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March 13, 2017

RESS, EMAIL & COURIER

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
Toronto, ON M4P 1E4

Attention: Ms. K. Walli, Board Secretary

Dear Ms. Walli:

Re: EnWin Utilities Ltd. – Application for Recovery of Stranded Meter Costs

We are counsel to EnWin Utilities Ltd. ("EnWin"). EnWin is a licensed electricity distributor in Ontario, which serves the City of Windsor under licence no. ED-2002-0527. On behalf of EnWin, we are hereby applying to the Ontario Energy Board (the "Board") for approval to recover stranded meter costs that were incurred by EnWin in connection with the smart meter initiative. The timing for this application is in response to the Board's Decision and Order in EB-2013-0348.

This application has been filed on RESS and two hard copies have been sent to the Board.

Yours truly,

Jonathan Myers

cc: Paul Gleason, EnWin

IN THE MATTER OF the Ontario Energy Board Act, 1998, S.O. 1998, c.15 (Schedule B) as amended (the "Act");

AND IN THE MATTER OF an application by EnWin Utilities Ltd. for an Order pursuant to section 78 of the Act approving just and reasonable rates and other charges for electricity distribution, specifically Stranded Meter Rate Riders, to be effective November 1, 2017.

APPLICATION

1. EnWin Utilities Ltd. ("EnWin" or the "Applicant") hereby applies to the Ontario Energy Board (the "Board") pursuant to section 78 of the *Ontario Energy Board Act, 1998* (the "Act") for approval to dispose of the stranded meter costs it has incurred and recorded in its deferral account as at December 31, 2016, in connection with the Province of Ontario's smart meter initiative.

2. The Applicant has prepared this application in accordance with section 2.2.1.4 of Chapter 2 of the Board's *Filing Requirements for Electricity Distribution Rate Applications – 2016 Edition for 2017 Rate Applications*, dated July 14, 2016 (the "Filing Requirements"), as well as section 3.7 and Appendix A-1 of the Board's *Guideline for Smart Meter Funding and Cost Recovery – Final Disposition* (G-2011-0001), issued December 15, 2011 (the "Guideline").

3. EnWin is filing this application in response to requirements established by the Board in EnWin's smart meter cost proceeding (EB-2013-0348). In that proceeding, EnWin sought and received approval for Smart Meter Disposition Riders ("SMDRs") and Smart Meter Incremental Revenue Requirement Rate Riders ("SMIRRs"), applicable to its Residential and General Service less than 50 kW customer classes, effective from May 1, 2014. In its Decision and Order, the Board ordered that EnWin shall file a separate

application to address the stranded meter variance account and the amounts embedded in base rates for conventional meters, and that such application shall be filed within three years (i.e. by March 13, 2017) if EnWin has not chosen to rebase by then. As EnWin has not rebased since the Decision and Order was issued, the present application is being filed within the required timeframe.

4. The Board's Decision and Order in EB-2013-0348 also established a sunset date for EnWin's SMIRR of October 31, 2017. The Board's stated intention was to allow up to seven months for the stranded meter cost application to be processed and for the effective date of the resulting rate change to be aligned with the expiration of the SMIRR and scheduled changes under the regulated price plan that will come into effect on November 1, 2017.

5. EnWin therefore requests approval to recover its forecast balance of Account 1555 "Sub-Account Stranded Meter Costs" as at October 31, 2017, less the value of proceeds received on disposition from the sale of the meters for scrap. As EnWin is not proposing to adjust its rate base through this standalone stranded meter costs proceeding, EnWin has instead performed a simple calculation to determine the approximate depreciation expense and return on capital that it will earn on the stranded meters from November 1, 2017 until the expected effective date of the Board's rate order in EnWin's next cost of service rebasing application, as the stranded meters will remain in rate base until that time. EnWin proposes to reduce its recovery of the balance of Account 1555 by these amounts. The amount EnWin therefore requests for recovery, being the balance of Account 1555 less (a) proceeds received on disposition from the sale of the meters for scrap, (b) an amount that is equivalent to the depreciation expense it will earn on the assets until they are removed from rate base, and (c) an amount that is equivalent to the return on capital it will earn on the assets until they are removed from rate base, is $786,746. EnWin proposes to recover this amount through class-specific rate riders that would come into effect November 1, 2017 and remain in effect for a period of 14 months.

6. The written evidence will be pre-filed and may be amended from time to time, prior to the Board's final decision on this Application.

7. The Applicant requests, pursuant to Section 34.01 of the Board's Rules of Practice and Procedure, that this proceeding be conducted by way of written hearing.

8. The Applicant requests that copies of all documents filed with the Board in this proceeding be served on the Applicant and its counsel as follows:

Applicant	**Applicant's Counsel**
EnWin Utilities Ltd. 787 Ouellette Avenue P.O. Box 1625, Station A Windsor, ON N9A 5T7 Attention: Paul J. Gleason Telephone: (519) 251-7325 Fax: (519) 251-1996 E-mail: pgleason@enwin.com	Torys LLP 79 Wellington St. W., 30th Floor Box 270, TD South Tower Toronto, ON M5K 1N2 Attention: Jonathan Myers Telephone: (416)865-7532 Fax: (416)865-7380 Email: jmyers@torys.com

DATED at Toronto, Ontario this 13th day of March, 2017.

ENWIN UTILITIES LTD.
By its counsel, Torys LLP

Jonathan Myers

TREATMENT OF STRANDED METERS RELATED TO SMART METER DEPLOYMENT

Introduction

EnWin is requesting approval to dispose of the stranded meter costs it has incurred and recorded in its deferral account as at October 31, 2017, relating to conventional meters removed from service, all in connection with the Province of Ontario's smart meter initiative. The following evidence is provided in support of EnWin's request.

Background

EnWin filed an application with the Board on September 11, 2013 seeking approval under section 78 of the Act for changes to the rates that EnWin charges for electricity distribution under the Annual IR Index plan, to be effective May 1, 2014 (EB-2013-0125). In that application, EnWin also sought recovery of costs for the deployment of smart meters, to be effective on May 1, 2014. In its October 4, 2013 Letter of Acknowledgement, 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. The Board assigned file number EB-2013-0348 to the request for recovery of smart meter costs.

In the EB-2013-0348 proceeding, EnWin requested 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 for customer class-specific Smart Meter Disposition Riders ("SMDRs") and Smart Meter Incremental Revenue Requirement Rate Riders ("SMIRRs"), to be effective May 1, 2014. More particularly, EnWin requested:

- 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; and

- an 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 Board approved these requests but had concerns about how long the SMIRR could continue given that under the Annual IR Index plan there would be no certainty as to when EnWin would next be before the Board on a cost of service application. As such, in its March 13, 2014 decision and Order in EB-2013-0348, the Board ordered that EnWin must 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 Board specified that the application must be filed within three years of the date of its Decision and Order if EnWin has not chosen to rebase by then. In addition, the Board established a sunset date for the SMIRR of October 31, 2017, thereby allowing up to seven months for the stranded meter cost application to be processed and for the effective date of the resulting rate change to be aligned with the expiration of the SMIRR and with scheduled changes under the regulated price plan that will come into effect on November 1, 2017. A copy of the Decision and Order in EB-2013-0348 is provided in **Appendix 'A'**.

Filing Requirements

The Applicant has prepared this application substantially in accordance with section 2.2.1.4 of Chapter 2 of the Filing Requirements, as well as section 3.7 and Appendix A-1 of the Guideline.

Section 2.2.1.4 of the Filing Requirements states that if stranded meter costs have not been reviewed and approved for recovery in a prior application, a distributor is required to propose (in their cost of service application) a Stranded Meter Rate Rider to recover those amounts and to provide a completed Appendix 2-S to support their request. In addition, a distributor is required to:

- remove from its rate base the total estimated NBV of the stranded meters as of December 31, 2016, and not include either a return on capital or depreciation expense for these assets in their 2017 revenue requirement;

- recover the total estimated NBV of the stranded meters through separate rate riders for the applicable customer classes, and describe the manner in which it intends to allocate recovery to the applicable customer classes and the rationale for doing so;

- track the total estimated stranded meter costs in "Sub-account Stranded Meter Costs" of Account 1555; and

- track the associated recoveries from the rate riders in "Sub-account Stranded Meter Costs" of Account 1555 so as to reduce the balance in the sub-account through the recovery period.

Section 2.2.1.4 of the Filing Requirements also references the Guideline (and sections 3.7 and Appendix A-1 of the Guideline in particular), noting that these provide the most current guidance on the treatment for recovery of costs for stranded meters replaced by smart meters.

Section 3.7 of the Guideline describes the Board's requirements for distributors filing requests for stranded meter cost recovery and notes that "the regulations provide that distributors are to be held whole with respect to the cost recovery of stranded meters (i.e. conventional meters replaced as part of the smart meter initiative)". Though section 3.7 establishes the Board's expectation that stranded meter costs will be left in rate base until a distributor's next cost of service application, for EnWin this expectation was qualified by the Board's Decision and Order in EB-2013-0348, which specified that the Applicant must address the amounts embedded in its rate base either in its next cost of service application or by separate application if it does not file a cost of service application within three years. Key requirements described in section 3.7 of the Guideline include:

- that a request for recovery of stranded meter costs filed after 2012 shall be on an actual basis given that smart meter deployment will by then be completed;
- that a distributor will propose a rate rider to recover the NBV of the stranded meters;
- the recovery period should generally be no longer than four years – and if shorter, consideration should be given to rate impacts on the affected customers;
- the stranded meter NBV should be recovered through rate riders for applicable customer classes, and the distributor must describe the manner in which it intends to allocate these costs to the applicable classes and the rationale for the selected approach;
- the charge determinant should be the number of customers, such that the stranded meter rate rider ("SMRR") should be a monthly charge applicable for a period of time, which may differ between customer rate classes.

As described in Appendix A-1 to the Guideline, the Board has established two accounting treatment options for stranded meters in relation to the installation of smart meters - leave them recorded in Account 1860 "Meters", or record them in Account 1555 "Sub-account Stranded Meter Costs". EnWin has used the latter approach of recording its stranded meter costs in Account 1555 "Sub-account Stranded Meter Costs" and has therefore followed the accounting treatment specified in relation to this approach.

EnWin's Stranded Meter Costs

EnWin seeks disposition of its forecast stranded meter costs as at October 31, 2017.

In accordance with Appendix A-1 of the Guideline, the stranded meter NBV eligible for recovery is comprised of the gross costs of the stranded meters, net of any capital contributions, less the associated accumulated depreciation and any net sale proceeds from the disposition of the stranded meters. EnWin has determined its stranded meter gross asset values and NBV on this basis using Appendix 2-S, which is shown in *Table 1 – Stranded Meter Costs* below. The

NBV of EnWin's stranded meter assets has been adjusted for the amounts of depreciation approved by the Board in respect of EnWin's 2009 distribution rates.

Table 1 – Stranded Meter Costs

Year	Notes	Gross Asset Value	Accumulated Amortization	Accumulated Amortization after disposal	Net Asset	Proceeds on Disposition	Residual Net Book Value	3. Depreciation Expense
		(A)	(B)	(C)	(D) = (A) - (B) - (C)	(E)	(F) = (D) - (E)	
2006					$ -		$ -	
2007					$ -		$ -	
2008					$ -		$ -	
2009					$ -		$ -	
2010		$ 1,882,500	$ 862,748	$ 6,104	$ 1,013,649	$ 40,327	$ 973,321	$ 6,104
2011		$ 1,748,513	$ 770,565	$ 110,349	$ 867,599	$ 35,396	$ 832,203	$ 110,349
2012		$ 9,058	$ 1,127	$ 140,624	-$ 132,693	-$ 9,682	-$ 123,011	$ 140,624
2013				$ 139,170	-$ 139,170		-$ 139,170	$ 139,170
2014				$ 137,868	-$ 137,868		-$ 137,868	$ 137,868
2015				$ 136,806	-$ 136,806		-$ 136,806	$ 136,806
2016	(1)			$ 134,254	-$ 134,254		-$ 134,254	$ 134,254
		$ 3,640,071	$ 1,634,440	$ 805,175	$ 1,200,457	$ 66,042	$ 1,134,415	$ 805,175

The allocation of stranded meter costs to Account 1555 is based on the average NBV of the conventional meters that became stranded due to being replaced with smart meters during the years of the program. The NBV is comprised of the gross costs of the stranded meters, less the associated accumulated depreciation, and adjustment for the amount of depreciation in EnWin's approved 2009 distribution rates. The NBV of the stranded meter assets is $1,200,457. After deducting the proceeds on disposition from the sale of scrap materials totaling $66,042, the residual net book value of the stranded meters at December 31, 2016 is $1,134,415. EnWin's proposed adjustments for the period from January 1, 2017 to October 31, 2017 are described in connection with Table 3, below.

As shown in *Table 2 – Allocation of Stranded Meter Costs to Customer Classes*, below, the stranded meter costs were recorded to the Account 1555 "Sub-account Stranded Meter Costs" in a class-specific manner. The net sales proceeds received for recycling of the conventional meters removed from service are also allocated in a class-specific manner. EnWin is using the depreciated value of net assets between customer classes (i.e. Residential and Small Commercial) as a proxy for the allocation of the total proceeds on disposition of the conventional meters (67% residential; 33% small commercial). The adjustment for the amount of depreciation in the approved 2009 distribution rates are allocated based on the NBV in each class-specific stranded cost account.

Table 2 – Allocation of Stranded Meter Costs to Customer Classes

Customer Class	Gross Asset Value	Accumulated Amortization	Accumulated Amortization after disposal	Net Asset	Percent allocation of Total Net Assets	Allocation of Proceeds on Disposition	Residual Net Book Value by Customer Class
	(A)	(B)	(C)	(D) = (A) - (B) - (C)		(E)	(F) = (D) - (E)
Residential	$ 2,493,939	$ 1,130,861	$ 562,927	$ 800,151	67%	$ 44,248	$ 755,903
Small Commercial	$ 1,146,132	$ 503,579	$ 242,247	$ 400,306	33%	$ 21,794	$ 378,512
	$ 3,640,071	$ 1,634,440	$ 805,175	$ 1,200,457		$ 66,042	$ 1,134,415

EnWin confirms that, in accordance with Appendix A-1 of the Guideline, no interest carrying charges were recorded for the stranded meter cost balances in the sub-account.

Recovery of Costs Through Stranded Meter Rate Rider

In accordance with the Filing Requirements and Guidelines, EnWin is requesting recovery of its Stranded Meter Costs through class specific SMRRs.

The proposed class-specific SMRRs that result from the disposal of the Stranded Meter Costs Account balance, as requested, are set out in *Table 3 - Proposed Stranded Meter Rate Rider*, below. The rate riders would apply with an effective date of November 1, 2017 to coincide with the sunset date of the SMIRR rate rider on October 31, 2017 and the scheduled changes in the regulated price plan that are also expected to come into effect on November 1, 2017.

EnWin recognizes that, until the effective date of the Board's order in EnWin's next cost of service rebasing application, the conventional meters will continue to be included in EnWin's rate base. To account for this, EnWin is proposing an adjustment to the amount to be recovered through this application. The adjustment would reduce EnWin's recovery by an amount that is equivalent to the depreciation expense and return on capital that EnWin expects to earn between the expected effective date of the Board's order in the present proceeding and the expected effective date of the Board's order on EnWin's next cost of service rebasing application. This calculation has been performed based on EnWin's deemed capital structure of 40% equity and 60% debt, as applied to its approved return on equity (8.01%) and approved weighted average cost of debt (6.41%) from EnWin's last rebasing application on a prorated basis over a 14 month period, as shown in Table 3 below. EnWin is planning to submit a rebasing application to the Board for January 1, 2019 rates. As such, the proposed SMRRs are based on a 14-month disposition period (November 1, 2017 to December 31, 2018).

Table 3 – Proposed Stranded Meter Rate Riders

Rate Class	Billing Frequency	Quantity of Class Customers	Total to be Disposed as at December 31, 2016	Depreciation Expense from January 1, 2017 to October 31, 2017	**Forecasted total to be disposed as at October 31, 2017**	**Deemed Equity Proportion (40%)**	**Return on Equity for the period November 1, 2017 to December 31, 2018**	**Deemed Debt Proportion (60%)**	**Return on Debt for the period November 1, 2017 to December 31, 2018**	**Depreciation Expense from November 1, 2017 to December 31, 2018**	**Adjusted Total to be Disposed after including cost of capital parameters and depreciation**	**Proposed Fixed Rate Rider**
					(A)		**(B)**		**(C)**	**(D)**	**(E) = (A) + (B) + (C) + (D)**	
Residential	Monthly	78857	$ 755,903	$ (77,787)	**$ 678,116**	**$ 271,246**	**$ (25,348)**	**$ 406,870**	**$ (30,427)**	**$ (106,677)**	**$ 515,664**	**$ 0.47**
Small Commercial	Monthly	7568	$ 378,512	$ (33,607)	**$ 344,905**	**$ 137,962**	**$ (12,893)**	**$ 206,943**	**$ (15,476)**	**$ (45,455)**	**$ 271,082**	**$ 2.56**
			$ 1,134,415	$ (111,394)	**$ 1,023,021**					**$ (152,132)**	**$ 786,746**	

In accordance with Appendix A-1 of the Guideline, effective on the date of the Board's order approving EnWin's stranded meter recoveries in rates, interest carrying charges will be calculated on the monthly opening principal balance in the sub-account at the Board-prescribed interest rates and will be recorded separately in Account 1555 "Sub-account Approved Stranded Meter Costs Carrying Charges".

Appendix 'A'

Decision and Order in EB-2013-0348

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