Ontario Energy Board

Commission de l'énergie de l'Ontario

EB-2010-0209

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 PowerStream Inc. for an order or orders approving or fixing a just and reasonable distribution rates related to Smart Meter deployment, to be effective November 1, 2010.

BEFORE: Ken Quesnelle
Presiding Member

Cynthia Chaplin
Vice Chair and Member

DECISION AND ORDER
(Corrected)

PowerStream Inc. ("PowerStream") filed an application ("the Application") with the Ontario Energy Board (the "Board") on June 11, 2010 under section 78 of the *Ontario Energy Board Act*, *1998*, S.O. 1998, c. 15, (Schedule B) (the "Act"), seeking final approval for smart meter related costs to the end of December 31, 2009 and other going forward costs.

THE APPLICATION

PowerStream operates two separate rate zones, PowerStream South, (the "legacy service area") and PowerStream North, the Barrie service area. This Application pertains to the legacy service area only. The Board assigned the Application file number EB-2010-0209.

The Board issued a Notice of Application and Hearing on June 28, 2010. The Vulnerable Energy Consumers Coalition ("VECC") was the only party that sought intervenor status and cost award eligibility. The Board approved VECC as an intervenor and awarded VECC cost eligibility status. The Board received four letters of comment.

The Board issued Procedural Order No. 1 on July 27, 2010. Procedural Order No. 1 invited submissions on certain evidence for which PowerStream had requested confidential treatment. No submissions were received. The Board issued a Decision on Confideniality on August 5, 2010 approving PowerStream's request to retain the subject information in confidence. In accordance with Procedural Order No. 1, Board staff filed interrogatories ("IRs") on August 9, 2010. VECC filed interrogatories on August 16, 2010. PowerStream filed its responses on August 31, 2010.

The Board issued Procedural Order No. 2 on September 3, 2010. Pursuant to Procedural Order No. 2 Board staff and VECC filed supplemental IRs on September 8, 2010. PowerStream filed its responses to the supplemental IRs on September 15, 2010. Board staff filed a submission on October 1, 2010, VECC filed a submission on October 6, 2010 and PowerStream filed its reply submission on October 13, 2010.

The full record is available at the Board's offices. The Board has chosen to summarize the record to the extent necessary to provide context to its findings in this Decision.

The Issues

The following are the key issues raised in the submission by Board staff and VECC and are addressed in this Decision:

- Prudence Review of Smart Meters Installed in 2008 and 2009;
- Disposition of balances in the smart meter deferral and variance accounts (1555 and 1556)
    - Revenue Requirement
    - Allocation
- Smart Meter Incremental Revenue Requirement to proxy the revenue requirement going forward for smart meters installed in 2008 and 2009 to be in effect until the next rebasing rate order

  - Revenue Requirement
  - Cost Allocation
- Smart Meter Funding Adder for smart meters installed in 2010; and
- Framework for Recovery – Tracking of Smart Meter Costs by Customer Class.

A general matter that has surfaced in this Application, and which has arisen in certain other applications seeking disposition of smart meter costs outside a cost of service rebasing application, is the terminology for the rate adder and rate riders established for use in funding and recovering costs related to the deployment of smart meters.

The smart meter *Guideline G-2008-0002: Smart Meter Funding and Cost Recovery* (the "Guideline") refers to a disposition rider as follows:

> When a distributor applies for and receives an order of the Board providing disposition of the smart meter deferral account in a non-cost of service proceeding, a disposition rider will be approved to provide recovery.

In this Decision this rate rider will be referred to as the Smart Meter Disposition Rate Rider (or "Disposition Rate Rider").

The Guideline identifies an additional rider as the "smart meter disposition rider" and states that "the smart meter disposition rider provides a proxy for how the revenue requirement would be determined in a cost of service proceeding". In this context, this Decision uses the term Smart Meter Incremental Revenue Requirement Rate Rider (or "SMIRR Rate Rider") to reference this particular rate rider.

Prudence Review of Smart Meters Installed in 2008 and 2009

PowerStream seeks recovery of the revenue requirement in respect to the 137,356 smart meters with a capital cost of $18.9 million installed in 2008 and 2009 in the legacy service area. PowerStream estimated that as of December 31, 2009, the implementation of the smart meter program in the legacy service area is approximately 75% complete. PowerStream also stated that it expects to complete its Smart Meter Implementation Program by December 31, 2010.

PowerStream has documented actual smart meter installation costs of $121.63 per meter for 2008 and $147.43 for 2009, for an average capital cost per installed smart meter of $137.43. PowerStream also shows actual OM&A Costs of $20.98 per meter

for 2008 and $13.18 per meter for 2009, for an average of $16.21. On a combined basis of capital and OM&A costs, this works out to $142.67 per meter for 2008 and $160.58 per meter for 2009, averaging $153.63 per meter over the two year period.

In its Application, PowerStream stated that it has continued to purchase residential smart meters in 2008 and 2009 from Sensus Metering Systems Inc. at essentially the same fixed price in US dollars as the 2007 smart meters approved in the 2009 cost of service application. Similarly, PowerStream continued to contract with Sensus Metering Systems Inc. for operation of its Advanced Metering Infrastructure ("AMI") system from 2007 to 2009 under the same contract that was filed in confidence during the combined smart meter proceeding in mid-2007 (Board File No. EB-2007-0063) (the "Combined Proceeding").

PowerStream stated that it continued to contract with Honeywell Inc. for installation of residential smart meters in 2008 under an extension to the contract that was filed in confidence during the Combined Proceeding. Installation problems with meter bases in 2007 resulted in the lengthening of the installation time and the reduction of the number of meters installed in 2007. PowerStream also stated that the extension of the contract into 2008, at newly negotiated prices, resolved this issue in a manner that was advantageous for PowerStream and its customers. In 2008, PowerStream tendered the contract for installation service by issuing a Request for Proposal, which resulted in a more favourable contract with Olameter Inc. for the installation of residential smart meters in 2009.

Board staff submitted the following table, which summarizes the comparable cost (capital and OM&A) per meter for urban distributors named as applicants to the Combined Proceeding in mid-2007. Board staff used these distributors as comparators for assessing PowerStream's smart meter costs. Board staff noted that while PowerStream participated in the Combined Proceeding, it had not installed smart meters for the period for which costs were reviewed in that proceeding, and so no cost per installed meter could be calculated at the time.

Table 1: Cost per Installed Smart Meter for Urban Distributors[1]

Distributor	Capital and Operating Cost per Installed Smart Meter
Toronto Hydro-Electric System Limited	$126.34
Hydro One Brampton Networks Inc.	$148.04
Hydro Ottawa	$135.58
Enersource Hydro Missisauga	$144.20
Milton Hydro	$126.83
Newmarket Hydro (now Newmarket-Tay Hydro)	$123.59

Board staff also noted that the costs since the Combined Proceeding may have risen due to inflationary pressures as well as increased costs related to deployment of smart meters to locations that are harder to reach, or where rework (i.e. changing the meter base) may involve more time, labour and material. Installation of more expensive meters for small commercial customers, whose meters were installed during the subject period, is also factor on increasing per meter installation cost. In its submission, Board staff took no issue with PowerStream's documented costs for smart meters installed in 2008 and 2009.

VECC made no submission on the prudence of these costs, but stated that it would rely on Board staff's benchmarking analysis in this regard.

Board Findings

The Board notes that the evidence in the staff submission is related to the Combined Proceeding. The Board further notes that the costs related to PowerStream's smart meter program for 2008 and 2009 is nominally higher than the amounts identified in the Combined Proceeding.

In the Combined Porceeding the Board made the following finding:

> In summary, the Board finds that the purchasing decisions of the thirteen utilities involved in this proceeding have been implemented with the necessary due diligence. The terms of contracts each has concluded with suppliers, including the pricing, are prudent.

[1] Compiled from Appendix A of the Board's Decision with Reasons, Board File No. EB-2007-0063, August 8, 2007.

The Board notes that PowerStream has made efforts to continue procurement and purchasing decisions in line with those previously found to be prudent by the Board in the Combined Proceeding. The Board accepts the costs to have been prudently incurred.

Disposition of balances in the smart meter deferral and variance accounts (1555 and 1556)

Revenue Requirement

PowerStream seeks to dispose of the residual balance in the accounts 1555 and 1556 related to smart meters installed in 2008 and 2009. The residual balance is the result of costs incurred for installing smart meters in 2008 and 2009 to December 31, 2009, offset by the revenues collected to April 30, 2010. Also included in the balance for disposition is the revenue requirement for the subject meters for the period January 1, 2010 to October 31, 2010. PowerStream has identified the residual amount as $549,068 and has proposed recovery over the period November 1, 2010 to April 30, 2011.

Table 2 below summarizes the residual balance.

