

October 21, 2011

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Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
26th Floor, Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli

**Re: PowerStream Inc. (OEB Electricity Distributor Licence ED-2004-0420)
2011 Smart Meter Cost Recovery Application – Board File No. EB-2011-0128
Reply Submission**

Accompanying this letter, please find two copies of PowerStream Inc.'s ("PowerStream's") Reply Submission filed in accordance with Procedural Order No. 2.

The Reply Submission has been filed electronically via RESS and delivered by e-mail to the intervenor of record in this matter.

If you have any questions, please do not hesitate to contact the undersigned.

Yours truly,

Original Signed by Tom Barrett

Tom Barrett
Manager, Rate Applications

Encls.

cc: Mr. Colin A. Macdonald, PowerStream Inc.
Mr. James C. Sidlofsky, Borden Ladner Gervais LLP

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, being Schedule B to the *Energy Competition Act, 1998*, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by PowerStream Inc. to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates with respect to smart meters as of November 1, 2011.

**REPLY SUBMISSIONS
OF POWERSTREAM INC.**

FILED: October 21, 2011

Applicant:

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1 **Introduction**

2 PowerStream Inc. (“PowerStream”) is filing these reply submissions in
3 connection with its application for just and reasonable rates with respect to smart
4 meters as of November 1, 2011 (the “Application”).

5 PowerStream has organized its reply submission by addressing the following
6 issues which were raised in the Board Staff submission dated October 7, 2011
7 (the “Staff Submission”) and the Vulnerable Energy Consumers Coalition
8 (“VECC”) submission dated October 14, 2011 (the “VECC Submission”):

- 9 • Review of Prudence of Costs for Installed Smart Meters
- 10 • Inclusion of Unaudited Actual Costs
- 11 • Inclusion of Forecasted Costs
- 12 • Cost Allocation to Customer Classes
- 13 • Calculation of the Smart Meter Rate Riders
- 14 • Costs Beyond Minimum Functionality

15 PowerStream has provided a summary of its submission at the end of this
16 document.

17 **Review of Prudence of Costs for Installed Smart Meters**

18 PowerStream is pleased to note that Board Staff take no issues with
19 PowerStream’s audited and unaudited actual costs for the deployment of smart
20 meters (Staff Submission page 4).

21 PowerStream notes that VECC takes no issue on the costs included in this
22 application for the deployment of smart meters (VECC Submission page 4).

1 PowerStream therefore respectfully requests that the Board confirm the
2 prudence of PowerStream's documented costs for installed smart meters, as set
3 out in the Application.

4 **Inclusion of Unaudited Actual Costs**

5 ► Board Staff

6 PowerStream notes that Board Staff take no issue with PowerStream's
7 documented unaudited actual costs for installed smart meters for the period
8 January 1, 2011 to April 30, 2011 (Staff Submission, page 6).

9 Board Staff have suggested that an updating of actual unaudited costs to
10 September 30, 2011 would be desirable as this may include the actual costs
11 related to the forecasted \$500,000 in OM&A repair and maintenance costs,
12 included in the Application.

13 PowerStream notes that most of the installations with technical issues, that
14 comprise the \$500,000 in OM&A repairs and maintenance costs, still remain to
15 be done, as discussed below (in the section on inclusion of forecasted costs). To
16 date there are very limited actual costs for the modifications to customer owned
17 equipment needed to permit installation of a smart meter.

18 In determining the smart meter costs at April 30, 2011 for this Application,
19 PowerStream took additional steps and booked entries that are normally only
20 done at year end. This was followed by a detailed analysis of the data to ensure
21 its completeness and accuracy.

22 PowerStream respectfully submits that an updating of actual costs to September
23 30, 2011 will be of little benefit and will unnecessarily delay approval of the costs
24 which Board Staff have found to be reasonable and prudently incurred.

1 ► VECC

2 In its submission, VECC raises no issue with the prudence of the unaudited costs
3 (actual and forecasted) in the Application. Rather VECC takes issue with the
4 inclusion of unaudited costs and requests that PowerStream's recovery be
5 limited to audited costs to December 31, 2010.

6 PowerStream notes that Board Staff did not share this opinion.

7 VECC asserts that the total unaudited capital and OM&A costs are slightly
8 greater than 10% of the total capital and OM&A costs. PowerStream submits that
9 it would not be appropriate to adopt the rigid approach proposed by VECC. Put
10 another way, what VECC is advocating is that because the unaudited portion of
11 the total smart meter expenditures exceed the audited amounts by approximately
12 \$278,000 on total expenditures of \$11.8 million, PowerStream should be required
13 to file another application for recovery of smart meter-related costs.
14 PowerStream has two comments in this regard.

15 First, PowerStream submits that the majority of the costs, in respect of which
16 recover is being sought, are audited. PowerStream respectfully submits that
17 there is no need to require another proceeding in respect of the unaudited costs.

18 In the Application, PowerStream has clearly shown the audited costs and
19 unaudited costs separately, and provided comparisons which demonstrate the
20 similarity and reasonableness of the unaudited costs. This can clearly be seen in
21 Tables 1, 4, 12 and 16 in the Application.

22 Second, PowerStream is concerned about VECC's creation of a further
23 administrative burden in this recovery process. There is no need for the parties
24 to engage in another proceeding, and for PowerStream to incur additional
25 intervenor and Board costs (in addition to its own application-related costs
26 including the diversion of internal resources to the additional proceeding), for a

1 new application that would pertain to a fraction of the total costs of the smart
2 meter project.

3 VECC takes issue with Board Staff's approach on the South rate zone whereby
4 the unaudited costs were taken as a percentage of the total smart meter-related
5 costs, including audited costs from the 2009 Cost of Service and 2010 Smart
6 Meter Cost Recovery. VECC claims the comparison should only be between the
7 costs in the current Application.

8 PowerStream submits that Board Staff's approach, whereby the unaudited costs
9 are compared to the total costs, including previously audited costs, is the correct
10 interpretation. There is no basis for VECC's assertion that the unaudited costs
11 should only be compared to costs in the current Application. At page 12 of
12 Guideline G-2008-0002 (Smart Meter Funding and Cost Recovery), the Board
13 states:

14 "The Board also expects that only two applications will need to be made
15 for the recovery of smart meter costs. The first is when the distributor
16 achieves at least 50% penetration of smart meters within its service area.
17 The second is when the distributor installs 100% of the meters. The 50%
18 threshold will assist in managing the workload of interested parties and will
19 help ensure that the distributor has sufficient experience with its smart
20 meter activities to enable it to provide detailed cost information."

21 PowerStream submits that the Guideline contemplates a single process of smart
22 meter implementation, and a single process for recovering smart meter-related
23 costs, although the implementation process may take an extended period of time,
24 and the collection process may, at the distributor's discretion, be split into two
25 applications. The Guideline also contemplates that experience gained in the
26 course of the implementation process will improve the distributor's ability to
27 provide detailed cost information. VECC's approach ignores the experience
28 PowerStream has obtained through the implementation process as it relates to
29 smart meter costs. On two previous occasions, the Board has confirmed the
30 prudence of PowerStream's smart meter expenditures in the South rate zone, but

1 VECC would have the Board ignore this and require another proceeding with
2 respect to the unaudited costs notwithstanding that they represent only a fraction
3 of the total smart meter-related costs for this zone. Ultimately this only harms
4 PowerStream's customers, who will be subject to additional carrying costs on
5 smart meter expenditures.

6 Additionally, the VECC approach could result in artificial distinctions between
7 utilities. Specifically, if PowerStream were to have waited until this year and
8 made a single application for smart meter cost recovery (which would have
9 imposed additional carrying costs on its customers), VECC would not be in a
10 position to object to the use of unaudited information because the unaudited
11 costs would not exceed 10% of total costs (this assumes for the purposes of this
12 discussion that there is a firm 10% limit, which PowerStream has submitted there
13 is not). Here, however, under VECC's approach, those same unaudited
14 expenditures cannot be included because VECC would have the Board ignore
15 the expenditures already found to be prudent. With respect, PowerStream does
16 not see how this is a reasonable outcome, nor does it understand how this
17 approach would better protect ratepayer interests.

18 As with the North rate zone, VECC did not raise any issue with the costs other
19 than the fact that some of the costs are unaudited.

20 In its Decision on PowerStream's 2010 Smart Meter Cost Recovery application
21 (EB-2010-0209, page 8) the Board determined that it was appropriate for
22 PowerStream to forecast the 2010 OM&A costs for the approved meters and
23 include this in the determination of the Smart Meter Disposition Rate Rider:

24 *"The Guideline states:*

25 *When applying for recovery of smart meter costs, a distributor should*
26 *ensure that all cost information has been audited, including the smart*
27 *meter related deferral account balances.*

28 *However, while the Board prefers applicants to support their historical costs with*
29 *audited financial statements, the Board notes that the 2010 stub period OM&A*
30 *amounts are in essence forecast amounts whose purpose is identical to the*

1 PowerStream respectfully submits that it has documented and shown the
2 reasonableness of unaudited and forecast amounts compared to audited costs in
3 its Application. PowerStream further submits that VECC's request to limit cost
4 recovery to audited costs up to December 31, 2010 is unwarranted.

5 PowerStream respectfully requests that the Board consider and approve both the
6 audited and unaudited (actual and forecasted) costs in respect of both the North
7 and South rate zones in this proceeding, as set out in the Application.

8 **Inclusion of Forecasted Costs**

9 ► Board Staff

10 Board Staff do not raise any issues with regard to the forecasted OM&A costs
11 related to the meters installed up to April 30, 2011. Board Staff, in their
12 submission, note that PowerStream is continuing to install smart meters.

13 PowerStream continues to install smart meters, for the estimated 225 customers
14 where there are technical issues with installation, for customers who have just
15 now responded to requests for access to change out the meter and for new
16 services. PowerStream adds some 5,000 to 6,000 new Residential and
17 GS<50 kW customers each year. From this perspective, PowerStream will never
18 be completely finished installing smart meters.

19 There are customers who refuse to allow PowerStream to install a smart meter.
20 PowerStream is working with these customers to try and secure their co-
21 operation. These installations will not be completed in 2011 and it may not be
22 possible to get 100% completion even in 2012.

23 Therefore, PowerStream submits that as a practical matter, it is necessary and
24 reasonable to establish a cut-off point where the smart meter program is deemed

1 to be completed and any further additions are part of the utility's normal business
2 activities.

3 PowerStream submits that April 30, 2011 is an appropriate time to consider the
4 smart meter program substantially complete. At that point in time PowerStream
5 had installed over 100% of the number of required smart meters based on the
6 number of mandated customers at the start of the Smart Meter Implementation
7 Program. When updated customer numbers are considered, PowerStream had
8 installed smart meters for over 99.2% of the currently mandated customer base
9 by April 30, 2011.

10 As discussed above, it is very probable that there will remain a small number of
11 installations outstanding at December 31, 2011 and beyond. However the
12 amount is insignificant compared to the total program and it is reasonable to
13 consider the program complete.

14 PowerStream respectfully submits that its request to consider the smart meter
15 implementation program complete as at April 30, 2011 and to treat any further
16 smart meter capital additions as normal fixed asset additions is an appropriate,
17 reasonable and practical way to proceed.

18 Board Staff, in their submission, note that PowerStream has included in its
19 Application forecasted OM&A costs relating to meters to be installed rather than
20 limiting its request to meters installed as of April 30, 2011. In particular Board
21 Staff note the estimated \$500,000 in modifications to customer owned equipment
22 needed to permit installation of a smart meter.

23 PowerStream agrees with Board Staff that the OM&A in the calculation of the
24 true-up amount recovered by the Smart Meter Disposition Rider (SMDR) is
25 usually limited to the OM&A related to the installed meters.

1 PowerStream was concerned that these one-time OM&A costs would need to be
2 captured in the smart meter OM&A deferral account to be recovered at a later
3 date, and that this avenue might not be available when final disposition of the
4 smart meters is approved. This is the reason that PowerStream included these
5 costs in the Application. PowerStream included these costs in the calculation of
6 the SMDR, as these are one time OM&A costs and it would not be appropriate to
7 forecast these as annual OM&A costs in the smart meter incremental revenue
8 requirement (SMIRR) as the SMIRR could potentially be in effect for more than
9 one year leading to an over-recovery.

10 As mentioned previously, to date, PowerStream has only completed a small
11 number of the 225 installations requiring modifications to customer owned
12 equipment to permit installation of a smart meter. PowerStream is still waiting for
13 supplier invoices for much of the work done to date.

14 These modifications are not the type of customer premise work done previously
15 to repair defective meter bases – it is more complex. PowerStream has no
16 history of similar work and very limited information on which to evaluate the
17 accuracy of the estimate for this type of work. The estimate in the Application
18 was based on an assumed “typical” situation. PowerStream has found that many
19 of these situations are unique and there will likely be considerable variation in the
20 type of modifications needed and the cost.

21 PowerStream agrees that Board Staff’s suggestion, to track the actual costs
22 versus the estimated costs for the modifications to customer owned equipment in
23 a sub-account of Smart Meter OM&A Variance Account 1556 for true-up with
24 ratepayers, is appropriate. PowerStream notes that the affected services are all
25 Residential customers.

1 **Cost Allocation to Customer Classes**

2 PowerStream confirms Board Staff's submission that it has applied the same
3 cost allocation methodology approved by the Board in PowerStream's 2010
4 Smart Meter Cost Recovery application (EB-2010-0209).

5 VECC disagrees with PowerStream's cost allocation proposals for both the
6 Smart Meter Disposition Rider ("SMDR") and the Smart Meter Incremental Rate
7 Rider ("SMIRR") and requests that VECC's cost allocation methodology be used.

8 VECC's method requires completing separate smart meter cost recovery models
9 for the Residential and GS<50 kW classes with class specific amounts for smart
10 meter adder collected, capital and OM&A amounts.

11 PowerStream notes that the VECC cost allocation methodology does not deal
12 with the smart meter adder amounts collected from the General Service greater
13 than 50 kW and Large Use classes. Should the Board choose to use VECC's
14 cost allocation method for the SMDR, PowerStream will require further direction
15 from the Board in its Decision on how these smart meter adder amounts in
16 account 1555 are to be treated.

17 PowerStream notes that the cost allocation method proposed by VECC for the
18 allocation of the SMIRR is similar to the method used by PowerStream in that the
19 primary basis of allocation to the customer classes is based on the actual capital
20 cost of the smart meters installed for each class. VECC's approach is more
21 detailed as it requires completing a separate smart meter cost recovery model for
22 each customer class. This detailed method produces somewhat similar results
23 but with some differences in the amounts allocated as shown in VECC Tables 7
24 and 8.

1 **Calculation of the Smart Meter Rate Riders**

2 ▶ Board Staff

3 Board Staff submits that PowerStream has appropriately applied the
4 methodology for calculating both the Smart Meter Disposition Rider (SMDR) and
5 the Smart Meter Incremental Rate Rider (SMIRR).

6 As noted earlier, Board Staff addressed the inclusion of forecasted OM&A costs
7 beyond the requested time of disposition, in particular the \$500,000 estimate for
8 modifications to customer owned equipment required to permit installation of
9 smart meters. This is discussed above under “Inclusion of Forecasted Costs”.
10 PowerStream supports Board Staff’s suggestion to track any difference between
11 the estimated and actual OM&A costs, related to the modifications to customer
12 owned equipment to permit installation of smart meters, for settlement with
13 customers.

14 PowerStream submits that it is reasonable to submit a final application for
15 disposition of smart meter costs as of April 30, 2011 and that it is reasonable to
16 forecast a few costs which are relatively small in comparison to the overall smart
17 meter implementation program. On this basis, PowerStream has included the
18 appropriate amounts and calculated the smart meter rate riders appropriately.

19 ▶ VECC

20 PowerStream notes that VECC’s issues relate to the inclusion of unaudited costs
21 and the allocation of the ‘true-up’ and incremental revenue amounts between
22 customer classes. PowerStream has addressed these matters above, under
23 “Inclusion of Unaudited Actual Costs” and “Cost Allocation to Customer Classes”,
24 respectively. VECC does not raise any issues regarding the method of
25 calculating the rate riders nor with the period for the SMDR recovery.

1 Costs Beyond Minimum Functionality

2 Board Staff submit that the types of costs included in the Application are
3 appropriate for recovery (Staff Submission, page 17).

4 PowerStream notes that VECC made no submissions on this topic.

5 PowerStream submits that the types of costs included in the Application are in
6 accordance with the Board's guidelines and appropriate for recovery.

1 **Summary**

2 PowerStream submits that it has for all practical purposes completed its smart
3 meter implementation program, and that it is appropriate to make this Application
4 and recover the amounts sought therein at this time.

5 PowerStream customers, in both rate zones, are no longer being charged any
6 smart meter adders. PowerStream submits that delayed disposition of the
7 deferred smart meter costs with accruing revenue requirement and carrying
8 charges will lead to more significant bill impacts in the future. Clearing these
9 costs now will lead to more gradual changes in rates and rates that better reflect
10 current costs. This is preferable to a future jump in rates to recover past costs.

11 PowerStream does not propose any changes to the smart meter cost recovery
12 amounts and rate riders as filed in the Application. PowerStream proposes to
13 track any variance between the estimated and actual OM&A costs, related to the
14 modifications to customer owned equipment needed to permit installation of
15 smart meters, for true-up with customers.

16 The proposed rate riders are summarized below in Tables 2.

17 **Table 2: Proposed Smart Meter Rate Riders**

Rate Rider	North Rate Zone		South Rate Zone	
	Residential	GS<50	Residential	GS<50
Disposition	\$ 0.52	\$ 1.71	\$ (0.19)	\$ (12.62)
SMIRR	\$ 1.71	\$ 5.61	\$ 0.06	\$ 4.05
Total	\$ 2.23	\$ 7.32	\$ (0.13)	\$ (8.57)

18

19 The above Smart Meter rate riders are incremental to the existing 2010 approved
20 SMIRR rate riders for the South rate zone which continue until the effective date
21 of new Cost of Service rates.

1 PowerStream notes that the bill impacts from the proposed rate riders are well
2 below the levels where rate mitigation is considered. Table 3 summarizes the
3 monthly bill impacts for typical customers calculated in Appendices 2 and 4 of the
4 Application.

5 Table 3: Summary of Total Bill Impacts –
6 Proposed Smart Meter Rate Riders

Customer Class	North		South	
	\$	%	\$	%
Residential	\$ 2.27	2.0%	\$ (0.13)	0.1%
GS<50 kW	\$ 7.44	2.8%	\$ (8.72)	-3.4%

7 Increase (decrease)

8 As the Board is aware, PowerStream has requested that the proposed riders be
9 effective November 1, 2011. In the event that the Board's rate order is not
10 available in time to allow for November 1st implementation, PowerStream
11 respectfully requests that the Board permit it to adjust the riders set out in the
12 Application to reflect any later implementation date established by the Board and
13 permit full recovery of the amounts approved by the Board in this proceeding
14 over the shorter recovery period.

15 All of which is respectfully submitted this 21st day of October, 2011.

16 Original Signed by Colin Macdonald
17 Colin Macdonald

18 Original Signed by Tom Barrett
19 Tom Barrett