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BY EMAIL

March 14, 2012

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: Lakeland Power Distribution Ltd.
Application for Disposition and Recovery of Costs Related to Smart Meter Deployment
Board File Number EB-2011-0413

Pursuant to the process documented in the Notice of Application and Hearing, please find attached Board staff's submission on the rate application for the disposition and recovery of costs related to smart meter deployment filed by Lakeland Power Distribution Ltd. on December 2, 2011

Please forward the attached to Lakeland Power Distribution Limited and to registered parties to this proceeding.

Yours truly,

Original signed by

Keith C. Ritchie
Project Advisor, Applications & Regulatory Audit

2012 ELECTRICITY DISTRIBUTION RATES

Lakeland Power Distribution Ltd.

Application for Disposition and Recovery of Costs Related to Smart Meter Deployment

EB-2011-0413

STAFF SUBMISSION

March 14, 2012

INTRODUCTION

Lakeland Power Distribution Ltd. ("Lakeland") is a licensed electricity distributor serving approximately 10,000 customers in the Towns of Huntsville and Bracebridge, the Municipality of Magnetawan, and the Villages of Sundridge and Burk's Falls. Lakeland filed a stand-alone application (the "Application") with the Board, received on December 2, 2011, seeking 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. Lakeland requested approval of proposed Smart Meter Disposition Riders ("SMDRs") and Smart Meter Incremental Revenue Requirement Rate Riders ("SMIRRs") effective May 1, 2012. The Application is based on the Board's policy and practice with respect to recovery of smart meter costs.[1]

The Board issued its Letter of Direction and Notice of Application and Hearing on January 19, 2012. The Vulnerable Energy Consumers' Coalition ("VECC") requested and was granted intervenor status and cost award eligibility. No letters of comment were received.[2] The Notice of Application and Hearing established that the Board would consider the Application by way of a written hearing and established timelines for discovery and submissions.

Board staff posed interrogatories to Lakeland on February 15, 2012, and VECC filed interrogatories on February 16, 2012. Lakeland filed its responses to all interrogatories on February 29, 2012.

This submission reflects observations and concerns which arise from Board staff's review of the record of the proceeding, including the original Application and updates as provided in response to interrogatories.

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[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*. While Lakeland's Application was filed prior to the issuance of *Guideline G-2011-0001*, Lakeland's Application is compliant with it. In preparing its Application, Lakeland used Smart Meter Model, Version 2.17, and prepared its application considering recent Board decisions on smart meter cost disposition and recovery.
[2] Response to Board staff IR #1.

THE APPLICATION

Approvals Sought

In the Application as filed on December 2, 2011, Lakeland applied for the following approvals:

- Smart Meter Disposition Rider (SMDR) – An actual cost recovery rate rider of $1.20 per Residential customer per month and $2.21 per General Service less than 50kW customer per month for the period May 1, 2012 to April 30, 2013. This rate rider will collect the difference between the 2006 to December 31, 2011 revenue requirement related to smart meters deployed as of December 31, 2011 [plus interest on operations, maintenance and administration ("OM&A") and depreciation expenses] and the smart meter funding adder collected from May 1, 2006 to April 30, 2012 [and corresponding interest on the principal balance of SMFA revenues].
- Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) – A forecasted cost recovery rate rider of $3.17 per Residential customer per month and $5.61 per General Service less than 50kW customer per month for the period May 1, 2012 to April 30, 2013.[3] This rate rider will collect the 2012 incremental revenue requirement related to smart meter costs to be incurred from January 1, 2012 to December 31, 2012.
- Smart Meter Funding Adder (SMFA) – A termination of LPDL's current SMFA from $2.50 to $0.00 per metered customer per month effective May 1, 2012 to reflect the smart meter costs approved for recovery through the SMDR and SMIRR rate riders above.

Board staff notes that approval for the termination of Lakeland's current SMFA is not required in this Application. In Lakeland's 2011 EDR IRM3 rates application

[3] The SMIRRs are designed to remain in effect until the utility next rebases its rates through a cost of service application. However, as Lakeland is scheduled to rebase its rates for the 2013 rate year, as confirmed in the Board's letter of January 29, 2012, the SMIRRs will only be in effect for one year.

(EB-2010-0096), the Board approved the current SMFA of $2.50 with a sunset date of April 30, 2012.[4] Further, the cessation of the SMFA has been factored into Lakeland's 2012 IRM3 rates application (EB-2011-0180) being considered separately and concurrently with this Application.

Updated Evidence

In responses to Board staff interrogatories, Lakeland made corrections for the following:

- Corrected the Return on Equity and deemed short-term debt rate to the Board-approved values of 8.01% and 1.33% for 2009 (Board staff IR # 7);
- Corrected the long-term debt rate for 2006 and 2007 to 4.38% as approved in Lakeland's 2006 EDR rates application (Board staff IR # 8);
- Re-categorized $116,543 from Other Equipment to Computer Software, with an impact on the deferred revenue requirement due to different depreciation rates and CCA for tax purposes (Board staff IR # 9);
- Re-calculated the interest on the principal of OM&A and depreciation expense using the more accurate monthly calculation using sheet 8A of the Smart Meter model. In this case, the improved accuracy is minor ($885,844, versus $886,290 in the original application, a difference of $446). (Board staff IR # 10);
- Corrected the model so that interest on SMFA revenues is only calculated to April 30, 2012 (Board staff IR # 11); and
- Revised the aggregate Federal and provincial corporate income tax rates to correspond to the rate for taxes/PILs actually paid by Lakeland in each year (Board staff IR # 13).

In its response to Board staff IR # 15, Lakeland filed a revised smart meter model and class-specific SMDRs and SMIRRs to reflect the corrections noted in Board staff IRs # 7, 8, 9, 10, 11 and 13.

[4] Decision and Order EB-2010-0096, issued March 17, 2011, pp. 4-5.

Through its interrogatories, VECC also asked Lakeland to prepare class-specific SMDRs and SMIRRs based on smart meter models that looked at the costs for each class. In response to VECC IR # 12, Lakeland provided its response. However, in its response to that interrogatory and the Appendices to the interrogatory responses to VECC, Lakeland has only provided sheet 2 of the class-specific models. As such, Board staff is unable to ascertain whether the class-specific models prepared in response to the VECC interrogatories also include the corrections noted in Board staff interrogatories 7, 8, 9, 10, 11 and 13.

The revised class-specific SMDRs and SMIRRs calculated as a result of responses to Board staff and VECC interrogatories are summarized below:

Table 1: Original and Revised SMDRs and SMIRRs

Class	**SMDR ($/month, for 12 months)**			**SMIRR ($/month)**		
	Original	**Revised**		**Original**	**Revised**	
		Board staff IR #15	VECC IR # 12		Board staff IR #15	VECC IR # 12
Residential	$1.20	$1.25	$1.07	$3.17	$3.22	$3.45
GS < 50 kW	$2.21	$2.31	$2.83	$5.61	$5.73	$4.20

It is not clear whether Lakeland is proposing the revised class-specific SMDRs and SMIRRs provided in response to Board staff IR # 15 or those provided in the response to VECC IR # 12; Board staff suggests that Lakeland should confirm its proposal based on the interrogatory responses in its reply submission. However, in the absence of further information, Board staff submits that the revised class-specific SMDRs and SMIRRs provided in the response to Board staff IR # 15 are the best documented and accurate, for consideration by the Board.

Prudence of Smart Meter Costs

In response to Board staff IR #14. Lakeland confirmed that the cost per meter works out to an average of $286.90 (capex and opex) or $237.75 (capex only). These are higher per meter costs than the Board has seen for most utilities, with

Hydro One Networks Inc. being the main exception.[5] In responses to Board staff IRs 14 b) and 2, Lakeland has provided detailed explanations for the drivers of its smart meter costs. Lakeland is a smaller utility with a non-contiguous service territory in the Muskoka region. The rocky and forested terrain, and buildings in built-up areas, has impacted the reliability of remote reading for smart meters, necessitating increased capital costs for more collectors, “buddy” meters, etc. to effect reliable communications. Board staff takes no issue with Lakeland’s explanations for the increased costs. Additional costs to improve web presentment were also provided in response to Board staff IR # 5. Also, in response to VECC IR # 1, Lakeland documented the capital purchase and installation costs (i.e. excluding operating costs and capital costs for collectors, AMI infrastructure, computer hardware and software) at $139.32 for Residential customers and $209.03 for GS < 50 kW customers; the differences relate to the different costs and proportions of single-phase and polyphase meters in each class.

Further, Board staff observes that the revised proposed SMIRR is $3.22/month (from Booard staff IR # 15) for Residential customers. The SMIRR is, by design, a proxy for the incremental increase in distribution rates to recover the annualized capital-related and operating costs of smart meters as if they were in rate base and operating expenses. While higher than other utilities to date, the

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[5] In Appendix A of the Board’s Decision with Reasons EB-2007-0063, issued August 8, 2007, with respect to the combined smart meter proceeding, the Board documented the per meter cost for the 13 applicant utilities then authorized for smart meter deployment. For “urban” distributors for which data was available, the per meter costs ranged from $123.59 to $189.96, while Hydro One Networks’ costs were estimated at $479.47. Hydro One Networks’ higher per meter costs reflected, in part, the need for more communications infrastructure and increased costs to install smart meters for customers over a larger and less dense service area. The cost information in the combined smart meter proceeding is informative, but reflects an early stage of smart meter deployment, and so must be used with caution. However, similar patterns and ranges for utilities serving urban areas as those observed in Appendix A of the Decision with Reasons EB-2007-0063 have been observed in more recent cases in which smart meter costs have been considered, although few such cases to date are for utilities with operating characteristics similar to Lakeland.

SMIRR is within the range of $3 to $4 that was originally estimated (albeit on limited and preliminary data) in the Board's Report on smart meters in 2005.[6]

Finally, Board staff observes that Lakeland, as part of the CHEC group of utilities, has become authorized to deploy smart meters under O. Reg. 427/06 as amended by O.Reg. 238/08 in accordance with the London Hydro RFP process. It has complied with the regulation and the London Hydro RFP process for the procurement of smart meters and associated equipment and for services to install and operate the smart meters and associated equipment; as such, Board staff considers that the documented costs are prudent.

Inclusion of 2012 Costs and Demand for Customer Growth

Board staff notes that Lakeland has included costs for 2012, including capital costs for smart meters to be forecasted to be deployed in 2012 due to customer growth. Lakeland has forecasted 120 new Residential smart meters for 2012 and 3 new GS < 50 kW customers.

This approach is different than that for which the Board has approved final smart meter disposition in recent applications. In PowerStream's 2011 smart meter application (EB-2011-0128), the utility included costs to the end of 2011. In Kenora Hydro's 2011 cost of service application (EB-2010-0135), smart meter costs to the end of the 2010 test year were included in the SMDR, and capital and operating costs for 2011 were included in the test year rate base and revenue requirement. Similarly, in Hydro Ottawa's 2012 cost of service application (EB-2011-0054), only costs to the end of 2011 were included in the determination of the SMDR.

In Lakeland's Application, the utility has noted that there are some costs for smart meters and TOU implementation also factored into 2012. Lakeland has also included the capital costs for 123 smart meters forecasted to be installed in

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[6] *Smart Meter Implementation Plan - Report of the Board To the Minister*, January 26, 2005, pg. vi,
http://www.ontarioenergyboard.ca/documents/communications/pressreleases/2005/press_release_sm_implementationplan_260105.pdf

2012. Board staff notes that the capital cost for 123 new meters is relatively small at $17,107, and will not have a significant impact on the calculation of the SMIRRs. Board staff does not oppose this approach in that Lakeland has been consistent in matching costs with demand. On sheet 9 of the model, it appears that Lakeland has factored the new growth in 2012 in calculating the average annual number of metered customers in the Residential and GS < 50 kW classes used as the denominator for the SMDR and SMIRR. While the SMIRR may be marginally increased for including the new growth, the SMDR will be marginally lower as the denominator is increased due to growth.

Board staff submits that both the approach approved in PowerStream and in previous cost of service applications, including costs only to the end of 2011, and the current approach of Lakeland, including costs for 2012, are both legitimate so long as the costs and the demand (number of customers) are for the same period and given that the unaudited costs for both 2011 and 2012 are less than 10% of the total costs of the program. In the long run, both approaches should be equivalent. Due to extensions granted for TOU implementation, Board staff suspects that other utilities will include costs for 2012, including costs for additional smart meters due to growth. As long as the denominator on which the SMDR and SMIRR are calculated also includes the new additions (based on average in-service in the year), Board staff takes no issue with this approach.

Other Matters

Lakeland has also responded to interrogatories regarding the net book value of stranded conventional meters. Lakeland is proposing not to dispose of stranded meters at this time, but to deal with disposition in its next rebasing application, scheduled for 2013 rates. Board staff submits that this is compliant with Guideline G-2011-0001.

In response to VECC IR # 13, Lakeland has discussed operational efficiencies and cost savings resulting from smart meter deployment. Lakeland notes that it is unable to quantify the savings at this point. Board staff takes no issue with Lakeland’s explanations, and recognizes that it may take time for savings to be recognized. As Lakeland, and the utility sector generally, become more accustomed to customer and operational data (i.e. service interruptions, meter tampering) that smart meters and TOU pricing provide, re-engineering of business processes may allow for more, and more substantial, efficiencies to be realized over time.

Board staff submits that Lakeland should be prepared to address both the stranded meters and any operational efficiencies further in its 2013 cost of service rebasing application.

Subject to the above comments, Board staff submits that Lakeland's Application is compliant with Guideline G-2011-0001, reflects prudently incurred costs and is consistent with Board policy and practice with respect to the disposition and recovery of costs related to smart meter recovery.

- All of which is respectfully submitted -