



**EB-2012-0265**

**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 Brant County  
Power 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 8, 2012**

Brant County Power Inc. ("BCP"), a licensed electricity distributor, filed an application (the "Application") with the Ontario Energy Board (the "Board"), on June 19, 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 BCP charges for electricity distribution, to be effective November 1, 2012. BCP serves the communities of Paris, Burford, St. George, and the County of Brant.

BCP's Application is a stand-alone Smart Meter Cost Recovery application requesting recovery of costs related to smart meter deployment, offset by Smart Meter Funding Adder ("SMFA") revenues collected from May 1, 2006 to October 31, 2012. BCP

requested approval of proposed Smart Meter Disposition Riders (“SMDRs”) and Smart Meter Incremental Revenue Requirement Rate Riders (“SMIRRs”) effective November 1, 2012. The Application is based on the Board’s policy and practice with respect to recovery of smart meter costs as set out in its Smart Meter Guidelines.<sup>1</sup>

The Board issued a Letter of Direction and Notice of Application and Hearing (the “Notice”) on July 5, 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 submitted interrogatories to BCP on August 2, 2012, and VECC submitted interrogatories to BCP on August 14, 2012. BCP filed partial responses to the interrogatories on September 6, 2012, and filed the completion of the interrogatory responses on September 26, 2012. Board staff filed its submission on September 28, 2012 and VECC filed its submission on October 3, 2012. BCP filed its reply submission on October 12, 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;
- Costs beyond minimum functionality;
- PILs;
- Efficiencies and cost savings;
- Cost allocation;
- SMFA interest;
- Stranded meter costs;
- Quality of the Application; and
- Implementation.

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<sup>1</sup> On December 15, 2011, the Board issued *Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition* (the “Guideline”). BCP used Smart Meter Model, Version 2.17 and prepared its application considering recent Board decisions on smart meter cost disposition and recovery.

## Costs Incurred with respect to Smart Meter Deployment and Operation

BCP has applied for the following:

- Final disposition of smart meter capital costs of \$1,668,878 and smart meter operating costs of \$295,607;
- A SMDR of \$2.19 per smart meter per month with a proposed effective date of November 1, 2012. BCP is requesting that the SMDR remain in place for one year; and
- A SMIRR of \$2.60 per smart meter per month with a proposed effective date of November 1, 2012. BCP is requesting that the SMIRR remain in effect until its next cost of service application planned for 2016.

BCP is proposing to offset the historical smart meter costs with the forecasted total revenues from its SMFA which is to be collected until October 31, 2012. This appropriately reflects BCP's 2012 IRM Decision, in which the Board approved the continuation of a SMFA of \$1.00 per metered customer per month until October 31, 2012.<sup>2</sup>

### Repairs to Customer-Owned Equipment

BCP stated that, in its Application, it did not record costs of \$5,000 for repairs to customer-owned equipment in a sub-account of 1556 as the Board directed in the Combined Proceeding. Board staff pointed out that this is a small amount and that although it should more appropriately have been recorded in a sub-account of 1556 Board staff did not object to BCP's treatment of these costs. VECC concurred.

The Board accepts that this amount is not material and while BCP did not follow the Board's direction, in consideration of the immateriality of the amount, the Board will not order a new accounting of the costs for repairs to customer-owned equipment contained in BCP's Application.

### Prudence Review of Costs

BCP has incurred the following costs from 2009 to 2012 for the installation and operation of 7,986 Residential and 1,626 GS<50kW smart meters:

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<sup>2</sup> *Brant County Power Inc. Decision and Order EB-2011-0154*, March 22, 2012.

	\$
1 CAPEX	1,668,878
2 OPEX	<u>295,607</u>
3 Total	<u>1,964,485</u>

By way of providing a variance analysis, BCP provided the total budgeted and actual capital expenses in its Application and in response to an interrogatory.<sup>3</sup> Board staff set out in its submission that the actual capital budget was \$1,668,878 or \$457,251 more than that budgeted \$1,211,627 for capital and requested that BCP explain the variance in more detail.

BCP, in its Reply Submission, stated that further delineation is not feasible, as the original budgets and cost recordings do not align with the Board's reporting structure. BCP also submitted that the budget was prepared before the expenses were incurred. In responding to Board staff and VECC's submissions requesting BCP to identify the cost drivers, BCP stated that the major drivers were technology changes and setting requirements for proper functionality. BCP also stated in its Reply Submission that cost management and collaboration with the Niagara Erie Power Alliance group assisted in an efficient roll-out resulting in unit costs of less than \$205.

In addressing the unit costs, Board staff provided unit costs per installed meter as in the following table:

**Smart Meters Minimum Functionality**

	<u>\$/Meter</u>
Total Assets	172.17
Total OM&A	<u>28.99</u>
Total	201.16

VECC in its submission noted that when costs beyond minimum functionality are considered, the unit cost per meter is \$204.38.

Both Board staff and VECC pointed out that in total for Ontario, 4,382,194 smart meters have been installed, with an investment cost of \$994,426,187 as of September 30, 2010. This results in an average investment cost of \$227.<sup>4</sup>

<sup>3</sup> Response to board staff Interrogatory 3 compared to Tab 2 "Smart Meter Costs" of its Smart Meter Model V2.17

<sup>4</sup> *Monitoring Report Smart Meter Investment – September 2010 March 3, 2011*

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## Board Findings on Costs Incurred with respect to Smart Meter Deployment and Operation

The Board notes BCP's inability to provide any discrepancy analysis between its assumptions made for budgeting purposes and the actual cost drivers realized in its Smart Meter implementation. The Board reminds BCP that it is expected to maintain a record of its financial management in a manner that facilitates the examination of that management to ensure costs were prudently incurred. The disposition of the account balance related to smart meters has been anticipated since the inception of the account. It is not sufficient to contemplate what records are required to facilitate this examination at the time of disposition. The Board expects BCP to develop improved financial record keeping with its responsibility to fully demonstrate that it has acted in a prudent manner..

The Board notes that the most recent average unit costs for smart meters is \$227. While the Board does not consider the mere comparison of average costs to be determinative of reasonableness, it has considered the fact that BCP's costs are lower than the provincial average in determining whether or not the record in this proceeding has been adequate to justify the costs. The Board accepts BCP's costs for minimum functionality, as applied for, related to smart meter procurement, installation and operation as reasonable.

### **Costs Beyond Minimum Functionality**

In its Application, BCP did not identify any assets or OM&A expenses that use functionality above the minimum requirements.<sup>5</sup> In response to an interrogatory BCP stated that in fact it incurred \$31,000 for costs beyond minimum functionality.<sup>6</sup> BCP stated that costs for beyond minimum functionality consist of \$14,000 for TOU implementation and web presentment, and \$17,000 for operating expenses and CIS implementation.<sup>7</sup> Board staff submitted that these costs have a small impact of \$3.23 on the total costs. VECC pointed out that this represents 1.58% of BCP's total smart meter program spending.

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<sup>5</sup> Application

<sup>6</sup> Response to Board staff Interrogatory 9

<sup>7</sup> *ibid*

Board staff submitted that it BCP was unclear as to the nature of the CIS enhancement expenses, and why they are expensed and not capitalized. VECC agreed with Board staff that BCP has not provided adequate justification as per the Board's Guideline.<sup>8</sup> Both Board staff and VECC submitted that BCP should address this in its Reply Submission.

### Board Findings

The evidence on this matter is still unclear. BCP's explanation in its Reply Submission did not address the matter of whether these costs should be expensed or capitalized, and it did not explain how these costs are considered as incremental.

The Guidelines are clear:

“All costs beyond minimum functionality should be clearly identified and supported. Costs that are for meter data functions that will be the responsibility of the Smart Metering Entity will not be recoverable, unless already allowed for per O.Reg. 426/06. Costs for other matters such as CIS changes or TOU bill presentment may be recoverable, but the distributor will have to support these costs and will have to demonstrate how they are required for the smart meter deployment program and that they are incremental to the distributor's normal operating costs.”<sup>9</sup>

Improper expensing of capital to operating costs will result in inappropriate rates. The Board is concerned that BCP's costs may not be properly classified. The Board directs BCP to review its costs for beyond minimum functionality and make any necessary changes to the capitalization of costs, including updating the Model, based on its capitalization policy. The Board notes that Board staff and VECC in their submissions, recognized the relatively minor impact these expenses have on the overall costs. The Board will accept the costs as classified in the Draft Rate Order (“DRO”) for the purpose of determining the SMDRs and SMIRRs based on an adequate justification by BCP.

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<sup>8</sup> Board issued *Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition*, December 15, 2011

<sup>9</sup> *Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition*; December 15, 2011, page 17

## PILs

In its Application BCP used the default values in the Model for PILs, which were the maximum allowed tax rates for the period 2006 – 2012. Through an interrogatory, BCP updated its reported tax rates.<sup>10</sup> The following table compares the two sets of rates:

		PILs						
Year		2006	2007	2008	2009	2010	2011	2012
1	Application	36.12%	36.12%	33.50%	33.00%	31.00%	28.25%	26.25%
2	IR 8	35.95%	36.12%	33.44%	36.29%	30.99%	33.65%	33.65%

Line 1 contains the maximum allowable tax rates, when provincial and federal tax rates are combined. Line 2 contains the updated tax rates provided by BCP in response to Board staff interrogatory #8.

Board staff submitted that the tax rates for 2008, 2009, 2011 and 2012 are above maximum aggregate federal and provincial corporate income tax rate for the respective years and is a situation that is clearly anomalous. Board staff questioned whether the maximum tax rate would even apply to BCP given its relative size. Board staff noted that overstated tax rates will increase the deferred revenue requirement to the disadvantage of BCP's customers. Board staff submitted that the tax rates be reviewed and corrected to correspond to those that BCP received approval by the Board in its previous cost of service and tax sharing modules of IRM applications.

In its Reply Submission BCP, in response to Board staff's submission, updated the rate for 2011 to 21% and for 2012 to 15.5%, which it stated are the Board approved rates. Both of these rates are below the maximum allowable tax rates. BCP also stated in its Reply Submission that the rates used in the interrogatory response are the rates for the actual taxes paid as calculated by its auditors. BCP submitted that it was unsure as to what rates it should be using for calculation of its taxes (i.e. the Board approved rates or the actual rates paid to the Canada Revenue Agency).

### Board Findings

The Board agrees with Board staff that the income tax rates to be used to calculate the revenue requirement should be those that underpin BCP's Board-approved rates for each year over the 2006 through to 2012 period. For clarification, the tax rates to be

<sup>10</sup> Response to Board Staff Interrogatory 8

used for an application filed under cost of service should be in accordance with Cell D14 in Tab “*Test Year PILS, Tax Provision*” in the Board Approved 2006 PILs Model for 2006 and for BPI’s 2011 application the revenue requirement workform supporting BCP’s final rate order. During the IRM plan term, the tax rates should correspond to the tax rates embedded into based rates adjusted by the change in income tax rates captured into the tax sharing rate riders.

## **Efficiencies and Cost Savings**

BCP identified meter reading as a source for savings as a result of smart meter implementation. VECC stated that it was unclear as to whether the savings are included in the Application or not. In its Reply Submission, BCP stated that the savings were not included.

### Board Findings

The Board accepts this approach which is consistent with other Board decisions including the Cambridge and North Dumfries Hydro Inc. (“CND”) standalone smart meter application.<sup>11</sup> In CND the Board found that it would not make any savings adjustments during an IRM period as such savings are one source of the gains that CND is incented to realize under the IRM rate adjustment mechanism. The Board directs BCP to take into account the total savings and efficiencies realized from smart meter implementation, with support, in its next cost of service application, currently scheduled for 2015.

## **Cost Allocation**

BCP, in the Application, stated that it did not have sufficient data to calculate the SMDR and SMIRR by rate class. In response to interrogatories to calculate class specific rate riders, BCP filed SMDRs and SMIRRs for the residential and GS<50 kW classes based on the allocation methodology approved by the Board in PowerStream’s EB-2011-0128 application.<sup>12, 13</sup> Board staff submitted that the determinations of the SMDRs and SMIRRs are appropriate. The resulting rate riders are:

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<sup>11</sup> Smart meter application of Cambridge and North Dumfries Hydro Inc. *Decision and Order, EB-2012-0086 July 26, 2010*

<sup>12</sup> *ibid*,

<sup>13</sup> Response to VECC Interrogatory #4 & #6

	Residential	GS<50 kW
SMDR	\$1.22	\$2.15
SMIRR	\$1.76	\$4.35

VECC submitted that BCP did not describe the data it has regarding the installation of its smart meters. VECC submitted that it was unclear of the data that BCP has and whether or not separate smart meter revenue requirement models by customer class could be calculated on full cost causality.

In its Reply Submission, BCP stated that it does not have the data available to calculate customer class specific rate riders on a full cost causality basis stating a gap in the data exists that is partially driven by the difference in reporting standards between initial instructions and those for final disposition by the Board. BCP pointed to other distributors having similar problems and that through the interrogatory process it provided the best data available. BCP concluded that it is appropriate to use class specific riders.

#### Board Findings

The Board notes that BCP allocated costs to its customer classes using the method the Board approved in PowerStream. As such, the Board approves the cost allocation.

#### **SMFA Interest**

BCP is requesting a SMDR effective November 1, 2012. In its decision on BCP's 3rd Generation IRM application for 2012 rates, the Board ordered that the SMFA continue to October 31, 2012.<sup>14</sup> Interest from January 2012 to October 2012 was not included in the Application. Through an interrogatory, BCP did update the interest for the stated period.<sup>15</sup> Board staff submitted that it is appropriate to include interest up to the end of the month prior to affecting the SMDR in rates. BCP had no comment in its Reply Submission.

#### Board Findings

The Board finds that BCP is to include interest up to and including the month prior to the effective date of the SMDR.

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<sup>14</sup> Brant County Power Inc. Decision and Order EB-2011-0154, March 22, 2012

<sup>15</sup> Response to Board staff Interrogatory 14.

## Stranded Meters

BCP stated that the NBV for the stranded meters which are no longer in service is \$828,296 as of December 31, 2011, and that it intends to leave the stranded meters in rate base until its next cost of service application which is 2015. Board staff submitted that BCP is to continue to depreciate the stranded meters, as the depreciation is recovered in BCP's current approved distribution rates until the utility next rebases. Board staff concluded that BCP's proposed treatment of smart meters is in accordance with Guideline G-2011-0001.

### Board Findings

The Board finds that it is appropriate for BCP to leave its stranded meters in rate base and to continue to depreciate them until they can be removed from rate base in its next cost of service application.

## Implementation

BCP requested an effective date of November 1, 2012 for its new rates. The Board notes the timing of the decision and the time required for BCPI to address the findings in this Decision would result in a Rate Order that could not be affected for November 1, 2012. The Board has determined that an effective date of December 1, 2012 is appropriate.

The SMIRR is calculated to act as an adder to the base rates in order for BPI to be compensated for the related revenue requirement for the smart meters. By implementing the rider on December 1, 2012, the Board notes that BPI's revenue's from May 1, 2012 to November 30, 2012 would be deficient by the revenues from the SMIRR. The Board directs BPI to include these foregone revenues in its SMDR, in submitting tie draft rate order, BPI is to include the calculation of the foregone revenues in support of its calculation of the SMDR.

For clarification; the SMDRs shall be effective and implemented on December 1, 2012 for one year, and the SMIRRs shall be effective and implemented on November 1, 2012 and will remain in effect until the effective date of BCP's next cost of service rate order.

## Accounting Matters

In granting its approval for the historically incurred costs and the costs projected for 2012, the Board considers BCP 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.

BCP 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 BCP's next cost of service application.

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

1. Brant County Power Inc.'s new distribution rates shall have an Effective Date of December 1, 2012.
2. Brant County Power 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 Brant County Power Inc. within **4 days** of the date of filing of the draft Rate Order.
4. Brant County Power 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. Brant County Power 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 Brant County Power Inc. any responses to any objections for cost claims within **21 days** from the date of issuance of the final Rate Order.
4. Brant County Power 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-2012-0265**, 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](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, November 8, 2012

**ONTARIO ENERGY BOARD**

*Original Signed By*

Kirsten Walli  
Board Secretary