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BY EMAIL

January 10, 2011

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Wellington North Power Inc.
2011 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2010-0119**

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Wellington North Power Inc. and to all other registered parties to this proceeding.

In addition please remind Wellington North Power inc. that its Reply Submission is due by January 31, 2011.

Yours truly,

Original Signed By

Christiane Wong
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2011 ELECTRICITY DISTRIBUTION RATES

Wellington North Power Inc.

EB-2010-0119

January 10, 2011

**Board Staff Submission
Wellington North Power Inc.
2011 IRM3 Rate Application
EB-2010-0119**

Introduction

Wellington North Power Inc. ("WNP") filed an application (the "Application") with the Ontario Energy Board (the "Board"), received on September 15, 2010, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that WNP charges for electricity distribution, to be effective May 1, 2011. The Application is based on the 2011 3rd Generation Incentive Regulation Mechanism.

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by WNP.

In the interrogatory phase, Board Staff identified certain discrepancies in the data entered in the application model by WNP. In response to Board staff interrogatories, which requested either a confirmation that these discrepancies were errors or an explanation supporting the validity of the original data filed with the application, WNP confirmed that they were errors and provided the corrected data. Board Staff will make the necessary corrections to WNP's model at the time of the Board's decision on the application.

Staff has no concerns with the data supporting the updated Retail Transmission Service Rates ("RTSRs") proposed by WNP. Pursuant to Guideline G-2008-0001, updated on July 8, 2010, staff notes that the Board will update the applicable data at the time of this Decision based on any available updated Uniform Transmission Rates.

WNP is not proposing to dispose of its Group 1 deferral and variance account balances as of December 31, 2009 since the preset disposition threshold of \$0.001/kWh set forth in the EDDVAR Report was not exceeded.

Board staff makes submissions on the following matters:

- Smart Meter Funding Adder; and
- Lost Revenue Adjustment Mechanism (“LRAM”) and Shared Savings Mechanism (“SSM”) rate rider.

Smart Meter Funding Adder

Board staff’s submissions on Smart Meters are with respect to the following two issues:

1. Role of the Smart Meter Installation Plan (“SMIP”) versus Guideline G-2008-0002: Smart Meter Funding and Cost Recovery (“the Guideline”); and
2. Proposed Smart Meter Funding Adder.

Role of the SMIP versus the Guideline

Discussion

The Vulnerable Energy Consumers Coalition (“VECC”) has asked interrogatories to WNP regarding the role of the SMIP, for which guidelines were published in October 2006, versus that of the more recent Guideline issued in 2008.

Board staff notes that one of the key differences between the two documents is that the SMIP required class specific information for all costs known to distributors at that time. The Guideline did not require class-specific information for all costs.

Board staff concurs with WNP’s responses to VECC IRs with respect to the role of the SMIP versus the Guideline. The Guideline is a later document, and represents the evolution of the Board’s policy and practice with regards to smart meter funding, implementation and cost recovery. The SMIP filing requirements were established in 2006, just after the first set of Government regulations were issued authorizing certain named utilities to conduct smart meter activities. WNP was not included in that group and, like many other and generally smaller distributors, would only become authorized (after mid-2008) to deploy smart meters pursuant to the London Hydro RFP process, as allowed by O.Reg 427/06, as amended by O.Reg 235/08.

WNP's SMIP was thus filed before WNP was authorized to deploy smart meters. The industry and the Board were informed by the early smart meter deployment activities of the named distributors. In particular, the Board reviewed smart meter deployment, early on, for the named distributors in a combined Smart Meter proceeding under File No. EB-2007-0063. The Board's Decision on that proceeding was issued on August 8, 2007 and established an approach for reviewing smart meter costs for prudence. As well as establishing (initial) Board policy on various aspects (such as definition of minimum functionality, treatment of "beyond minimum functionality" costs, and the treatment of stranded meters), it was the first detailed review of the level of smart meter costs based on actual data.

