



**EB-2012-0086**

**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 Cambridge and North Dumfries Hydro Inc. for an order or orders approving or fixing just and reasonable distribution rates related to Smart Meter deployment, to be effective July 1, 2012.

**BEFORE:** Ken Quesnelle  
Presiding Member

Marika Hare  
Member

## **DECISION AND ORDER**

### **Introduction**

Cambridge and North Dumfries Hydro Inc. ("CND"), a licensed distributor of electricity, filed an application (the "Application") with the Ontario Energy Board (the "Board") on March 27, 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 CND charges for electricity distribution, to be effective July 1, 2012.

CND 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. CND requested approval of proposed Smart Meter Disposition Riders ("SMDRs") and Smart Meter Incremental Revenue Requirement Rate Riders ("SMIRRs") effective July 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 its Letter of Direction and Notice of Application and Hearing on April 9, 2012. The Vulnerable Energy Consumers' Coalition ("VECC") requested and was granted intervenor status and cost award eligibility. Two letters of comment were received to which CND responded. The Notice of Application and Hearing established that the Board would consider the Application by way of a written hearing and set timelines for discovery and submissions.

On June 29, 2012, the Board issued an Interim Rate Order making CND's current approved Tariff of Rates and Charges interim effective July 1, 2012 pending this Decision and Order.

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;
- Efficiencies and Cost Savings;
- Cost Allocation;
- Stranded Meter Costs; and
- Implementation.

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

In the Application filed on March 27, 2012, CND applied for the following approvals:

- The Board's determination that Smart Meter capital of \$8,177,996 and operating expenditures of \$427,716 to December 31, 2011 were prudent;
- A SMDR of (\$.06) for residential customers and (\$.16) for GS<50kW customers, to dispose of the deferred revenue requirement related to Smart Meters installed through December 31, 2011, net of the Smart Meter Funding Adder ("SMFA") revenues collected to April 30, 2012. The SMDR would be in place for a period of 22 months, from July 1, 2012 until the implementation date for new rates as

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<sup>1</sup> On December 15, 2011, the Board issued *Guideline -2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition* ("Guideline G-2011-0001"). CND's Application is filed in accordance with the guideline and utilizes the Smart Meter Model Version 2.17 issued along with Guideline G-2011-0001.

determined in CND's next Cost of Service Application, expected to be May 1, 2014; and

- A SMIRR of \$1.67 for residential customers and \$3.76 for GS < 50kW customers, to recover the annual revenue requirement associated with Smart Meters installed from the inception of the Smart Meter program through to December 31, 2011 including forecasted costs after December 31, 2011. The SMIRR would be in place for the same 22 month period implemented for the SMDR.<sup>2</sup>

CND's SMFA terminated on April 30, 2012, as approved by the Board in its decision on CND's 2011 IRM rates application [EB-2010-0068].

On page 14 of the Application, CND noted that it had included in the forecasted operating expenses in 2012 an amount to recover the proposed fee of \$0.81 per month per RPP-eligible customer proposed by the Independent Electricity System Operator in its role as the Smart Metering Entity (the "IESO-SME") for costs related to the development and operation of the provincial Meter Data Management/Repository ("MDM/R"). The IESO-SME filed its application on March 23, 2012, and is currently being considered by the Board under File No. EB-2012-0100.

CND revised its proposed SMDRs and SMIRRs in responses to interrogatories, with respect to the following:

- CND confirmed the aggregate federal and provincial corporate income tax rates to correspond to the rate for taxes/PILs actually paid by CND in each year;<sup>3</sup>
- CND calculated the interest on OM&A and depreciation expenses based on monthly data on sheet 8A of the Smart Meter model Version 2.17;<sup>4</sup>
- In response to Board staff IR # 11, CND calculated class-specific SMDRs based on an allocation of smart meter costs and direct allocation of SMFA revenues, in accordance with the methodology documented in Guideline G-2011-0001 and accepted by the Board in Guelph Hydro's 2012 cost of service rates application [EB-2011-0123];<sup>5</sup> and

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<sup>2</sup> Application, page 3

<sup>3</sup> Response to Board staff IR # 9

<sup>4</sup> Response to Board staff IR # 10 and Exhibit C

<sup>5</sup> Response to Board staff IR # 11 and Exhibit D

- In response to an interrogatory from VECC, CND calculated class-specific SMDRs and SMIRRs based on applying the class-specific costs to the Smart Meter Model Version 2.17.<sup>6</sup>

In their submissions, both Board staff and VECC opposed CND's inclusion for recovery of the amount of \$495,720 to recover the IESO-SME fee, on the basis that this matter was being dealt with in a separate proceeding. In its reply submission, CND agreed that, since the amount and recovery mechanism for the IESO-SME charge is being dealt with elsewhere, it would be appropriate to remove the amount from the calculation of the SMIRR. CND thus included recalculated class-specific SMDRs and SMIRRs to exclude the \$495,720 from the 2012 OM&A, allocated as \$450,362 to the Residential class and \$45,358 to the GS < 50 kW class in its reply submission and filed class-specific models in support of its proposal; these revised SMDRs and SMIRRs also reflect corrections made in response to interrogatories as noted above.

The proposed class-specific SMDRs and SMIRRs and those calculated in response to Board staff IR # 11 and VECC IR # 9, and the recalculated SMDRs and SMIRRs excluding the IESO-SME charges in the reply submission, are summarized below:

**Table 1: Original and Revised SMDRs and SMIRRs**

Class	SMDR (\$/month, for 12 months)				SMIRR (\$/month)			
	Original	Revised			Original	Revised		
		Board staff IR # 11	VECC IR # 9	Reply submission		Board staff IR # 11	VECC IR # 9	Reply submissi on
Residential	(\$0.06)	(\$0.38)	(\$0.40)	(\$0.40)	\$1.67	\$1.67	\$1.66	\$1.21
GS < 50 kW	(\$0.16)	\$3.07	\$3.28	\$3.28	\$3.76	\$3.76	\$3.83	\$3.38

### Level of Audited Costs

In its Application, CND stated that all of the historical costs for which disposition and recovery to December 31, 2011 is being sought, had been audited, with the 2011 Audited Financial Statements subject to approval by CND's Board of Directors at the time of filing of the Application. In response to Board staff IR # 2, CND confirmed that the 2011 Audited Financial Statements were approved by its Board of Directors without changes to the smart meter costs that are the subject of this Application. Both Board staff and VECC submitted that over 90% of the smart meter costs for which CND is

<sup>6</sup> Response to VECC IR # 9

seeking recovery were audited actuals, and that the Application satisfied the criterion in the Board's Guideline G-2011-0001.

### Costs Beyond Minimum Functionality

Board staff and VECC both supported CND's claimed smart meter costs, with the exception of the IESO-SME forecasted cost recovery. CND also documented that its smart meter costs did not include costs related to CIS and billing system changes, as these changes were made as part of a major CIS and billing system upgrade approved in CND's 2010 cost of service rates application.

VECC noted that CND had documented how it had collaborated with other Ontario LDCs in the RFP process, and on a more selective basis, with neighbouring utilities in adopting the same AMI infrastructure, and in participating jointly with some distributors in the testing and implementation of software. VECC submitted that CND demonstrated how it realized savings and other benefits through such collaboration and cooperation.

### Treatment of 2012 Costs

Board staff noted that CND has excluded new smart meter installations due to customer growth for 2012. This approach has been applied and approved in some other applications.

Both Board staff and VECC submitted that CND's costs per smart meter were within the ranges that the Board has seen in applications and studies. VECC submitted that, once the IESO-SME costs were excluded, the average cost per meter for CND was \$161.27 (capital only) or \$176.81 (combined capital and OM&A). Appendix A of the Combined Proceeding Decision (EB-2007-0063, September 21, 2007) compares data for 9 out of 13 utilities and shows the total cost per meter ranged from \$123.59 to \$189.96 for utilities serving more urbanized and built-up areas, similar to CND.<sup>7</sup> VECC also noted that the average per meter capital cost, based on data reported by all utilities to September 30, 2009, was \$186.76,<sup>8</sup> and that updated data reported for the period ending September 30, 2010, showed an industry average capital cost of \$226.92.<sup>9</sup>

<sup>7</sup> Board staff Submission, page 5. Quoted in VECC's Submission, pages 2-3.

<sup>8</sup> VECC, Submission, March 17, 2012, page 3, referencing the Board's *Sector Smart Meter Audit Review Report*, dated March 31, 2010.

<sup>9</sup> *Ibid.*, referencing the *Monitoring Report Smart Meter Investment – September 2010*, March 3, 2011

The Board notes that authorization for CND 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 (a) vendor(s) 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 CND, are subject to in smart meter procurement and deployment. The Board further notes that CND has documented that it participated with other distributors in Ontario, particularly distributors in close proximity and with similar operating characteristics, on smart meter procurement and operational processes to better realize cost savings and efficiencies through its smart meter implementation.

Based on the evidence filed in this Application, the Board finds that CND's documented costs related to smart meter procurement, installation and operation, are reasonable. The Board approves the disposition for recovery of the costs for smart meter deployment and operation.

### **Efficiencies and Cost Savings**

In its submission, VECC stated:

CND identified \$155,000 per year in savings for no longer requiring residential and GS<50 kW customer meters to be read.[footnote reference to page 7 of the Application]. In response to VECC interrogatory #3 regarding how these savings are accounted for in this application, [CND] indicates it has not accounted for the savings in this application. As a matter of principle, VECC submits these savings should be incorporated during the IRM period. Otherwise consumers pay the added costs associated with smart meters via the rate adder and rate rider (after full implementation) but don't benefit from any of the cost savings.<sup>10</sup>

Board staff submitted that CND should be prepared to address any operational efficiencies due to smart meter and TOU implementation in its next cost of service rebasing application.

In its reply submission, CND concurred with Board staff that operational savings be addressed in the utility's next cost of service rates application. CND noted that its focus

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<sup>10</sup> VECC Submission, July 10, 2012, pg. 4

has been on the smart meter deployment and TOU implementation, and that it has not had an opportunity to identify if there are any unanticipated additional costs to lower savings, or any additional savings, that may occur, and submitted that the \$155,000 in savings not be explicitly incorporated into the rates resulting from the Board's Decision on this Application.

With regard to VECC's concern, the Board is of the view that savings from any productivity gains due to smart meter implementation are one source of the gains that CND is incented to realize under the IRM rate adjustment mechanism. The Board concurs with both Board staff and CND that realized savings should be addressed in CND's next cost of service application, when there should be better information on actual costs and savings and these will be factored into rebased rates.

As a result, the Board will not make any adjustments to the rates during the IRM period.

### **Cost Allocation**

CND initially proposed class-specific SMDRs and SMIRRs through an allocation of costs and SMFA revenues. In response to VECC IR # 9, CND used separate class-specific models for deriving class-specific SMDRs and SMIRRs; these models were used for the revised SMDRs and SMIRRs filed in the reply submission.

Initial smart meter funding was provided by a uniform SMFA collected from all metered customers, and there was no specific Board direction for recording of costs and revenues by class.

However, in the past the Board has noted that the principle of cost causality would support class-specific cost recovery, as there would be differing costs in different customer classes, due in large part 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 Guideline<sup>11</sup> indicates 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. In recent decisions, the Board has reviewed and approved an evolution of approaches for calculating class-specific rate riders.<sup>12</sup>

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<sup>11</sup> See footnote 1.

<sup>12</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

In response to VECC interrogatory # 9, CND proposed revised class-specific SMDRs and SMIRRs based on class-specific smart meter models. As noted above, revised class-specific SMDRs and SMIRRs were filed by CND in the reply submission to exclude the costs for the IESO-SME charge recovery.

The Board considers the cost causality approach of class-specific models proposed by VECC to be more exacting and principled, and will accept it where the utility has calculated it and is reasonably confident with the underlying data at the customer class level. The Board further notes that no parties contested the results. As such, the Board approves the class-specific SMDRs and SMIRRs as calculated according to the methodology used in VECC IR # 9, and updated to exclude the IESO-SME charges as filed in CND's reply submission.

### **Stranded Meter Costs**

In its Application, CND proposed not to dispose of stranded meters at this time, but to deal with disposition in its next rebasing application, scheduled for 2014 rates. The aggregated net book value of stranded meters, in aggregate for the Residential and GS < 50 kW classes, is \$2,446,644.29 as of December 31, 2013. The stranded conventional meters will continue to be amortized until disposition. The average per meter cost for a stranded meter is estimated as \$48.25 as of December 31, 2013.

Board staff submitted that CND's proposal is compliant with Guideline G-2011-0001. The Board agrees.

The Board also agrees with Board staff's submission submitted that CND should be prepared to address any operational efficiencies due to smart meter and TOU implementation in its next cost of service rebasing application.

### **Implementation**

CND requested an effective date of July 1, 2012 for its new rates. Given the filing date and the time required to process an application of this nature, the Board has determined that an implementation date of September 1, 2012 is appropriate. In developing its draft Rate Order, CND is directed to establish the SMDRs based on a 20-month recovery

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Decision EB-2011-0128, or an analogous or improved approach is expected where data of adequate quality at a class level is available.

period from September 1, 2012 to April 30, 2014, and to accommodate within the SMDR the applicable revenue requirement (SMIRR) amount related to the period from May 1, 2012 to August 31, 2012, for the reasons discussed below.

The SMIRRs shall be effective and implemented on September 1, 2012. The Board notes that these riders are based on an annual revenue requirement and will be in effect until the effective date of CND's next cost of service rate order.

#### *Foregone SMIRR Revenues for the Period May 1 to June 30, 2012*

In its Application, CND has proposed an effective date for the SMIRR of July 1, 2012. CND's SMFA ceased on April 30, 2012, in accordance with the Tariff of Rates and Charges approved in CND's 2011 IRM rates application EB-2010-0068. In proposing an effective date of July 1, 2012, CND is effectively foregoing two months of revenue recovery of the SMIRR, related to current capital and operating costs of deployed smart meters. Board staff noted that CND has not requested recovery of this in its Application, and requested that CND confirm that it is not seeking such recovery. CND confirmed this in its reply submission.

With respect to CND's proposal to the foregoing of SMIRR revenues for May 1 to June 30, 2012 the Board has considered the following.

In finding that CND's smart meter costs are prudent, the Board considers that it is appropriate that CND receive the commensurate revenues to recover the approved costs. As the SMIRR is intended to reflect the ongoing revenue requirement in advance of a distributor's next cost of service application, the Board is of the view that on a principled basis the full amount should be reflected. The Board has, in recent decisions established mechanisms for distributors to recover the foregone revenues from the SMIRR where the SMDR and SMIRR could not be implemented on the May 1, 2012 date. The Board therefore directs CND to calculate the foregone SMIRR revenues for the period from May 1 to August 31, 2012 in developing the SMDR, as documented above.

#### *Draft Rate Order Filing*

The Board expects CND to file detailed supporting material, including all relevant calculations showing the impact of this Decision and Order on CND's class specific

smart meter revenue requirements and the determination of the updated SMDRs and SMIRRs in its draft Rate Order filing.

### *Accounting Matters*

In granting its approval for the historically incurred costs and the costs projected for 2012, the Board considers CND to have completed its smart meter deployment. Going forward, no capital and operating costs for new smart meters and the operations of smart meters shall be tracked in Accounts 1555 and 1556. Instead, 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.

CND is authorized to continue to use the established sub-account Stranded Meter Costs of Account 1555 to record and track remaining costs of the stranded conventional meters replaced by smart meters. The balance of this sub-account should be brought forward for disposition as part of CND's next cost of service application.

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

1. Cambridge and North Dumfries Hydro Inc. shall file with the Board, and shall also forward to the Vulnerable Energy Consumers Coalition, 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 this Decision and Order. The draft Rate Order shall also include customer rate impacts and detailed supporting information showing the calculation of the final rates.
2. The Vulnerable Energy Consumers Coalition and Board staff shall file any comments on the draft Rate Order with the Board and forward to Cambridge and North Dumfries Hydro Inc. within **7 days** of the date of filing of the draft Rate Order.
3. Cambridge and North Dumfries Hydro Inc. shall file with the Board and forward to the Vulnerable Energy Consumers Coalition responses to any comments on its draft Rate Order within **7 days** of the date of receipt of the submission.

### **Cost Awards**

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

completed:

1. The Vulnerable Energy Consumers Coalition shall submit its cost claims no later than **7 days** from the date of issuance of the final Rate Order.
2. Cambridge and North Dumfries Hydro Inc. 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. The Vulnerable Energy Consumers Coalition shall file with the Board and forward to Horizon Utilities any responses to any objections for cost claims within **21 days** from the date of issuance of the final Rate Order.
4. Cambridge and North Dumfries Hydro Inc. 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-2012-0086**, 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 [BoardSec@ontarioenergyboard.ca](mailto: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 2 paper copies.

**DATED** at Toronto, July 26, 2012

**ONTARIO ENERGY BOARD**

*Original signed by*

Kirsten Walli  
Board Secretary