



# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION**

REGARDING THE TORONTO HYDRO-ELECTRIC  
SYSTEM LIMITED MOTION TO REVIEW AND VARY  
THE EB-2007-0680 DECISION

EB-2008-0138

**July 11, 2008**

## **BACKGROUND**

Toronto Hydro Electric System Limited ("THESL") filed an application with the Ontario Energy Board, received on August 3, 2007 seeking approval for changes to the distribution rates. The Board gave the Application file number EB-2007-0680. On May 15, 2008, the Board issued its Decision in EB-2008-0680 (the "Decision").

On June 4, 2008 THESL filed a Motion to Review and Vary the Decision. In that motion it identified four areas that it felt required reconsideration. The Board established file number EB-2008-0138 for the Motion. On June 9, THESL filed an amended notice of Motion.

The Board reviewed the Motion and issued a Decision and Order on June 27, 2008. In that Decision, the Board determined that one of the four issues was rendered moot by THESL's application before the Divisional Court on the gains of the sale of assets. Of the remaining three issues, two were referred back to the original EB-2007-0680 panel for consideration as part of the final Rate Order flowing from its decision. The fourth issue, Regulatory Treatment of Smart Meters, would be considered by the reviewing panel.

In its Notice of Motion regarding this issue, THESL requested the Board to do the following:

"With respect to section 3.3 of the Decision (Meters), and more particularly with respect to regulatory treatment of smart meters, rescinding its finding at pages 23-24 that the 2007 balances recorded in smart meter operating expenses account 1556 shall be expensed in the 2008 rate year; and instead directing that such balances be disposed through clearance of the 2007 smart meter deferral account in the manner previously approved by the Board with respect to the 2006 smart meter deferral account;"<sup>1</sup>

## **BOARD STAFF SUBMISSION**

### **General**

THESL has submitted that there already exists a procedure for clearing Smart Meter OM&A variance account (account 1556). Board staff understand that the procedure referenced by THESL was identified in the Board's Decision in EB-2007-0063, (the "Combined Hearing Decision") as part of the 2006 EDR rate application process. The methodology outlined in

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<sup>1</sup> Toronto Hydro-Electric System Amended Notice of Motion EB-208-0138 item 1. (a)

that decision directed THESL to deduct the amount of money previously collected in rate adders from the revenue requirement on the investments as calculated in Appendix "A" to the Combined Hearing Decision for its 2006 rates.

Board staff makes submissions on:

- Approved Method for Clearing Smart Meter Deferral Accounts.
- Timing, and
- Capital Related Costs

### **Approved Method for Clearing Smart Meter Deferral Account**

THESL has asked that the Decision relating to the accounting treatment on smart meter operating expenses be rescinded and the previously approved method used for its 2006 rates be employed. THESL claims:

"THESL submits that having accepted THESL's 2007 smart meter expenditures, the OEB's direction concerning the treatment of the actual 2007 smart meter operating expenses of \$2.0 million contradicts the existing, Board-approved methodology for the annual clearance of the smart meter deferral account(s). That methodology was approved at page 18 in the Board's Decision in EB-2007-0063, the Combined Smart Meter Proceeding, and confirmed in the corresponding Rate Order issued to THESL by the Board on October 23, 2007."<sup>2</sup>

Board staff submits that while the Board may have in the past cleared the smart meter accounts differently, it is also clear from the Combined Hearing Decision that THESL could apply to recover the smart meter balance of 2007 and 2008 in its cost of service application.

"A number of the applicants also requested guidance from the Board in terms of future rate making with respect to the SMI. Six of the applicants are part of the first tranche of cost of service rate applications for 2008 rates. These applicants can apply to recover their smart meter

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<sup>2</sup> Toronto Hydro-Electric System Amended Notice of Motion EB-208-0138 item 2. (a) (ii)

costs for the balance of 2007 and 2008 in those proceedings.”<sup>3</sup>

## Timing

THESL has in place a rate adder (i.e. a component of the Distribution Volumetric Rates, as opposed to a specific and uniquely identified rate rider) to recover the costs related to the 2007 operating expenses for smart meters. This rate adder was in place for the period of May 1, 2007 to April 30, 2008, and continues to collect revenues for the Smart Meter Initiative. The Board found, in the Decision, that THESL should include the 2007 smart meter operating expenses in the 2008 revenue requirement. THESL's position is not to clear the operating expenses until the revenues are collected, which would be by April 30, 2008.

Board staff submits that this is essentially a timing issue and submits that little harm, if any, would result from clearing the operating expenses as the Board has directed. As THESL has pointed out in its supporting document to the Motion, the amount of smart meter operating expenses is \$2 Million, a small percentage of THESL's revenue requirement of close to \$475 Million.

As a component of Hydro Ottawa's 2008 rate application, Hydro Ottawa attempted to align its rate year with its fiscal year.<sup>4</sup> In that proceeding, the Board did not find in favour of the proposed re-alignment. The Board did not feel that there was any harm to be found to necessitate the change.

By following the Board's findings, the expenses would be built into the 2008 rates, thereby providing compensation to THESL sooner than if the expenses were cleared through a separate proceeding later this year.

Board staff also submit that it is not the Board's practice to clear any operating expenses (smart meter or otherwise) accounted for in deferral accounts without recognizing the directly related revenues that have been collected as a result of a rate adder. The Board's practice has been to offset the smart meter costs with the rate adder revenue. At this point in time, the April 30, 2008 balances for the revenues from the smart meter rate adder are known to offset the approved 2007 smart meter operating expenses. While it is not generally the practice of the Board to clear deferral accounts without specific review, a matching of the costs with the lagging revenues with a subsequent review could be done.

On July 8, 2008 THESL filed its Final draft Rate Order and appendices as directed by the Decision.<sup>5</sup> In that document it suggests that if this Motion on

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<sup>3</sup> EB-2007-0063 Combined Hearing Decision page 19

<sup>4</sup> Hydro Ottawa Limited Decision on request for Interim Rates EB-2007-0713, EB-2007-0713

<sup>5</sup> Toronto Hydro-Electric System EB-2007-0680 Draft Rate Order

smart meters is not found in its favour, that it proposes a rate rider from November 1, 2008 to April 30, 2009. One concern is whether this approach is necessary. The Decision is clear that the clearing of the smart meter operating expenses should be included in the revenue requirement for 2008.

### **Capital Related Costs**

Board staff point out that it has been the Board's practice to include capital related costs (i.e. depreciation, return and PILs) when clearing smart meter deferral accounts. In determining the depreciation expense and related return on the assets, Board staff notes that it is standard practice that the half year rule applies. The decision was silent on the matter of capital related costs and for clarity this matter should be specifically addressed in the Board's decision on this motion.

**~ ALL OF WHICH IS RESPECTFULLY SUBMITTED ~**