That Decision served as a starting point for Board Decisions in subsequent rate applications, and was the foundation upon which the Guideline was developed. The Board, and the industry, has evolved policies and practices with respect to smart meter funding and cost recovery. And as most distributors are completing, by the end of 2010 or early in 2011, their smart meter deployment, the review and disposition of smart meter costs and the process for integration of smart meters into a distributor's rate base is well under way. Once this process is complete, smart meters should be treated as distribution assets akin to poles, wires, transformers, etc., and which costs will be recoverable as part of the distributor's revenue requirement and not subject to separate funding.

While the idea of the SMIP was well-intentioned and well-informed when it was developed, it has been succeeded by subsequent Board Decisions and policy, such as the Guideline.

VECC raised a similar issue in a recent application by PowerStream Inc. for disposition of smart meter costs (EB-2010-0209). In its Decision, the Board stated:

The Board's Decision With Reasons in a generic proceeding, RP-2005-0020/EB-2005-0529, established the need for specific funding for smart meter investment. In that Decision, the Board noted the usefulness of using a smart meter funding adder and variance accounts to track the variance or difference between funding adder revenue and smart meter capital and operating expenditures.

While the Decision in the generic proceeding established the concept of the smart meter funding and the variance accounts to track differences between smart meter costs and revenues, the details were dealt with subsequently in the Board's Decisions in individual 2006 EDR rate applications. As documented by PowerStream during the evidentiary process, the Board's Decision in its 2006 EDR application established that the funding adder was to be collected from all metered customers. The Board notes that the Disposition Rate Rider as proposed by VECC (see VECC Table 3-1 above) excludes smart meter funding revenue collected from the GS>50 kW and Large Use customer classes.

The Board finds that a cost allocation approach based on class specific revenue requirement calculations offset by class specific smart meter funding to be inconsistent with previous Board decisions, and that there has been no clear requirement to track costs by class. The Board notes that historical funding collected from customer classes other than Residential and GS<50 kW is not material. The Board finds that a class specific calculation of the residual amounts for disposition of smart meter costs for each rate class is unwarranted, as there is insufficient benefit given the additional complexity.

The Board also finds the cost allocation approach submitted by Board staff and accepted by PowerStream to be reasonable. In making this finding the Board is mindful that full cost causality should be the guiding principle. However, the Board accepts the argument advanced by PowerStream in its reply submission that VECC's proposal for full cost causality would result in significant directional swings for customers in the future. This volatility should be generally avoided.

...

The Board is mindful that a cost allocation approach for the prospective revenue requirement should ideally be based on a class specific revenue requirement calculation. However, the Board is concerned about distributors' ability to track all individual costs on a class specific basis at this point in the smart meter initiative, given that the instructions that have

been issued by the Board in the recent past have not included this requirement. The requirements for the tracking of smart meter related costs have evolved to the point where no class by class tracking has been required since the initial implementation plans were filed. Furthermore, a cost allocation methodology in a cost of service rate application is based on reasonable cost drivers rather than tracked costs.

The Board notes that the approach used by PowerStream in its Application and the cost allocation methodology proposed by VECC in its submission are similar and the differences are *diminimus*. The Board is of the view that the effort required on the distributor's part to implement VECC's proposal is not warranted given the limited benefits.

Submission

Staff notes that while costs are not necessarily tracked on a class-specific basis, a distributor may have some information upon which class-specific costs could be derived or estimated. For example, based on account records and work orders, a distributor may be able to determine how many smart meters are installed for each of the residential and GS < 50 kW customer classes. Work orders may also provide information on installation time. Knowing the cost per meter and time estimates, a distributor may be able to estimate capital costs for smart meters on a class basis. However, some costs, such as for communications infrastructure and billing and CIS system changes, which may be used to serve all customers with smart meters – or even all customers – regardless of class, may not be known on a class basis except through the development of some sort of allocation methodology.

Board staff submits that to the extent that a distributor can reasonably provide actuals or estimates of class-specific costs, such as that for the installed smart meters, it should do so, as this can aid the Board and other parties in understanding the drivers and allocation of costs.

However, Board staff submits that there should not be a requirement for class-specific accounting of all such costs, as the added costs of such tracking and reporting would, in Board staff's view, outweigh the benefits, particularly as at least some costs would have to be allocated between customer classes. Therefore, Board staff also submits that any

cost allocation methodology used for smart meters should not assume that a distributor can identify costs on a class specific basis for all cost components.

Proposed Smart Meter Funding Adder

Discussion

In its original Application, WNP proposed an increase in its Smart Meter Funding Adder from \$1.00 to \$2.50 per month, applicable to all metered customers.

In response to Board staff interrogatory # 2, WNP submitted a revised Smart Meter Model correcting for errors in the calculations of PILs, Net Income and Amortization. WNP revised the proposed Smart Meter Funding Adder to \$3.79 per month per metered customer.

In addition, the Smart Meter Model used by WNP has a further error in that the deemed short-term debt capitalization is not taken into account in determining the incremental revenue requirement. WNP rebased for 2008 distribution rates and has had the deemed short-term debt capitalization reflected in its revenue requirement since that time. A corrected version of WNP's smart meter model to more properly reflect short-term debt capitalization is attached to this submission; the corrections implemented by Board staff are formulaic in nature. This would result in a slight increase to the Smart Meter Funding Adder to \$3.86 per month per metered customer. For purposes of this submission, Board staff will use the \$3.86 number as the starting point.

The proposed adder is higher than any smart meter funding adder that the Board has approved to date. In an application in 2010 (EB-2010-0185), Atikokan Hydro proposed a smart meter funding adder above \$4.00. However, in light of questions about whether some costs were directly related to smart meters, and the level of such costs, Board staff submitted that a funding adder of \$3.50 per month per metered customer might more reasonably balance the goals of allowing some cost recovery, until an application for a prudence review and disposition of smart meter costs tracked in accounts 1555 and 1556 was made, and avoiding cost volatility. Atikokan Hydro agreed to this proposal and it was subsequently approved by the Board.

As is widely recognized, an application for a change to a smart meter funding adder does not entail a comprehensive prudence review. Nonetheless, Board staff submits that some level of scrutiny of a proposed funding adder and the costs from which it is derived is warranted. During the period of smart meter implementation, increased funding adders have been allowed. This allows at least partial recovery of costs and mitigates rate volatility in the future. To date, the funding adder has been modest for most distributors, either \$1 per metered customer per month or some slightly higher distributor-specific number derived by using the smart meter model. The possibility that the funding adder might over-recover the incremental revenue requirement for installed smart meters has been low. However, as distributors complete deployment, applications are being made for an increased funding adder that is, for all intents and purposes, a full recovery of the incremental revenue requirement for the installed smart meters, and without a review for prudence. As the funding adder increases, the possibility of over-recovery increases, particularly if some costs are subsequently disallowed. Over-recovering costs and then subsequently having to refund amounts to customers introduces rate volatility that should be avoided if possible.

Therefore, in reviewing costs for significantly increased smart meter funding adders, Board staff submits that some further scrutiny is warranted. Board staff has adopted this approach in reviewing WNP's application.

Submission

In general, it appears that WNP has complied with the Guideline in completing the Smart Meter Model, subject to corrections that WNP and Board staff have noted.

However, Board staff has one area of concern with respect to WNP's application, namely the capital cost per installed smart meter. On sheet 2, LDC Assumptions and Data, a summary of per meter costs is provided; this is replicated below:

Per Meter Cost Split:

	Per Meter	Installed	Investment	% of Invest
Smart meter including installation	\$ 289.60	3,575	\$ 1,035,337	82%
Computer Hardware Costs	\$ 9.58	3,575	\$ 34,250	3%
Computer Software Costs	\$ 38.26	3,575	\$ 136,790	11%
Tools & Equipment	\$ -	3,575	\$ -	0%
Other Equipment	\$ 6.10	3,575	\$ 21,801	2%
Smart meter incremental operating expenses	\$ 9.57	3,575	\$ 34,197	3%
Total Smart Meter Capital Costs per meter	\$ 353.11		\$ 1,262,375	100%

The documented smart meter capital costs of \$353.11 per meter is high relative to what has been observed in other applications. In particular, Board staff questions the cost of \$289.60 for "Smart Meter including installation". The experience in many other applications is that the cost for a typical residential or GS < 50 kW smart meter would be below \$200. Polyphase smart meters for some customers will be higher, but it is unlikely that these would skew the average cost so significantly.

Unfortunately, a review of WNP's current application provides little information on the these higher smart meter costs. The bulk of WNP's smart meter installation occurs in 2010. However, a review of the corresponding input, Cell H39 on Sheet 2. Smart Meter Data, provides the following formula, which staff is not able to understand:

$$\begin{aligned} &=440690.32+1135.53+52976.56+489.85+28833.96+86.13+4664.72+(20*1 \\ &25)+6714.55+2773.14+1400+133.6+550.18+15206.4+9888.12+4494.6+1 \\ &27807+127807+20000+7000-H41-H43-H45-H53-H56-H67-H69-H71-H78- \\ &H85-H87-H89-H91-H93-H95 \end{aligned}$$

Board staff is unable to understand the various costs that WNP has aggregated and whether these costs comply with the Guideline. It is also not possible to understand what is driving a cost of \$289.60 per smart meter.

Board staff submits that one option would be for the Board to approve a Smart Meter Funding Adder of \$3.50 per month per metered customer, on a similar basis as the Board's approval for Atikokan Hydro. A smart meter funding adder of \$3.50 per month per metered customer would, in all likelihood, be largely compensatory relative to the incremental revenue requirement without a significant risk of over-recovery.

Board staff submits that the financial viability of WNP should be maintained under this option. As WNP is scheduled to rebase its electricity rates for 2012, it would be opportune for WNP to also apply for disposition of its smart meter costs for inclusion in rate base and distribution revenue requirement at that time. This would be a prudence review during which WNP could fully document its smart meter costs. Board staff thus submits that any under-recovery from a smart meter funding adder of \$3.50 per month per metered customer should be relatively small and would be addressed in WNP's scheduled rebasing application for 2012 distribution rates.

Lost Revenue Adjustment Mechanism (“LRAM”) and Shared Savings Mechanism (“SSM”) Rate Rider

Discussion

WNP has proposed to recover \$168,035.06 LRAM and \$2,815.69 SSM over a 3 year period with a sunset date of April 30, 2014.

In response to interrogatories from both Board Staff and VECC, WNP revised the LRAM component of the IRM rate application. The revised calculation results in an LRAM request of \$172,632.10.

Submission

The Board’s *Guidelines for Electricity Distributor Conservation and Demand Management* (the “Guidelines”) issued on March 28, 2008 outlines the information that is required when filing an application for LRAM or SSM.

Based on Board staff’s review of the pre-filed evidence and interrogatory responses, it appears that WNP has increased its total requested LRAM amount by approximately \$4,600 or 3%. The increase is primarily a result of a response to an interrogatory from VECC and the use of the OEB Assumptions and Measures List of Oct. 14, 2005 for CFL program results for 2005/2006.

Board staff notes that this revision is not consistent with the Board’s Decision on Horizon Utilities Inc.’s LRAM application (EB-2009-0192) where the Board directed Horizon to use the most recently published OPA Input Assumptions list when calculating its LRAM claim to keep the utility whole for the losses it has incurred as a result of implementing CDM programs. Board staff submits that the Board should accept the originally filed LRAM and SSM amounts of \$168,035.07 and \$2,815.69 respectively. These amounts are found within WNP’s pre-filed evidence and have been reviewed and endorsed by an independent third party in accordance with the Board’s Guidelines.

All of which is respectfully submitted.