to smart meters is allocated on the basis of customer weighted meters;
- OM&A is allocated on the basis of the number of smart meters;
- PILs is allocated on the revenue requirement before PILs by class; and
- SMFA revenues allocated on the basis of the total revenue requirement by class.

VECC submitted that PDI did not respond to VECC Interrogatory #8 as requested. VECC stated that it requested an allocation for the SMDR and SMIRR based on full cost causality, while PDI provided a revised SMDR rate rider with smart meter revenues and

---

<sup>11</sup> Application page 16

true-ups based on the PowerStream EB-2011-0128 Decision to allocate the SMFA based on class revenue.<sup>12</sup> VECC stated that it is unclear as to whether PDI has the appropriate data for a full allocation and should address this in its Reply. PDI did not address this in the Reply Submission. VECC further stated that if the data is not available, it accepts PDI's proposed allocation methodology.<sup>13</sup>

Board staff and VECC submitted that the revenues should be based on assigning the collected revenues by class with the true-up allocated based on the assigned revenues. This would be consistent with the PowerStream Decision.<sup>14 15</sup>

VECC also commented on the revenues collected from the rate classes other than residential and GS<50 kWh. It submitted that they should be returned to those customers.

The Board finds that the allocation of costs is consistent with the PowerStream Decision and is therefore approved. However the revenues are to be assigned to the residential and General Service < 50 kWh ("GS<50kWh") classes in the manner that they were collected. The amounts collected from the non-participating smart meter classes is to be allocated 50/50 to the Residential and GS<50 kWh classes. The interest and any other items that comprise the total balance is to be allocated to the participating classes based on the assigned revenues.

## Implementation

PDI received new distribution rates with an Effective Date of May 1, 2012 in its IRM application EB-2011-0161 on April 19, 2012. The Board on May 1, 2012 declared those rates interim by way of a letter. The Board will approve an effective date of May 1, 2012 as proposed by PDI. However since rates will not be implemented as of that date, the Board will approve an Implementation Date of July 1, 2012. As a result, the one year period from May 1, 2012 to April 1, 2013 for the SMIRR will now be a 10 month period from July 1, 2012 to April 30, 2013. Similarly the 24 month period for the SMDR will now be a 22 Month period from July 1, 2012 to April 30, 2014. The riders are to be determined accordingly.

---

<sup>12</sup> VECC Submission page 5

<sup>13</sup> *ibid*

<sup>14</sup> Board staff Submission page 6

<sup>15</sup> VECC Submission page 5

In granting its approval for the historically incurred costs and the revenue requirement projected for 2012, the Board considers PDI to have completed its smart meter deployment. Going forward PDI is not to record any capital and operating costs for new smart meters and any costs for operation 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.

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

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

1. PDI's new distribution rates shall be effective May 1, 2012, with an Implementation Date of July 1, 2012.
2. PDI 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 PDI within **3 days** of the date of filing of the draft Rate Order.
4. PDI 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. PDI 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 PDI any responses to any objections for cost claims within **21 days** from the date of issuance of the final Rate Order.
4. PDI 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-2012-0008**, 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, June 14, 2012

**ONTARIO ENERGY BOARD**

*Original Signed By*

Kirsten Walli  
Board Secretary