Ontario Energy Board

Commission de l'énergie de l'Ontario

EB-2013-0348

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 EnWin Utilities Ltd. for an order approving or fixing just and reasonable distribution rates related to Smart Meter deployment, to be effective May 1, 2014.

BEFORE: Marika Hare
Presiding Member

Ken Quesnelle
Member

DECISION AND ORDER
March 13, 2014

EnWin Utilities Ltd. ("EnWin") filed an application (the "Application") with the Ontario Energy Board (the "Board"), on September 11, 2013, 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 EnWin charges for electricity distribution, to be effective May 1, 2014.

In the Application, EnWin sought approval for changes to the rates EnWin charges for electricity distribution under the Annual IR Index plan, as well as recovery of costs for the deployment of smart meters, to be effective on May 1, 2014. In the Letter of Acknowledgement, dated October 4, 2013, the Board indicated that it would hear EnWin's request for recovery of costs related to the deployment of Smart Meters in a separate proceeding from the application for approval to changes for rates under the Annual IR Index plan. The Board stated that it would consider harmonizing the implementation of the respective rate orders, upon completion of the two hearings. The

Board assigned Enwin's request for recovery of Smart Meter costs file number EB-2013-0348.

In its Application Enwin sought Board approval for the disposition and recovery of costs related to smart meter deployment, offset by Smart Meter Funding Adder ("SMFA") revenues collected from May 1, 2006 to April 30, 2012. EnWin requested approval of proposed Smart Meter Disposition Riders ("SMDRs") and Smart Meter Incremental Revenue Requirement Rate Riders ("SMIRRs") effective May 1, 2014. The Application is based on the Board's policy and practice with respect to recovery of smart meter costs.[1]

The Board issued a Notice of Application and Hearing on October 7, 2013. The Vulnerable Energy Consumers Coalition ("VECC") requested and was granted intervenor status and cost eligibility in relation to EnWin's request for Smart Meter cost recovery. No letters of comment were received. The Board issued Procedural Order No.1 on December 12, 2013, which established timelines for written interrogatories, interrogatory responses, submissions and reply submissions.

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 Rate Order:

- Costs Incurred with Respect to Smart Meter Deployment and Operation;
- Cost Allocation;
- Stranded Meter Accounting; and
- Implementation.

Costs Incurred with Respect to Smart Meter Deployment and Operation

In the Application, EnWin sought the following approvals:

- An SMDR of ($0.42) per Residential customer per month and $2.36 per General Service less than 50kW customer per month effective May 1, 2014 through April 30, 2016.

[1] *Guideline G-2008-0002: Smart Meter Funding and Cost Recovery*, issued October 22, 2008. On December 15, 2011, the Board issued *Guideline -2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition.* EnWin used Smart Meter Model, Version 4, and prepared its Application considering recent Board decisions on smart meter cost disposition and recovery.

- a SMIRR of $0.69 per Residential customer per month and $2.11 per General Service less than 50kW customer per month effective May 1, 2014 until EnWin rebases its rates through a cost of service application.

The following table summarizes EnWin's overall per meter costs, and capital and OM&A expenses as filed:

Table 3: Average Cost Per Meter

Smart Meter Capital Costs	$9,803,699
Smart Meter OM&A Costs, Including Costs Exceeding Minimal Functionality	$476,774
Total Smart Meter Costs	$10,280,473
Number of Meters Installed	85,027
Average Capital Cost per Meter	$115.30
Average Total Cost per Meter	$120.91

EnWin did not seek recovery for smart meter operating costs or capital costs post-2012, including the ongoing operating costs for meters installed as of December 31, 2012. Similarly, EnWin did not seek to recover any costs beyond minimum functionality. EnWin stated that it proposes "to manage its ongoing costs within the envelope of funding the Board allows for regular distribution operations."

On March 3, 2011, the Board issued the Monitoring Report, Smart Meter Investment – September 2010 ("the Monitoring Report"). The Monitoring Report showed an average cost of $226.92 per smart meter. In its submission, Board staff noted that EnWin's costs are below the average costs identified in the Monitoring Report and therefore, it took no issue with the nature and quantum of EnWin's reported per meter costs. Board staff also did not take any issue with EnWin's proposal to not recover any smart meter costs above minimum functionality. As EnWin stated that it is seeking final disposition of smart meter costs, Board staff noted that any smart meter costs, including costs above minimum functionality, should only be considered on a prospective test-year basis in EnWin's next rebasing application.

VECC noted EnWin's costs compare favourably as they are below the sector average of $186.76 capital cost per meter and $207.37 total cost per meter (based on September 2009 data)[2] and the total cost per meter of $226.92 (based on September 2010 data)[3].

[2] Sector Smart Meter Audit Review Report", dated March 31, 2010
[3] Monitoring Report Smart Meter Investment – September 2010, March 3, 2011

VECC took no issue with EnWin's proposal to fund costs beyond minimum functionality within the envelope of funding currently provided in its distribution rates.

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 vendors for the procurement and/or installation of smart meters and related systems.

Subject to comments found in the sections below, the Board finds that EnWin's documented costs related to smart meter procurement, installation and operation, are reasonable and hereby approves the recovery of the costs for smart meter deployment.

Cost Allocation

EnWin applied for a SMDR and a SMIRR determined by using the allocation methodology approved in PowerStream's 2011 smart meter cost-recovery application, EB-2010-0209.[4] EnWin allocated costs using the following methodology:

- OM&A expenses are allocated on the basis of the number of meters installed for each class;
- The Return and Amortization have been allocated on the basis of the number of meters installed for each class;
- PILs have been allocated based on the revenue requirement derived for each class before PILs; and
- Direct allocation by rate class of the SMFA revenue collected from the Residential and GS < 50 kW classes. SMFA revenue from other classes were allocated equally to the Residential and GS < 50 kW classes.

In its submission, Board staff took no issue with EnWin's approach.

In its submission, VECC noted the average cost of an installed smart meter for a GS<50 kW customer is approximately three times greater than the cost to install a smart meter for a Residential customer. VECC submitted that to avoid undue cross subsidization between customer classes, EnWin should calculate class specific rate riders that reflect the full costs for each customer class. VECC accepted that EnWin does not have the cost data by rate class to complete separate smart meter models by customer class

[4] EB-2010-0209, Application, page 16

based on full cost causality. VECC also accepted EnWin's cost allocation methodology as a proxy for the revenue requirement with one exception. VECC submitted that the SMFA revenues collected from other rate classes should be returned to those customers instead of a 50:50 allocation between the Residential and GS<50 kW customer classes.

In its reply submission, EnWin submitted that each customer that was billed the SMFA was properly assigned those costs because smart meters are intended to benefit customers across all rate classes. EnWin noted that the amounts to be refunded to the other classes would not be material and are of negligible benefit to those customers. EnWin submitted that returning the SMFA funds to the Residential and GS < 50 kW customers where they will have a tangible benefit is preferable to returning those funds to customers of other classes where they will provide a negligible benefit.

The Board finds that the allocation of costs in the Application is consistent with prior Board decisions. The Board approves the class-specific SMDRs and SMIRRs in EnWin's application.

Stranded Meter Treatment

In its Application, EnWin did not provide the net book value of stranded meters as of December 31, 2012. EnWin proposed to consider disposition of stranded meters in its next rebasing application. EnWin has chosen the Annual IR Index rate-setting method, which has no set period between rebasing applications. In response to interrogatories, EnWin did not provide an estimated date for its next rebasing application.

In Board staff Interrogatory #7e, EnWin was asked if it had any proposal for how to treat any over-recovery of depreciation expense of stranded conventional meters if EnWin chose to remain on the Annual IR Index rate setting method for an extended period. EnWin replied:

> EnWin does not have a proposal nor would it be appropriate for the Board to entertain a proposal in respect of a single factor embedded within distribution rates in this proceeding. The Board's long standing policy precludes cherry-picking single factors for special treatment during IRM years. The Board's policy is for distributors to manage changes (and gaps) in revenue and costs within an envelope of funding. The envelope is

established through Board-approved rates that are set during rebasing. For distributors on Annual IR, the Board adjusts the funding envelope through annual mechanistic adjustments to rates until the next rebasing.

In its submission, Board staff stated that the *Guideline G-2011-0001: Smart Meter Funding Cost Recovery – Final Disposition* (the "Guideline") clearly indicates that it is the Board's preference to address the recovery of stranded meters, as soon as possible following the completion of the installation of smart meters. Board staff noted that the policy set out in the Guideline was contemplated under the 3rd generation IRM framework which anticipated that distributors would typically file a cost of service application every four years. EnWin last filed a cost of service application for 2009 rates. EnWin has selected the Annual IR Index rate-setting option that does not have a set deadline for when it will next be before the Board for rebasing. Board staff submitted that it is important for the Board to consider whether it is appropriate to apply the treatment of stranded meters contemplated in the Guideline, as the issue will likely not be heard directly in subsequent Annual IR Index applications before the Board.

Board staff acknowledged EnWin's position that, under the Annual IR Index rate-setting option, a distributor is expected to manage its costs within the available funding. However, Board staff submitted that stranded meters are a different category of costs because they have been recorded in a variance account (Account 1555 sub-account for stranded meters). Costs in deferral and variance accounts still need to be specifically addressed under the Annual IR Index option.

EnWin's current base rates include not only the depreciation of conventional meters that are no longer in service but, a return component on those assets, as well. The SMIRRs requested for recovery in this application, also include the depreciation, as well as, a return on capital for the installed smart meters. Once the SMIRRs are approved, EnWin will begin to recover costs from customers for smart meter assets while continuing the recovery of costs associated with conventional meters, which are no longer used and useful. The amount of over-recovery of meter costs and the associated return will continue to grow over time as stranded meters become more fully depreciated. Without an estimate of the net book value, Board staff submitted that it cannot assess whether the over-recovery of depreciation and return on capital of stranded meters is material and whether or not some form of unique treatment would be warranted.

Board staff submitted that the Board should consider ordering EnWin to file a stand-alone application for final disposition of any stranded meter costs; including consideration of both the amounts recorded in Account 1555 and amounts currently in rate base. The timing of this application could be set based on when the stranded meter assets have been fully depreciated. Board staff did not have the information on which to estimate when that would be.

In its reply submission, EnWin stated that Board staff's submission discusses two issues: the stranded meter amounts in the deferral account and the return on those assets. EnWin suggested that the Board should not entertain the issue of the return on stranded meter assets. EnWin stated that the Guideline provides for two alternative approaches for distributors to apply for smart meter cost recovery: through a cost of service application or a stand-alone application. EnWin stated that its application was filed on a stand-alone basis and it is that approach that should be the focus of this proceeding. EnWin stated that, under the Guideline, there would be no revisiting of rate base or revenue requirement until a distributor's next cost of service application. EnWin submitted that, as a general rule, the Board should not depart from the regulatory framework unless there is a compelling reason to do so and that it would be inappropriate and inconsistent with past practice for the Board to initiate a proceeding to single out one cost driver and remove it from rate base. EnWin stated that the policy basis for rate base is not to provide recovery for each of a utility's costs or to have a "perfect symmetry between the quantum of costs that are in and out of rate base." EnWin stated that in establishing the Annual IR Index option in 4th generation IRM, the Board made it possible for LDCs to defer the regulatory cost of rebasing applications and made it clear that LDCs would need to continue to manage the consequences of not rebasing. EnWin stated that the Board has established thresholds to prevent LDCs and ratepayers from experiencing undue benefit or harm while an LDC is under Annual IR and that those thresholds have not been exceeded.

Regarding the treatment of the balances in the stranded meter deferral account, EnWin stated that Board staff's interest appears to be closing out the smart meter deferral accounts as soon as possible, whereas EnWin's interest is smoothing distribution rate changes for its customers. EnWin proposed that the Board make an order allowing EnWin to file for disposition of stranded meter costs in deferral account 1555 concurrent with a future rate application (be it Annual IR Index or otherwise). EnWin suggested that the Board's order require that the filing for disposition occur no later than EnWin's filing for 2016 distribution rates in order to ensure balances are disposed in a timely manner but still allow for some current rate riders to expire so that the impact of disposing of the net book value of stranded meters will be less noticeable to their customers. EnWin noted that it was mindful of the issue of intergenerational equity associated with its proposal. EnWin submitted that there is a policy choice: intergenerational equity versus smooth rates. EnWin stated that based on knowledge of its customer base, the local preference is in favour of holding rates at a stable level.

Board Findings

The Board acknowledges EnWin's argument regarding "cherry-picking" but notes that, unlike other assets, the Board approves specific funding through the SMIRR in order to keep a distributor whole for the deployment and operation of smart meters. Similarly, customers should be "held whole" within a reasonable time-frame for the costs of conventional meters that are currently included in base rates and are no longer used or useful. All of this is consistent with the regulations regarding smart meter deployment. The Board recognizes that in a large majority, if not all, of the smart meter stand-alone applications, the Board did not address stranded meter costs built into base rates but, waited until the next rebasing application. For many distributors the next rebasing application occurred approximately one to three years following the smart meter application. As the Annual IR Index plan does not require a distributor to rebase, there is no certainty regarding when EnWin will next be before the Board for a cost of service application.

The nature of an Annual IR Index rate mechanism is that it is mechanistic and formulaic, and will result in base rates that escalate at a rate less than inflation and at a stable level. Pursuant to Chapter 3 of the Filing Requirements, distributors filing under the Annual IR Index plan must file a separate application for the review and disposition of Group 2 Accounts. Smart meter costs (including stranded meters) should also be addressed in a separate (or stand-alone) application.

Accordingly, the Board will require EnWin to file a separate application that would be limited in scope to address the stranded meter variance account and the amounts embedded in base rates for conventional meters. The separate application must be filed within three years of the date of this Decision, if EnWin has not chosen to rebase by then. Accordingly, the Board will establish a sunset date for the SMIRR of October 31, 2017, allowing up to seven months for the processing of that application, and aligning the rate change with the scheduled changes for the regulated price plan that would come into effect on November 1, 2017 under the current regulatory approach.

Implementation

The Application initially sought approval for changes to the rates EnWin charges for electricity distribution under the Annual IR Index plan, as well as recovery of costs for the deployment of smart meters. In the Letter of Acknowledgement, dated October 4, 2013, the Board indicated that it would hear EnWin's request for recovery of costs related to the deployment of smart meters in a separate proceeding from the Annual IR Index application. The Board stated that it would consider harmonizing the implementation of the respective rate orders, upon completion of the two hearings. The approvals sought in both proceedings have a requested effective date of May 1, 2014.

In the interests of efficiency, the Board will not issue a Tariff of Rates and Charges for this application. The SMDRs and SMIRRs approved will be incorporated into the Tariff of Rates and Charges approved in the Decision and Rate Order for EnWin's 2014 Annual IR Index proceeding (EB-2013-0125).

In granting its approval for the historically incurred costs and the incremental annual revenue requirement, the Board considers EnWin to have completed its smart meter deployment. Going forward, EnWin is not to record any capital and operating costs for existing and new smart meters in Accounts 1555 and 1556. Instead, the 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.

EnWin is authorized to continue to include the costs (gross book value and accumulated depreciation) of stranded meters in the appropriate sub-account of Account 1555. The gross book value and accumulated depreciation balance for stranded conventional meters (as well as the costs currently embedded in EnWin's approved distribution rates for conventional meters) should be brought forward for disposition in EnWin's next cost of service application, or within three years of the date of this Decision, in a separate or standalone application, whichever occurs earlier.

THE BOARD ORDERS THAT:

1. EnWin's SMDRs shall be effective May 1, 2014 to April 30, 2016.

2. EnWin's SMIRRs shall be effective May 1, 2014 and shall cease on the effective date of EnWin's next cost of service rate order, or October 31, 2017, whichever occurs earlier.

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

4. EnWin 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-2013-0348,** be made through the Board's web portal at https://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, March 13, 2014

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary