



EB-2012-0017

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 COLLUS Power Corp. 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 21, 2012

COLLUS Power Corp. ("COLLUS"), a licensed electricity distributor, filed an application (the "Application") with the Ontario Energy Board (the "Board"), received on January 16, 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 COLLUS charges for electricity distribution, to be effective May 1, 2012.

COLLUS, 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. COLLUS 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.¹

The Board issued a Letter of Direction and Notice of Application and Hearing (the "Notice") on February 7, 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;
- Unauthorized Purchase of Smart Meters;
- Cost Allocation; and
- Implementation.

Costs Incurred with Respect to Smart Meter Deployment and Operation

In its Application, COLLUS sought the following approvals:

- A SMDR for one year of -\$0.32 for Residential and -\$0.90 for General Service < 50 kW. These SMDRs reflect the Net Deferred Revenue Requirement of a credit of \$74,020 being the difference between the Deferred Incremental Revenue Requirement from 2006 to December 31, 2011 and the SMFA Revenues collected from 2006 to May of 2012;
- A SMIRR for one year of \$2.79 for Residential and \$5.87 for General Service < 50 kW. These SMIRRs reflect the Incremental Revenue Requirement for that one year period; and
- In the event that the Board is unable to issue its' Decision and Order for rates effective May 1, 2012 COLLUS requested a rate adder in the sum of \$2.50 for all customers per month per customer.

¹ *Guideline G-2008-0002: Smart Meter Funding and Cost Recovery*, issued October 22, 2008. On December 15, 2011, the Board issued *Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition* COLLUS used Smart Meter Model, Version 2.17, and prepared its application considering recent Board decisions on smart meter cost disposition and recovery.

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

In responses to interrogatories, COLLUS updated its evidence for actual December 31, 2011 balances, made corrections to various data in the Smart Meter Model (the "Model") and revised its proposed rate riders for smart meter cost recovery.^{2 3} The December 31, 2011 balances have been audited and represent 100% of the total smart meter balances.⁴

In its submission, Board staff pointed out that COLLUS updated its smart meter CAPEX for November 2011 to include an additional \$32,085, however, the number of installations was not updated. In Reply, COLLUS stated that the \$32,085 was for the payment of an invoice for meters received and installed in July and August 2011, and therefore were already included in the installation count.

Board staff also noted that year end changes resulted in \$18,920 of unexplained expenses added to operating expenses. COLLUS in its Reply stated that the costs were year end accruals, and provided details explaining the charges.

COLLUS stated in its Application that it was not claiming for costs beyond minimum functionality.⁵ In its Reply, COLLUS stated that there were costs beyond minimum functionality in its Application, specifically for Time of Use ("TOU") rates implementation. COLLUS provided details of those costs and indicated that some costs were allocated costs, such as expenses related to a customer information package that explained both smart meters and TOU rates. COLLUS estimated that the beyond minimal functionality costs amounted to \$7.45 per meter.

Based on COLLUS' updated Model, the total costs to December 31, 2011 for smart meter installations and operations, minimum functionality and related unit costs are as follows:⁶

² Responses to Board staff Interrogatory 12.

³ Responses to Board staff Interrogatory 13.

⁴ Responses to Board staff Interrogatory 2 a.

⁵ Application Page 15

⁶ *ibid*

Table 1
Unit Cost Calculation

	Cost	Meter Count	Unit Cost
Smart Meter CAPEX	\$2,606,507	15,619	\$166.88
Smart Meter OPEX	\$390,201	15,619	
Total OPEX & CAPEX	\$2,996,708	15,619	\$191.86

Both Board staff and VECC submitted that COLLUS' average smart meter costs were not excessive when compared to other applications. 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 \$479.47.⁷ 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 \$226.92.⁸ In Reply, COLLUS noted that when costs for beyond minimum functionality are removed, the unit costs are close to \$184.40 which does fall in the range of similar LDCs of \$123.59 to \$189.96.

Both Board staff and VECC noted that COLLUS participated with other LDCs within the Cornerstone Hydro Electric Concepts Association ("CHEC") to implement smart meters. As COLLUS stated in its Application, being involved collaboratively through CHEC, assisted in developing project plans, RFPs, and contract evaluations.

The Board finds that COLLUS' 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, subject to the finding below with respect to the unauthorized purchases of smart meters, the Board approves the disposition for recovery of the costs for smart meter deployment and operation.

Unauthorized Purchases of Smart Meters

COLLUS purchased 1,200 smart meters in March 2008 and June 2008 at a cost of \$103,114 and incurred installation costs of \$156,623 prior to receiving authorization on June 25, 2008.^{9 10 11} This represents about 6% of the total smart meter costs of \$1,750. COLLUS amended this amount to \$91,114 in its Reply stating that it received a \$10 credit per meter. The credit brought the costs of the meters to be in line with the

⁷ VECC, Submission, April 20, 2012, page 3, referencing the Board's Decision in the Combined Proceeding EB-2007-0063, September 21, 2007

⁸ VECC, Submission, April 20, 2012, page 3, referencing the Board's *Sector Smart Meter Audit Review Report*, dated March 31, 2010.

⁹ COLLUS Reply Submission p. 6

¹⁰ Response to Board staff Interrogatory 4 a.

¹¹ O. Reg. 427/06 amended by O. Reg. 235/08 June 25, 2008

meter costs flowing from the purchases acquired subsequent to the RFP approved by the Fairness Commissioner on August 1, 2008.¹²

COLLUS stated that it made smart meter capital purchases prior to authorization as set out in Regulation 427/06, *Smart Meters: Discretionary Metering Activity and Procurement Principles* which came into effect June 25, 2008. COLLUS stated that these purchases were for installations for small commercial customers that required the work to be performed outside normal business hours so as not to interrupt business, to familiarize staff with smart meters, and for new installations.¹³ COLLUS pointed out that if it had installed conventional meters on new installations; the balance for stranded meters would be higher. COLLUS also stated that these unauthorized purchases were to ensure that there was stock on hand in advance of the mass deployment date in case there were any supplier problems.

COLLUS in Reply stated that the purchases were just weeks before it was authorized to make purchases.¹⁴ COLLUS went on to point out that if the supplier of the unauthorized meters was not the supplier approved by the Fairness Commissioner then the meters would have been returned for a credit.¹⁵ However, the supplier was approved and COLLUS instead received a credit of \$10 per meter to bring the costs in line with the authorized purchases.

It is clear that COLLUS was not authorized to acquire 1,200 smart meters as the purchases contravene 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

¹² COLLUS Reply Submission p. 6

¹³ Response to Board staff 4 b.

¹⁴ COLLUS Reply Submission p. 7

¹⁵ *ibid*

equipment, systems and technology and any associated 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.”

The Board has also considered Ontario Regulation 427/06 which clearly defines what an authorized metering activity is and defines the process for acquiring smart meters. Further Ontario Regulation 426/06 deals with the recovery of smart meter costs and makes it clear that costs are recoverable for authorized metering activities. In addition to ensure that distributors are not financially disadvantaged by the implementation of the smart metering initiative, the regulation provides that distributors may recover the costs associated with meters owned before, on or after January 1, 2006 being replaced because of the smart metering initiative if, the meter being replaced was not acquired in contravention of section 53.18 of the *Electricity Act, 1998*. As such, purchases made contrary to s. 53.18 of the Act are not eligible for cost recovery.

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. The Board notes COLLUS' argument that its Smart Metering activity, prior to authorization, was intended to, among other things, minimize the cost of replacing conventional meters and to minimize the value of the stranded asset. COLLUS further argued that it made the purchases just weeks prior to being authorized to do so and that it had the option to return the meters if they were not from the supplier approved by the Fairness Commissioner. While these intentions and protections 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 COLLUS 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. This regulation was not amended until June 25, 2008 and its purpose and intent was not diminished in the weeks just prior to it being amended.

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. COLLUS' unauthorized investment carried with it the inherent risk of causing the suboptimal situation that the regulation was designed to avoid. COLLUS was aware of the regulation and chose to make its investment anyway. In this context, the Board considers COLLUS' 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 COLLUS 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 COLLUS 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.

Cost Allocation

In its Application, COLLUS 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 that reflects the average actual cost of the smart meters purchased for the residential and GS<50 kWh classes;
- Allocating the OM&A based on the number of meters installed in each class; and
- Allocating PILs based on the class revenue requirement's before PILs.

In the PowerStream Smart Meter Decision, the Board recognized that, as there would be significant differences between the customer classes, the principle of cost causality would support class-specific cost recovery.¹⁶ 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 is expected to address the allocation of costs in its application seeking the disposition of smart meter costs recorded in accounts 1555 and 1556.¹⁷ Further, in recent decisions,

¹⁶ *PowerStream Smart Meter Decision; EB-2011-0128, November 21, 2011*

¹⁷ See footnote 1.

the Board has reviewed and approved the evolution of approaches for calculating class-specific rate riders.¹⁸

The proposal by COLLUS relies on cost causality to determine the allocators of the various cost components and allocates the revenue on the revenue requirement by class.¹⁹ Both Board staff and VECC submitted that class-specific revenues would produce a rider that better reflects cost causality. VECC pointed out that the Board in the past has found that an appropriate determination of the SMDR should be based on the SMFA revenues collected by class.²⁰ COLLUS has provided the SMFA revenues by rate class.²¹ The Board directs COLLUS to recalculate the SMDR based on class-specific revenues. The revenues from GS>50 kW, the non-participating class should be allocated equally to the participating classes on a metered customer basis.

Implementation

COLLUS 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 COLLUS. 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 SMDRs and SMIRRs rate riders should be derived using a 10 month period from July 1, 2012 to April 30, 2013.

In granting its approval for the historically incurred costs and the revenue requirement projected for 2012, the Board considers COLLUS to have completed its smart meter deployment. Going forward, COLLUS 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.

¹⁸ 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.

¹⁹ Application p. 21, Table 3.

²⁰ *PowerStream Smart Meter Decision; EB-2011-0128, November 21, 2011*

²¹ Response to VECC Interrogatory 10 c)

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

THE BOARD ORDERS THAT:

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

4. COLLUS 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-2012-0017**, be made through the Board's web portal at, 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. If the web portal is not available parties may email their document to Boardsec@ontarioenergyboard.ca. 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 7 paper copies.

DATED at Toronto, June 21, 2012

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary