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

Ontario

EB-2012-0039

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 Orangeville Hydro Limited for an order or orders approving or fixing just and reasonable distribution rates related to Smart Meter deployment, to be effective May 1, 2012.

BEFORE: Ken Quesnelle
Presiding Member

Marika Hare
Member

DECISION AND ORDER

May 24, 2012

Introduction

Orangeville Hydro Limited ("Orangeville"), a licensed distributor of electricity, filed an application (the "Application") with the Ontario Energy Board (the "Board") on January 31, 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 Orangeville charges for electricity distribution, to be effective May 1, 2012.

Orangeville sought Board approval for the disposition and recovery of costs related to smart meter deployment, offset by Smart Meter Funding Adder ("SMFA") revenues collected from May 1, 2006 to April 30, 2012. Orangeville requested approval of proposed Smart Meter Disposition Riders ("SMDRs") and Smart Meter Incremental

Revenue Requirement Rate Riders ("SMIRRs") effective May 1, 2012.

The Application is based on the Board's policy and practice with respect to recovery of smart meter costs.

The Board issued its Letter of Direction and Notice of Application and Hearing (the "Notice") on February 21, 2012. The Vulnerable Energy Consumers' Coalition ("VECC") requested intervenor status and cost award eligibility. No letters of comment were received. The Board grants VECC intervenor status and eligibility for cost awards. Board staff also participated in the proceeding. The Notice 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:

- Costs incurred with respect to Smart Meter Deployment and Operation;
- Cost Allocation;
- Stranded Meter Costs; and
- Implementation.

Costs Incurred with Respect to Smart Meter Deployment and Operation

In the Application, Orangeville sought the following approvals:

a. Smart Meter Disposition Rider (SMDR) – An actual cost recovery rate rider of ($0.61) per Residential customer per month and ($1.99) per General Service less than 50kW customer per month for the period May 1, 2012 to April 30, 2013. These rate riders will refund the difference between the 2006 to December 31, 2011 revenue requirement related to smart meters deployed as of December 31, 2011 (plus interest on operations, maintenance and administration and depreciation expenses) and the smart meter funding adder collected from May 1, 2006 to April 30, 2012 (and corresponding interest on the principal balance of SMFA revenues).

b. Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) – A forecasted cost recovery rate rider of $2.76 per Residential customer per month and $7.82 per General Service less than 50kW customer per month for the period May 1, 2012 to April 30, 2013. These rate riders will collect the incremental revenue requirement related to smart meter cost from January 1, 2012 to December 31, 2014.

c. Smart Meter Funding Adder (SMFA) – A termination of Orangeville's current SMFA of $2.00 per metered customer per month effective May 1, 2012 to reflect the smart meter costs approved for recovery through the SMDR and SMIRR rate riders above.

With respect to the last item, Board staff noted in its submission that the termination of the SMFA as of April 30, 2012 was determined by the Board in its decision with respect to Orangeville's 2011 IRM application (EB-2010-0096), and has been taken into account in Orangeville's 2012 IRM application (EB-2011-0190). The Board will not address this further in this Decision.

In responses to interrogatories, Orangeville made corrections to various data in the Smart Meter Model and revised its proposed rate riders for smart meter cost recovery.

Orangeville's Application had been prepared on the basis of 2010 audited actual costs and a forecast of 2011 and 2012 costs. In response to Board staff interrogatory #2, Orangeville updated the model and rate riders to include 2011 actual costs. In its reply submission, Orangeville confirmed that the 2011 costs had been audited.

Orangeville's costs in aggregate and on a per meter basis are summarized in the following table, as confirmed by Orangeville in response to Board staff interrogatory # 11.

	2006	2007	2008	2009	2010	2011	2012	Total
Capital		$ 16,476	$ 17,041	$ 318,697	$ 1,079,642	$ 486,577	$ 48,796	$ 1,967,228
OM&A				$ 2,458	$ 40,979	$ 79,145	$ 150,888	$ 273,471
Number of Smart Meters				287	10087	731	115	11220

	Total	Average per meter
Total (capex + opex)	$ 2,240,699	$ 199.71
Capex only	$ 1,967,228	$ 175.33

Both Board staff and VECC noted that Orangeville's costs per meter on a combined capital and operating basis are slightly higher than the range of $123.59 to $189.96 (excluding Hydro One Networks Inc.), as documented in Appendix A of the Board's Decision with Reasons EB-2007-0063. However, Board staff noted in its submission that the range of costs established in EB-2007-0063 considered only costs for minimum functionality. VECC also noted that the average per meter capital cost, based on data reported by all utilities to September 30, 2009, was $186.76,[1] and that updated data reported for the period ending September 30, 2010, showed an industry average capital cost of $226.92.[2] Both parties agreed that removing costs beyond minimum functionality would result in an average cost per meter of $179, which is within the range established in EB-2007-0063.

Orangeville included capital costs in the SMIRRs for smart meters forecasted to be deployed in 2012 due to customer growth. Orangeville has forecasted 110 new Residential and 5 new GS < 50 kW customers in 2012. Board staff noted that this approach is different than what the Board has approved in recent applications, which included smart meter costs to the end of 2011. Board staff submitted that the approach of Orangeville to include costs for 2012 would be appropriate as long as the costs and the demand (number of customers) are for the same period and the unaudited costs for 2012 are less than 10% of the total costs of the program.

VECC noted that the inclusion of 2012 capital costs would not have a significant impact on the calculation of the SMIRRs, but further noted that this might not be the case with other utilities. VECC supported Orangeville's proposal due to its immateriality, however it stated that this should not be seen as determinative of other applications.

The Board notes that authorization to procure and deploy smart meters has been done in accordance with Government regulations, including successful participation in the London Hydro RFP process, overseen by the Fairness Commissioner, to select (a) vendor(s) for the procurement and/or installation of smart meters and related systems. There is thus a significant degree of cost control discipline that distributors, including Orangeville, are subject to in smart meter procurement and deployment.

The Board further notes that Orangeville has participated as one of the member utilities

[1] VECC, Submission, April 19, 2012, pages 3-4, referencing the Board's *Sector Smart Meter Audit Review Report*, dated March 31, 2010.
[2] Ibid., referencing the *Monitoring Report Smart Meter Investment – September 2010*, March 3, 2011

of the Cornerstone Hydro Electric Concepts ("CHEC") group.[3] As documented in Orangeville's Application, CHEC participation has enabled the member utilities to address common issues and to seek efficient solutions for issues related to smart meter deployment and operations and to Time-of-Use implementation. VECC noted that Orangeville's participation in CHEC does demonstrate operational efficiencies.

The Board also agrees that Orangeville's average cost per meter is within the range established for minimum functionality in EB-2007-0063 and is comparable to the industry average.

The Board finds that Orangeville's documented costs, as applied for, related to smart meter procurement, installation and operation, and including costs related to TOU rate implementation, are reasonable. The Board notes that the basis for VECC's acceptance of the inclusion of the forecasted costs for 2012 is one of materiality. The Board will allow the inclusion on the same basis. As such, the Board approves the recovery of the costs for smart meter deployment and operation.

Cost Allocation

Orangeville calculated class-specific SMDRs and SMIRRs on the basis of separate allocators for Return and Amortization, OM&A, PILs and Smart Meter Funding Adder collected, as follows:

- Return and Amortization have been allocated based on the Weighted Average of Meter Capital allocators for Account 1860 Meter Capital allocators approved in Orangeville's 2010 cost of service filing ("1860 WMC") for the Residential and General Service less that 50 kW;
- 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; and
- Smart Meter Funding Adder collected, including carrying costs, has been allocated based on the revenue requirement allocated to each class before PILs.

[3] CHEC is a collaborative initiative by the following utilities to seek synergies in various utility operations, procurement and regulatory processes: Centre Wellington Hydro, COLLUS Power, Innisfil Power, Lakefront Utilities, Lakeland Power Distribution Ltd., Midland Power, Orangeville Hydro, Parry Sound Power, Rideau St. Lawrence Distribution, Wasaga Distribution, Wellington North Power, and West Coast Huron Energy. See Orangeville's Application, pg. 2.

In response to Board staff interrogatory # 13, Orangeville updated the proposed class-specific SMDRs and SMIRRs to reflect corrections to the data and model discovered through the interrogatory process. Board staff had no concerns with the allocation of costs proposed by Orangeville.

In interrogatory #9, VECC requested that Orangeville re-calculate the revenue requirements and rate riders by customer class based on full cost causality. Orangeville responded that it did not have the data available to calculate a revenue requirement by rate class, as it did not track capital and OM&A costs by service location. In its submission, VECC accepted that Orangeville did not have the required data but expressed concerns that the allocation methodology proposed by Orangeville was based on old, rather than new, meter types. VECC submitted that current meter capital costs should be used as the driver to allocate the revenue requirement to each customer class when full cost causality is not feasible, consistent with the methodology approved for PowerStream in its smart meter cost recovery applications (EB-2010-0209 and EB-2011-0128). In its submission, VECC requested that Orangeville provide a calculation of the class specific rate riders based on the class specific meter information provided in response to VECC interrogatory #5.

