Ontario Energy Board | Commission de l'énergie de l'Ontario

Ontario

EB-2013-0287

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 Toronto Hydro-Electric System Limited for an order approving or fixing just and reasonable distribution rates related to Smart Meter deployment, to be effective May 1, 2014.

BEFORE: Marika Hare
Presiding Member

Ken Quesnelle
Member

DECISION AND ORDER
January 16, 2014

Toronto Hydro-Electric System Limited ("THESL") filed a complete application (the "Application") with the Ontario Energy Board (the "Board") on August 1, 2013 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 Toronto Hydro charges for electricity distribution, to be effective May 1, 2014.

THESL requested the following approvals:

- Disposition of the separate 2008, 2009 and 2010 year-end balances and corresponding revenue requirements up to December 31, 2013 in the Smart Meter Deferral Account, by way of the Smart Meter Disposition Rider ("SMDR"), effective for 36 months from May 1, 2014 until April 30, 2017;
- Implementation of the Smart Meter Incremental Revenue Requirement Rate Rider ("SMIRR") to recognize assets that remain outside of rate base, effective from May 1, 2014 until THESL's next rebasing; and
- Discontinuation of the Smart Meter Rate Adder effective April 30, 2014.

THESL stated that its Application was in accordance with Board guidelines and directives.

The Board issued a Notice of Application and Hearing dated August 20, 2013. The School Energy Coalition ("SEC") and Vulnerable Energy Consumers Coalition ("VECC") applied for intervenor status and cost eligibility in relation to Toronto Hydro's request for Smart Meter cost recovery. The Notice of Application and Hearing 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:

- Prudence of Claimed Cost Recovery;
- Proposed Use of THESL Model Instead of Board Model;
- Cost Allocation;
- Denominators for the SMDR and SMIRR;
- Accounting Issues; and
- Implementation.

The full record of the proceeding is available at the Board's offices.

Prudence of Claimed Cost Recovery

Background

THESL's evidence indicated an increase in its smart meter costs over time, as shown in the table below which is reproduced from THESL's evidence[1]:

Table 3: Smart Meter Costs ($/Unit Installed)

	2006	2007	2008	2009	2010	Average
Installed Meter Capital Costs						
Residential & GS<50 (1)	158.57	127.78	156.49	266.21	307.39	166.37
GS>50	948.62	546.38	1431.47	1441.08	1277.42	1091.94
Total Average Capital Costs	160.85	135.98	221.13	395.96	456.28	206.61
Total Average Cost (including OPEX)	163.56	144.19	226.61	450.27	527.96	220.69
% Change vs average 2006 cost		-12%	39%	175%	223%	34%
Note 1: Includes Collectors						

[1] EB-2013-0287, Toronto Hydro-Electric System Limited, Manager's Summary, p. 6.

THESL explained that the increases were due to such factors as increased deployment costs for more “hard to reach” installations, and also an increased percentage of more costly meters, such as 3-phase.

Board staff submitted that THESL’s evidence and interrogatory responses adequately justify these costs, especially given that costs for 2006 and 2007, and 2011 and beyond have already been reviewed and approved. SEC and VECC also concluded that THESL’s costs were reasonable.

Board Findings

The Board finds that the smart meter costs incurred by THESL for the period under review in the present application are reasonable, and the costs have been adequately justified by THESL. The Board notes that no party to the proceeding argued that these costs were not reasonable.

Proposed Use of THESL Model Instead of Board Model

Background

THESL’s Application noted that the Board provided utilities with a Smart Meter Model (the “Model”) along with *Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition* (the “Smart Meter Guidelines”) to assist in providing their incremental revenue requirements relating to smart meter activities. THESL stated that, while the values it has provided in the present application have been calculated without direct use of the Model, it had populated the Model and provided the results for comparison purposes in Appendix F.

THESL stated that the values it was requesting for clearance were in fact lower than those produced by the Model and that this variance was caused by three main differences in approach between THESL’s calculations (the “THESL Model”) and those embedded within the Model, which were: (1) Capex versus In-Service, (2) PILs and (3) Carrying Charges on PILs and Return on Capital.

THESL requested that the Board consider and approve the values derived from the THESL model for disposition, given that: (1) the Board’s Smart Meter Guidelines are not prescriptive regarding the use of the Model; and (2) that THESL Model’s final calculations are in fact slightly lower than those produced by the Board’s Model.

As a result of its responses to interrogatories, THESL re-filed the Model but stated that no changes were required to its model. However, the changes made to the Model resulted in it now producing a slightly lower cost (roughly $200K) than the THESL Model.

Board staff submitted that, for consistency with other distributors, it would be appropriate for the Board to approve the rates arising from the re-filed version of the Model. Board staff further submitted that, as the difference in rates arising between the Model and the THESL Model are not material given the total costs involved, the Board could instead approve the rates requested by THESL based on the THESL Model.

Board staff argued that the approach to carrying costs used in the THESL Model deviated from the Board's standard practice as documented in Frequently Asked Question (FAQ) #8 from the August 2008 Accounting Procedures Handbook FAQs and from the methodology documented in the Smart Meter Guidelines, and which is incorporated into the Board-issued Model.

SEC and VECC took similar positions to that of Board staff, which is that the Board policy should have been followed by THESL and the Board Model should be used.

THESL stated that its approach to calculating carrying costs had been used in both its previously approved smart meter-related disposition applications.

THESL submitted that a difficulty of using the Model given its circumstances is that the combination of the THESL Model and the THESL specific cost allocation proposal uses a much more refined set of cost categories and related cost allocators than the combination of the Model and the related Board-issued cost allocation as represented through the use of sheets 10A and 10B in the Model. THESL argued that, in order to properly input the Model results into the THESL cost allocation, it would first be necessary to adjust the Model to include all the same, more precise categories that are used in the THESL Model. This, THESL submitted, would essentially and redundantly turn the Model into the THESL Model.

Board Findings

The Board finds that THESL's smart meter model as filed is approved to determine THESL's appropriate level of cost recovery. The Board is mindful in making this finding that the Board's Model has been used in many other cases of smart meter cost recovery for this purpose. However, the Board notes that: (1) the evidence on the record in the present proceeding shows that there is an immaterial difference between the results which arise from using the two models; and (2) THESL has unique circumstances, such as the previous smart meter cost recovery approvals and the cost allocation issues referenced above. Accordingly, the Board considers it reasonable to allow for the use of THESL's model given THESL's specific circumstances.

The Board acknowledges that the approach to carrying charges incorporated into THESL's model does not accord with Board policy. The Board's acceptance of THESL's model is as a total package given THESL's unique circumstances as outlined above. Given these unique circumstances, the Board's finding for this specific application should not be considered as setting a precedent for any remaining distributors who have yet to file an application for the clearance of outstanding smart meter account balances.

Cost Allocation

Background

THESL submitted that its approach to cost allocation was in accordance with the Smart Meter Guidelines and the Board's previous smart meter clearance decisions, stating that it had detailed records of installed smart meters which were used to determine the capital costs directly allocated to each rate class and that these capital amounts were further used to determine the depreciation, interest and return components of the revenue requirement by class.

Board staff noted that THESL had, for the most part, separated costs between the three applicable customer classes of Residential, GS < 50 kW and GS > 50 kW.

Board staff submitted that it took no issue with THESL's approach and considered that the allocation of costs and the resulting SMDRs and SMIRRs seemed reasonable, subject to the concerns in other areas raised in the staff submission.

VECC accepted that THESL did not have the customer class data necessary to complete a separate smart meter model by customer class, as it had requested, and therefore took no issue with THESL's methodology to allocate smart meter costs by customer class, subject to its comments about THESL's use of its own model rather than that of the Board.

Board Findings

The Board finds that THESL's approach to cost allocation in the present application is appropriate given the customer class data which it has available to it.

Denominators for the SMDR and SMIRR

Background

Board staff noted that THESL has used 2012 RRR customer counts for the Residential, GS < 50 kW and GS 50-999 kW classes as the denominators for its proposed SMDRs and SMIRRs.

Board staff submitted that the best approach to this issue would be for THESL to provide its best current estimates of the number of customers that it would expect to serve, for each of these three customer classes, as of mid-2014. In the alternative, Board staff submitted that the August 2013 customer counts documented in the Board staff interrogatory would be preferable to the December 31, 2012 customer counts, as THESL stated that it is not averse to using a more recent customer count[2].

Board Findings

The Board finds that THESL should use the August 2013 customer counts, as documented in the Board staff interrogatory, as these are more recent than those originally proposed by THESL and THESL has not objected to the use of such a customer count.

Accounting Issues

(1) Stranded Meters

Background

THESL stated that in accordance with the Smart Meter Guidelines, the disposition of stranded meter amounts will be addressed in THESL's next rebasing application.

[2] EB-2013-0287, Toronto Hydro-Electric System Limited, Interrogatory Responses, Tab 2A, Sch. 14.

Board staff submitted that THESL's proposal is consistent with Guideline G-2011-0001 based on the evidence in the Application. However, in its next cost of service application, Board staff argued that THESL should make a proposal for the recovery of stranded meter costs through class-specific Stranded Meter Rate Riders, as envisaged in Section 3.7 of the Smart Meter Guideline.

Board Findings

The Board finds that THESL should, in its next cost of service application, make a proposal for the recovery of stranded meter costs to comply with the Smart Meter Guideline.

(2) Other Accounting Matters

Background

THESL's smart meter costs from January 1, 2011 going forward are in its approved rate base and revenue requirement and are being recovered in distribution rates.

Board staff submitted that, assuming that the Board approves the disposition of the 2008-2010 smart meter costs sought in this Application and subject to any adjustments that the Board may determine, all of THESL's smart meter costs will have been dealt with. As such, no new capital or operating costs for smart meters should be allowed in accounts 1555 and 1556.

Board staff concluded that Account 1555 should only be used to track the costs for stranded conventional meters until THESL applies for disposition of these costs in its next cost of service application.

In its reply submission, THESL confirmed that, assuming full recovery as requested in the present application, all of its smart meter costs would have been dealt with such that the only outstanding issue will be the continued use of account 1555 to track stranded conventional meter costs until THESL applies for disposition of those costs in its next rebasing application.

Board Findings

The Board in approving THESL's recovery of its historically incurred costs for the period 2008 to 2010 considers THESL 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 as is the case with other regular distribution assets and costs.

THESL 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 in THESL's next cost of service application.

Implementation

THESL has applied for rates effective May 1, 2014.

The Board notes that, on August 19, 2013, THESL filed an evidence update for the 2014 phase of proceeding EB-2012-0064 ("Phase 2") which also requested rates effective May 1, 2014.

On December 19, 2013, the Board accepted a complete settlement proposal for Phase 2 and stated that the tariff sheets arising from that proceeding were approved subject to any decision arising from the EB-2013-0287 proceeding.

THESL is directed to file a draft Rate Order that reflects the Board's findings in this Decision and Order as well as the tariffs approved in Phase 2 of the EB-2012-0064 proceeding that are not impacted by the Decision and Order in this proceeding. The Board expects THESL to file detailed supporting material, including all relevant calculations showing the impact of this Decision and Order on THESL's class specific smart meter revenue requirements and the determination of the class-specific SMDRs and SMIRRs. The filed material shall also include customer rate impacts and any necessary supporting information showing the calculation of the final rates.

THE BOARD ORDERS THAT:

1. THESL shall file with the Board, and shall also forward to intervenors, a draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision and Order by **January 27, 2014.** The draft Rate Order shall also include customer rate impacts and detailed supporting information showing the calculation of the final rates.

2. Intervenors and Board staff shall file any comments on the draft Rate Order with the Board and forward to THESL within **7 days** of the date of THESL filing the draft Rate Order.

3. THESL shall file with the Board and forward to intervenors responses to any comments on the draft Rate Order within **7 days** of the date of receipt of the submissions.

Cost Awards

The Board may grant cost awards to eligible parties pursuant to its power under section 30 of the *Ontario Energy Board Act, 1998*. When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of the Board's *Practice Direction on Cost Awards*. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

1. Intervenors shall file with the Board and forward to THESL their respective cost claims within **7 days** from the date of issuance of the final Rate Order.

2. THESL shall file with the Board and forward to intervenors any objections to the claimed costs within **14 days** from the date of issuance of the final Rate Order.

3. Intervenors shall file with the Board and forward to THESL any responses to any objections for cost claims within **21 days** of the date of the final Rate Order.

4. THESL shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

All filings with the Board must quote the file number EB-2013-0287, and 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 be received by the Board by 4:45 p.m. on the stated date. Parties should 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 e-mail their documents to the attention of the Board Secretary at BoardSec@ontarioenergyboard.ca

All other filings not filed via the Board's web portal should be filed in accordance with the Board's *Practice Directions on Cost Awards*.

All communications should be directed to the attention of the Board Secretary and be received no later than 4:45 p.m. on the required date.

DATED at Toronto, January 16, 2014

ONTARIO ENERGY BOARD

Original Signed by

Kirsten Walli
Board Secretary