



EB-2012-0289

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 Entegrus
Powerlines Inc. for an order approving or fixing just and
reasonable distribution rates related to Smart Meter
deployment, to be effective November 1, 2012.

BEFORE: Ken Quesnelle
Presiding Member

Marika Hare
Member

DECISION AND ORDER

November 1, 2012

Entegrus Powerlines Inc. ("EPI"), a licensed electricity distributor, filed an application (the "Application") with the Ontario Energy Board (the "Board"), on July 5, 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 EPI charges for electricity distribution, to be effective November 1, 2012. EPI serves 16 communities formerly served by Chatham-Kent Hydro Inc. ("CKH") and Middlesex Power Distribution Corporation ("MPDC").

EPI sought Board approval for the disposition of costs related to smart meter deployment, offset by Smart Meter Funding Adder ("SMFA") revenues. EPI requested approval of proposed Smart Meter Disposition Riders ("SMDRs") and Smart Meter

Incremental Revenue Requirement Riders (“SMIRRs”). The proposed effective date for the SMDRs is November 1, 2012 and EPI is requesting that they remain in effect for terms of either one year or three and a half years depending on the service territory and customer class, as indicated in Table 1 below. The proposed effective date for the SMIRRs is November 1, 2012 and EPI is requesting that these remain in effect until its next cost of service application, planned for 2016. 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 July 23, 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.

Board staff and VECC submitted interrogatories to EPI on August 24, 2012. EPI filed its responses to the interrogatories on September 7, 2012. Board staff filed its submission on September 14, 2012 and VECC filed its submission on September 19, 2012. EPI filed its reply submission on September 28, 2012.

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;
- Cost Allocation;
- Efficiencies; and
- Stranded Meters.

Costs incurred with Respect to Smart Meter Deployment and Operation

Prior to forming EPI, CKH and MPDC were named as two of the 13 licensed distributors to be early enablers of smart metering in O. Reg 427/06 and O. Reg. 428/06. As a result of investing in smart meters earlier than most electricity distributors, EPI applied for and was granted approvals for SMDRs and SMIRRs for installations up to December

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

31, 2008 in certain of CKH's and MPDC's legacy service territories.² This Application is for SMDRs and SMIRRs to recover historical and prospective costs for smart meters installations that have not been previously reviewed and approved by the Board. The following are the requested rate riders and durations by rate zone:

Table 1
Entegrus Proposed Rate Riders

Rates by Zone	SMDR		SMIRR	
	Rate	Duration	Rate	Duration
<u>Chatham-Kent ("CK")</u>				
1 Residential	\$0.51	1 Year	\$0.28	3.5 Years
2 GS<50 kW	\$3.01	3.5 Years	\$5.60	3.5 Years
3 GS>50kW	\$19.46	1 Year	\$11.31	3.5 Years
<u>Strathroy, Mount Bridges & Parkhill ("SMP")</u>				
4 Residential	-\$0.69	1 Year	\$0.38	3.5 Years
5 GS<50 kW	\$3.35	3.5 Years	\$5.35	3.5 Years
6 GS>50kW	\$13.74	1 Year	\$12.31	3.5 Years
<u>Dutton</u>				
7 Residential	\$1.20	3.5 Years	\$2.33	3.5 Years
8 GS<50 kW	\$2.21	3.5 Years	\$3.84	3.5 Years
<u>Newbury</u>				
9 Residential	\$0.77	3.5 Years	\$2.40	3.5 Years
10 GS<50 kW	\$1.23	3.5 Years	\$3.07	3.5 Years
11 GS>50kW	\$13.66	1 Year	\$6.66	3.5 Years

EPI filed eleven Smart Meter Models (the "Models") with its Application. EPI provided its cost of service parameters for historical years and forecast 2012 in Tab 3 Cost of Service Parameters in each of the Models. In Appendix I of the Application, the cost of service parameters for General Service > 50 kW for Strathroy, Mount Brydges & Parkhill ("SMP") did not align with the same parameters for SMP's Residential and General Service < 50 kW classes. EPI stated that it had updated its cost of capital parameters in the Models, however Board staff in its submission pointed out that they had not been updated. In its Reply, EPI stated that it had inadvertently failed to update the GS>50 kW class and agreed that it should be correctly updated. EPI requested that the Board direct it to make the correction.

² Application, Appendix B

Unit Costs

Concerns were raised by VECC over the total unit cost of \$233 per installed smart meter. VECC pointed out that CKH and MPDI reported unit costs of \$189.34 and \$189.96 in the Combined Hearing.³ With the exception of Hydro One, which had an average unit cost of \$479.47, the average unit costs found in the Combined Hearing ranged from \$123.94 to \$189.96. VECC further pointed out that the Board's September 30, 2009 determination of average unit costs for smart meters in Ontario is \$207.37, based on a provincial completion rate of 64% and that the Board's September 30, 2010 determination of average unit costs for smart meters in Ontario was \$267.92, based on a provincial completion rate of 94%.^{4, 5}

VECC stated that, of the Mid-Size Southern Medium High Underground peer group, only Bluewater Power's unit costs were higher than EPI's.

In its Reply, EPI summarized the factors contributing to the increased costs which had been documented in the Application and in response to an interrogatory from VECC:^{6,7}

- Travel time between multiple communities;
- Hard-to-reach customers;
- The higher more variable costs of poly-phase meters;
- The mix of poly-phase meters within the various rate zones;
- The non-contiguous nature of the services territory, and;
- Troubleshooting costs on the entire system.

While Board staff and VECC did not dispute these factors, VECC questioned whether EPI's costs were too high compared to its peer group.

Beyond Minimum Functionality

EPI is requesting recovery of Type B and Type C costs which are for investments that are beyond minimum functionality.⁸ EPI explained that Type B expenditures are costs to deploy smart meters to all customers in the GS>50 kW customer class and that Type C expenditures are costs for TOU Rate Implementation and MDM/R Integration.

³ Combined Hearing EB-2007-0063, September 27, 2007, Appendix A

⁴ Sector Smart Meter Audit Review Report March 31, 2010

⁵ Monitoring Report Smart Meter Investment – September 2010, March 3, 2011

⁶ Application pages 21 - 23

⁷ Response to VECC Interrogatory 2 c.

⁸ Application, pages 29 & 30

EPI stated that there are benefits to implementing smart meters for GS>50 kW customers. Board staff submitted that the average cost for a deployed GS>50 kW smart meters is \$1,074, while the operating costs are \$13, which is less than that for a residential smart meter in the CK zone. Board staff noted that the Board has approved costs for smart meters for GS>50 kW in other applications.⁹

Board staff also submitted that, regarding Type C expenditures, the expenses incurred for TOU implementation and MDM/R integration were required to complete the smart meter program, and that the Board had approved similar costs in other smart meter applications.

Board staff had no issue with the proposal for recovery or for the amounts associated with capital and OM&A expenses “beyond minimum functionality” that EPI is proposing in this Application. VECC made no comments on this issue.

Board’s Findings on Costs

The Board notes that EPI acknowledges that it has included incorrect cost of service parameters for General Service > 50 kW for SMP. With this correction, the Board finds that EPI’s documented costs, as applied for, related to smart meter procurement, installation and operation, and including costs related to GS>50 kWh smart meters and TOU rate implementation are reasonable.

Cost Allocation

As noted above, EPI filed eleven Models, one for each rate class in each rate zone. EPI stated that they recorded capital costs by class per rate zone. EPI allocated the OM&A based on the number of customers in each rate zone so that all could share in the costs and savings equally. Board staff and VECC took no issue with this approach.

In the Models, interest is calculated either monthly or annually. EPI chose to calculate interest annually. In response to why the annual method was used, EPI submitted that given the composition and evolution of its service territory, and various rate territories which resulted in 11 cost allocations, that EPI chose the less complex annual method.¹⁰ Board staff submitted that this was an acceptable explanation. VECC made no submission.

⁹ Horizon Utilities Corp. EB-2011-0417; Burlington Hydro Inc. EB-2012-0081; and PUC Distribution Inc. EB-2012-0084

¹⁰ Response to Board staff Interrogatory 7

EPI proposed that the SMDRs be in place for either one year or 3 ½ years, as shown in Table 1, and that the SMIRRs be in place until its next cost of service application, which is expected to be for rates effective May 1, 2016 which is in 3 ½ years. No party objected to this proposal.

Board Findings on Cost Allocation

The Board finds that tracking capital investments by class within the four rate zones is an exact method of costing. The Board finds that allocating the operating costs based on the number of customers is consistent with the PowerStream method which was accepted by the Board.¹¹ The Board therefore approves the cost allocation methodology proposed by EPI.

Efficiencies

EPI stated that it has realized a total of \$40,550 in savings from smart meters, of which \$23,000 for CKH has already been included in its approved 2010 revenue requirement based on its 2010 cost of service application. In response to an interrogatory, EPI included the balance of the savings, \$17,550, in updated Models.¹² However, in its Reply, EPI reversed its proposal, submitting that the savings should not be included. EPI submitted that it would bring them forward in its next cost of service application, when EPI would have greater experience with smart meters and therefore a better assessment of total savings.

To support this position, EPI made reference to Cambridge and North Dumfries Hydro Inc. (“CND”) in which the Board found that it would not make any savings adjustments during an IRM period.¹³ In CND’s smart meter application VECC argued that savings from smart meters should be incorporated during the IRM period; otherwise consumers pay the added costs associated with smart meters via the rate riders but do not benefit from any of the cost savings. However, the Board found 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. Board staff and CND submitted 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 that these should be factored into rebased rates.

¹¹ *PowerStream Smart Inc. Decision and Order*; EB-2011-0128, November 21, 2011

¹² Response to VECC Interrogatory 5

¹³ *Cambridge and North Dumfries Hydro Inc. Decision and Order*, EB-2012-0086 July 26, 2010

Board Findings on Efficiencies

The Board concurs with EPI that any savings or efficiencies should be evaluated and brought forward in its next cost of service application. At that time, the Board will expect EPI to have evaluated the impact of smart meters on EPI's costs of operations more rigorously and report to the Board its findings.

Stranded Meters

EPI is not seeking disposition of its stranded meters in this Application, stating that the assets continue to be accounted for in rate base, pursuant to the Board's Guideline.¹⁴ EPI has estimated its net book value for stranded meters on December 31, 2015 would be \$324,490. Board staff submitted that this is the appropriate treatment for smart meters. VECC made no submission.

Board Findings on Stranded Meters

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

Implementation

EPI requested an effective date of November 1, 2012 for its new rate riders. The Board has determined that an effective date of November 1, 2012 is appropriate for the SMDRs and SMIRRS. The Board notes that the SMIRRS are based on an annual revenue requirement and will be in effect until the effective date of EPI's next cost of service rate order. The Board will also approve the disposition periods proposed by EPI for the SMDRs.

Accounting Matters

In granting its approval for the historically incurred costs and the costs projected for 2012, the Board considers EPI to have completed its smart meter deployment. Going forward, no operating costs for the smart meters and no capital and operating costs for new 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.

EPI 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

¹⁴ *Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition.*

meters replaced by smart meters. The balance of this sub-account should be brought forward for disposition as part of EPI's next cost of service application.

THE BOARD ORDERS THAT:

1. Entegrus Powerlines Inc.'s new distribution rates shall have an effective date of November 1, 2012.
2. Entegrus Powerlines Inc. 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 Entegrus Powerlines Inc. within **4 days** of the date of filing of the draft Rate Order.
4. Entegrus Powerlines Inc. 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. Entegrus Powerlines 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. VECC shall file with the Board and forward to Entegrus Powerlines Inc. any responses to any objections for cost claims within **21 days** from the date of issuance of the final Rate Order.
4. Entegrus Powerlines 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-2012-0289**, be made through the Board's web portal at, <https://www.pes.ontarioenergyboard.ca/eservice/> 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 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, November 1, 2012

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary