Ontario Energy Board

Commission de l'énergie de l'Ontario

EB-2012-0263

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 Bluewater Power Distribution Corporation for an order or orders approving or fixing just and reasonable distribution rates related to smart meter deployment, to be effective November 1, 2012.

BEFORE: Ken Quesnelle
Presiding Member

Marika Hare
Member

DECISION AND ORDER
October 18, 2012

Introduction

Bluewater Power Distribution Corporation ("Bluewater Power" or the "Applicant"), a licensed distributor of electricity, filed an application (the "Application") with the Ontario Energy Board (the "Board") on May 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 Bluewater Power charges for electricity distribution, to be effective November 1, 2012.

Bluewater Power is seeking Board approval for the disposition and recovery of costs related to smart meter deployment, offset by Smart Meter Funding Adder revenues collected from May 1, 2006 to April 30, 2012. Bluewater Power requested approval of

proposed Smart Meter Disposition Riders effective November 1, 2012. The Application is based on the Board's policy and practice with respect to recovery of smart meter costs, as documented in the Board's *Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition* ("Guideline G-2011-0001").

The Board issued its Letter of Direction and Notice of Application and Hearing (the "Notice") on June 18, 2012. The Vulnerable Energy Consumers Coalition ("VECC") was granted intervenor status and cost award eligibility. No letters of comment were received. The Notice established that the Board would consider the Application by way of a written hearing and established timelines for discovery and submissions.

On August 2, 2012, following the filing of the interrogatory responses, Bluewater Power filed an application update. It did so in consideration of the element of the Board decision in EB-2012 -0086[1] dealing with the treatment of cost savings attributable to the cessation of manual meter reading.

On September 26, 2012, subsequent to the filing of its reply submission, Bluewater Power filed a material amendment to its evidence with respect to the tax treatment of some of its smart metering initiative investments.

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 original Application, Bluewater Power sought approval for Smart Meter Disposition Riders ("SMDRs") – an actual cost recovery rate of $4.32 per Residential customer per month, and $9.02 per GS < 50 kW customer per month. Bluewater Power proposed that these rate riders be effective starting November 1, 2012 for six months for Residential customers and twenty four months for GS < 50 kW customers. These rate riders will collect the difference between the 2006 to December 31, 2012 revenue

[1] Cambridge North Dumfries Hydro Inc. Disposition of Smart Meter Costs

requirement related to smart meters deployed as of December 31, 2012, plus interest on operations, maintenance and administration and depreciation expenses, and the Smart Meter Funding Adder ("SMFA") revenues collected from 2006 to April 30, 2012 and corresponding interest on the principal balance of SMFA revenues.

Smart Meter Incremental Revenue Requirement Rate Riders ("SMIRRs") were not proposed for November and December 2012 as they were included in the proposed SMDRs. SMIRRs beyond December 31, 2012 were not requested as Bluewater Power will incorporate the revenue requirement for this period in its 2013 test year cost of service application for rates effective May 1, 2013.

As of March 31, 2012, Bluewater Power had completed 100% of smart meter installations to existing Residential and GS < 50 kW customers. No smart meters were installed for any other customer classes. The smart meter costs up to December 31, 2011 have been audited by an external auditor.

Bluewater Power's costs, in aggregate and on a per meter basis, are summarized in the following table. The average total cost per meter to December 31, 2012, including costs beyond minimum functionality is $261.01.

Table 1: Smart Meter Capital and OM&A Cost

	2006	2007	2008	2009	2010	2011	2012	Total
Capital	$172	$1,316	$4,323	$97,589	$4,862,860	$2,792,741	$824,986	$8,583,987
OM&A	$13,439	$25,755	$20,836	$17,177	$142,644	$243,611	$192,407	$655,869
Number of Smart Meters					29,781	5598	22	35,401

	Total	Average per Meter
Capital and OM&A	$9,239,856	$261.01
Capital Only	$8,583,987	$242.48

Average Smart Meter Costs

Board staff observed that Bluewater Power's average costs per meter were higher than the average smart meter costs previously reported by the Board in the following documents.

- The Board's *Smart Meter Audit Review Report*, dated March 31, 2010, indicates

a sector average capital cost of $186.76 per meter (based on 3,053,931 meters with a capital cost of $570,339,200 as from January 1, 2006 to September 30, 2009). The corresponding average total cost per meter (capital and OM&A) is $207.37 from the data in that report; and

- On March 3, 2011, the Board issued the Monitoring Report, Smart Meter Investment – September 2010 ("the Monitoring Report"). The Monitoring Report summarized the total smart meter related investments of 78 distributors, as of September 30, 2010, and showed an average cost of $226.92 per smart meter.

VECC's submission, which also included reference to data from the Combined Proceeding Decision (EB-2007-0063), was similar.

Board staff also observed that Bluewater Power's per meter costs are higher than those of distributors that are classified as "mid-size medium-high undergrounding"[2] as shown in the following table.

Table 2: Peer Group Smart Meter Costs

Distributor	File Number	Total Cost per meter
Bluewater Power Distribution Corporation	EB-2012-0263 (in progress)	$261.01
COLLUS Power Corp.	EB-2012-0017	$191.86
Festival Hydro Inc.	EB-2012-0260 (in progress)	$218.86
Peterborough Distribution Incorporated	EB-2012-0008	$161.42
Welland Hydro-Electric System Corp.	EB-2011-0415	$146.83

It is Bluewater Power's position that average cost comparisons are "dangerous and have limited probative value"[3] in a proceeding intended to assess prudence of spending on a mandated initiative. Bluewater Power observed that VECC referred to comparative data that is nearly five years old. Bluewater Power also noted that the "Sector Smart Audit Review Report", with data to the end of September 30, 2010, may be unreliable as data was submitted on a voluntary basis with potentially different understandings of the information required. The Applicant advised that the data it filed for this report represented a cost of $210.77 per meter, which is below the $261.01 per meter that it seeks in this Application. Average smart meter costs are discussed further in subsequent sections of this decision.

[2] Third Generation Incentive Regulation Stretch Factor Updates
[3] Page 1 Reply Submission

Smart Meter Costs Challenged by Parties

Board staff submitted that the Board could consider disallowing some or all of the smart meter-related costs listed below. VECC stated that in the absence of satisfactory explanation from the Applicant, it supported Board staff's submission.

The costs and Bluewater Power's reply are summarized as follows:

- $67,091.20 of GS < 50 kW meter Other Costs - Board staff stated there was no explanation provided regarding these costs. However, in its reply submission, Bluewater Power noted that the explanation had been provided in the response to a VECC interrogatory. As noted by the Applicant, the costs are for conversion bases required for some of the installations;
- $38,363 of smart meter training and conference costs – Board staff submitted that there was an absence of evidence demonstrating that these costs are not covered by the utility's training budget. Bluewater Power referred to an interrogatory response which stated that $9,305 was incremental conference fees and travel expenses. Bluewater Power acknowledged that $28,958 was internal labour related to the smart meter initiative, required for "staff to become familiar with new technologies, new processes and the development of a new relationship with customers"[4];
- $6,000 of costs for four procurement and installation-related activities that were ultimately abandoned – Bluewater Power submitted that the costs are justified as the activities furthered its understanding of the smart meter initiative. The Applicant submitted that denying cost recovery for abandoned efforts would "set a dangerous precedent"[5]; and
- $80,000 of MDM/R R7.0 testing – Board staff observed that 14 of 44 scenarios were tested on the R7.0 version at a cost of $80,000, while the remaining scenarios were tested on the R7.2 version at $10,497. Board staff submitted that a disallowance of 50% of the testing costs for the R7.0 version could be considered. In reply, Bluewater Power clarified that the $10,497 claim is related to R7.2 cutover testing, and not testing of scenarios.

[4] Page 3 Reply Submission
[5] Page 4 Reply Submission

Board Findings

The Board finds Bluewater Power's responses to the challenges of its costs to be adequate in all cases but one.

The Board accepts Bluewater Power's explanation provided to VECC regarding the expense incurred for the special conversion requirements associated with some meter bases that are used to service this class.

The Board accepts Bluewater Power's reply on the need for the training of staff on this significant change in its processes and the associated new technology. Bluewater Power has not, however, responded to the Board staff assertion that a sizable portion of these costs may already be included in Bluewater Power's base rates. Bluewater Power has identified $9,305 as being costs that are incremental to its existing costs. The Board will therefore not allow the inclusion of the remaining $28,958 of the applied for amount as Bluewater Power's existing rates have been garnering revenues to cover this amount.

With regard to the expenses identified in the amounts of $6,000 and $80,000 for both procurement and testing respectively, the Board notes that Bluewater Power has provided comprehensive pre-filed evidence that lays out in a chronological format for its managerial decisions and choices related to the timing and nature of its smart meter implementation activities. The Board considers this evidence to be compelling in that it illustrates in the level of detail provided that a very thorough and balanced approach to this project was taken. Numerous risk mitigation considerations are explained. As well, the need to accommodate the requirements of external testing and integration is illustrated and justified.

The Board considers the management of Bluewater Power, as is the case with all distributors, to be in the best position to make these types of decisions commensurate with the fact that it is their sole responsibility to do so. It is equally their responsibility to adequately explain and substantiate the reasonableness of the costs that were incurred as a result of their decisions. The Board considers Bluewater Power to have done so.

Costs Beyond Minimum Functionality

Guideline G-2011-0001 states that costs for TOU rate implementation, CIS system upgrades, web presentation, integration with the MDM/R, etc. are considered to be costs beyond minimum functionality, and states that such costs may be recoverable and

that the distributor should show how these costs are required for its smart meter program.

Bluewater Power's minimum functionality costs per meter in this Application are $188.92. These minimum functionality costs are below the total cost averages of the province-wide data, and would place Bluewater Power's per meter costs in the middle of its peer group of utilities. However, Bluewater Power also seeks recovery of $2,551,793 of costs beyond minimum functionality. This represents 27.6% of the total costs for which Bluewater Power is seeking recovery, and represents a cost of $72.09 per installed smart meter.

Board staff observed that, to date, this is the highest cost claimed for costs beyond minimum functionality in terms of costs per meter. In its Application, Bluewater Power observed that there is no published average for costs beyond minimum functionality. However, based on 14 stand-alone smart meter applications filed December 2011 to May 2012, Bluewater Power determined an average of $11.84. The minimum functionality cost for these same 14 applications was $194.93. Bluewater Power stated in its Application that 4 utilities recorded $0 in costs beyond minimum functionality. It appeared to Bluewater Power that the costs beyond minimum functionality were included within the general costs relating to maintenance of CIS systems. In response to a VECC interrogatory, Bluewater Power stated that, "The comparisons do not compare the amount actually spent by LDCs on "Beyond Minimum Functionality" but more accurately represents a comparison of the "Beyond Minimum Functionality" costs claimed for recovery through this particular process".

Board staff and VECC agreed that there are likely some inconsistencies in the records with respect to smart meter costs beyond minimum functionality. Additionally, Board staff noted that the inconsistencies are also related to the circumstances of individual distributors. However, Board staff submitted that $72.09 per meter for TOU rate implementation, CIS system upgrades, web presentation and integration with the MDM/R claimed by Bluewater Power is a significant cost, particularly given Bluewater Power's circumstances as a medium-sized distributor largely serving an urbanized area. Board staff also submitted that the majority of distributors have started billing on TOU and are prepared to integrate with the MDM/R without charges of $72.09 per meter.

In the Application, Bluewater Power stated that the majority of the beyond minimum functionality costs relate to the integration of the MDM/R with Bluewater Power's SAP-

based CIS. Bluewater Power undertook a version upgrade of its SAP CIS system in 2009 and another SAP CIS upgrade in 2011 related to smart meters. Board staff submitted that there was an opportunity to include most, if not all the smart meter related upgrades in the version upgrade project. Board staff submitted that a reduction of 50% to $36.04 per meter could be considered as this would bring Bluewater Power's costs down to the range of the highest beyond minimum functionality cost approved to date (Niagara–on-the-Lake Hydro Inc., EB-2012-0036). The remaining beyond minimum functionality costs could be reviewed as part of the 2013 cost of service application.

VECC reviewed the costs for the 14 utilities listed in Bluewater Power's summary. As Bluewater Power's beyond minimum functionality costs are 6 times the average of the 14 applications before the Board in the last 6 months, VECC submitted that the Board provide direction that 100% of the beyond minimum functionality costs be reviewed as part of the 2013 cost of service application.

Bluewater Power submitted that it implemented smart meters in a prudent and well-managed manner. Bluewater Power agreed with Board staff that size may be a valid circumstance when considering beyond minimum functionality costs, but submitted that level of urbanization would be more relevant for consideration of minimum functionality costs. It is the Applicant's position that there does not appear to be any comprehensive or reliable data for benchmarking minimum functionality costs let alone beyond minimum functionality costs.

Bluewater Power submitted "that the single most significant circumstance to consider in assessing the prudence of its [beyond minimum functionality] costs are the type of IT deployed and the stage of the systems lifecycle by the utility rather than the density of its customers."[6] Bluewater Power stated that CIS systems vary in design and have different capital and maintenance requirements and that "SAP is a world-class platform on which a billing system must be built by the end user; it is not like the other off-the-shelf products that are developed for the Ontario market."[7] Bluewater Power submitted that the Board ought to consider these circumstances in determining prudence of spending. Bluewater Power stated that "SAP has proven to be an appropriate and prudent choice for this utility, but the constant change in our industry has contributed to

[6] Page 6, Reply Submission
[7] Page 8, Reply Submission

the cost of maintaining the custom configured system."[8] Bluewater Power stated the cost of SAP deployment and maintenance has been approved by the Board in two previous proceedings, EB-2005-0340 and EB-2008-0331.

If the Board believes there is probative value in benchmarking, Bluewater Power submitted that its minimum functionality spending was prudently managed, and is supported by the cost of $188.92 vs the average of 14 utilities summarized in the Application, $194.93. Bluewater Power commented that Board staff referred to Niagara-on-the-Lake Hydro Inc. in its submission, but did not introduce any evidence about the specifics of that utility's beyond minimum functionality costs.

Bluewater Power argued that managing two SAP upgrade projects would not have provided any material savings nor would there be any savings related to system testing of two SAP implementations or using more contract staff to assist the utility's staff to complete the version upgrade and smart meter projects simultaneously.

Bluewater Power appreciated the fact that Board staff and VECC did not submit that costs be denied in this proceeding but that some or all of the beyond minimum functionality costs be reconsidered in the 2013 cost of service application. However, Bluewater Power did not agree that deferral of the beyond minimum functionality costs matter is appropriate. The Board has approved CIS integration costs in prior smart meter final disposition applications, and the Applicant asserts that the evidence on the record satisfies the tests set out in Guideline G-2011–0001, namely that the costs were incremental to normal CIS maintenance. Further, Bluewater Power had already reviewed its costs prior to filing the Application, and identified that $571,049 of non-smart meter related costs should be considered in the cost of service application.

Bluewater Power stated that it is not efficient to require a utility to file the same evidence twice and there is no reason to conclude that a delay would result in the production of more evidence to support the recovery of the beyond minimum functionality costs. Bluewater Power noted that, if the Board defers consideration of some or all of the beyond minimum functionality costs, the opportunity for smoothed rates would be diminished and the rebasing application would need to be altered.

[8] Page 7, Reply Submission

Board Findings

The Board accepts the elements of the submissions put forth by Bluewater Power that contend that the Board should differentiate between the merits and appropriateness of applying comparative analysis to costs associated with minimum functionality and beyond minimum functionality costs. By its very nature, functionality that goes beyond the minimum functionality is not prescribed or necessarily anticipated as per its scope. While there may be some determinative value in the comparison of the same type of functionality costs brought forward by two different distributors such as the costs associated with a particular discretionary function, for example "remote disconnect capability", that is not the case here.

The Board considers beyond minimum functionality as a separate matter from minimum functionality. The consideration of the prudence of the spending on functionality that is beyond the minimum is done so in the context of that spending being either at the discretion of a distributor that contends the additional functionality provides added value or that the additional functionality is a requirement driven by smart meter implementation and peculiar to a distributor's individual circumstance.

The fact that not all distributors have incurred beyond minimum functionality costs, as evidenced in this proceeding in Bluewater Power's pre-filed evidence, is not necessarily indicative of a better smart meter implementation performance by those distributors. It merely indicates that those distributors may not have required modifications to their existing systems or that they did not seek to leverage the opportunity that has arisen with the implementation of smart meters to add additional distribution system functionality.

Given this context, the Board sees limited determinative value in inter-distributor comparisons of costs associated with functionality that is beyond the minimum prescribed.

The Board considers the beyond minimum functionality costs proposed by Bluewater Power to be driven entirely by its need to reconfigure its existing CIS system in order to accommodate the implementation of smart meters. The nature of this cost was contemplated in the Board's guidelines and no party has taken issue with the nature of the causation of the costs incurred. The Board staff submissions on the prudence of the costs incurred take issue with the project management and Bluewater Power's decision

to not combine its CIS smart metering upgrades with CIS upgrade projects of the recent past.

The record related to Bluewater Power's CIS upgrades is substantial. Board staff and VECC have not pointed to any deficiencies in the record in proposing a substantial reduction in allowable cost at this time. Their concern regarding the magnitude of the spending is more grounded in the comparative analysis they have used in their arguments rather than on a dearth of evidence. The Board has provided its views on the value of comparative analysis in this case.

The Board is satisfied that Bluewater Power has adequately substantiated its costs associated with its CIS reconfiguration. The Board accepts Bluewater Power's rationale in support of its decision to stage the various upgrades in the adoption of the project management scheme it described. Therefore, the Board does not consider it necessary to withhold any portion of the applied for costs for further review in the anticipated Bluewater Power 2013 cost of service application.

Application Update

The Application filed on May 31, 2012, stated that, "…OM&A costs which relate primarily to meter reading are only included in this application up to April 30, 2012; from that point where the AMI replaces foot reading by meter readers, the costs form part of regular OM&A after May 1, 2012 as costs were already incorporated into rates relating to meter reading." In response to interrogatories, Bluewater Power stated that the annual cost of manual meter reading for Residential and GS < 50 kW customers was $110,000. The annual cost of transmitting that data from smart meters is $142,647.

In the application update (the "Update") filed on August 2, 2012, Bluewater Power stated that of the 2012 automated meter reading costs of $142,647, only the costs for 4 months of 2012 had been included. The Update proposed to include the full 2012 automated meter reading costs for recovery in the current Application, amounting to a net increase of $95,098. Bluewater Power relied on the Cambridge and North Dumfries Hydro Inc. ("CND") decision, EB-2012-0086, which stated the following with respect to $155,000 of savings identified related to smart meters:

> …the Board is of the view that savings from any productivity gains due to smart meter implementation are one source of the gains that CND is incented to realize under the IRM rate adjustment mechanism. The Board

> concurs with both Board staff and CND that realized savings should be addressed in CND's next cost of service application, when there should be better information on actual costs and savings and these will be factored into rebased rates.

Board staff observed that it was not apparent from the Application and interrogatory responses whether: (1) four months of the $142,647 expense; or (2) four months of the difference between $142,647 and $110,000 had been included in the Application. Board staff concluded that it was clear from the update that the former is the case. Board staff referred to sections 3.5 and 3.6 of Guideline 2011-0001 which state that, among other information, incremental operating and maintenance costs for smart meters form part of the application for recovery of smart meter costs in a stand-alone application. Board staff submitted that it would be appropriate for Bluewater Power to seek recovery of $32,647 (the difference between $142,647 and $110,000 for the full year 2012), but not the full amount. VECC did not provide a submission on the Update.

Bluewater Power replied that Board staff's submission in this proceeding is contrary to the staff submission in the CND proceeding. Bluewater Power stated that CND was allowed to recover automated meter reading costs on top of their full manual meter reading budget, and will do so for CND's remaining IRM term. The additional recovery of $95,098 proposed in the Update mirrors the Board's decision in the CND proceeding.

Should the Board adopt Board staff's submission in this proceeding, Bluewater Power clarified in its reply submission that both manual and automated meter reading costs were incurred in the first four months of 2012. The actual 2012 meter reading costs would be $175,414, amounting to a cost of $65,414 incremental to the $110,000 reflected in base rates. As the original Application included $43,650, Bluewater Power submitted that it should be entitled to recover an additional $21,765.

Board Findings

The Board finds that the CND circumstances are different than those of Bluewater Power. In its application, CND identified that its automated meter reading costs were $155,000 lower than the manual meter reading costs being recovered in its base rates, and hence there was an efficiency gain. In the current case, there are no efficiency gains, and in fact, Bluewater Power has identified that automated meter reading costs are higher than manual meter reading costs. The Board notes that $110,000 of meter reading costs for 2012 are already recovered in Bluewater Power's approved base

rates. The Board approves the recovery of the actual incremental meter reading costs incurred in 2012 as identified by Bluewater Power in its reply submission. The original smart meter application included $43,650 and the Board will allow for the recovery of an additional $21,765 for a total of $65,415.

Material Amendment to the Evidence

On September 26, 2012, Bluewater Power advised the Board that, in the course of preparing the PILs model for the 2013 rebasing application, an error relating to a mismatch between the CCA category (class 46) applied to computer software in the smart meter model and the CCA category (class 12) used in the 2011 corporate PILs return was detected. Bluewater Power also filed revised smart meter models for Residential and GS < 50 kW customers reflecting the actual tax treatment of the applications software assets. The CCA correction results in lower SMDRs than those proposed in the original Application or in response to interrogatories. On September 27, Board staff filed a letter seeking clarification of the affected assets in the tax returns for all years from 2006 to 2011. In a letter filed on September 28, 2012, VECC stated that it did not identify a need for interrogatories or submissions on the amendment to the evidence subject to Bluewater Power's response to Board staff's question. In response to Board staff's question, Bluewater Power stated that the "Application Software investments from 2006 to 2011 were cumulated and treated as CCA class 12 assets in the 2011 Tax Return."

On October 1, 2012, Board staff filed a letter noting that Bluewater Power's response did not fully address the tax treatment in each year from 2006 to 2011. It was Board staff's understanding that Applications Software costs were not claimed prior to the 2011 tax year as the assets were not "used and useful" for tax purposes in prior years. Board staff noted that the smart meter models filed by Bluewater Power on September 26, 2012, treat the assets as if they came into service (i.e. became "used and useful") in each year in the period 2006 to 2011, calculating both the tax treatment that reflects assets that are "used and useful" in the period 2006 to 2011, and earning a return and depreciation expense in each year. Board staff revised these models to reflect the accumulation of 2006 to 2010 Applications Software capital investments in 2011 when the assets actually became used and useful. This revision further lowered the SMDRs.

Board staff noted that deferring the investments becoming "used and useful" until 2011 will have an upward impact on Bluewater Power's rate base and hence on distribution rates in the 2013 cost of service application. Board staff submitted that the Board must

consider whether symmetrical treatment for the Applications Software capital investments for tax and rate regulatory purposes is warranted.

Board Findings

The Board accepts Bluewater Power's amended evidence filed on September 26, 2012. In doing so, the Board notes that smart meter implementation is a complex and lengthy process with many components. The assets being implemented, and indeed the project as a whole, do not lend itself to a precise application of the "used and useful" test associated with ratemaking. The Board notes that any variance in the timing of the booking of the assets in question to rate base in this case will have offsetting variances in the revenue requirement in Bluewater Power's next cost of service rebasing application (anticipated for 2013 rates) and are therefore temporal in nature having intergenerational ratepayer impacts only.

Level of Audited Costs

Bluewater Power's audited costs represent approximately 89% of the total costs of the smart meter deployment. The unaudited costs are the 2012 forecast costs. Guideline G-2011-0001 states that the majority of costs (i.e. greater than 90%) sought for recovery should be audited. Board staff and VECC submitted that the audited costs are close enough to the threshold of 90%, and had no issues with the level of audited costs.

Board Findings

The Board accepts the level of audited costs for the purposes of recovery in this case.

Cost Allocation

Initial smart meter funding was provided by a uniform SMFA collected from all metered customers, and there was no specific Board direction for recording of costs and revenues by class.

However, it was recognized by the Board that, as there would be differing costs in different customer classes, in large part due to the costs of the meters themselves and, to the extent that accurate data was available from the utility's records, the principle of cost causality would support class-specific cost recovery. To this end, Guideline G-2011-0001 indicates that a utility is expected to address the allocation of costs in its application seeking the disposition of smart meter costs recorded in accounts 1555 and

1556. Further, in recent decisions, the Board has reviewed and approved the evolution of approaches for calculating class-specific rate riders.[9]

The class-specific SMDRs that Bluewater Power originally applied for are summarized in column 3 of Table 3. In its response to Board staff and VECC interrogatories, Bluewater Power addressed the matter of class-specific revenue requirements and associated SMDRs. Bluewater Power filed separate smart meter models for Residential and GS < 50 kW customer classes in response to VECC interrogatories. The resulting SMDRs, which also reflect 2013 customer count and interest on OM&A on a monthly basis, are summarized in column 4 of Table 3. Board staff observed a minor $105 difference in SMFA collected, which Bluewater Power explained in reply, was due to the method of pro-rating SMFA revenue. Both Board staff and VECC submitted that the methodology used to calculate the SMDRs in column 4 is the best representation of full cost causality and should be adopted by the Board.

In reply submission, Bluewater Power conceded that the methodology used to calculate the SMDRs in column 4 is the most appropriate. The riders listed in column 5 reflect the additional $95,098 requested in the Update. The riders listed in column 6 reflect the material amendment to the evidence as determined by Bluewater Power. As noted above, Board staff revised the smart meter models filed with the material amendment to the evidence to reflect timing alignment of Applications Software capital investments with the year in which they became used and useful for tax purposes. The riders listed in column 7 reflect the Board staff revision.

Table 3: Initial and Revised SMDR

1 – Class	2 - Recovery Period	3 - Initial	4 - VECC IR #7	5 – Update Aug. 2, 2012	6 – Evidence Amendment Sept. 26, 2012	7 – Board Staff Revision Oct. 1, 2012
Residential	6 months	$4.32	$4.45	$4.90	$2.42	$1.74
GS < 50 kW	24 months	$9.02	$8.52	$8.64	$6.06	$5.36

In its Application, Bluewater Power proposed a six month disposition period for the Residential class to avoid overlap with the introduction of 2013 rates. As the GS < 50 kW class recovery is more significant, Bluewater Power proposed a twenty four month disposition in order to smooth rates. The total bill impact of Bluewater Power's initially proposed SMDRs was 3.7% for the Residential class and 3.2% for the GS < 50 kW

[9] The Board's decisions with respect to PowerStream Ltd.'s 2010 and 2011 smart meter applications (respectively, EB-2010-0209 and EB-2011-0128) confirmed approaches for allocating costs and calculating class-specific rate riders for recovery of smart meter costs. The approach approved in Decision EB-2011-0128, or an analogous or improved approach is expected where data of adequate quality at a class level is available.

class. Neither Board staff nor VECC had concerns with the proposed disposition period.

Board Findings

The Board accepts Bluewater Power's proposed cost allocation (as reflected in columns 4 to 7 of Table 3 above) and recovery periods. The Board will approve an effective date of November 1, 2012, as proposed by Bluewater Power and will approve an implementation date of November 1, 2012.

Stranded Meter Costs

In its Application, Bluewater Power 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. Bluewater Power estimated the net book value of stranded meters as of December 31, 2012 will be $1,897,063. Neither VECC nor Board staff took issue with Bluewater Power's proposal.

Board Findings

The Board accepts Bluewater Power's proposal with regard to stranded meter costs.

Implementation

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

Accounting Matters

In granting its approval for the historically incurred costs and the costs projected for 2012, the Board considers Bluewater Power 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.

Bluewater Power 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 Bluewater Power's next cost of service application.

THE BOARD ORDERS THAT:

1. Bluewater Power 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 **5 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 Bluewater Power, within **5 days** of the date of filing of the draft Rate Order.

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

4. Bluewater Power 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-2012-0263,** be made through the Board's web portal at, www.pes.ontarioenergyboard.ca/service/ 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 seven paper copies.

DATED at Toronto, October 18, 2012

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary