



ONTARIO ENERGY BOARD

2012 ELECTRICITY DISTRIBUTION RATES

Midland Power Utility Corporation

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

EB-2011-0434

STAFF SUBMISSION

March 16, 2012

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**Midland Power Utility Corporation
Smart Meter Cost Recovery Application
EB-2011-0434**

Board Staff Submission

Introduction

Midland Power Utility Corporation (“Midland”) is the electricity distributor licenced by the Ontario Energy Board (the “Board”) to serve the Town of Midland. On December 19, 2011, Midland filed a stand alone Smart Meter Cost Recovery application (the “Application”) requesting a Smart Meter Disposition Rider (“SMDR”) and a Smart Meter Incremental Revenue Requirement Rider (“SMIRR”). Both of the proposed rate riders are to recover smart meter related costs from Midland’s customers. The proposed effective date for both riders is May 1, 2012 and Midland is requesting that they remain in effect until April 30, 2013. If a Decision is not rendered in time for an effective date of May 1, 2012, Midland is requesting an interim rate adder equal to the lower of the proposed SMIRR rates. 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 25, 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 interrogatories and submissions.

Board staff and VECC submitted interrogatories to Midland on February 24, 2012. Midland filed its responses to all interrogatories on March 9, 2012.

The following submission reflects observations and concerns arising from Board staff’s review of the record of the proceeding, which includes the original Application and updates as provided in response to interrogatories.

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*. Midland 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

Midland requested the following in its Application:

- A Smart Meter Disposition Rate Rider for one year effective May 1, 2012 of \$0.36 for Residential customers and a Smart Meter Disposition Rate Rider of \$0.84 for General Service <50 kW customers. This Rate Rider reflects the Net Deferred Revenue Requirement of \$33,871.62 being the difference between the Deferred Incremental Revenue Requirement from 2006 to December 31, 2011 and the Smart Meter Funding Adder (“SMFA”) Revenues collected from 2006 to April 30, 2012, plus associated interest on the principal balances of SMFA revenues and OM&A and depreciation expenses;
- A Smart Meter Incremental Revenue Requirement Rate Rider for one year effective May 1, 2012 in the amount of \$3.34 for Residential Customers and \$6.52 for General Service <50 kW customers. This Rate Rider reflects the Incremental Revenue Requirement associated with installed smart meters for the period May 1, 2012 to April 30, 2013 in the amount of \$302,306; and
- In the event, the Board is unable to issue its Decision and Order for rates effective May 1, 2012, Midland PUC is requesting that a rate adder of \$3.34 per month be included on all metered customer invoices until such time as the Decision and Order is issued herein.

With respect to the rate adder of \$3.34 per month that is requested in the event that the Decision on the Application is not made in time to bill the SMDR and SMIRR for May 1, 2012 implementation, Midland set the adder based upon the residential SMIRR, which is the lower of the SMIRR rate riders.

In its EB-2011-0182 IRM application for 2012 rates, Midland has not requested the continuation of the Smart Meter Funding Adder.

Updated Evidence

Through the interrogatory process the original Application was updated for the following changes:

- A reduction to the smart meter installation costs for 2011 of \$11,088 for the removal of costs for repairing customer equipment;
- Miscellaneous CAPEX reductions totalling \$1,068 for 2011;

- A reduction in OM&A for 2011 for the removal of costs for repairing customer equipment;
- Miscellaneous OM&A increases of \$20,830 in 2011;
- A correction of the Return on Equity and Debt Rate for 2006 to the Board approved rate of 9.0% for equity and 4.79% for debt;
- A correction of the CCA for Smart Meters from Class 1 with a rate of 4% to Class 47 with a rate of 8%, and the CCA for Computer Equipment from Class 8 with a 20% rate to Class 21 with a 100% rate;
- A change to the Aggregate Corporate Income Tax Rate from default rates to actual rates for 2006 – 2011, and estimated 2012 rate;
- Additional Interest for January 1 – April 30, 2012 in Tab 8 Funding Adder Revenues, where the Application contained no interest; and
- Recalculations of the SMDR and SMIRR.

Board staff is concerned about the \$20,830 increase in the 2011 OM&A costs from what was estimated in the Application in the above mentioned update. Board staff submits that Midland should explain this increase in its Reply Argument. In the absence of a reasonable explanation, Board staff submits that this \$20,830 increase be disallowed.

Board staff has no concerns with the remainder of the updates to the Application.

Midland filed a revised smart meter model and class-specific SMDRs and SMIRRs to reflect the above updated evidence and in response to an Interrogatory from VECC.^{3, 4, 5} VECC's interrogatory requested a different allocation of the costs. As a result, the rate riders are as follows:

³ Response to Board staff Interrogatory 10

⁴ Response to Board staff Interrogatory 11

⁵ Response to VECC Interrogatory #8

Table 1
Monthly Smart Meter Riders

	<i>Col. 1</i>	<i>Col. 2</i>	<i>Col. 3</i>	<i>Col. 4</i>	<i>Col. 5</i>	<i>Col. 6</i>
	Per Application		Board Staff		VECC	
	Rate	Term	Rate	Term	Rate	Term
SMDR						
1 Residential	\$0.36	1 year	(\$0.24)	1 year	(\$0.25)	1 year
2 GS<50	\$0.84	1 year	(\$0.55)	1 year	(\$0.52)	1 year
SMIRR						
3 Residential	\$3.34	1 year	\$3.18	1 year	\$3.22	1 year
4 GS<50	\$6.52	1 year	\$6.17	1 year	\$5.84	1 year

Board staff has comments concerning the determination of the monthly smart meter riders which are found later in this submission.

Prudence of Smart Meter Costs

Smart Meter Installation Costs

Midland stated on page 7 of its Application that deployment of smart meters started in 2009. However, Midland reports the following expenditures prior to 2009:

2006: \$485
2007: \$18,776
2008: \$16,988

Midland stated that these costs were primarily costs for 4 meters, project management and travel to assist Midland PUC in developing metering expertise, project plans, contract/RFP development and planning and education.⁶ Board staff submits that these seem to be reasonable expenses in preparation for a project of this magnitude.

Smart Meter Unit Costs

Table 2
Unit Cost Calculation

	Cost	Meter Count	Unit Cost
Smart Meter CAPEX	\$1,291,251	6,828	\$189.11
Smart Meter OPEX	\$220,376	6,828	
Total OPEX & CAPEX	\$1,511,627	6,828	\$221.39

Board staff has produced Table 2 from the totals found in Tab 2 Smart Meter Costs in the Smart Meter Model, revised by Midland to reflect the changes made through the

⁶ Response to Board staff Interrogatory 3

Interrogatories.⁷ These are higher per meter costs than the Board has seen for most utilities, with Hydro One Networks Inc. being the main exception.⁸ However these costs include costs for expenses beyond minimal functionality which is discussed below. Midland has also pointed out that in its GS<50 kW class 340 of the 742 meters installed were A3 Alpha meters. The average A3 Alpha cost is \$394.98 compared to \$87.36 for the smaller Rex 2 meter used for residential and small GS<50 kW customers.⁹ Board staff also notes that Midland used its own staff to install GS<50 kW which helped to offset increased costs.

Board staff observes that Midland, as part of the Cornerstone Hydro Electric Concepts (“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.

Given these points, Board staff considers that the documented costs are prudent.

Costs Beyond Minimum Functionality

In Table #3 Smart Meter Capital and OM&A on page 5 of the Application, Midland showed an expected actual cost for investments of \$71,843 (CAPEX of \$62,139 and OPEX of \$9,704) in processes that were beyond minimum functionality. Responding to a Board staff interrogatory, Midland showed in Table 3 of its response that \$44,107 was incurred in 2011, with the remainder to be incurred in 2012.¹⁰ Midland summarized the \$71,843 to be \$10.53 per smart meter.

⁷ Response to Board staff Interrogatory 10

⁸ 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 Midland.

⁹ Response to Board staff Interrogatory 7

¹⁰ Response to Board staff Interrogatory 8 c.

Midland also described the nature of the expenses that are beyond minimum functionality¹¹ stating that they were incurred to implement TOU rates, make CIS enhancements and interfaces for web presentment and TOU maintenance fees, as well as customer education for TOU rates. Board staff submits that while these are costs are beyond minimum functionality, they are nonetheless mandatory costs considering the implementation on TOU rates.¹²

In light of the fact that TOU rates have been billed by Midland since June 1, 2011, that TOU was mandated under Section 1.2.1 of the standard Supply Service Code, and \$10.53 per meter is a relatively small amount, Board staff has no objections to including these costs in the SMDR.

Stranded Meters

Midland has stated that the Net Book Value for its stranded meters remains in rate base. Midland stated that it will be applying to the Board to remove stranded meters from rate base in its cost of service application in 2013. Board staff submits that this is appropriate.

Account 1555, Smart Meter Funding Interest and Revenues

In its Application, Midland did not include interest on its Account 1555 for the months of January – April 2012. Midland has now included interest through to April 30, 2012.¹³ Midland has also revised its revenues from October 2011 to December 2011 without explanation.¹⁴ However, Midland did state that the December 2011 revenues were actuals. Midland also revised its forecast revenues from \$14,481 to \$14,140 for January 2012 through to May 2012 stating that the forecast was based on the December 2011 actual revenues. While distributors were to claim revenues to the end of April 2012, when the SMFA is then removed, Midland claims that it bills its customers approximately one month in arrears and so the May revenues should be included. No interest was calculated on the May revenues.

Board staff submits that Midland confirm that the October 2011 and November 2011 revenues are actual revenues, and state its rationale for the forecasted revenues.

Board staff point's out that one of the purposes of collecting the SMFA in a deferral account is to recognize the time value of money. The fact that collection of the SMFA is

¹¹ Response to Board staff Interrogatory 8 a.

¹² Determination Under Section 1.2.1 of the Standard Supply Service Code to Mandate Time-of-Use Pricing for Regulated Price Plan Consumers Board File No. EB-2010-0218

¹³ Response to Board staff Interrogatory 10, Smart Meter Model Tab 8

¹⁴ *ibid*

a month in arrears should not change this fact. Board staff submits that the interest calculation on Account 1555 should include the May SMFA revenues.

GS>50 kW Costs

Midland pointed out that it has installed smart meters for GS>50 kW customers. However, it stated that these costs are considered to be included in rate base and are not included in the smart meter costs in this Application.¹⁵ Board staff submits that this is a legitimate approach to treating these costs, although some other utilities have included costs for meter conversion for classes beyond Residential and GS < 50 kW as “beyond minimum functionality”, as allowed for in Guideline G-2011-0001.

Cost Allocations

Midland is proposing to calculate its SMDR and SMIRR by class. The proposed method allocates capital related costs using the cost of meters as an allocator, OM&A expenses using meter counts by class, and PILs based on the allocated revenue requirement before PILs. SMFA revenues and related costs included are allocated on total allocated revenue requirement by class for determining the SMDR.

VECC requested Midland to incorporate installed costs as an allocator to allocate capital related costs for SMDR and SMIRR.¹⁶ Midland provided the riders as requested however, it pointed out that installation costs were only recorded for the work performed by its contractor, and that installations made by Midland technicians, which were for the GS<50 kW class, did not include installation costs.¹⁷ This introduces a bias in the costs, and therefore a bias in the allocation. Board staff submits that the meter costs without installation costs is the more appropriate allocator.

Subject to the above comments, Board staff submits that Midland’s Application is compliant with Guideline G-2011-0001, *Smart Meter Funding and Cost Recovery – Final Disposition*, 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 -

¹⁵ Response to VECC Interrogatory #10

¹⁶ Response to VECC Interrogatory 8

¹⁷ Response to EVCC Interrogatory 6