



Ontario Energy Board Commission de l'énergie de l'Ontario

DECISION AND ORDER

EB-2015-0298

SMART METERING ENTITY

**Application for disposition of the balance of the Service Level
Credits Account**

BY DELEGATION BEFORE: Lynne Andersen
Vice President,
Applications

[date]

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1 INTRODUCTION AND SUMMARY

The Independent Electricity System Operator¹ in its capacity as the Smart Metering Entity (SME) applied to the Ontario Energy Board on November 13, 2015 under section 78 (3.0.1) of the *Ontario Energy Board Act, 1998* (OEB Act) for an order disposing the balance in the SME's "Service Levels Credit Account" for the period May 1, 2013 to December 31, 2014.²

In its Decision on Accounting Order issued May 14, 2013³ (the "Accounting Order"), the OEB approved the establishment of the Service Level Credits Account. The account was established to record and report on the amount of reduction in fees or recovered amounts (referred to as "credits") in relation to a failure or breach resulting in a reduction of the fees payable to the Operational Service Provider by the SME, or any amount recovered from the Operational Service Provider in respect of any such failure or breach, on or after May 1, 2013 pursuant to section 7.6 of the SME/LDC Agreements. In accordance with the SME/LDC Agreements, the Accounting Order requires the SME to apply to the OEB to clear the account on the earlier of i) the date on which the balance in the variance account meets or exceeds \$2 million, or ii) January 26, 2016.

The balance in the account was a credit of \$368,711 as at December 31, 2014. As specified in the Accounting Order, no interest is accumulated on the balance in this account.

The SME also requested that the OEB approve disbursement of the Service Levels Credit Account for 2015, 2016 and 2017 in a similar manner to the proposed treatment of the 2013-2014 balance.

Appendix D of the SME's application contained a copy of its April 10, 2015 Annual Cost and Variance Account Report for 2014. The report demonstrated that, as of December 31, 2014, the SME had collected an excess of revenues over its costs incurred of \$3,162,443. The SME submitted in its report that an application to adjust the Smart Metering Charge was not warranted at this time.

¹ The Independent Electricity System Operator was designated as the Smart Metering Entity by Ontario Regulation 393/07 made under the *Electricity Act, 1998*.

² The Application also included a request for an order extending the agreements between the SME and local distribution companies (the "SME/LDC Agreements"). This aspect of the application was addressed by a separate order of the Ontario Energy Board issued on January 26, 2016 (EB-2015-0297).

³ EB-2012-0100/EB-2012-0211 Decision on Accounting Order

For the reasons set out herein, the OEB will not issue an order at this time disposing the balance in the SME's Service Level Credit Account. Instead, the balance in the account shall continue to accumulate pending the OEB's decision on a further application to be brought by the SME, in accordance with this Decision.

DRAFT

2 THE PROCESS

The OEB has considered this application without holding a hearing pursuant to section 6(4) of the OEB Act. In this case, the SME provided written evidence to support its application. Staff from the SME, on behalf of the SME, and the OEB engaged in further discussions through emails and phone calls. Based on all of this information, a draft Decision and Order was provided to the SME on January 28, 2016. The SME was given the opportunity to provide its comments on the draft for consideration prior to finalizing this Decision and Order.

3 DECISION

3.1 Disposition of the Service Levels Credit Account

The SME proposed to dispose of \$368,711 related to four incidents that took place between July 2013 and October 2014. The proposed allocation of the balance was determined in accordance with guidelines for disbursement approved by the SME Steering Committee, which has been established to represent the interests of stakeholders. The majority of members represent local distribution companies that are receiving the services of the Meter Data Management Repository (MDM/R). In accordance with the terms of the SME/LDC Agreements, the SME is required to provide pertinent information to the SME Steering Committee to enable it to determine which MDM/R service recipients were affected by the service failure.

The SME Steering Committee determined that all incidents were equally impactful for all LDCs. The guidelines for disbursement approved by the SME Steering Committee require that the balance be disbursed on the basis of the proportion of customers of each LDC as per the OEB's Yearbook of Distributors for the year that the Service Level Credits were accumulated.

The SME proposed to dispose of the balance through a one-time payment to the affected LDCs and provided a schedule of proposed payments to each LDC based on its proportion of provincial customers.⁴ Payments to the LDCs ranged from a low of approximately \$100 for the smallest utilities to approximately \$100,000 for Hydro One Networks Inc.

The SME also requested that the OEB approve disbursement of the Service Levels Credit Account for 2015, 2016 and 2017 in a similar manner to the proposed treatment of the 2013-2014 balance. The SME proposed that it would apply to the OEB for disposition on the earlier of i) the date on which the balance of the account meets or exceeds \$2 million or ii) October 1, 2018, which corresponds to the date of availability of the 2017 financial information and variance report.

⁴ No payment was proposed for Toronto Hydro-Electric System Limited, as it does not make use of the provincial MDM/R.

Findings

The proposed disposition of the credit balance of \$368,711, when allocated to all eligible LDCs in the province, results in disposition amounts that are immaterial. The OEB finds that the balance in the Service Levels Credit Account does not require disposition at this time. The OEB will reassess the disposition of the Service Level Credits Account upon receiving the SME's next application to reset the "Smart Meter Charge", as explained in the next section below.

3.2 Smart Metering Charge

In its March 28, 2013 Decision and Order⁵, the OEB approved a settlement proposal between the SME and parties to the proceeding. The settlement proposal provided for a Smart Metering Charge (SMC) of \$0.788 per month for all Residential and General Service <50 kW customers to be levied and collected by the SME from each distributor. The SMC was to remain in effect until October 31, 2018.

Section 1.4(d) of the settlement proposal specified an adjustment mechanism for the SMC charge, which required the SME to file a report of its costs and revenues to the OEB on or before May 1 of each year, providing an explanation for any material variances. Should the SME's total variance from budgeted costs for a calendar year exceed \$2 million, the SME was required to bring an application to adjust the SMC unless it provided the OEB a satisfactory explanation for why an application was not required.

In this application, the SME provided a copy of its April 2015 Annual Cost and Variance Account Report for 2014, showing a variance for that year of \$3,162,443 from budgeted costs. The SME explained that this variance was the result of decreased costs through the use of temporary staffing resources; decreased requirements for certain upgrades; a deferral of certain costs to 2015; and lower than budgeted financing costs.

The cumulative variance for the cost and revenue variance accounts for 2013 to 2014 is an overall credit of \$8,768,621, as follows:

⁵ EB-2012-0100/EB-2012-0211 Decision and Order, March 28, 2013

Cumulative Balance 2013 to 2014			
Variance Account	SMC Revenue Requirement	Actual	Variance from Revenue requirement
Cost Variance	\$58,840,821	\$50,607,501	\$8,233,320
Revenue Variance	\$75,344,212	\$75,879,514	\$535,301
Total Variance			\$8,768,621

The SME submitted that an application to adjust the SMC was not warranted at this time, for the following reasons: a significant portion of the 2014 variance was due to the deferral of costs from 2014 to 2015; the SME was dependent on the prevailing interest rate for financing costs and it would not be prudent to assume that interest rates would remain at current levels; and approximately 10% of its costs were exposed to fluctuations in the value of the Canadian dollar. The SME stated that any unallocated revenues received during 2014 and 2015 would be utilized to reduce its \$74.5 million debt and associated financing costs.

Findings

The information filed in the 2014 Cost and Variance Account Report indicates a combination of both an over-recovery of budgeted revenues and under-spending in costs, resulting in an overall credit balance of \$8.8 million. Over the 2013-2014 period, the SMC charge has provided significantly more revenue than required to recover the SME costs. Actual costs are 14% lower than forecast over the period.

Given this over-collection, the OEB finds that the SMC charge must be recalculated to be reflective of future costs and to clear the balances accumulated in the variance accounts. The SME shall file an application with the OEB in a timely manner with a five-year forecast of costs, including consideration of the costs of the "Implementation Plan" ordered by the OEB in the licence proceeding EB-2016-0297. The application shall be filed no later than December 31, 2016.

4 ORDER

IT IS ORDERED THAT:

1. The balance in the Service Levels Credit Account shall not be disposed at this time. This balance shall continue to accumulate until the earlier of i) the date on which the balance in the account meets or exceeds \$2 million, or ii) the OEB issues a decision on the disposition of the Service Level Credits Account.
2. The SME shall file an application with the OEB as soon as possible and no later than December 31, 2016, which provides a recalculation of the SMC based on a five-year forecast of costs and disposition of the credit balances in the Costs and Revenue Variance Accounts. With this application, the SME shall provide an update of its request for the disposition of the Service Level Credits Account to be considered by the OEB.

DATED at Toronto [date]

ONTARIO ENERGY BOARD

Kirsten Walli
Board Secretary