

**Ontario Energy
Board**
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

**Commission de l'Énergie
de l'Ontario**
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



BY E-MAIL

March 30, 2012

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Board staff Submission
Innisfil Hydro Distribution Systems Ltd.
Application for 2012 Smart Meter Cost Recovery effective May 1, 2012
Application Board File Number EB-2011-0435**

In accordance with the procedure documented in the Notice of Application and Hearing and the amended timelines documented in Procedural Order No. 1, please find attached Board staff's submission in the above proceeding with respect to Innisfil Hydro Distribution Systems Ltd.'s application for rate riders to recover smart meter costs. Please forward the following to Innisfil Hydro Distribution Systems Ltd. and to all other registered parties to this proceeding.

Sincerely,

Original Signed By

Stephen Vetsis
Analyst - Applications

Attachment

2012 ELECTRICITY DISTRIBUTION RATES
Innisfil Hydro Distribution Systems Ltd.
Application for Disposition and Recovery of
Costs Related to Smart Meter Deployment

EB-2011-0435

STAFF SUBMISSION

March 30, 2012

INTRODUCTION

Innisfil Hydro Distribution Systems Ltd. (“Innisfil”) filed a stand-alone application (the “Application”) with the Board on December 16, 2011, seeking Board approval for the final 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. Innisfil 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 February 1, 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 Innisfil on February 24, 2012. Innisfil filed its responses to Board staff interrogatories on March 20, 2012 and its responses to VECC interrogatories on March 22, 2012. On March 23, 2012, the Board issued a Procedural Order amending the timelines for submissions from Board staff, VECC and Innisfil due to late filings of interrogatory responses by Innisfil.

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*. Innisfil 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 16, 2011, Innisfil applied for the following approvals:

- **Smart Meter Disposition Rate Rider (“SMDR”):**

Innisfil proposed a class specific SMDR of \$0.29 per month for each residential customer and \$0.96 per month for each GS < 50 kW customer. This rate rider would be in effect from May 1, 2012 to April 30, 2014 and represents a charge to customers resulting from the difference in revenues collected from customers from 2006 to April 30, 2012 and the deferred revenue requirement from 2006 to December 31, 2011.

- **Smart Meter Incremental Revenue Requirement Rate Rider (“SMIRR”)**

Innisfil proposed a class specific SMIRR of \$0.95 per month for each residential customer and \$3.12 per month for each GS < 50 kW customer. This rate rider would be in effect from May 1, 2012 until Innisfil’s next scheduled cost of service rate application (scheduled for 2013 rates). The SMIRR rate rider reflects the incremental revenue requirement related to smart meter costs to be incurred from January 1, 2012 to December 31, 2012.³

Updated Evidence

In its responses to Board staff interrogatories, Innisfil 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 calculated only to April 30, 2012 (Board staff IR # 5);

³ Innisfil’s Application, December 16, 2012, page 1.

- 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 (Board staff IR # 11);
- Updated forecasted number of meter installations in 2011 with unaudited actual values. This resulted in an increase in reported meter installations of 193 meters for 2011 (Board staff IR #2);
- Corrected the aggregate federal and provincial corporate income tax rates input in the model for each year, for calculating the deferred revenue requirement (Board staff IR # 10); and
- Corrected the long term debt rate for the years 2006 to 2008 and confirmed the long-term debt rate for the years 2009 to 2012 provided on Sheet 3 of the Smart Meter Model (Board staff IR #9).

Innisfil filed a revised smart meter model to reflect the corrections noted in the interrogatories referenced above. A summary of the SMDR and SMIRR proposed in the Application and the change as a result of Innisfil's responses to interrogatories can be found in the table below.

Table 1: Original and Revised SMDRs and SMIRRs

Class	SMDR (\$/month, for 24 months)		SMIRR (\$/month)	
	Original	Revised	Original	Revised
Residential	\$0.29	\$0.25	\$0.95	\$0.95
GS < 50 kW	\$0.96	\$0.87	\$3.12	\$3.12

Board staff notes that the updated Smart Meter Model filed with Innisfil's replies to Board staff interrogatories contains interest rates inputted in sheet 8 for the second, third and fourth quarters of 2012. These inputs have caused the calculation of carrying charges on Smart Meter funding adder amounts to be applied beyond the proposed effective date of the SMDR. As the Smart Meter funding amounts are subtracted from historical incurred costs, Innisfil's total true-up balance for historical costs is understated by approximately \$8,500. Board staff suggests that Innisfil may wish to file an updated Smart Meter Model with its reply submission, correcting for the added carrying charges.

Prudence of Smart Meter Costs

On page 14 of its Application, Innisfil documented the following as its per meter costs:

Cost per installed Smart Meter

Description	Total Cost	Cost per Meter
Smart Meter and AMI Capital Costs	\$2,151,270	\$146.14
Capital Costs Above Minimum Functionality	\$43,544	\$ 2.96
Total Capital Costs	\$2,194,814	\$149.09
Smart Meter and AMI OM&A Costs	\$283,733	\$ 19.27
OM&A Costs Above Minimum Functionality (includes 2012 projected)	\$179,992	\$ 12.23
Total OM&A Costs	\$463,725	\$ 31.50
Number of Smart Meters installed	14,721	
Incremental OM&A 2012 projected	\$72,800	\$ 4.95
Total Cost per installed Smart Meter		\$180.59

Source: Application, page 14

In response to Board staff IR #2, Innisfil updated its documented costs and number of smart meter installations with unaudited actual values for 2011. This update increased the reported number of smart meters installed to the end of 2011 from 14,586 to 14,779. Innisfil's documented costs, in response to Board staff IR#2, showed no change from the forecasted 2011 values provided in the Application. The updated evidence now supports total average cost per installed smart meter of \$178.26.

Board staff notes that Innisfil may wish to explain, in its reply submissions, why the update in evidence resulted in an increase in reported meter installations but did not show any additional capital or OM&A costs to account for the additional meters installed in 2011. Nevertheless, 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.⁴

Innisfil's application included a request to recover \$43,544 in capital costs and \$179,992 in OM&A costs beyond minimum functionality, as defined in the combined proceeding related to Smart Meters (EB-2007-0063). These costs include CIS system upgrades, MDM/R integration, TOU implementation, customer education and web presentment. In the Application, Innisfil noted that it participated in group RFPs through the Cornerstone Hydro-Electric Concepts group to select vendors for these activities. Board staff also notes that Innisfil's documented average cost per meter, when including costs above minimum functionality, remains well within the range of costs seen by the Board for smart meter cost recovery. Given all of the above, Board staff takes no issue with the nature or quantum of Innisfil's documented costs above minimum functionality.

It appears to Board staff that Innisfil has accidentally calculated the SMIRR rate riders using a two-year period of disposition in the table provided in response to Board staff IR#15. This is illustrated in the calculations provided by in the table below.

	Residential		GS<50kW		Overall Amounts
SMIRR amount (A)	\$ 314,053	-	\$ 67,515	-	\$ 381,568
Number of customers (B)	13,819	-	902	-	14,721
	(A)/(24*B)	(A)/(12*B)	(A)/(24*B)	(A)/(12*B)	
SMIRR Rate Rider	\$ 0.95	\$ 2.27	\$3.12	\$ 6.24	\$ 2.16

⁴ 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. 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 staff notes that the SMIRR is calculated as a proxy for the incremental change in distribution rates that would have occurred if the assets and operating expenses were incorporated into the rate base and the revenue requirement. As such, the rate riders should be calculated to recover the incremental revenue requirement over a one-year period. Board staff also notes that Innisfil has used a total incremental revenue requirement amount (\$381,568) that does not match the value present in its smart meter model (\$376,311.97) when calculating the class specific SMIRRs. Board staff suggests that Innisfil provide corrected calculations for the SMIRR in its reply submissions.

Board staff observes that the resulting SMIRR is \$2.27/month for residential customers. The revised SMIRR, as calculated by Board staff, 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 2005.⁵

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

Cost Allocation Methodology

In its Application, Innisfil proposed class specific SMDRs and SMIRRs for the residential and GS < 50 kW customer classes. Innisfil allocated costs to each class on the following basis:

- Return (deemed interest plus return on equity) and Amortization were allocated based on the Weighted Average of the residential and GS < 50

⁵ *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

kW 1860 Weighted Meter Capital (CWMC) allocators from the 2006 Cost Allocation Review;

- OM&A expenses were allocated based on the number of meters installed for each class;
- Payments in lieu of taxes (PILs) were allocated based on the revenue requirement allocated to each class before PILs; and
- Smart Meter Funding Adder revenues, including carrying costs, were allocated based on the revenue requirement allocated to each class before PILs.

In response to Board staff IR #13, Innisfil noted the following, when asked why it was unable to provide capital costs for installed smart meters separately for the residential and GS < 50 kW classes:

In accordance with the G-2008-002 guidelines, accounts 1555 and 1556 were established to track the capital and OM&A costs associated with the Smart Meter project. Costs though were not set up by the impacted customers classes (Residential and GS<50). Meter change outs to smart meters were determined by the existing metering configuration and service requirement (transformer rated, polyphase, etc.). Service requirement does not correlate to a specific rate class, example, we have GS<50 customers with “residential” meter configuration and Residential customers with a “GS<50” meter configuration. As we did not categorize nor track the capital and OM&A costs to a service location installation providing capital costs by rate class is not feasible.

Board staff accepts Innisfil’s explanation of its inability to provide smart meter capital costs separately by customer class. As class-specific smart meter capital costs were unavailable, Innisfil has proposed to use the 1860 CWMC allocators from its 2006 Cost Allocation Review informational filing to allocate the overall smart meter capital costs to the residential and GS < 50 kW customer classes. Board staff notes that, with the exception of the use of the 1860 CWMC allocation, Innisfil’s cost allocation methodology is consistent with the approach approved by the Board in PowerStream’s 2010 smart meter cost recovery application (EB-2010-0209).

Board staff notes that the informational filing from the 2006 Cost Allocation Review underpinned the cost allocation approved by the Board in the Decision and Order from Innisfil's 2009 cost of service application (EB-2008-0233). In the Decision and Order, the Board ordered Innisfil to provide an updated cost allocation in its next cost of service application. Innisfil has yet to file its cost of service application for 2013 rates. In the absence of that information, Board staff submits that Innisfil's cost allocation methodology is reasonable.

Exclusion of 2012 Costs and Demand for Customer Growth

Board staff notes that Innisfil has not included capital costs for smart meters to be forecasted to be deployed in 2012. 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 Innisfil has completed its smart meter deployment and has implemented TOU billing in June 2011, but notes that it is not seeking recovery for the 2012 capital costs in this Application, Board staff is of the view that Innisfil'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

Innisfil 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 \$334,627.68 as of December 31, 2012. Innisfil 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 # 14, Innisfil discussed operational efficiencies and cost savings resulting from smart meter deployment. In that response, Innisfil noted savings in meter reading costs. In response to Board staff IR #8, Innisfil noted that it had offset the estimated annual operating expenses for its smart meters by the estimated meter reading savings of approximately \$9,417 per month. Board staff takes no issue with Innisfil's explanations, and recognizes that it may take time for further savings to be recognized as Innisfil, and the utility sector generally, become more accustomed to customer and operational data that smart meters and TOU pricing provide.

Board staff submits that Innisfil 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 Innisfil'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 -