Table 2: Actual Smart Meter Cost Recovery Model

Rate Rider to Recover Actual Smart Meter Costs to December 31, 2009	
Revenue Requirement 2008	$1,650,030
Revenue Requirement 2009	$3,004,081
Revenue Requirement 2010 (to Oct 31/10)	$3,442,964
Revenue Requirement Total	**$8,097,075**
Smart Meter Rate Adder	($7,509,327)
Carrying Cost	($38,680)
Smart Meter True-up	**$549,067**
Metered Customers	249,715
Rate Rider to Recover Smart Meter Costs	**$ 0.37**
Recovery period November 1, 2010 to April 30, 2011	

This revenue requirement calculation includes OM&A costs for 2010 associated with smart meters installed in 2008 and 2009. PowerStream stated that smart meter capital and OM&A costs, with the exception of the projected 2010 OM&A costs of $1,198,300 related to 2008 and 2009 smart meters, are actual and audited costs taken from PowerStream's financial records as at December 31, 2009.

Board staff submitted that the calculation of costs and the corresponding Disposition Rate Rider, should be based solely on audited costs incurred and smart meter amounts collected up to December 31, 2009.

VECC agreed with Board staff's submission on this issue.

In its reply submission PowerStream accepted the use of December 31, 2009 audited amounts for the purpose of calculating the Disposition Rate Rider, as audited amounts for 2010 will not be available until after the Board has completed its deliberation on this Application. PowerStream reduced the revenues from the funding adder to reflect the period to December 31, 2009 only, and retained the revenue requirement amounts for the 2010 costs, less the OM&A, as per table 4 of the Board staff submission duplicated below. This approach results in a true-up amount of $566,957 as shown in the table below:

Table 3: Smart Meter Disposition Rate Rider

	Per Application	Per Board Staff IRR #2(b)	Variance
Revenue Requirement 2008 (a)	1,650,030	1,650,030	0
Revenue Requirement 2009 (b)	3,004,081	3,004,081	0
Revenue Requirement 2010 (to Oct 31/20)(c)	3,442,964	2,430,763	-1,012,201
Revenue Requirement Total (d)=(a)+(b)+(c)	**8,097,075**	**7,084,874**	-1,012,201
Smart Meter Rate Adder (e)	-7,509,327	-6,480,690	1,028,637
Carrying cost (f)	-38,680	-37,227	1,453
Smart Meter True-up (g)=(d)-(e)-(f)	**549,068**	**566,957**	17,889
			0
Metered Customers (h)	249,715	249,715	0
Rate Rider to Recover Smart Meter Costs ((g)/(h))/6	**0.37**	**0.38**	0.01
Recovery period November 1, 2010 to April 20, 2011			

PowerStream submitted that under this approach incremental operating costs for the period January 1, 2010 to October 31, 2010 related to the 2008 and 2009 installed meters are not included in the Disposition Rate Rider. In its reply submission, PowerStream requested that these costs continue to be tracked in account 1556, along with the incremental operating costs for meters installed in 2010, for later disposition.

In its reply submission, PowerStream also noted its concern that there remains considerable uncertainty regarding the Provincial Meter Data Management Repository

("MDM/R") charges. PowerStream submitted that despite putting customers onto the MDM/R in 2009, PowerStream has not yet been charged for services related to MDM/R, and as such no amounts have been included in the actual costs for 2008 and 2009. PowerStream submitted that it anticipates that once the monthly MDM/R costs are set, it will be billed in respect to MDM/R use in prior years and that these costs will be recorded in account 1556 for later disposition.

Although it is requesting the recovery of 2008 and 2009 smart meter related costs in this Application, PowerStream requests the Board's confirmation that when MDM/R costs are known, the Board will permit it to recover those costs incurred in relation to the 2008-2009 period notwithstanding its recovery of 2008-2009 smart meter related costs in this Application.

Board Findings

The Guideline states:

> When applying for recovery of smart meter costs, a distributor should ensure that all cost information has been audited, including the smart meter related deferral account balances.[2]

However, while the Board prefers applicants to support their historical costs with audited financial statements, the Board notes that the 2010 stub period OM&A amounts are in essence forecast amounts whose purpose is identical to the OM&A amounts recovered by the SMIRR Rate Rider discussed below for the period beginning November 1, 2010. The Board will not require audited financial statements to support the 2010 OM&A amounts. The Board notes that the OM&A costs included in the revenue requirement calculations for the 2010 stub period are identical both in terms of the nature and quantum of the costs used in calculating the SMIRR Rate Rider where the Board will find below that the forecasted costs of maintaining the meters installed in 2008 and 2009 are reasonable.

Therefore, the Board will allow recovery of the 2010 stub period OM&A amounts at this time and directs PowerStream to add back these amounts to the Disposition Rate Rider calculation. As noted above, while the Board would prefer to keep the entire 2010 stub period revenue requirement separate from the

[2] Guideline G-2008-0002: Smart Meter Funding and Cost Recovery, October 22, 2008, page 12

Disposition Rate Rider amounts, the Board will accept combining both into one rate rider. This would seem the most practical approach for implementing recovery of the residual balance for this particular case, rather than establishing a separate rate rider to recover the amounts for just the 2010 stub period.

The Board directs PowerStream to confirm, in its Draft Rate Order, that no costs related to MDM/R services have been included in the costs used to calculate the Disposition Rate Rider.

No distributors have been billed for services related to MDM/R by the IESO. At this point in time these costs could not be accurately estimated by the distributor. The Board further notes that the time period for which the IESO might bill PowerStream for MDM/R related costs is yet unknown.

In terms of tracking the MDM/R costs it is open to the Applicant to do so should these costs arise in advance of PowerStream's next rate application, but the Board will not establish a formal deferral account at this time.

Allocation

In the Application, PowerStream proposed that the residual amount be recovered from all metered customers for the November 1, 2010 to April 30, 2011 period by allocating the residual balance in the deferral and variance accounts to all metered customers based on the total number of meters. This would result in a uniform rate rider of $0.37 per metered customer per month. This approach is similar to the way smart meter funding was collected since the issuance of the Board's 2006 EDR decisions.

Board staff noted that this approach differed from the cost allocation methodology used to allocate costs for the prospective revenue requirement (recovered by the SMIRR Rate Rider) discussed below, which was based on cost causality.

Board staff submitted that the smart meter revenue requirement for the 2008 and 2009 periods, for the meters installed in 2008 and 2009, should be consistently allocated over time. Accordingly, Board staff submitted that the residual amount should be allocated to the Residential customer class and the GS<50 kW customer class in the same proportion that resulted from the cost allocation methodology used to calculate the SMIRR Rate Rider as proposed by PowerStream. Specifically, PowerStream proposed to allocate the Return (deemed interest plus return on equity) and Amortization between the customer classes based on the capital costs of the meters installed for each class;

the OM&A costs based on the number of meters installed for each class and PILS based on the revenue requirement allocated to each class before PILs.

VECC submitted that the principle to be applied towards actual cost recovery should be full cost causality applied in a more detailed way than proposed by PowerStream. VECC submitted that the Disposition Rate Rider should be calculated on a class basis using the class specific revenue requirement, offset by the smart meter funding revenue collected from each class (see VECC Table 3-1 below). Staff noted that this approach is similar to the cost allocation approach proposed by VECC in allocating prospective revenue requirements for these assets and collected via the SMIRR Rate Rider.

Table VECC 3-1: SM Actual Cost Recovery Rate Rider ("True-up") Calculated by Rate Class

	Total	Residential	GS<50 KW
Revenue Requirement 2008	$1,650,280	$ 1,648,353	$ 1,927
Revenue Requirement 2009	$3,004,305	$ 2,846,094	$ 158,211
Revenue Requirement 2010 (to Oct 31/10)	$3,442,955	$ 3,074,998	$ 367,957
Revenue Requirement Total	**$8,097,540**	**$ 7,569,445**	**$ 528,095**
Smart Meter Rate Adder	($6,379,090)	$ (5,756,543)	$ (622,547)
Carrying Cost	($34,413)	$ (24,968)	$ (9,445)
Smart Meter True-up	**$1,684,037**	**$1,787,934**	**($103,897)**
Metered Customers	243,761	219,943	23,818
Rate Rider to Recover Smart Meter Costs	**$ 1.15**	**$ 1.35**	**$ (0.73)**
Recovery period November 1, 2010 to April 30, 2011			

VECC further submitted that if OM&A costs from December 31, 2009 forward are excluded, then the result would be as shown in Board staff interrogatory response #9b (see column B in table 4 below).

In its reply submission, PowerStream noted that VECC is raising matters of policy with respect to how smart meter adders should be collected and costs allocated. PowerStream submitted that the Guideline does not specify how a cost allocation is to be done. PowerStream noted that VECC's approach is inconsistent with the Board's past practice of collecting smart meter funding adders from all metered customers. If there is to be a change from the Board's established approach in this regard,

PowerStream submitted that it should be done on a basis of a generic proceeding rather than on an application-by-application basis.

From 2007 to 2009, deployment of smart meters was primarily to residential customers. In 2010 this shifts to GS<50 kW customers. Based on the class specific approach proposed by VECC, PowerStream noted its concern that this cost allocation approach would result in a higher Disposition Rate Rider for the Residential class in 2010, followed by a refund in 2011, as shown in column B and C of Table 4 below. For the GS<50 kW class the reverse would be true and a refund would apply in 2010 followed by a significantly increased Disposition Rate Rider in 2011:

Table 4: Comparison of Alternative 2010 and Projected Final Smart Meter Actual Cost Recovery Riders

Columns:	A	B	C	D
Class	2010 per Staff IR 2(b)	2010 per Staff IR 9(b)	2011 per VECC 11(d)	2011 All Metered Customers
Residential	$ 0.38	$ 0.69	$ (1.73)	$(0.28)
GS <50 kW	$ 0.38	$ (1.72)	$ 13.45	$(0.28)
GS >50 kW	$ 0.38	$ -	$ -	$(0.28)
Large Use	$ 0.38	$ -	$ -	$(0.28)

PowerStream submitted that VECC's approach would result in directional "swings" that are unnecessary and may be confusing to customers.

In reply, PowerStream agreed with Board staff and proposed to use the allocation resulting from the cost allocation methodology used for calculation of the SMIRR Rate Rider as shown in the following tables.

Table 5: Projected True-Up Amount by class

Customer Class	Revenue Requirement Allocation	%	True-up Amount Allocation	%
Residential	$ 3,689,997	89.31%	$ 506,365	89.31%
GS<50 kW	$ 441,548	10.69%	$ 60,592	10.69%
Total	$ 4,131,545	100.00%	$ 566,957	100.00%

Table 6: Smart Meter Disposition Rate Riders

Customer Class	Number of Customers	True-up Amount Allocation	Allocated Rate Rider	Per Metered Customer Basis
Residential	219,943	$ 506,365	**$ 0.38**	$ 0.38
GS<50 kW	23,818	$ 60,592	**$ 0.42**	$ 0.38
Total	243,761	$ 566,957		

Board Findings

The Board's Decision With Reasons in a generic proceeding, EB-2005-0020/EB-2005-0529, established the need for specific funding for smart meter investment. In that Decision, the Board noted the usefulness of using a smart meter funding adder and variance accounts to track the variance or difference between funding adder revenue and smart meter capital and operating expenditures.

While the Decision in the generic proceeding established the concept of the smart meter funding and the variance accounts to track differences between smart meter costs and revenues, the details were dealt with subsequently in the Board's Decisions in individual 2006 EDR rate applications. As documented by PowerStream during the evidentiary process, the Board's Decision in its 2006 EDR application established that the funding adder was to be collected from all metered customers. The Board notes that the Disposition Rate Rider as proposed by VECC (see VECC Table 3-1 above) excludes smart meter funding revenue collected from the GS>50 kW and Large Use customer classes.

The Board finds that a cost allocation approach based on class specific revenue requirement calculations offset by class specific smart meter funding to be inconsistent with previous Board decisions, and that there has been no clear requirement to track costs by class. The Board notes that historical funding collected from customer classes other than Residential and GS<50 kW is not material. The Board finds that a class specific calculation of the residual amounts for disposition of smart meter costs for each rate class is unwarranted, as there is insufficient benefit given the additional complexity.

The Board also finds the cost allocation approach submitted by Board staff and accepted by PowerStream to be reasonable. In making this finding the Board is mindful that full cost causality should be the guiding principle. However, the Board accepts the

argument advanced by PowerStream in its reply submission that VECC's proposal for full cost causality would result in significant directional swings for customers in the future. This volatility should be generally avoided.

The Board therefore finds that the smart meter revenue requirement for meters installed in 2008 and 2009 should be consistently allocated over time.

Smart Meter Incremental Revenue Requirement ("SMIRR") to proxy revenue requirement, for smart meters installed in 2008 and 2009, to be in effect until next rebasing rate order

Revenue Requirement

PowerStream proposed that a SMIRR Rate Rider (referred to by PowerStream as the "smart meter disposition rate rider") be in effect from November 1, 2010 until the time of its next rebasing application in order to recover, on a prospective basis, the revenue requirement associated with smart meters deployed in 2008 and 2009.

