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BY E-MAIL

March 19, 2012

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

Dear Ms. Walli:

**Re: Welland Hydro-Electric System Corp.
Application for Disposition and Recovery of Costs Related to Smart Meter
Deployment
Board File Number EB-2011-0415**

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 Welland Hydro-Electric System Corp. on December 5, 2011

Please forward the attached to Welland Hydro-Electric System Corp. and to registered parties to this proceeding.

Yours truly,

Original signed by

Keith C. Ritchie
Project Advisor, Applications & Regulatory Audit

2012 ELECTRICITY DISTRIBUTION RATES
Welland Hydro-Electric System Corp.
Application for Disposition and Recovery of
Costs Related to Smart Meter Deployment

EB-2011-0415

STAFF SUBMISSION

March 19, 2012

INTRODUCTION

Welland Hydro-Electric System Corp. (“Welland”) is a licensed electricity distributor serving approximately 22,000 customers in the City of Welland. Welland filed a stand-alone application (the “Application”) with the Board on December 5, 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. Welland requested approval of proposed Smart Meter Disposition Riders (“SMDR”) and Smart Meter Incremental Revenue Requirement Rate Riders (“SMIRR”) 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 23, 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 and VECC posed interrogatories to Welland on February 21, 2012. Welland filed its responses to all interrogatories on March 5, 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.

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 Welland’s Application was filed prior to the issuance of *Guideline G-2011-0001*, Welland’s Application is compliant with it. In preparing its Application, Welland 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 5, 2011, Welland applied for the following approvals:

- **Smart Meter Disposition Rate Rider - (\$0.24)**

This rate rider would be in effect from May 1, 2012 to April 30, 2013 and represents a credit to customers resulting from comparing Revenues collected from customers to April 30, 2012 versus the revenue requirement recoverable to December 31, 2011.

- **Smart Meter Incremental Revenue Requirement Rate Rider - \$2.34**

This rate rider would be in effect from May 1, 2012 to April 30, 2013 which is the next scheduled Cost of Service Rate Application for Welland Hydro. This rate rider represents how the revenue requirement would be determined in a Cost of Service proceeding and is based on Smart Meter Capital Expenditures to December 31, 2011 and forecasted Smart Meter Operating Expenditures for January 1, 2012 to December 31, 2012.³

Board staff notes that, in its Application, Welland proposed that the SMDR and SMIRR each be uniform for the Residential and GS < 50 kW customer classes to which smart meters were installed. Welland also documented alternative approaches for calculating class-specific SMDRs and SMIRRs, in accordance with the smart meter guidelines, but also provided its reasons for preferring the uniform SMDR and SMIRR. In large part, it expressed concern that the cost allocation data from the 2006 Informational Filing was dated and not representative of today's smart meter costs for the classes. Board staff will address this later in this submission.

Board staff notes that approval for the termination of Welland's current SMFA is not being sought in this Application. In Welland's 2011 IRM application (EB-2010-0118),

³ Welland's Application, December 5, 2012, pp. 2-3

the Board approved the current SMFA of \$2.11 with a sunset date of April 30, 2012.⁴ Further, the cessation of the SMFA has been factored into Welland's 2012 IRM application (EB-2011-0202) being considered separately and concurrently with this Application.

Updated Evidence

In its responses to Board staff interrogatories, Welland made or confirmed corrections for the following:

- Correction to Sheet 8 so that interest on the principal for SMFA revenues on sheet 8 and for the principal of OM&A and depreciation expenses on sheet 8A are only calculated to April 30, 2012 (Board staff IR # 5);
- Input monthly data for OM&A and depreciation expense to sheet 8A for a more detailed calculation of interest on the principal of OM&A and depreciation expense for determination of the SMDR. In providing this information, Welland also updated the 2011 forecasted capital and operating expenses with unaudited actuals for November and December 2011, showing reductions of about \$4K in capital and \$15K in OM&A. (Board staff IR # 6); and
- Confirmed that the aggregate Federal and provincial corporate income tax rates input in the model are appropriate for each year in calculating the deferred revenue requirement. (Board staff IR # 7).

Welland has filed a revised smart meter model to reflect the corrections noted in the interrogatories referenced above.

In response to interrogatories to Board staff and to VECC, Welland provided estimates for class-specific SMDRs. Welland noted its reasons for proposing the uniform SMDR and SMIRR originally, but has proposed a methodology for developing class-specific SMDRs and SMIRRs in the responses to Board staff IR # 9 and VECC IR # 1.⁵ Welland's proposal for class-specific SMDRs and SMIRRs is developed based on class-specific models, provided in its response to VECC IR # 1. The revised class-specific SMDRs and SMIRRs are summarized below:

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

⁵ See also the response to Board staff IR # 8.

Table 1: Original and Revised SMDRs and SMIRRs

Class	SMDR (\$/month, for 12 months)		SMIRR (\$/month)	
	Original	Revised	Original	Revised
		Board staff IR # 9 and VECC IR # 1		Board staff IR # 9 and VECC IR # 1
Residential	(\$0.24)	(\$0.24)	\$2.34	\$2.18
GS < 50 kW	(\$0.24)	(\$0.30)	\$2.34	\$3.95

Welland has gone beyond the approach approved by the Board in its recent decision for PowerStream's smart meter application EB-2011-0128 in calculating class-specific models. In so doing, Welland has apportioned the SMFA revenues from other metered classes to the Residential and GS < 50 kW classes in a manner which Board staff believes is consistent with the PowerStream decision. Board staff takes no issue with Welland's proposal for class-specific SMDRs and SMIRRs as revised in response to interrogatories.

Prudence of Smart Meter Costs

In its Application, Welland documented the following as its per meter costs:

Cost per installed Smart Meter

Description	Total Cost	Cost per Meter
Smart Meters and AMI System	\$3,021,740	\$138.03
Web Presentment	\$15,896	\$0.73
Total Capital Costs	\$3,037,636	\$138.76
Number of Smart Meters installed	21,892	
Incremental O & M 2012 projected	\$176,775	\$8.07
Total Cost per installed Smart Meter		\$146.83

Source: Application, page 5, Table 1

There would be some changes to these numbers as a result of interrogatory responses, but Board staff believes that these would have an immaterial impact on the estimated per meter costs. Board staff observes that these per meter costs are well within the

ranges of per meter costs that the Board has seen for most utilities, with Hydro One Networks Inc. being the main exception.⁶

Board staff in fact wishes to point out that Welland's smart meter costs are, if anything, understated. As noted by Welland in its Application:

In order to prepare for Time of Use Billing, Welland Hydro was required to make a decision on whether to upgrade the existing billing software within the current CIS (unique to Welland Hydro) or implement a new system. The current vendor provided an initial estimate of \$170,000 for modifications to connect to the MDMR and implement time of use billing. After careful review Welland Hydro had concerns about the actual modification costs exceeding the estimate, additional costs to modify the CIS/Billing system for ongoing upgrades to the MDMR, limited internal resources, and a very distinct possibility that this project would not meet the Time of Use dates assigned by the OEB. As a result, Welland Hydro decided to install a new NorthStar CIS from Harris which is in place at over 40 distributors in Ontario. Capital conversion costs totalled \$344,000 and maintenance costs are approximately \$11,000 per month. As the previous billing system was maintained internally the above costs are incremental to Welland Hydro. The decision to replace the current billing system at this time was predicated by the mandated Smart Meter Initiative and Time of use Pricing. Although Welland Hydro believes a case can be made to include a portion of the CIS conversion and maintenance costs to the Smart Meter Deferral Accounts, Welland Hydro can confirm to the

⁶ 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.

Board that no costs associated with the conversion to the new CIS have been included in capital or operating expenses included in this application.

Other utilities have included such CIS/billing conversion costs as part of smart meter deployment, including as part of “beyond minimum functionality” costs. Welland has instead decided to fund such conversion/replacement as part of its normal capital and operating budgets recovered through existing distribution rates. There is no evidence that the utility’s decision puts its financial situation or its ability to provide safe and reliable distribution services to its customers at risk. In deferring recovery for costs that are part of the smart meter program, Welland’s decision benefits its ratepayers. Given all of the above, Board staff takes no issue with Welland’s proposal.

In its Application, Welland noted some issues and delays in smart meter deployment and TOU implementation. These dealt with ensuring reliable remote reading from smart meters and delays in TOU billing and web presentment. In responses to interrogatories by Board staff and VECC⁷, Welland provided explanations for issues that have arisen with respect to smart meter deployment and TOU implementation. Board staff takes no issue with the information that Welland has provided in its Application and in responses to interrogatories.

Board staff observes that the revised proposed SMIRR is \$2.18/month 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. The revised proposed SMIRR is below 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 2005.⁸

Finally, Board staff observes that Welland was 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 complied with the regulation and the London Hydro RFP process for the procurement of smart meters and associated equipment and for services to install

⁷ Board staff IR # 10 and VECC IR # 5

⁸ *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

and operate the smart meters and associated equipment. As such, Board staff considers that the documented costs are prudent.

Exclusion of 2012 Costs and Demand for Customer Growth

Board staff notes that Welland has not included costs for smart meters to be forecasted to be deployed in 2012 due to customer growth. This approach is consistent with what the Board has approved for 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 other smart meter stand-alone applications currently before the Board, other distributors have included both the capital costs and forecasted number of new smart meters installed due to customer growth in the determination of the SMIRR. In these cases, utilities have generally also documented capital and one-time operating expenses due to, for example, TOU implementation in 2012.

As Welland has completed its smart meter deployment and has implemented TOU billing in February 2012, but notes that it is not seeking recovery for the 2012 costs in this Application, Board staff is of the view that Welland's approach is appropriate for this Application.

Board staff submits that both approaches set out above are acceptable, so long as the costs and the demand (number of customers) are for the same period and 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.

Other Matters

Welland has also responded to interrogatories regarding the net book value of stranded conventional meters, and has an estimated net book value, including net salvage revenues, of \$480,240 as of December 31, 2012. Welland 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 # 5, Welland discussed operational efficiencies and cost savings resulting from smart meter deployment. In that response, Welland noted savings in meter reading costs, although offset by incremental operating expenses. Welland also noted that it has funded the CIS/billing system replacement through existing rates, and referenced points discussed in the response to Board staff IR # 10. Board staff takes no issue with Welland's explanations, and recognizes that it may take time for savings to be recognized. As Welland, 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 Welland 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 Welland'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 -