In its reply submission, Orangeville provided a comparison of the SMDR and SMIRR under its proposed methodology as shown in the response to Board staff IR #13 and the methodology requested in VECC's submission. Orangeville's reply submission also noted that the Board had directed PowerStream to allocate the smart meter adder amounts collected from the GS>50kW customer class evenly to the residential and GS <50kW classes when calculating the true-up for the SMDR. Orangeville provided a third calculation of the SMDR, based on an even distribution of GS >50kW revenues, for comparison purposes. The resulting SMDRs and SMIRRs from the three approaches, and those proposed in the original Application are documented in the following table:

	Application (January 31, 2012)	**Board staff IR # 13** Updated inputs, allocation based on 1860 WMC	**Revised in Reply Submission** (VECC proposed allocation methodology)	**Revised in Reply Submission** (VECC methodology and even allocation of GS >50 kW revenues for true-up)
Residential				
SMDR	($0.61)	($0.62)	($0.64)	($0.62)
SMIRR	$2.76	$2.75	$2.84	n/a
General Service <50kW				
SMDR	($1.99)	($2.03)	($1.50)	($1.93)
SMIRR	$7.82	$7.81	$7.02	n/a

In its reply submission, Orangeville noted that the difference between the approaches noted above were not significant and did not object to the methodologies proposed by Board staff and VECC.

The Board notes that the Guideline (G-2011-0001), *Smart Meter Funding and Cost Recovery – Final Disposition* recognized that class-specific revenue requirement may not be appropriate or feasible for all distributors as the necessary data may not be available. The Guidelines further state that where practical and where the data is available, class specific SMDR should be calculated based on full cost causality.

The Board considers that the approach proposed by VECC for allocating the Return and Amortization is more exacting and principled, and will accept it. The Board however notes that the allocation of revenues from the SMFA on the basis of the revenue requirement allocated to each class produces counter-intuitive results. This is so since the cost per meter for General Service <50 kW customers is higher than that for Residential customers, but the SMDR credit is significantly greater. Consistent with previous Board decisions in the case of PowerStream (EB-2011-0128) and Guelph Hydro (EB-2011-0123), the Board will approve an allocation methodology for the SMFA revenues based on a direct allocation (average number of customers in each class per year, multiplied by 12 months, further multiplied by the applicable SMFA for the period) at the rate class level. Any SMFA revenues collected from customers in the GS >50kW and Large Use classes are to be evenly divided between the Residential and GS <50kW classes.

Stranded Meter Costs

In its Application, Orangeville proposed not to dispose of stranded meters by way of stranded meter rate riders at this time, but to deal with disposition in its next rebasing application, scheduled for 2014 rates. Neither VECC nor Board staff took issue with Orangeville's proposal. Board staff submitted that Orangeville's proposal is also compliant with Guideline G-2011-0001. The Board agrees.

Orangeville duly noted Board staff's submission that the distributor should be prepared to address and quantify any operational efficiencies and cost savings resulting from smart meter deployment in the next cost of service application.

Implementation

The Board expects Orangeville to file detailed supporting material, including all relevant calculations showing the impact of this Decision and Order on Orangeville's class specific smart meter revenue requirements and the determination of the updated SMDRs and SMIRRs.

Orangeville requested an implementation date of May 1, 2012 for its new rates. Given the filing date and the time required to process an application of this nature, the Board has determined that an implementation date of June 1st is appropriate. In developing its draft Rate Order, Orangeville is directed to establish the SMDRs based on an 11-month recovery period to April 30, 2013 and to accommodate within the SMDR the applicable revenue requirement amounts related to the month of May.

The SMIRRs shall be effective and implemented on June 1st. The Board notes that these riders are based on an annual revenue requirement and will be in effect until the effective date of Orangeville's next cost of service rate order.

Orangeville 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 Orangeville's next cost of service application.

THE BOARD ORDERS THAT:

1. Orangeville 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 this Decision and Order. The draft Rate Order shall also include customer rate impacts and detailed supporting information showing the calculation of the final rates.

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

3. Orangeville shall file with the Board and forward to VECC responses to any comments on its draft Rate Order within 5 days of the date of receipt of the submission.

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. Orangeville 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 Orangeville any responses to any objections for cost claims within **21 days** from the date of issuance of the final Rate Order.

4. Orangeville 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-2012-0039,** be made through the Board's web portal at, www.errr.ontarioenergyboard.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.ontarioenergyboard.ca. If the web portal is not available parties may email their document to BoardSec@ontarioenergyboard.ca. 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, May 24, 2012

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary