EB-2012-0198

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 Hydro Hawkesbury Inc. 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
November 1, 2012

Introduction

Hydro Hawkesbury Inc. ("HHI"), a licensed distributor of electricity, filed an application (the "Application") with the Ontario Energy Board (the "Board") on July 16, 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 HHI charges for electricity distribution, to be effective September 1, 2012.

HHI is seeking 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. HHI requested approval of proposed Smart Meter Disposition Riders ("SMDRs") and Smart Meter Incremental Revenue Requirement Rate Riders ("SMIRRs") effective September 1, 2012. The Application is based on the

Board's policy and practice with respect to recovery of smart meter costs.[1]

The Board issued its Letter of Direction and Notice of Application and Hearing (the "Notice") on August 2, 2012. The Vulnerable Energy Consumers' Coalition ("VECC") was granted intervenor status and cost award eligibility. No letters of comment were received. The Notice of Application and Hearing established that the Board would consider the Application by way of a written hearing and established timelines for discovery and submissions.

On August 23, 2012 the Board issued an Interim Rate Order making the current approved Tariff of Rates and Charges interim since HHI had proposed an effective date of September 1, 2012 in their Application.

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, HHI sought the following approvals:

- Smart Meter Disposition Rider – An actual cost recovery credit rate of $1.28 per Residential customer per month and a credit of $1.25 per General Service less than 50kW customer per month. HHI proposed that these rate riders be effective for two years from September 1, 2012 to August 31, 2014. These rate riders will collect the difference between the deferred 2006 to December 31, 2011 and forecasted 2012 revenue requirement related to smart meters deployed as of December 31, 2011, plus interest on operations, maintenance and administration ("OM&A") and depreciation expenses, and the SMFA revenues collected from 2006 to

[1] On December 15, 2011, the Board issued *Guideline G -2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition* ("Guideline G-2011-0001").

April 30, 2012 and corresponding interest on the principal balance of SMFA revenues; and

- Smart Meter Incremental Revenue Requirement Rate Rider – A forecasted cost recovery rate rider of $1.38 per Residential customer per month and $2.56 per General Service less than 50kW customer per month until its next cost of service rate application, scheduled for 2014 rates. This rate rider will recover the 2013 incremental revenue requirement related to smart meter costs to be incurred from January 1, 2013 to December 31, 2013, for installed smart meters.

Prudence of Incurred Costs

HHI'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	$ -	$ -	$ -	$ 181,952	$ 307,843	$ 155,743	$ -	$ 645,539
OM&A	$ -	$ -	$ -	$ -	$ 5,243	$ 3,700	$ 5,958	$ 14,900
Number of Smart Meters	-	-	-	1,489	3,485	407	-	5,381

	Total	Average per Meter
Total (capex+opex)	$ 660,439	$ 122.74
Capex Only	$ 645,539	$ 119.97

Both Board staff and VECC noted that HHI's costs per meter are within the ranges observed for other utilities in the combined proceeding related to smart meters conducted by the Board in 2007 (EB-2007-0063). HHI's costs are also below the sector average total cost of $207.37 reported in the Board's *Sector Smart Meter Audit Review Report*, dated March 31, 2010 and the average total cost of $226.92 reported by distributors in the Monitoring Report of Smart Meter Investment as at September 30, 2010.

HHI did not include OM&A costs for 2012 in its Application. In response to Board staff interrogatories, HHI noted that its understanding was that starting May 1, 2012 all OM&A costs would be considered normal ongoing expenses. Board staff submitted that the SMIRR may be understated depending on what costs were included in HHI's 2010 revenue requirement and will not be recovered until HHI next rebases its rates through a cost of service application. HHI submitted that it is of the opinion that the difference in costs not recovered between May 1, 2012 and December 31, 2012 with persistence in

2013 and beyond is not material. VECC took no issue with HHI's treatment of OM&A costs.

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 HHI, are subject to in smart meter procurement and deployment.

The Board finds that HHI's documented costs, as revised in response to interrogatories and in HHI'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 applied for related to smart meter deployment and operation as of December 31, 2011, and the ongoing recovery of capital-related and operating expenses for 2012 and going forward until HHI's next cost of service application.

Costs Beyond Minimum Functionality

HHI included capital costs of $6,043 in its Application, which are costs beyond minimum functionality. Board staff noted that HHI has included capital costs for deployment of smart meters to customers other than residential or GS < 50 kW customers in section 1.6.2 of the smart meter model. Board staff requested that HHI explain the capital expenditures documented under 1.6.2. Board staff submitted that the Board consider the option of disallowing the $6,043 documented under 1.6.2, in the absence of supporting material and because these costs are not for smart meter deployment to Residential and GS < 50 kW customers, and therefore should not be borne by them under the principle of cost causality.

In response to Board staff's submission HHI submitted that these costs were related to miscellaneous capital costs for the deployment of smart meters to Residential and GS < 50 kW customers only. HHI confirmed that it has not included any claims for costs related to its GS > 50 kW customers in its Application. HHI submitted that these costs were miscellaneous implementation costs including staff training etc. incurred that HHI has determined to be capital in nature.

The Board accepts HHI’s explanation and approves the recovery of these costs as included in the Application.

Level of Unaudited Costs

HHI stated that as of April 2012 deployment of smart meters is complete. Board staff noted that HHI’s Application complies with Guideline G-2011-0001 with regard to the expectation that at least 90% of the smart meter costs be audited. VECC submitted that HHI’s percentage of audited costs conforms to the Board’s Guidelines.

The Board accepts HHI’s 2011 audited costs and approves the smart meter costs documented in the Application for recovery.

Cost Allocation

In its Application, HHI has only shown the SMFA revenues for the Residential and GS < 50 kW customer classes, using a direct allocation to determine SMFA revenues per class. The methodology accepted by the Board in PowerStream’s smart meter application EB-2011-128, and in Guelph Hydro’s 2012 cost of service application EB-2011-0123 and in subsequent smart meter applications also entails allocating SMFA revenues and interest collected from other metered customer classes (e.g. GS > 50 kW) equally to metered customer classes receiving smart meters. In this case, it would entail a 50:50 allocation to the Residential and GS < 50 kW classes for the purposes of determining the SMFA revenue offsets for class-specific SMDRs.

In Board staff interrogatory #8, Board staff provided HHI a cost allocation methodology based on Guelph Hydro’s approach in its 2012 Cost of Service (EB-2011-0123) using the following approach:

- OM&A expenses allocated on the basis of the number of meters installed for each class;
- The return on capital and amortization allocated on the basis of the capital costs of the meters installed for each class;
- PILs allocated based on the revenue requirement before PILs derived for each class; and
- SMFA revenues and interest on the principal first calculated directly for the Residential and GS < 50 kW classes, with then the residual SMFA revenues and

interest collected from other metered customer classes (i.e., GS 50-4999 kW and Large Use) allocated 50:50 to the Residential and GS < 50 kW classes. This approach has been used and approved in some recent cost of service applications, including that for Guelph Hydro's 2012 rates application [EB-2011-0123].

In response to Board staff interrogatory # 8, HHI proposed the class-specific SMDRs and SMIRRs mirroring the Guelph Hydro spreadsheet from Guelph Hydro's 2012 cost of service rates application [EB-2011-0123] as provided by Board staff. Board staff submitted that the class-specific SMDRs and SMIRRs as provided in response to Board staff interrogatories have been calculated appropriately through class-specific models.

VECC did not agree with this approach and submitted that HHI did not provide a clear response to VECC Interrogatory # 5 a, b and c which had sought class-specific riders based on full cost causality and separate smart meter revenue requirement models for each customer class to recalculate the rate riders using the class specific revenue requirements.

VECC summarized that the total average installed smart meter costs as provided by HHI in response to VECC interrogatory #2 b is as follows:

Customer Class	**Average Capital Cost Per Meter**
Residential	$99.30
GS<50 kW	$180.09

Source: VECC Submission dated September 6, 2012, page 3

VECC submitted that, given the average installed meter cost for a GS < 50 kW customer is almost 2 times the average installed meter cost for a residential customer, VECC submits the better way to avoid undue cross subsidy is to calculate class-specific rate riders based on VECC's proposed cost allocation methodology of separate models to reflect the full costs for each customer class.

In its reply submission, HHI did not provide the information requested by VECC and noted that the methodology used in response to Board staff has been accepted by the Board previously as being reasonable for the purpose of cost allocation. HHI further noted that, it believes the data to complete smart meter recovery by rate class in the manner which VECC proposes in its submission would not be materially dissimilar to the proposed results obtained with the models already submitted.

In the past the Board has noted that the principle of cost causality would support class-specific cost recovery, as there would be differing costs in different customer classes, due in large part to the costs of the meters themselves, and to the extent that accurate data was available from the utility's records. To this end, the Board's Guideline[2] 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. In recent decisions, the Board has reviewed and approved an evolution of approaches for calculating class-specific rate riders.[3]

The Board considers the cost causality approach of class-specific models proposed by VECC to be more exacting and principled, and will accept it where the utility has calculated it and is reasonably confident with the underlying data at the customer class level. However, HHI has stated that it believes that class-specific models would not result in materially different rate riders. The Board considers HHI's explanation reasonable.

As such, the Board approves HHI's methodology and the resulting class-specific SMDRs and SMIRRs as calculated in response to Board staff interrogatory # 8 to recover the historical and prospective revenue requirement on the approved smart meter costs.

Stranded Meter Costs

In its Application, HHI 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 cost of service application, scheduled for 2014 rates. In its Application, HHI stated that it has an estimated net book value of stranded conventional meters, including net salvage revenues, of $54,357 as of December 31, 2013.

Board staff submitted that HHI's proposal is also compliant with Guideline G-2011-0001. The Board agrees and on that basis approves HHI's proposal.

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[2] See footnote 1.
[3] 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.

Implementation

HHI requested an effective date of September 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 November 1, 2012 is appropriate. In developing its draft Rate Order, HHI is directed to establish the SMDRs based on an 18-month recovery period to April 30, 2014 and to accommodate within the SMDR the applicable revenue requirement amount related to the period from May 1, 2012 to October 31, 2012.

The SMIRRs shall be effective and implemented on November 1, 2012. The Board notes that these riders are based on an annual revenue requirement and will be in effect until the effective date of HHI's next cost of service rate order. As HHI is scheduled to rebase its rates for 2014, the Board notes that the SMIRR may be in effect from November 1, 2012 until April 30, 2014.

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

Accounting Matters

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

HHI 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 HHI's next cost of service application.

THE BOARD ORDERS THAT:

1. Hydro Hawkesbury 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 Hydro Hawkesbury Inc. within **7 days** of the date of filing of the draft Rate Order.

3. Hydro Hawkesbury 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:

4. 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.

5. Hydro Hawkesbury 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.

6. The Vulnerable Energy Consumers Coalition shall file with the Board and forward to Hydro Hawkesbury Inc. any responses to any objections for cost claims within **21 days** from the date of issuance of the final Rate Order.

7. Hydro Hawkesbury 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-2012-0198,** be made through the

Board's web portal at, www.pes.ontarioenergyboard.ca/eservice/ 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, November 1, 2012

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary