



**EB-2012-0348**

**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 St. Thomas Energy Inc. for an order approving or fixing just and reasonable distribution rates related to Smart Meter deployment, to be effective May 1, 2012.

**BEFORE:** Ken Quesnelle  
Presiding Member

Marika Hare  
Member

**DECISION AND ORDER**  
**December 13, 2012**

St. Thomas Energy Inc. (“STEI”) a licensed electricity distributor, filed an application (the “Application”) with the Ontario Energy Board (the “Board”), on August 9, 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 STEI charges for electricity distribution, to be effective May 1, 2012. STEI serves the City of St. Thomas.

STEI sought Board approval for the disposition of costs related to smart meter deployment, offset by Smart Meter Funding Adder (“SMFA”) revenues. STEI requested approval of proposed Smart Meter Disposition Riders (“SMDRs”) and Smart Meter Incremental Revenue Requirement Riders (“SMIRRs”). The proposed effective date for the SMDRs is May 1, 2012 and STEI is requesting that they remain in effect for a term of two years. The proposed effective date for the SMIRRs is May 1, 2012 and STEI is requesting that these remain in effect until its next cost of service application, planned

for 2015. The Application is based on the Board's policy and practice with respect to recovery of smart meter costs.<sup>1</sup>

The Board issued a Letter of Direction and Notice of Application and Hearing (the "Notice") on September 10, 2012. The Vulnerable Energy Consumers' Coalition ("VECC") requested and was granted intervenor status and cost award eligibility. No letters of comment were received. The Notice established that the Board would consider the Application by way of a written hearing and established timelines for discovery and submissions.

Board staff and VECC submitted interrogatories to STEI on October 11, 2012. STEI filed its responses to the interrogatories on October 19, 2012. Board staff filed its submission on October 30, 2012 and VECC filed its submission on November 5, 2012. STEI filed its Reply submission ("Reply") on November 9, 2012.

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 are addressed in this Decision and Order:

- Costs incurred with Respect to Smart Meter Deployment and Operation;
- Cost Allocation;
- Stranded Meters;
- Efficiencies;
- Implementation; and
- Accounting Matters

## **1. Costs Incurred With Respect to Smart Meter Deployment and Operation**

### **Approvals Sought**

STEI has applied for the following:

- Final Disposition of smart meter capital costs of \$3,267,776 and smart meter operating costs of \$217,258;
- A SMDR charged on a per metered customer per month basis of (\$0.42) for Residential customers, \$1.24 for General Service < 50 kW customers, and \$4.12 for General Service > 50 kW customers for a 24 month period from May 1, 2012 to April 30, 2014;

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<sup>1</sup> On December 15, 2011, the Board issued *Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition* [Guideline G-2011-0001]. STEI used Smart Meter Model, Version 2.17 [the "Model"] and prepared its application considering recent Board decisions on smart meter cost disposition and recovery.

- A SMIRR charged on a per metered customer per month basis of \$2.02 for Residential customers, \$4.65 for General Service < 50 kW customers and \$9.12 for General Service > 50 kW customers for the period from May 1, 2012 to April 30, 2015; and
- STEI is not requesting recovery of the stranded meter costs of approximately \$783,000. STEI continues to include these in rate base for rate-making purposes, as recommended by the Board.<sup>2</sup>

STEI is proposing to offset the historical smart meter costs with the total revenues from its SMFA collected from May 1, 2006 to April, 30 2012 plus applicable carrying charges.

In response to interrogatories, STEI:

- Reclassified capital costs for a three phase analyzer of \$28,110 from “Smart Meters” to “Tools and Equipment”. While this had no effect on the CAPEX spent by STEI, it did increase the calculated PILs by \$1,989;<sup>3</sup>
- Ammended the Cost of Capital Paramters for 2011 and 2012 and later to align with the paramters approved in STEI’s 2011 cost of service applications EB-2010-0141<sup>4</sup>; and
- Reclassified \$49,306 for business process redesign and CIS changes with the resulting effect that these costs would be allocated to all affected classes not just the GS>50kW rate class.

### **Prudence Review of Smart Meter Costs**

STEI submitted the following costs for 2010 and 2011 related to installing 16,459 smart meters:

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<sup>2</sup> *Smart Meter Combined Proceeding Decision with Reasons EB-2007-0063*

<sup>3</sup> Response to board staff Interrogatory 5 b.

<sup>4</sup> Response to Board staff Interrogatory 4 a.

<u>Smart Meter Unit Costs</u>	
1 Installed Meters	16,459
<i>Minimum Functionality</i>	
2 CAPEX	\$3,239,666
3 OM&A	\$167,951
4 Total	\$3,407,617
5 Unit Costs	207.04
<i>Beyond Minimum Functionality</i>	
6 CAPEX	\$28,110
7 OM&A	\$49,306
8 Total	\$77,416
9 Unit Costs	4.70
10 Total Unit Costs	\$211.74

STEI stated that it has benefitted from economies of scale.<sup>5</sup> In response to an interrogatory it stated that this was achieved by:<sup>6</sup>

- Participating in the Ontario Utilities Smart Meter working group;
- Participating in the London Hydro Automated Meter Infrastructure RFP; and
- Membership in the Utility Collaborative Service (“UCS”) group.

Through these groups, STEI stated that it was provided with a significant degree of cost control, best possible pricing, and efficient problem solutions through cooperation.

STEI also stated that it applied for, and received, a \$30,000 Scientific Research and Experimental Development tax refund, which it credited to the project as a reduction to claimed smart meter costs.<sup>7</sup>

Both Board staff and VECC noted that the Board provided average unit costs for Ontario of \$207.37 for the period of January 1, 2006 to September 30, 2009. Both parties further noted that this was followed by updated average unit costs of \$226.92 for the period ending September 30, 2010. STEI pointed out that \$211.74 is 6.7% (\$15.18) below the average unit cost of \$226.92.<sup>8</sup> On this basis Board staff did not take issue

<sup>5</sup> Application page 3

<sup>6</sup> Response to VECC Interrogatory 3 a.

<sup>7</sup> Application page 19

<sup>8</sup> Application page 3

with STEI's total average cost. Similarly, VECC stated that the resulting average unit costs to be reasonable.

### **Board Findings**

The Board notes that STEI confirmed that it achieved economies of scale by working with other LDCs. STEI further noted that it achieved best possible pricing by issuing a series of RFPs to ensure best pricing and service was achieved. The Board accepts STEI's costs as reasonably incurred costs.

### **Costs Beyond Minimum Functionality**

STEI stated that it invested \$28,110 for a 3-phase analyzer which was required to replace the existing analyzer. Both Board staff and VECC agreed that these costs are incremental and directly attributable to smart meter installations.

STEI installed 172 smart meters at an investment of \$98,143.<sup>9</sup> STEI stated that senior management concluded that it was a prudent business decision to install smart meters in the GS>50 kW class, for business improvement reasons.<sup>10</sup> Board staff pointed out that the Board has approved costs for smart meters for GS>50 kW in other applications.<sup>11</sup>

The remaining costs for beyond minimum functionality are \$49,207 in OM&A expenses. STEI submitted that these are costs associated with CIS System changes and Business Process Redesign. The CIS changes were to handle the mass introduction of smart meters, TOU billings, and web presentment. In response to an interrogatory, STEI stated that the costs for web presentment were \$16,135.11.<sup>12</sup> Board staff submitted that the expenses incurred for TOU implementation and MDM/R integration were required to complete the smart meter program. Board staff noted that the Board has allowed these expenses and web presentment expenses in the past in other smart meter applications.<sup>13</sup>

VECC took no issue with the nature or amount of these costs for beyond minimum functionality.

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<sup>9</sup> Response to Board staff Interrogatory 5 b.

<sup>10</sup> Application pages 4 & 5

<sup>11</sup> Horizon Utilities Corp. EB-2011-0417; Burlington Hydro Inc. EB-2012-0081; and PUC Distribution Inc. EB-2012-0084

<sup>12</sup> Response to VECC Interrogatory 6

<sup>13</sup> Midland Power Utility Corporation, EB-2011-0434; Thunder Bay Hydro Electricity Distribution Inc. EB-2012-0015

### **Board Findings**

The Board notes that the nature of the costs beyond minimum functionality are for similar costs that it has previously approved in other applications. The Board further notes that no party objected to the amount claimed for beyond minimum functionality. The Board finds that the costs are reasonable and will therefore approve recovery of the claimed costs.

### **Customer Repairs**

STEI stated in response to a Board staff interrogatory that it repaired 39 meter bases and incurred \$9,030 in total for materials and parts for repairs to customer-owned equipment.<sup>14</sup> Board staff pointed out in its submission that the costs were not recorded in a separate sub-account of Account 1556 – Smart Meter OM&A Variance Account, in accordance with the Board's direction arising from its Decision on the Combined Smart Meter Proceeding. STEI stated in its Reply the \$9,030 for customer repairs are in the Model as Item 2.1.1 Maintenance, and is therefore included in the SMDRs.

### **Board Findings**

The Board notes that the accounting for the costs of repairs to customer owned equipment is not in accordance with Guideline G-2011-0001. STEI's method of accounting for these costs, as articulated in STEI's Reply, has achieved the intended purpose that the costs of parts and materials for customer owned equipment repaired as part of smart meter deployment are not included in the utility's rate base. The Board is satisfied that STEI has properly accounted for customer repairs in the smart meter model for recovery through the SMDRs.

## **2. Cost Allocation**

STEI applied for class specific SMDR and SMIRR rate riders based on a cost allocation similar to the allocation methodology approved in the PowerStream application. STEI's proposal allocates:

- Cost of Capital, and depreciation based on the direct meter costs by class;
- OM&A based on the number of meters by class;
- PILs based on the revenue requirement before PILs by class; and
- Revenues on a class specific basis.

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<sup>14</sup> Response to Board staff Interrogatory 6

VECC submitted that STEI's proposed rate riders are not based on full cost causality. VECC further submitted that the PowerStream methodology provides a proxy for the revenue requirement, but does not reflect full cost causality. VECC submitted that the rate riders should be calculated on a class specific basis.

In its Reply, STEI stated that it prepared the cost allocation based upon direct meter costs. STEI further stated that an allocation of the remaining capital and operating costs would be subjective.

Board staff submitted that the allocations are appropriate and have been accepted by the Board in the past.

### **Board Findings**

The Board notes that the allocator used for the cost of capital and depreciation is the investment in smart meters by class, as pointed out by STEI in its Reply. The Board also notes that this method reflects the diverse levels of investment by class. Based on this observation and the fact that the cost allocation is based on an allocation methodology accepted by the Board in other applications, the Board approves STEI's cost allocation.

### **3. Stranded Meters**

STEI is not seeking disposition of its stranded meters in this Application, stating that the assets continue to be accounted for in rate base, pursuant to the Board's Guideline.<sup>15</sup> STEI has estimated its net book value for stranded meters on December 31, 2015 would be \$590,000. STEI also stated that it has included the proceeds from the scrapped meters in account 1555 as an offset to the capital costs of the meters, in accordance with the Board's Guideline G-2011-0001. Board staff submitted that this is the appropriate treatment for smart meters. VECC made no submission.

### **Board Findings**

STEI is authorized to continue to include stranded meters in its asset account. The balance net of depreciation for stranded meters should be brought forward for disposition in STEI's next cost of service application.

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<sup>15</sup> *Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition.*

#### 4. Efficiencies

Board staff noted that STEI identified annual efficiencies of \$15,000 as a result of changing from manual meter reads.<sup>16</sup> Board staff further noted that STEI has stated that it did not include these savings in its Application.<sup>17</sup> Board staff suggested that by 2015, STEI's next planned cost of service application, further efficiencies might be found. Board staff submitted that STEI should be prepared to address any operational efficiencies due to smart meter and TOU implementation in its next cost of service application.

#### **Board Findings**

The Board concurs with Board staff that any savings or efficiencies should be evaluated and brought forward in its next cost of service application. At that time, the Board will expect STEI to have evaluated the impact of smart meters on STEI's costs of operations more rigorously and report its findings to the Board.

#### 5. Implementation

In response to an Interrogatory, STEI provided SMDRs based on December 1, 2012 implementation and January 1, 2013 implementation<sup>18</sup>. A change in the implementation date does not affect the SMIRRs. However the SMDR increases for each delayed month due to the fact that the foregone revenues from not collecting the SMIRRs for the delayed months are included in the SMDRs calculations. The SMDRs are:

Class	SMDR	Period	
Residential	\$0.42	16 mo.	January 1, 2013 to April 30, 2014
GS<50 kW	\$4.24	16 mo.	January 1, 2013 to April 30, 2014
GS>50 kW	\$10.80	16 mo.	January 1, 2013 to April 30, 2014

In its Reply, STEI requested an effective date of December 1, 2012 for its new rate riders.

#### **Board Findings**

Given the timing of the Application and thus the Decision, the Board has determined that an effective date of January 1, 2013 is appropriate for the SMDRs and the SMIRRS. The Board will therefore approve the following SMDRs:

<sup>16</sup> Application page 3

<sup>17</sup> Response to VECC Interrogatory 7

<sup>18</sup> Response to Board staff Interrogatory 9



The Board approves the SMIRRs as proposed and updated by STEI in its Reply.

The Board notes that the SMIRRS are based on an annual revenue requirement and will be in effect until the effective date of STEI's next cost of service rate order. The Board will also approve the disposition periods proposed by STEI for the SMDRs.

## 6. Accounting Matters

In granting its approval for the historically incurred costs and the costs projected for 2012, the Board considers STEI to have completed its smart meter deployment. Going forward, no operating costs for the smart meters and no capital and operating costs for new 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.

STEI 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 as part of STEI's next cost of service application.

Class	December 1, 2012		January 1, 2013	
	SMDR	Period	SMDR	Period
Residential	\$0.28	17 mo.	\$0.42	16 mo.
GS<50 kW	\$3.71	17 mo.	\$4.24	16 mo.
GS>50 kW	\$9.62	17 mo.	\$10.80	16 mo.

### THE BOARD ORDERS THAT:

1. St. Thomas Energy Inc.'s new distribution rates shall have an effective date of January 1, 2013.
2. St. Thomas Energy Inc. shall file with the Board, and shall also forward to VECC, a draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision and Order within **7 days** of the date of the issuance of this Decision and Order.
3. Board staff and VECC shall file any comments on the draft Rate Order with the Board and forward to St. Thomas Energy Inc. within **4 days** of the date of filing of the draft Rate Order.
4. St. Thomas Energy Inc. shall file with the Board and forward to intervenors responses to any comments on its draft Rate Order within **3 days** of the date of receipt of intervenor comments.

**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. St. Thomas Energy Inc. 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 St. Thomas Energy Inc. any responses to any objections for cost claims within **21 days** from the date of issuance of the final Rate Order.
4. St. Thomas Energy Inc. 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-2012-0289**, 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](http://www.ontarioenergyboard.ca). If the web portal is not available parties may email their document to [BoardSec@ontarioenergyboard.ca](mailto: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, December 13, 2012

**ONTARIO ENERGY BOARD**

*Original signed by*

Kirsten Walli  
Board Secretary