This SMIRR Rate Rider is derived from the 2010 revenue requirement of $4,131,557 as calculated using a model based on the Board's 2007 EDR Smart Meter Rate Adder Calculation Model including projected OM&A costs of $1,198,300, as documented in Table 7 below.

Table 7: Revenue Requirement Calculation for 2010

Rate Base	**Amount**
Net Fixed Assets	$ 16,941,365
Working Capital Allowance	$ 179,745
Total	**$ 17,121,110**
Revenue Requirement	
Short Term Interest	$ 14,176
Long Term Interest	$ 564,723
Return on Equity	$ 674,572
OM&A	$ 1,198,300
Amortization	$ 1,416,245
Grossed-up PILs	$ 263,541
Total	**$ 4,131,557**

Board staff submitted that it had no concerns with the proposed smart meter revenue requirement.

VECC made no submission on the revenue requirement used to calculate the SMIRR Rate Rider.

In its reply submission the Applicant addressed the issue of MDM/R costs in relation to the prospective revenue requirement, which arose during the interrogatory process. PowerStream again stated its concerns that there remains considerable uncertainty regarding the MDM/R charges. PowerStream stated that despite putting customers onto the MDM/R in 2009, PowerStream has not yet been charged for services related to the MDM/R. PowerStream further stated that it has included an estimated cost of $0.45 per metered customer per month, based on the estimated number of customers set up on the MDM/R in each month, in its 2010 estimated incremental operating costs.

Board Findings

As noted above for the 2010 stub period amounts, the Board finds that it is premature to include MDM/R costs for recovery given that the IESO is not billing utilities for services related to the MDM/R to date. No determination on costs for MDM/R services or a specific time frame for such services has been established by the IESO or approved by the Board. The Board finds it inappropriate to include any amount related to MDM/R services in incremental operating costs at this time. The Board therefore finds that the $0.45 per month per metered customer charge from the SMIRR Rate Rider should be removed.

The Board accepts the SMIRR Rate Rider as calculated by PowerStream subject to the removal of MDM/R costs. As noted above the Board will not establish a deferral account at this time.

Cost Allocation

PowerStream proposed to allocate the prospective revenue requirement to the Residential and GS< 50kW customer rate classes. In response to Board staff IR #8, PowerStream provided the rational for the allocation basis used to apportion the revenue requirement to these classes. PowerStream indicated that its proposal applies the “principles of cost causality; matching of costs and benefits; and avoidance of undue cross subsidization”. The following summarizes PowerStream’s proposed approach:

- Return (deemed interest plus return on equity) and Amortization have been allocated between the customer classes based on the capital costs of the meters installed for each class;

- OM&A has been allocated based on the number of meters installed for each class;
- PILs have been allocated based on the revenue requirement allocated to each class before PILs.

Board staff submitted that PowerStream's cost allocation methodology is reflective of cost causality and provides a reasonable proxy for how the revenue requirement would be determined in a cost of service application.

VECC disagreed with PowerStream's proposal and the Board staff submission. VECC submitted that the SMIRR Rate Rider should be determined on a class specific basis. VECC proposed that this be done by completing separate class specific smart meter actual cost recovery models based on a class specific revenue requirement. VECC's proposal is summarized in the table below.

Table 8: Class-specific Revenue Requirement

Rate Base	**Total**	**Residential**	**GS<50 KW**
Net Fixed Assets	$ 16,941,145	$ 15,253,192	$ 1,687,953
Working Capital Allowance	$ 179,746	$ 154,460	$ 25,286
Total	**$ 17,120,891**	**$ 15,407,652**	**$ 1,713,239**
Revenue Requirement			
Short Term Interest	$ 14,177	$ 12,758	$ 1,419
Long Term Interest	$ 564,715	$ 508,206	$ 56,509
Return on Equity	$ 674,563	$ 607,061	$ 67,502
OM&A	$ 1,198,300	$ 1,029,730	$ 168,570
Amortization	$ 1,416,244	$ 1,292,312	$ 123,932
Grossed-up PILs	$ 263,546	$ 239,930	$ 23,616
Total	**$ 4,131,545**	**$ 3,689,997**	**$ 441,548**

VECC submitted that this approach would result in the following SMIRR Rate Riders and that this approach would be more appropriate than that proposed by PowerStream and supported by Board staff. Tables 9 and 10 below show PowerStream's original proposal as filed in the Application (Table 7) as opposed to VECC's proposed SMIRR Rate Rider.

Table 9: SMIRR - Residential Customer Class

Residential Class	Table 7 filed	VECC 3a model
Customers	219,943	219,943
Revenue requirement	$ 3,836,220	$ 3,689,997
Monthly Charge	$ 1.45	$ 1.40

Table 10: SMIRR - GS<50 Customer Class

GS<50 kW Class	Table 7 filed	VECC 3b model
Customers	23,818	23,818
Revenue requirement	$ 295,337	$ 441,548
Monthly Charge	$ 1.03	$ 1.54

In reply, PowerStream submitted that the approach taken in the Application and VECC's submission are similar in that both represent attempts to allocate revenue requirement to the classes based on allocated assets and costs. However, while the results are similar, the method used in the Application allocates approximately $146,000 more to the Residential class and allocates the same amount less to the GS< 50 kW class compared to using the separate models as proposed by VECC. PowerStream acknowledged that the calculation by separate models by rate class results in a more accurate allocation of the incremental revenue requirement to the rate class receiving the smart meters. PowerStream proposed that the revenue requirement allocation and the rate rider calculated in response to VECC's interrogatories as shown above be used.

However, in its reply submission PowerStream also noted that many assets and costs cannot be identified specifically within customer classes. PowerStream further stated that although it was able to segregate capital costs for installed meters between Residential and GS<50 kW classes, other capital costs and incremental operating costs were based on the number of meters for each class as there is no discernible difference in these costs based on the meter or customer type.

Board Findings

The Board is mindful that a cost allocation approach for the prospective revenue requirement should ideally be based on a class specific revenue requirement calculation. However, the Board is concerned about distributors' ability to track all

individual costs on a class specific basis at this point in the smart meter initiative, given that the instructions that have been issued by the Board in the recent past have not included this requirement. The requirements for the tracking of smart meter related costs have evolved to the point where no class by class tracking has been required since the initial implementation plans were filed. Furthermore, a cost allocation methodology in a cost of service rate application is based on reasonable cost drivers rather than tracked costs.

The Board notes that the approach used by PowerStream in its Application and the cost allocation methodology proposed by VECC in its submission are similar and the differences are *diminimus*. The Board is of the view that the effort required on the distributor's part to implement VECC's proposal is not warranted given the limited benefits.

The Board further notes that both approaches represent attempts to allocate revenue requirement to the classes based on allocated assets and costs. Therefore, the Board finds that PowerStream's original cost allocation methodology is reasonable and based on the principle of cost causality and directs PowerStream to calculate the SMIRR Rate Riders based on its original proposal.

Smart Meter Funding Adder for meters installed in 2010

In its Application, PowerStream proposed to reduce its current smart meter funding adder from the current $1.81 per month per metered customer to $0.50 per month per metered customer. The updated smart meter funding adder was based on the remaining smart meters to be installed in 2010.

In response to interrogatories, PowerStream documented the numbers and costs for smart meters planned to be installed in 2010. Deployment for smart meters in 2010 involves primarily single-phase and three-phase commercial (GS<50 kW) customers at a cost per meter for single-phase customer of $220.10 and $543.25 for a three-phase customer.

During the evidentiary process, PowerStream updated its request of a funding adder from $0.50 per month per metered customer to $0.41 per month per metered customers, stating that alternative sourcing and better information for its three-phase meters resulted in significantly lower costs.

Board staff further submitted that consistent with the Board's Decisions beginning in 2006 EDR and the Board's policy and practice, it is appropriate that the smart meter funding adder continue to be collected from all metered customers. When the smart meter installations are completed and costs are both actual and audited, and PowerStream makes an application for disposition, the costs for the smart meters being installed in 2010 will be subject to a prudence review. Board staff submitted that the revised smart meter funding adder of $0.41 per month per metered customer is reasonable.

VECC submitted that PowerStream's proposal for a uniform smart meter funding adder is inappropriate. VECC submitted that a smart meter funding adder should be collected on a class-specific basis. This would result in a funding adder of $0.15 for the Residential customer class and $3.83 for the GS<50 kW customer class. VECC stated that PowerStream's proposal, supported by Board staff, will result in a significant over-collection from the Residential class in 2010 and 2011 with no certainty that there will be a true-up.

In its reply submission, PowerStream stated that it has determined that it would be appropriate to terminate the current smart meter funding adder effective October 31, 2010 and not seek an updated adder. PowerStream argued that the smart meter program is scheduled to be completed by the end of 2010 and therefore PowerStream does not need a smart meter funding adder.

PowerStream also requested that the smart meter funding adder for PowerStream North, the Barrie rate zone be terminated as of October 31, 2010.

Board Findings

The smart meter funding adder was introduced in the Board's 2006 EDR process, through implementation of the Board's decision in the 2006 EDR generic hearing (EB-2005-0529). As noted above, the funding adder was intended to provide "seed funding" for the smart meter deployment as directed by the Provincial Government and to help smooth future rate impacts.

The Board finds PowerStream's proposal to withdraw the request for a smart meter funding adder, in the legacy service area, appropriate and reasonable given the advanced stage of PowerStream's smart meter program in this rate zone.

As will be noted below, the Board will establish rates pertaining to this Application effective January 1, 2011. The Board finds that the smart meter funding adder for PowerStream's south service zone will be terminated as of December 31, 2010.

The Board findings are made in the context of the Application before the Board. As PowerStream's Application addresses smart meter related costs in its South service zone only, the Board finds that PowerStream's request for the termination of the smart meter funding adder for PowerStream's North service zone is not appropriate at this time given that parties did not have the opportunity to analyze and test the balances in the related variance accounts.

Framework for Recovery – Tracking of smart meter costs by customer class

VECC submitted that all distributors should be directed to record smart meter capital and operating costs on a class-specific basis and use this data to calculate revenue requirements and related funding and cost recovery rate riders.

In its reply, PowerStream submitted that it has followed the Guideline, the Accounting Procedures Handbook and its Frequently Asked Questions.regarding accounting for smart meter costs. VECC submitted that it is unaware that the Guideline had superseded the Filing Requirements for the Smart Meter Installation Program plans. PowerStream submitted that these are two separate guidelines for two different purposes and that the Guideline consolidated the accounting guidance and provided guidance on filing for smart meter funding adders and smart meter cost recovery.

Board Findings

The Board accepts PowerStream's submission that it has conducted itself in accordance with the articulated expectations of the Board. As such and in the absence of a more generic review of the matters put forward by VECC the Board will not require PowerStream to alter its current methodologies.

IMPLEMENTATION

The Board expects PowerStream to file detailed supporting material, including all relevant calculations showing the impact of this Decision on PowerStream's smart meter revenue requirement for the various periods in question, the allocation of the approved revenue requirements to the classes and the determination of the updated rate riders.

PowerStream requested an effective date of November 1, 2010 for its new rates. Given the required process time period for an application of this nature plus the additional time required for supplemental interrogatories the request can not be granted. The Board has determined an effective date of January 1, 2011 is appropriate. In developing its Draft Rate Order, PowerStream is directed to establish a Disposition Rate Rider based on a four month recovery period to April 30, 2011. The Disposition Rate Rider should be calculated in a manner that will recover the 2010 amounts for the January 1, 2010 to December 31, 2010 period. The Board's findings in this Decision have changed the effective date of the prospective SMIRR Rate Rider (labeled simply the "SMIRR Rate Rider") from November 1, 2010 to January 1, 2011. The Board notes that this rider is based on an annual revenue requirement and will be in effect until the effective date of PowerStream's next cost of service rate order. The Board will also establish January 1, 2011 as the implementation date for both rate riders noted above.

COST AWARDS

The Board may grant cost awards to eligible stakeholders pursuant to its power under section 30 of the Ontario Energy Board Act, 1998. The Board will determine eligibility for costs in accordance with its Practice Direction on Cost Awards. 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.

All filings to the Board must quote the file number, EB-2010-0209, be made through the Board's web portal at www.errr.oeb.gov.on.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.oeb.gov.on.ca/OEB/Industry. If the web portal is not available, parties may email their documents 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 7 paper copies.

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

THE BOARD ORDERS THAT:

1. PowerStream 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, within 7 days of the date of this Decision. The draft Rate Order shall also include customer rate impacts and detailed supporting information showing the calculation of the final rates.

2. Intervenors shall file any comments on the draft Rate Order with the Board and forward to PowerStream within 5 days of the date of filing of the draft Rate Order.

3. PowerStream shall file with the Board and forward to intervenors responses to any comments on its draft Rate Order within 5 days of the date of receipt of intervenor submissions.

4. Intervenors shall file with the Board and forward to PowerStream their respective cost claims within 14 days from the date of this Decision.

5. PowerStream shall file with the Board and forward to intervenors any objections to the claimed costs within 28 days from the date of this Decision.

6. Intervenors shall file with the Board and forward to PowerStream any responses to any objections for cost claims within 35 days of the date of this Decision.

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

DATED at Toronto, November 19, 2010

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary