



EB-2012-0479

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 Whitby Hydro Electric Corporation for an order or orders approving or fixing just and reasonable distribution rates related to Smart Meter deployment, to be effective May 1, 2013.

BEFORE: Marika Hare
Presiding Member

DECISION AND ORDER
April 25, 2013
(Corrected May 6, 2013)

Introduction

Whitby Hydro Electric Corporation ("WHEC"), a licensed distributor of electricity, filed an application (the "Application") with the Ontario Energy Board (the "Board") on December 27, 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 WHEC charges for electricity distribution, to be effective May 1, 2013.

WHEC 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 December 31, 2012. WHEC requested approval of proposed Smart Meter Disposition Riders ("SMDRs") and Smart Meter Incremental Revenue Requirement Rate Riders ("SMIRRs") effective May 1, 2013. 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 January 11, 2013. The Vulnerable Energy Consumers’ Coalition (“VECC”) was granted intervenor status and cost award eligibility. 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.

Letters of Comment

The Board received five letters of comment from WHEC’s customers with respect to this Application. All of the letters of comment opposed WHEC’s Application for the recovery of costs for the installation and operation of smart meters, for which cost recovery would result in the rate increased proposed. All of the letters of comment reflected a common theme, namely that consumers should not be required to pay for smart meters which they neither requested nor do they believe are benefitting them in terms of lower bills due to lower or shifted electricity consumption.

The Board has reviewed and considered the comments received. However, The Board notes that the Government directed that smart meters be deployed to all Ontario residential and GS < 50 kW customers through regulation. WHEC and other Ontario distributors have done so in conformance with the regulations. Smart meters are now part of the electricity distribution infrastructure and services that utilities have invested in and operate to deliver electricity to all Ontario consumers in a safe and reliable manner. For costs, whether capital or operating, that the utility has prudently incurred, the utility should have an opportunity to recover those costs. The review of a rates application by the Board is to determine just and reasonable rates to recover necessary and prudently incurred costs, of which this Application is one such instance.

The newer technology of smart meters, and related systems, mean that the costs are increased from those of conventional meters – at this time. Economies of scale and increased efficiencies in manufacturing and operational processes may result in relative cost decreases over time. As noted elsewhere, the Board expects that WHEC will reflect any cost efficiencies, such as reduced manual meter reading costs, to be reflected in WHEC’s next cost of service application.

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

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;
- Letters of Comment; and
- Implementation.

Costs Incurred with Respect to Smart Meter Deployment and Operation

In the Application, WHEC sought the following approvals:

- A SMDR of (\$0.67) per Residential customer per month and \$12.60 per General Service less than 50kW (“GS < 50 kW”) customer per month for the period from May 1, 2013 to April 30, 2014. These rate riders will collect the difference between the revenue requirement deferred from 2006 to December 31, 2012 related to smart meters deployed as of December 31, 2012 (plus interest on operations, maintenance and administration (“OM&A”) and depreciation expenses) and the SMFA revenues collected from May 1, 2006 to December 31, 2012 (and corresponding interest on the principal balance of SMFA revenues); and
- A forecasted SMIRR of \$2.21 per Residential customer per month and \$7.21 per GS < 50 kW customer per month for the period May 1, 2013 to December 31, 2014. These rate riders will collect the 2013 incremental revenue requirement related to smart meter costs to be incurred from January 1, 2013 to December 31, 2013, and in successive years until WHEC rebases its rates through a cost of service application.

In response to Board staff and VECC interrogatories, WHEC made the following updates to its Application:

- Inclusion of 2012 meters related to growth (updated number of meters and related capital and depreciation expenses) as per Board Staff IRR#2.
- Updates to tax rates 2008-2010 (per Board Staff IRR#11).

- Revision to incorporate the allocation of \$787 of SMFA interest charges between Residential and GS<50kW customers classes (per Board Staff IRR#13).
- Revised classification of AMI maintenance expenses in 2013 to align with prior year costs (per VECC IRR#7(h)).
- Revised classification of customer communication expenses to more appropriately match the nature of the costs incurred (per VECC IRR#7(k)).

In its response to Board staff and VECC interrogatories, WHEC filed a revised smart meter model to reflect the updates noted in the responses to Board staff and VECC's interrogatories referenced above.

The revised SMDRs and SMIRRs calculated as a result of responses to Board staff and VECC's interrogatories are summarized below:

Table 1: Original and Revised SMDRs and SMIRRs

Class	SMDR (\$/month, from May 1, 2013 to April 30, 2014)		SMIRR (\$/month, from May 1, 2013 to December 31, 2014)	
	Original	Revised	Original	Revised
Residential	(\$0.67)	(\$0.55)	\$2.21	\$2.20
GS <50 kW	\$12.60	\$12.51	\$7.21	\$7.11

Board staff stated, with respect to the addition of 2012 smart meter installations for recovery in the SMDR and SMIRR:

The inclusion of 2012 growth-related smart meters was to ensure that WHEC be held whole with respect to the recovery of the 2012 revenue requirement of these smart meters. While the SMIRR would recover the revenue requirement from all customers with smart meters going forward until WHEC next rebases rates through a cost of service application, it would not recover the deferred revenue requirement for new 2012 growth for the period January 1 to December 31, 2012. Inclusion of these costs ensures that they are reflected in the deferred revenue requirement and recovered in the SMDR.²

VECC and WHEC concurred with Board staff's submission.

² Board staff Submission EB-2012-0479, March 14, 2013, page 5

Prudence of Incurred Costs

WHEC's costs in aggregate and on a per meter basis are summarized in the following tables, showing both as filed and as revised in response to interrogatories. The main change reflects the addition of smart meters installed for new customers in 2012:

	Original Application			Total
	2008 to 2011	2012	2013	
	Audited	Forecasted	Forecasted	
Capital	\$ 6,047,006	\$ 61,142		\$ 6,108,148
OM&A	\$ 371,097	\$ 269,097	\$ 311,000	\$ 951,194
Total	\$ 6,418,103	\$ 330,239	\$ 311,000	\$ 7,059,342
Number of Smart Meters				40,051
Cost per Meter				
Capital only				\$ 152.51
Capital + OM&A				\$ 176.26

	Revised per Interrogatory Responses			Total
	2008 to 2011	2012	2013	
	Audited	Forecasted	Forecasted	
Capital	\$ 6,047,006	\$ 154,365		\$ 6,201,371
OM&A	\$ 371,097	\$ 269,097	\$ 311,000	\$ 951,194
Total	\$ 6,418,103	\$ 423,462	\$ 311,000	\$ 7,152,565
Number of Smart Meters				40,621
Cost per Meter				
Capital only				\$ 152.66
Capital + OM&A				\$ 176.08

Board staff and VECC noted that WHEC'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). WHEC's costs are also within the range of 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.

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

The Board finds that WHEC's documented costs, as revised in response to interrogatories and in WHEC'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, 2012, and the ongoing recovery of capital-related and operating expenses for 2013 and going forward until WHEC's next cost of service application.

Costs Beyond Minimum Functionality

WHEC included capital costs of \$237,088 and \$295,043 in OM&A in its Application, as costs "beyond minimum functionality". These costs include web presentation and MDM/R integration. In response to VECC interrogatory # 7(k), WHEC reallocated \$11,066 of OM&A expenses "beyond minimum functionality" to be minimum functionality OM&A expenses, as these costs related to a 2010 communications strategy for the meter change-out replacing conventional meters with smart meters.

Board staff submitted the Board has previously approved beyond minimum functionality costs of this nature and further considers that the documented capital and OM&A costs are reasonable. VECC submitted it takes no issue with the quantum or nature of WHEC's costs beyond minimum functionality.

The Board approves the recovery of these costs as applied for.

Level of Unaudited Costs

WHEC stated that, as of end of 2011, WHEC had installed all of its smart meters except twenty-one General Service <50 kW and fifty-four Residential smart meters which are forecasted to be installed by the end of 2012. By the end of 2012, WHEC had completed its smart meter deployment to its existing customer base. WHEC noted in its Application that, as outlined in Guideline G-2011-0001, 90% or more of the total program costs are required to be audited. Deferral accounts 1555 and 1556 have been audited to December 31, 2011 as part of WHEC's annual audit of its financial books.

VECC noted that approximately 90% of WHEC's costs have been audited, and submitted that WHEC's audited costs conform with Guideline G-2011-0001.

With the addition of the capital costs for growth-related smart meter installations in 2012, the aggregate of unaudited actuals and forecasted costs is \$734,462, slightly more than 10% of the total capital and OM&A smart meter costs of \$7,152,565 for which WHEC is seeking approval, as shown in the table of aggregate and per meter costs elsewhere in this Decision. However, the Board notes that, with the addition of the growth related smart meters installed in 2012, the per meter cost has not materially changed from WHEC's per meter costs as originally filed. From this, the Board concludes that the unaudited 2012 and forecasted 2013 costs are consistent with historical audited actuals. The Board thus finds that the unaudited costs do not indicate any cost trend diverging from audited costs, and that WHEC's claim for costs is reasonable and in conformance with Guideline G-2011-0001.

Cost Allocation

WHEC proposed class specific SMDRs and SMIRRs for the Residential and GS<50 kW customer classes based on an allocation methodology that includes the weighted allocation of meter costs, the number of meters and the revenue requirement (before PILs) similar to the methodology approved by the Board in PowerStream's (EB-2010-0209) Decision. WHEC further clarified that this methodology was reasonable considering full cost causality was not available or practical in its response to VECC interrogatory # 8.

In its submission, VECC stated:

VECC accepts that Whitby Hydro does not have the cost data by rate class and therefore accepts Whitby Hydro's cost allocation methodology as a proxy for revenue requirement with one exception. VECC submits that as a matter of principle, the SMFA revenues collected from the GS>50 kW customer class should be returned to this customer class instead of a 50:50 allocation between the residential and GS<50 kW customer classes.

Whitby Hydro has included four months of Foregone Revenue in the calculation of the SMDR. An implementation date of May 1, 2013 results in only 8 months of collection of the SMIRR (2013 costs) in 2013. To recover

the outstanding 4 months of 2013 costs (January to May), one third of the SMIRR (4/12 months) has been added to the SMDR.³ VECC takes no issue with Whitby Hydro's proposal for the recovery of foregone SMIRR revenues from January 1, 2013 to April 30, 2013.⁴

In reply, WHEC stated that the 50:50 allocation of the GS > 50 kW SMFA revenues, which constituted less than 1% of total SMFA revenues, conforms with the Board's policy and practice for the re-allocation of these SMFA revenues. WHEC cited the Board's Decision and Order for London Hydro Inc.'s 2012 smart meter application EB-2012-0187 in support of its proposal.

The Board finds that WHEC's proposal for the equal sharing of GS > 50 kW SMFA revenues to the Residential and GS < 50 kW customers is consistent with Board policy and practice, and so approves the cost allocation as proposed by WHEC.

Given that WHEC's rate year corresponds with the fiscal calendar year, and that the Board has previously approved this approach to recover foregone revenues through the inchangeability of the SMIRR and SMDR for this purpose, the Board approves WHEC's approach which recovers four months of SMIRR revenues (corresponding to January 1 to April 30, 2013) as part of the SMDR.

The Board thus approves WHEC's methodology and the resulting class-specific SMDRs and SMIRRs as calculated in response to Board staff and VECC interrogatories and submissions to recover the historical and prospective revenue requirement on the approved smart meter costs.

Stranded Meter Costs

In its Application, WHEC 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 2015 rates.

WHEC did not document the net book value of stranded meters in its Application, even when questioned about this in an interrogatory.⁵ WHEC stated that the stranded meter

³ Application, Page 23 [Footnote in original]

⁴ VECC Submission, March 18, 2013, page 7

⁵ Response to Staff-5

depreciation was in progress as part of the year-end review and audit. In its Reply Submission, WHEC stated that its estimate of the NBV of stranded meters as of December 31, 2014 is \$1.1 million. WHEC concurred with Board staff's submission that recovery of the NBV of stranded meters be considered as part of WHEC's next cost of service application, and that WHEC would propose recovery on a class-specific basis.

The Board accepts WHEC's evidence on this matter.

Implementation

WHEC requested an effective date of May 1, 2013 for its new rates. The Board has determined that an effective date of May 1, 2013 is appropriate. The SMIRRs shall be effective and implemented on May 1, 2013. The Board notes that these riders are based on an annual revenue requirement and will be in effect until the effective date of WHEC's next cost of service rate order.

On March 28, 2013, the Board issued a Decision and Order (EB-2012-0100/EB-2012-0211) establishing a Smart Metering Entity charge of \$0.79 per month for Residential and General Service < 50kW customers for those distributors identified in the Board's annual *Yearbook of Electricity Distributors*. This charge will be in effect from May 1, 2013 to October 31, 2018. The draft Tariff of Rates and Charges flowing from this Decision and Order reflects this Smart Metering Entity charge.

With this Decision, the Board is providing WHEC with a draft Tariff of Rates and Charges (Appendix A) that is intended to reflect the elements of this Decision. The Board also reviewed the entries in the draft Tariff of Rates and Charges with the intent to ensure that, other than the rate riders for smart meter cost recovery approved in this Decision, they are in accordance with the 2013 Board approved Tariff of Rates and Charges as approved in WHEC's separate Incentive Regulation Mechanism application (EB-2012-0177) issued on January 3, 2013.

Accounting Matters

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

WHEC 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 WHEC's next cost of service application.

THE BOARD ORDERS THAT:

1. Whitby Hydro Electric Corporation's new distribution rates shall be effective May 1, 2013.
2. Whitby Hydro Electric Corporation shall review the draft Tariff of Rates and Charges set out in Appendix A. Whitby Hydro Electric Corporation and the Vulnerable Energy Consumers Coalition shall file with the Board a written confirmation assessing the completeness and accuracy of the draft Tariff of Rates and Charges, or provide a detailed explanation of any inaccuracies or missing information, within **7 days** of the date of issuance of this Decision and Order.
3. If the Board does not receive any submission from Whitby Hydro Electric Corporation pursuant to item 2 of this Decision and Order to the effect that inaccuracies were found or information was missing, the draft Tariff of Rates and Charges set out in Appendix A of this Decision and Order will become final effective May 1, 2013, and will apply to electricity consumed or estimated to have been consumed on and after May 1, 2013. Whitby Hydro Electric Corporation shall notify its customers of the rate changes no later than with the first bill reflecting the new rates.
4. If the Board receives a submission from Whitby Hydro Electric Corporation to the effect that inaccuracies were found or information was missing pursuant to item 2 of this Decision and Order, the Board will consider the submission(s) and will issue a final Rate Order and Tariff of Rates and Charges.

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 claim no later than **7 days** from the date of issuance of the final Rate Order.
2. Whitby Hydro Electric 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 Whitby Hydro Electric Corporation any responses to any objections for cost claims within 21 days from the date of issuance of the final Rate Order.
4. Whitby Hydro Electric 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-2012-0479**, 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, April 25, 2013

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary