Ontario Energy Board

Commission de l'énergie de l'Ontario

EB-2012-0327

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 Fort Frances Power 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
November 8, 2012

Introduction

Fort Frances Power Corporation ("FFPC"), a licensed distributor of electricity, filed an application (the "Application") with the Ontario Energy Board (the "Board") on July 18, 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 FFPC charges for electricity distribution, to be effective November 1, 2012.

FFPC 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 October 31, 2012. FFPC requested approval of proposed Smart Meter Disposition Riders ("SMDRs") and Smart Meter Incremental Revenue Requirement Rate Riders ("SMIRRs") effective November 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 on July 27, 2012. The Vulnerable Energy Consumers' Coalition ("VECC") requested and 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 set timelines for discovery and submissions.

On November 1, 2012 the Board issued an Interim Rate Order making FFPC's current approved Tariff of Rates and Charges interim pending the outcome of this proceeding.

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;
- Cost of Capital;
- Stranded Meter Costs; and
- Implementation.

Costs Incurred with Respect to Smart Meter Deployment and Operation

In the Application filed on July 18, 2012, FFPC applied for the following approvals:

- Addition of a SMDR of $1.20 per metered Residential customer per month, $8.05 per metered General Service ("GS") < 50 kW customer per month and $13.47 per month for each GS > 50 kW customer, effective November 1, 2012 to October 31, 2013. This rate rider will collect the difference between the deferred 2006 to December 31, 2011 and the forecasted 2012 revenue requirement related to smart meters deployed as of December 31, 2011, plus interest on operations, maintenance and administration and depreciation expenses, and the SMFA revenues collected from 2006 to October 31, 2012 and corresponding interest on the principal balance of SMFA revenues; and

[1] On December 15, 2011, the Board issued *Guideline -2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition*. FFPC's Application is filed in accordance with the guideline and utilizes the Smart Meter Model Version 2.17 issued along with Guideline G-2011-0001.

- Addition of a SMIRR of $2.99 per metered Residential customer per month, $6.10 per metered General Service < 50 kW customer per month and $8.43 per month per GS > 50 kW customer, for the period November 1, 2012 to April 30, 2014. These rate riders will collect the 2012 incremental revenue requirement related to smart meter costs to be incurred from January 1, 2012 to December 31, 2012, and in successive years until FFPC rebases its rates through a cost of service application, scheduled for 2014.

In response to Board staff interrogatories, FFPC made the following updates to its Application:

- FFPC provided updated smart meter model to include its estimated OM&A and depreciation expenses for 2012 (Board staff IR #8);
- FFPC calculated the interest on SFMA revenues is collected to October 31, 2012. (Board staff IR # 14); and
- FFPC updated the SMDRs and SMIRRs to reflect the approved and proposed cost of capital parameters applicable to FFPC (Board staff IR # 10).

In response to Board staff interrogatory # 14, FFPC provided updated SMDR and SMIRR calculations, shown in the table below:

Table 1: Original and Revised SMDRs and SMIRRs

Class	**SMDR ($/month, for 12 months from November 1, 2012 to October 31, 2013)**		**SMIRR ($/month, effective November 1, 2012 for 18 months)**	
	Original	**Revised**	**Original**	**Revised**
		Board staff IR # 14		Board staff IR # 14
Residential	$1.20	$0.38	$2.99	$3.18
GS < 50 kW	$8.05	$5.91	$6.10	$6.48
GS < 50 kW	$13.47	$10.04	$8.43	$8.96

Prudence of Incurred Costs

As of December 31, 2010, FFPC had completed 100% of smart meter installations to existing Residential and GS < 50 kW customers. FFPC also installed 47 smart meters to its GS > 50 kW customers. The smart meter costs up to December 31, 2011 have been audited by an external auditor, and the FFPC's 2011 Audited Financial Statements were included with the Application.

In responses to interrogatories, FFPC made corrections to various data in the Smart

Meter Model and revised its proposed rate riders for smart meter cost recovery. FFPC's costs in aggregate and on a per meter basis are summarized in the following table:

Table 2: Cost per installed Smart Meter

	Total Cost	Cost per Meter
Overall Capital Costs	$735,496	$194.78
Overall OM&A Costs	$201,572	$53.38
Total Cost Per Smart Meter	**$937,068**	**$248.16**
Capital Costs Beyond Minimum Functionality	$54,402	$14.41
Overall OM&A Costs Beyond Minimum Functionality	$0	$0
Total Costs Beyond Minimum Functionality	**$54,402**	**$14.41**
TOTAL	**$991,470**	**$262.57**
Total Number of Smart Meters	3,776	
Forecast 2012 Smart Meter Installations	0	-
Incremental Capital 2012 projected	$0	-
Incremental OM&A 2012 projected	$72,800	-

Sources: Smart Meter Model, Sheet 2, as filed on July 18, 2012 and
Response to Board staff interrogatory #14, filed on September 13, 2012

Board staff and VECC observed that FFPC's average costs per meter were higher than the average smart meter costs previously reported by the Board in the following documents:

- Appendix A of the Decision with Reasons of the Combined Smart Meter Proceeding (EB-2007-0063, August 8, 2007) compared data for 9 out of 13 utilities and showed the total cost per meter ranged from $123.59 to $189.96, with Hydro One Networks Inc. ("Hydro One") being the main exception at $479.47, due in part for the need for more communications infrastructure and increased costs to install smart meters for customers over a larger and less dense service area.
- The Board's Smart Meter Audit Review Report, dated March 31, 2010, indicated 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
- The Monitoring Report, Smart Meter Investment – September 2010 ("the Monitoring Report") issued on March 3, 2011. 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 observed that FFPC's total average costs related to minimum functionality are 9.11% higher than the most recent sector average of $226.92 and inclusive of costs beyond minimum functionality the FFPC's average costs are 15.7% higher.

Board staff submitted that FFPC, like other small northern utilities, may have higher smart meter costs due to lack of economies of scale. Board staff orserved that when compared to Atikokan Hydro Inc. ("Atikokan") and Sioux Lookout Hydro Inc. ("SLHI"), LDCs that, along with FFPC, are classified as "small northern low undergrounding" utilities, FFPC's average per meter costs are below the range observed by these utilities (Atikokan $420 per smart meter and SLHI $338.90 per smart meter).

In its submission VECC noted that, despite the Board's conclusion in in its recent decision on Festival Hydro Inc.'s smart meter recovery application EB-2012-0260 that peer to peer comparison of costs has not been tested to establish reasonableness[2], a comparison of FFPC to Atikokan and SLHI provides additional data and has some merit in determining if FFPC's costs are reasonable. In their submissions, Board staff and VECC concluded that, although FFPC's costs are higher than the provincial average, they are reflective of the circumstances of its service territory and have been prudently incurred.

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. The Board notes that comparison to Atikokan smart meter costs may not be informative, given that those costs were not approved in full by the Board. Nevertheless, the Board finds that FFPC's documented costs related to smart meter procurement, installation and operation are reasonable given its operating environment and conditions. The Board therefore approves the disposition for recovery of the costs for smart meter deployment and operation by FFPC.

Costs Beyond Minimum Functionality

In its Application, FFPC documented $54,402 capital costs and $14,119 operating

[2] Decision and Order EB-2012-0260, September 20, 2012, page 6

expenses for costs beyond minimum functionality related to FFPC's smart meter deployment of 47 smart meters for the GS > 50 kW rate class, technological capabilities to perform remote disconnection of 200 smart meters within residential and GS<50 kW rate class, TOU rate implementation and web presentment.

VECC observed that the claimed capital and operating costs for beyond minimum functionality represent 6.4% of the total claimed smart meter costs. Board staff and VECC both supported FFPC's claimed smart meter costs for beyond minimum functionality and submitted that FFPC proivided sufficient justification for these costs.

The Board approves the recovery of these costs as included and justified in the Application.

Level of Audited Costs

As noted above, FFPC's smart meter costs up to December 31, 2011 have been audited by an external auditor. Board staff noted that FFPC has included 2012 OM&A expenses of $72,800 in the Application. Board staff submitted that 2012 OM&A expense represents less than 10% of the total clamed capital and OM&A expenses of $1,064,270. The audited costs represent 94% of the total costs FFPC seeks to recover in the Application, and thus meets the expectation stated in Guideline G-2011-0001, that the majority (i.e. 90% or more) of the total program costs for which the distributor is seeking recovery will be audited. Neither Board staff nor VECC had issues with the level of audited costs.

The Board agrees that FFPC has complied with Guideline G-2011-0001, *Smart Meter Funding and Cost Recovery – Final Disposition* ("with Guideline G-2011-0001") in this regard, and has no concerns with the level of audited costs.

Cost Allocation

FFPC proposed the class-specific SMDRs and SMIRRs based on the methodology used in the in Guelph Hydro Electric Systems Inc.'s cost of service rates application (EB-2011-0123) on the following basis:

- OM&A expenses have been allocated on the basis of the number of meters installed for each class;
- The return on capital and amortization have been allocated on the basis of the

capital costs of the meters installed for each class;
- PILs have been allocated based on the revenue requirement derived for each class before PILs; and
- SMFA revenues and interest on the principal are directly allocated to each class.
- FFPC adjusted the 2006 EDR Weighted Meter Capital Allocation to best represent the smart meter capital expenditures.

Board staff accepted FFPC's explanations on how costs have been allocated, as documented in the Application and in response to Board staff interrogatory # 14 b) and submits that the class-specific SMDRs and SMIRRs have been calculated appropriately. However, Board staff noted that there were remaining concerns with respect to the cost of capital parameters and addressed these in its submission.

Through interrogatories, VECC requested FFPC to complete a separate class-specific smart meter revenue requirement model and re-calculate the SMDR and SMIRR rate riders based on full cost causality by rate class[3]. FFPC stated that it did not have data available on costs by a rate class, nor was it practical for FFPC to calculate class-specific SMDRs beyond the Guelph Hydro allocation methodology. In its submission, VECC accepted that FFPC does not have the data to complete individual models to determine the revenue requirement and class-specific rate riders for each rate class based on full cost causality. Accordingly, VECC accepted FFPC's methodology to determine class specific rate riders through the Guelph model as appropriate.

The Board approves FFPC's cost allocation methodology as it is consistent with the approach approved by the Board for allocation of smart meter costs in Guelph Hydro cost of service rates application (EB-2011-0123) and as approved in subsequent applications for final disposition and recovery of smart meter costs.

Cost of Capital

In its submission Board staff observed that in its response to Board staff interrogatory # 10, FFPC updated its cost of capital parameters, however it used an ROE of 3.0% that is different from the ROE of 0% approved in FFPC's last cost of service application for May 1, 2006 rates. FFPC has proposed the following:

[3] Response to VECC interrogatory # 6 a) and b)

Year	2006	2007	2008	2009	2010	2011	2012
Capital Structure							
Short-term Debt							
Long-term Debt	0%	0%	60%	60%	60%	60%	60%
Equity	100%	100%	40%	40%	40%	40%	40%
Preferred Shares							
Cost of Capital Parameters							
Short-term Debt			6.25%	6.25%	6.25%	6.25%	6.25%
Long-term Debt							
Return on Equity	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Preferred Share Rate							
Cost of Capital	3.0%	3.0%	1.20%	1.20%	1.20%	1.20%	1.20%

In its response to Board staff interrogatory # 10, FFPC, in support of its proposed 3.0% ROE, stated that due to the fact that its entire Smart Meter installation program was financed through existing cash equity, a ROE of 3% is based on the Bank of Canada prime rate of 3% during the installation program of the project and FFPC's current rate of return on investments of 1.15%. FFPC further stated that when the loss of potential interest income is offset against the estimated cost of borrowing for the construction work-in-progress, the ROE of 3% is fair and reasonable.

In its submission Board argued that FFPC's responses were not adequate and that both rates referenced in FFPC's reply are unrelated to what would be a fair return on shareholder's equity. Board staff identified a number of errors in FFPC's updated cost of capital calculation. First, FFPC has showed a capital structure of 100% equity for 2006 and 2007 as opposed to the approved 50% of equity and 50% debt, which affects the calculation of the deferred revenue requirement in 2008 and 2009 due to transition to the current deemed capital structure of 60% debt and 40% equity through K-factor in the IRM price adjustments in those years. Secondly, FFPC has entered the approved deemed long-term debt rate of 6.25% as the short-term debt rate in the updated smart meter model filed in response to interrogatories. However, FFPC does not have an approved deemed short-term debt capitalization of 4%, as it has not rebased its rates through a cost of service application since 2006. As such no interest expense is recovered in the smart meter model updated in response to interrogatories.

Board staff presented FFPC's adjusted cost of capital parameters for the smart meter model, assuming the 3% ROE proposed by FFPC, in the following table:

Year	2006	2007	2008	2009	2010	2011	2012
Capital Structure							
Short-term Debt							
Long-term Debt	50%	50%	53.3%	56.7%	60%	60%	60%
Equity	50%	50%	46.7%	43.3%	40%	40%	40%
Preferred Shares							
Cost of Capital Parameters							
Short-term Debt							
Long-term Debt	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
Return on Equity	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Preferred Share Rate							
Cost of Capital	4.63%	4.63%	4.73%	4.84%	4.95%	4.95%	4.95%

Board staff submitted that it does not support FFPC's proposed ROE of 3% and stated that in smart meter applications the cost of capital should be the same as was approved in the utility's most recent cost of service application. As such, an ROE of 0%, consistent with that approved in FFPC's last cost of service application for 2006 rates (RP-2005-0020/EB-2005-0366), should apply.

In its submission, VECC noted that the proposed rate rides may be subject to adjustments based on Board staff's concerns over the cost of capital parameters.

In its Reply Submission, FFPC stated that it would rely on the Board's determination on this matter.

The Board's adopted practice of approving cost of capital parameters for smart meters that match the applicant's most recently approved cost of capital parameters is based on the understanding that the cost of capital parameters have been approved within the Board's framework of updating cost of capital parameters associated with its cost of capital policy objectives. In situations where applicants have historically chosen not to seek a return on equity within the Board's framework the Board sees no need to hold them to the same choice when it comes to a special circumstance such as the financial matters that arise due to a project such as smart meters.

FFPC proposes a return on equity of 3.0%. This is below the Board's current approved rate of 9.12%. The Board considers the request to be a reasonable one and approves FFPC's proposal for a return on equity of 3% and the concomitant cost of capital of 4.95%.

Stranded Meter Costs

In its Application, FFPC proposed not to dispose of stranded meters at this time, but to deal with disposition in its next rebasing application, scheduled for 2014 rates. The aggregated net book value of stranded meters is estimated to be $112,175 as of December 31, 2013.[4] The stranded conventional meters will continue to be amortized until disposition.

Board staff submitted that FFPC's proposal is compliant with Guideline G-2011-0001. The Board finds FFPC's proposal for its stranded meters to be appropriate.

Implementation

FFPC requested an effective date of November 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 December 1, 2012 is appropriate. The SMDRs shall be effective and implemented on December 1, 2012 for one year, and the SMIRRs shall be effective and implemented on December 1, 2012 and will remain in effect until the effective date of FFPC's next cost of service rate order. As FFPC is scheduled to rebase its rates for 2014, the Board notes that the SMIRR may be in effect from December 1, 2012 until April 30, 2014.

The Board expects FFPC to file detailed supporting material, including all relevant calculations showing the impact of this Decision and Order on FFPC'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 FFPC 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.

[4] Response to Board staff interrogatory 13.

FFPC 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 as part of FFPC's next cost of service application.

THE BOARD ORDERS THAT:

1. Fort Frances Power Corporation's new distribution rates shall be effective December 1, 2012.

2. Fort Frances Power Corporation 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 the issuance of this Decision and Order.

3. Board staff and VECC shall file any comments on the draft Rate Order with the Board and forward to Fort Frances Power Corporation within 5 **days** of the date of filing of the draft Rate Order.

4. Fort Frances Power Corporation shall file with the Board and forward to intervenors responses to any comments on its draft Rate Order within **4 days** of the date of receipt of intervenor comments.

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. Fort Frances Power Corporation 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 Fort Frances Power Corporation any responses to any objections for cost claims

within **21 days** from the date of issuance of the final Rate Order.

4. Fort Frances Power Corporation 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-2012-0327,** 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 8, 2012

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary