

**2014 ELECTRICITY DISTRIBUTION RATES**  
**Burlington Hydro Inc.**

**EB-2013-0115**

**STAFF SUBMISSION**

**May 7, 2014**

## **INTRODUCTION**

On April 28, 2014 Burlington Hydro Inc. (“Burlington Hydro”) filed a settlement proposal with respect to its application for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2014. On May 6, 2014, Burlington Hydro filed a corrected version of the settlement proposal to address certain inconsistencies among schedules.

The parties to the settlement proposal are Burlington Hydro and the Board-approved intervenors in the proceeding: the Vulnerable Energy Consumers’ Coalition, the School Energy Coalition, and Energy Probe Research Foundation.

The settlement proposal represents a complete settlement of all issues. The parties agreed that the treatment of Burlington Hydro’s stranded meter cost recovery would be considered as a severable issue within the Settlement Proposal package.

This submission reflects observations which arise from Board staff’s review of the evidence and the settlement proposal, and is intended to assist the Board in deciding upon Burlington Hydro’s Application with respect to the issues laid out in the Settlement Proposal and in setting just and reasonable rates.

### **Submission**

Board staff has reviewed the settlement proposal in the context of the objectives of the Renewed Regulatory Framework for Electricity, other applicable Board policies, relevant Board decisions, and the Board’s statutory obligations. While the parties considered the issues and Burlington Hydro’s planning in the limited context of the test year, Board staff is of the view that the settlement proposal reflects a reasonable evaluation of the distributor’s planned outcomes in this proceeding, and appropriate consideration of relevant issues. This is the first year of implementation for the Renewed Regulatory Framework for Electricity, and Board staff took this into consideration in assessing the settlement proposal.

Board staff submits that the Board’s approval of the proposal as filed would adequately reflect the public interest and would result in just and reasonable rates for customers.

Notwithstanding the above, Board staff's submission below provides further discussion of the issue of Burlington Hydro's stranded meters to provide some background and context for the Board's consideration.

### *Recovery of Stranded Meter Costs*

Burlington Hydro recovered its smart meter installation costs in a 2012 proceeding. In this application, it sought to recover costs for meters that were stranded as a result of the rollout of smart meters. The total proposed recovery amounts to \$4,585,794.

While the bulk of this amount pertains to the stranded residual value of conventional meters that were replaced with smart meters, an amount of \$503,853 relates to the residual value of 4,783 Elster Rex 1 smart meters that were installed prior to Burlington Hydro becoming authorized by the Board to carry out smart meter activities. These meters became stranded when they were replaced for reasons discussed below. In its decision in the 2012 proceeding on smart meters, the Board directed Burlington Hydro to address the appropriateness of recovering the residual costs of its Rex 1 meters at the time that it requests recovery of all other stranded meter costs.

Burlington Hydro's Rex 1 meters were initially installed starting in 2006. Deployment, which took place over a period of approximately two years, was limited to new service locations and meter replacements that became required due to Measurement Canada reverifications. Detailed records provided in Attachment D.5 of the settlement proposal support this claim.

As it states in its application, Burlington Hydro considered the decision to install smart meters prudent, despite having no authorization to do so, as a result of its expectation that the mass deployment of smart meters was inevitable<sup>1</sup>. Another driver for the deployment of these meters, discussed by Burlington Hydro at Attachment D.5 of the settlement proposal, was that the utility's supply of conventional electromechanical ("conventional") meters and their electronic equivalents became constrained in approximately 2005.

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<sup>1</sup> Exhibit 2, Tab 4, Schedule 1, page 4

Burlington Hydro provides its rationale for the subsequent replacement of Rex 1 meters in response to interrogatory 5.1-Staff-2, indicating that in 2010, the IESO changed rules governing its meter data management/repository (MDM/R) in order to comply with a bulletin from Measurement Canada. According to the utility, none of its Rex 1 meters could satisfy the required standard. In Burlington Hydro's view, replacement of these Rex 1 meters with Rex 2 meters was therefore necessary.

In considering the eligibility of stranded meter costs stemming from replacement of smart meters that were installed prior to Board authorization, staff relies upon the Electricity Act and supporting regulations, which limit smart meter installations to those distributors who have been authorized to proceed with these activities<sup>2</sup> and allow for cost recovery for meters being replaced as a result of the smart metering initiative<sup>3</sup>. The applicant does not contest that the Rex 1 meters were installed prior to authorization.

Board staff submits that in typical circumstances, the cost of Rex 1 smart meters included with Burlington Hydro's stranded meters would not be eligible for cost recovery from ratepayers. Burlington Hydro was not authorized to proceed with smart meter installations until June 2008, at which time the approved technology for installation was the Rex 2 meter. The Rex 1 meters in question were acquired primarily from 2006 to 2008. Had Burlington Hydro waited until it was authorized to proceed, the approved technology would have been consistent with the MDM/R requirements and replacement of these meters would not have been necessary.

Further, the applicable regulation is quite clear that the meter being replaced must not be acquired in contravention of the provision of the Electricity Act related to discretionary metering.

The Board has in the past disallowed distributors' recovery of the cost of smart meter activity prior to authorization, most notably in the case of Peterborough Distribution Inc. ("PDI"). In that case the Board disallowed recovery of the costs associated with capital, depreciation, carrying costs and PiLs prior to the date of

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<sup>2</sup> Electricity Act, s. 53.18 (1); O. Reg. 426/04 section 3.(1) (a)

<sup>3</sup> O. Reg. 426/04 section 3.(1) (a),

authorization to proceed with smart metering activity. In so doing, the Board stated that:

PDI knew of the regulations and furthermore, although not determinative of this matter, PDI ought to have understood the general purpose of the regulatory direction. PDI's unauthorized investment carried with it the inherent risk of causing the suboptimal situation that the regulation was designed to avoid. PDI chose to make its investment anyway. In this context, the Board considers PDI's 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.<sup>4</sup>

In this case, Burlington Hydro argues that the use of Rex 1 meters during the period prior to authorization was necessitated by the constrained supply of conventional meters during that period. Although this appears to be a good rationale for substituting smart meters for conventional meters prior to authorization, Board staff notes that this argument emerged very late in the proceeding and without evidence to support the applicant's assertion of constrained supply, no definition of the extent of the constraint, nor any description of its efforts, reasonable or not, to obtain conventional meters during the period in question.

Board staff further notes that numerous distributors have disposed of their stranded meter costs upon completion of smart meter deployment, and a constrained supply of conventional meters does not appear to have been identified as an issue to this point by any other applicant. Accordingly, Board staff submits that the Board should not accept the argument that there was a constrained supply of conventional meters during the relevant time.

Despite these concerns, Board staff acknowledges that Burlington Hydro has provided detailed information to verify that Rex 1 meters were deployed for new connections and reverifications, rather than as part of a broad meter replacement strategy.

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<sup>4</sup> EB-2012-0008, Decision and Order, June 14, 2012

Board staff recognizes that meters are required by distributors on an ongoing basis for normal operations, and submits that it would be reasonable to allow Burlington Hydro to recover reasonable costs incurred for this purpose. As part of the Settlement Proposal, parties agreed to allow Burlington Hydro to adjust the balance of stranded meters for disposition to recognize the Rex 1 meters at the equivalent value for conventional meters, as calculated at Appendix 2-S in Attachment E to the Settlement Proposal. The adjusted amount to be recovered from customers for stranded meters is \$4,416,794. This amounts to a reduction to the stranded meter balance as filed of \$125,000 to recognize the Rex 1 meters at the equivalent value of conventional meters.

A further \$44,000 adjustment to the balance as filed removes the cost of 500 smart meters deployed under Burlington Hydro's smart meter pilot program, which were fully funded through the Third Tranche CDM program<sup>5</sup>.

Board staff submits that this is a reasonable approach which allows Burlington Hydro to recover the reasonable cost of its normal operations over the period in question, without rewarding it for prematurely proceeding with smart meter activity.

Board staff notes that this issue is severable from the remainder of the Settlement Proposal. Should the Board decide that an alternative treatment for smart meter costs is warranted, the remainder of the Settlement Proposal would remain intact for Board consideration.

All of which is respectfully submitted.

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<sup>5</sup> Proposed Settlement Agreement, Attachment D.5