Ontario Energy Board

Commission de l'énergie de l'Ontario

EB-2012-0187

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 London Hydro Inc. 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

July 26, 2012

Introduction

London Hydro Inc. ("London Hydro"), a licensed distributor of electricity, filed an application (the "Application") with the Ontario Energy Board (the "Board") on April 2, 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 London Hydro charges for electricity distribution, to be effective May 1, 2012.

London Hydro 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. London Hydro 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 April 18, 2012. The Vulnerable Energy Consumers' Coalition ("VECC") requested intervenor status and cost award eligibility. No letters of comment were received. The Board granted VECC intervenor status and eligibility for cost awards on June 4, 2012. 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.

On May 1, 2012, the Board issued an Interim Rate Order making the current approved Tariff of Rates and Charges interim for London Hydro and other distributors with proposed effective dates of May 1, 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;
    - Level of Audited Costs;
    - Costs Beyond Minimum Functionality;
    - Treatment of 2012 Costs;
- Cost Allocation;
- Stranded Meter Costs; and
- Implementation.

Costs Incurred with Respect to Smart Meter Deployment and Operation

In the Application, London Hydro sought the following approvals:

a. Smart Meter Disposition Riders – An actual cost recovery SMDR of $(0.81) per metered customer per month for the Residential class and $(1.82) per metered customer per month for the General Service less than 50kW class for the period May 1, 2012 to April 30, 2013. These SMDRs would 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 June 1, 2006 to April 30, 2012 (and corresponding interest on the principal balance of SMFA revenues).

b. Smart Meter Incremental Revenue Requirement Rate Riders – A forecasted SMIRR of $2.30 per metered customer per month for the Residential class and $5.10 per metered customer per month for the General Service less than 50kW class for the period May 1, 2012 to April 30, 2013. These SMIRRs will collect the 2012 incremental revenue requirement related to smart meter costs to be incurred from January 1, 2012 to December 31, 2012.
c. A continuation of the existing approved SMFA in the amount of $1.46 per metered customer until such time as this smart meter cost recovery application is approved by the Board.

With respect to the last item, the Board notes that that the termination of the SMFA as of April 30, 2012 was determined by the Board in its decision with respect to London Hydro's 2011 IRM application (EB-2010-0097), and has been taken into account in London Hydro's 2012 IRM application (EB-2011-0181). The Board will not address this further in this Decision.

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

Subject to comments found in the sections below, the Board finds that London Hydro's documented costs, as revised in response to interrogatories and in London Hydro's reply submission, related to smart meter procurement, installation and operation, and including costs related to TOU rate implementation, are reasonable. As such, the Board approves the recovery of the costs for smart meter deployment and operation as of December 31, 2011.

Level of Audited Costs

London Hydro's Application had been prepared on the basis of 2011 audited actual costs and a forecast of 2012 costs. The total audited actual combined capital and OM&A costs of $25,210,207 represent approximately 95% to London Hydro's total smart meter costs

London Hydro's costs in aggregate and on a per meter basis are summarized in the following table:

	2006	2007	2008	2009	2010	2011	2012	Total
Capital				$ 4,999,448	$ 16,262,194	$ 3,141,854	$ 511,307	$ 24,914,803
OM&A		$ 5,998	$ 101,711	$ 113,349	$ 422,882	$ 162,771	$ 746,000	$ 1,552,711
Number of Smart Meters				7467	129970	9000	413	146850

	Total	**Average per meter**
Total (capex + opex)	$ 26,467,514	$ 180.24
Capex only	$ 24,914,803	$ 169.66

Both Board staff and VECC noted that London Hydro's costs per meter on a combined capital and operating basis are within 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. VECC noted that the average per meter capital cost, based on data reported by all utilities to September 30, 2009, was $186.76[1]. VECC and Board staff noted that updated data reported for the period ending September 30, 2010, showed an industry average capital cost of $226.92.[2] Board staff and VECC agreed that the documented costs are prudent with the exception of $12,800 capital costs associated with 25 nominal meters beyond minimum functionality discussed below.

The Board accepts London Hydro's 2011 audited costs and approves the amounts for recovery.

Costs Beyond Minimum Functionality

London Hydro's Application includes $3,293,126 for costs beyond functionality (capital costs of $3,190,874 and OM&A costs of $102,252) as follows:

1. Capital costs beyond Minimum Functionality:
   a. Costs for deployment of smart meters to customers other than residential and small general service - $12,800
   b. Costs for TOU rate implementation, CIS system upgrades, web presentation and integration with the MDMR - $3,178,074
2. OM&A costs beyond Minimum Functionality:
   a. Costs for TOU rate implementation, CIS system upgrades, web

[1] VECC, Submission, June 21, 2012, pages 4-5, 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

presentation and integration with the MDMR.

VECC observed that the total of these expenditures represents approximately 12.4% of total smart meter program spending.

VECC submitted that other than the $12,800 capital costs related to the planned deployment of 25 smart meters in 2012 for the GS>50 kW customer class, London Hydro has appropriately demonstrated consistency with the Board's Guideline *G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition* ("Guideline G-2011-0001"), issued December 15, 2011, regarding the nature of the remaining costs beyond minimum functionality.

London Hydro included an estimated capital cost of $12,800 for 25 polyphase meters for the GS>50 kW customer class for the purpose of system acceptance testing. London Hydro noted that these meters are outside the scope of the Ministry of Energy's Functional Specification, but stated that London Hydro's RFP includes a requirement that the AMI system include functionality for transporting meter data from those meters.

Board staff agreed with London Hydro that the proposed 25 meters are outside of the scope of London Hydro's smart meter initiative and submitted that London Hydro has not provided sufficient evidence to justify the inclusion of meters for this pilot project in its smart meter initiative and that a procurement date for these meters is still unknown. Board staff further noted that the inclusion of costs directly attributable to the GS > 50 kW customer class but recovered in the SMIRRs paid for by the Residential and GS<50 kW customers, would constitute a cross-subsidization. Board staff submitted that these expenses should be removed from the revenue requirement calculation for determining the class-specific SMIRRs for the Residential and GS < 50 kW classes.

VECC agreed with Board staff.

In its reply submission London Hydro acknowledged that that it is unable to provide an exact procurement date and that these meters are associated with a pilot project. London Hydro agreed to remove these costs from the revenue requirement calculation. However, London Hydro requested to apply for recovery of these costs, with other future polyphase meter replacements, once appropriately incurred, in a later rate application.

The Board notes London Hydro's agreement to remove $12,800 from the revenue requirement calculation for the SMIRR and accepts London Hydro's proposal.

The Board notes that London Hydro is scheduled to rebase its rates through a cost of service application for 2013, and considers it appropriate for London Hydro to address the costs for polyphase meter conversions for GS > 50 kW customers in its 2013 rates application.

Treatment of 2012 Costs

London Hydro included capital costs in the SMIRRs for smart meters forecasted to be deployed in 2012 due to customer growth. London Hydro has forecasted 211 new Residential and 202 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 London Hydro 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 London Hydro's approach, but stated that this should not be seen as determinative of its position in 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 (in which London Hydro played a significant role as evidenced by the reference to the process here and in regulation), 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 London Hydro, are subject to in smart meter procurement and deployment.

The Board also agrees that London Hydro'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 accepts London Hydro's inclusion of 2012 capital costs for 413 new meters.

As such, the Board approves the recovery of the costs for smart meter deployment and operation, with the exception of costs beyond minimum functionality for a trial of 25 polyphase meters.

Cost Allocation

London Hydro 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 between customer classes based on the capital costs of the meters installed for each class (Residential and GS<50 kW);
- OM&A has been allocated based on the number of meters installed for each class; and
- PILs have been allocated based on the revenue requirement allocated to each class before PILs.

In its Application London Hydro proposed to deduct SMFA revenues, including carrying costs, from total revenue requirement and allocate the true-up amount to the Residential and GS>50 kW customer classes based on the revenue requirement .

In response to Board staff interrogatory # 14 and VECC interrogatory # 8, London Hydro provided a class specific revenue requirement calculation taking into account class-specific SMFA revenues. London Hydro also updated the proposed class-specific SMDRs and SMIRRs to reflect corrections to the data and model discovered through the interrogatory process. Board staff submitted that the re-calculated class-specific SMDRs shown below are more reflective of cost causality and should be adopted by the Board. The recalculated class-specific SMDRs and SMIRRs calculated as a result are summarized below:

Table 1: Original and Revised SMDRs and SMIRRs

Class	SMDR ($/month		SMIRR ($/month)	
	Original	Board Staff IR #14 and VECC#8	Original	Board Staff IR #14 and VECC#8
Residential	$(0.81)	$(1.16)	$2.30	$2.30
GS < 50 kW	$(1.82)	$1.96	$5.10	$5.10

VECC supported the methodology used by London Hydro in principle, and took no issue with its recalculation of class-specific rate riders based on capital costs as the driver or the direct allocation of SMFA revenue by customer class to better reflect cost causality. However, VECC submitted that the SMFA revenues from the GS > 50 kW customer classes should be returned to those customers instead of a 50:50 allocation between the residential and GS < 50 kW customer classes.

In its reply submission, London Hydro agreed with the methodology that Board staff and VECC put forward as it better reflects cost causality. With respect to the disposition of SMFA revenue back to GS > 50 kW customer classes, London Hydro identified the amounts collected as follows: GS > 50 kW $74,377; Large User $138; and Co-Generation $139. London Hydro submitted that the amounts collected appear to be immaterial and a recalculation of rate riders and disposition amounts based on the return of small SMFA balances from GS > 50 kW and Large Use customer classes is not warranted.

The Board notes London Hydro's agreement and approves the revised allocation methodology for the SMFA revenues based on a direct allocation of SMFA revenues as billed for the Residential, GS < 50 kW customer classes.

In Guideline G-2011-0001 the Board recognizes that the SMFA revenues have been collected from all metered customers. The Board's decision in PowerStream's smart meter cost recovery application (EB-2011-0128) addressed the treatment of smart meter adder amounts collected from customer classes for which smart meter costs were not incurred. The Board directed PowerStream to allocate the smart meter adder amounts collected from the GS>50 customer classes evenly to the Residential and GS<50 kW customer classes when calculating the true-up for the SMDR. The Board concluded that this approach was appropriate because the amounts involved were not significant enough to warrant a more precise allocation. This approach is also documented in section 3.5 of Guideline G-2011-0001. The Board agrees with London Hydro that the amounts collected for metered customer classes other than the Residential and GS < 50 kW customer classes are immaterial. However, the Board does not agree that these amounts should not be included in the SMDR true up. Any SMFA revenues collected from customers in the GS > 50 kW and Large Use classes are to be evenly divided between the Residential and GS <50kW classes.

Stranded Meter Costs

In its Application, London Hydro 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 2013 rates. London Hydro estimated a net book value of $3,153,415 as of December 31, 2012 for its stranded meters. Neither VECC nor Board staff took issue with London Hydro's proposal. Board staff submitted that London Hydro's proposal is also compliant with Guideline G-2011-0001. The Board agrees.

Implementation

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

London Hydro requested an implementation date of May 1, 2012 for the new rate riders. Given the filing date and the time required to process an application of this nature, the Board has determined that an implementation date of September 1, 2012 is appropriate. In developing its draft Rate Order, London Hydro is directed to establish the SMDRs based on an 8-month recovery period to April 30, 2013 and to accommodate within the SMDR the applicable revenue requirement amounts to be recovered through the SMIRR related to the period from May 1, 2012 to August 30, 2012.

The SMIRRs shall be effective and implemented on September 1, 2012. The Board notes that these rate riders are based on an annual revenue requirement and will be in effect until the effective date of London Hydro'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 London Hydro 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 (e.g. Account 1860 for meter capital costs) as is the case with other regular distribution assets and costs.

London Hydro 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 London Hydro's next cost of service application.

THE BOARD ORDERS THAT:

1. London Hydro Inc. shall file with the Board, and shall also forward to the Vulnerable Energy Consumers Coalition, 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. The Vulnerable Energy Consumers Coalition and Board staff shall file any comments on the draft Rate Order with the Board, and forward to London Hydro Inc., within **7 days** of the date of filing of the draft Rate Order.

3. London Hydro Inc. shall file with the Board and forward to the Vulnerable Energy Consumers Coalition responses to any comments on its draft Rate Order within **7 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. The Vulnerable Energy Consumers Coalition shall submit its cost claims no later than **7 days** from the date of issuance of the final Rate Order.

2. London Hydro Inc. shall file with the Board and forward to the Vulnerable Energy Consumers Coalition any objections to the claimed costs within **14 days** from the date of issuance of the final Rate Order.

3. The Vulnerable Energy Consumers Coalition shall file with the Board and forward to London Hydro Inc. any responses to any objections for cost claims within **21 days**

from the date of issuance of the final Rate Order.

4. London Hydro 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-2012-0187,** 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, July 26, 2012

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary