

March 28, 2012

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319 27<sup>th</sup> Floor  
2300 Yonge Street  
Toronto, ON M4P 1E4

Dear Ms Walli:

Re: Welland Hydro-Electric System Corp.  
EB-2011-0415  
Application to the Ontario Energy Board for 2012 Smart  
Meter Cost Recovery effective May 1, 2012

Please find enclosed two copies of Welland Hydro's Reply  
Submission to submission of Board Staff and VECC.

Yours very truly,



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**Welland Hydro-Electric Systems Corp.  
2012 Smart Meter Cost Recovery  
EB-2011-0415**

**Reply Submission**

**Introduction**

Welland Hydro-Electric System Corp. ("Welland") filed a stand alone 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 Fund 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.

Board Staff and VECC posed interrogatories to Welland on February 21, 2012. Welland filed its response to all interrogatories on March 5, 2012. Board Staff and VECC filed submissions on March 19, 2012 and March 22, 2012 respectively.

**Prudence of Smart Meter Costs**

In response to Board Staff and VECC interrogatories Welland provided updated audited amounts for 1555 and 1556 deferral accounts as of December 31, 2011. This resulted in only minor decreases in Capital and OM&A costs and resulted in the following per meter costs:

Table 1: Cost per installed Smart Meter

Description	Total Cost	Cost per Meter
Smart Meters and AMI System	\$3,032,864	\$138.13
<b>Total Capital Costs</b>	<b>\$3,032,864</b>	<b>\$138.13</b>
Number of Smart Meters installed	21,956	
Incremental O & M 2012 projected	\$176,775	\$8.05
<b>Total Cost per installed Smart Meter</b>		<b>\$146.19</b>

Board Staff observed that these per meter costs are well within the ranges of costs that the Board has seen for most utilities and also wished to point out that Welland's smart meter costs are, if anything, understated. The principle reason for this is a decision by

Welland not to include CIS/billing conversion costs as part of smart meter deployment "beyond minimum functionality" costs. Welland will address this issue in more detail later in this document. Staff noted that Welland's decision benefits its ratepayers and takes no issue with Welland's proposal. The decision to defer recovery of the new CIS costs until the 2013 COS Rate Application will in no way affect Welland's ability to provide safe and reliable distribution services to its customers.

VECC submitted that Welland's total average costs per installed meter are lower than the recent sector average and within the range established in EB-2007-0063. VECC also agreed with Board Staff that, if anything, Welland's smart meter costs are understated. In its submission VECC attempted to calculate cost per meter/per year and noted significant variances within each year. VECC noted that the difference between 2009 compared to 2011 was the result of the installation of the more costly three phase meters in 2011. VECC has also requested that Welland provide an explanation for the variance in costs per meter between 2009 and 2010 in its reply submission. As a result of the small amount of meters installed in 2010 (after initial mass deployment) non meter capital costs should be removed before calculating an average cost. A total of \$78,686 was charged to smart meter capital in 2010 with \$24,153 related to computer software and hardware costs. The net amount of \$54,533 related to meter hardware and installation costs would produce an average of \$119.85 per meter ( $\$54,544 / 455$ ) which is identical to costs in 2009.

As a result of the above, Welland believes that total Smart Meter Capital costs of \$3,032,864 and 2012 Smart Meter Incremental OM&A costs of \$176,775 are prudent and should be approved by the Board.

### **Cost Allocation & Calculation of Smart Meter Rate Riders**

The Smart Meter Recovery Model calculates uniform rate riders and does not deal with allocations between customer rate classes. In its original application Welland requested uniform rate riders on the basis that the 2006 Cost Allocation model was outdated. However, the Board's Guideline G-2011-0001 states that, where practical and where data is available, class-specific rate riders should be calculated based on full cost causality. In response to Board Staff IR#9 and VECC #1 Welland submitted Smart Meter Recovery Models by Customer Class based on Appendix E in Responses to Board Staff Interrogatories filed on March 5, 2012. The results are summarized as follows:

**Table 2: 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
<b>Residential</b>	(\$0.24)	(\$0.24)	\$2.34	\$2.18
<b>GS &lt; 50 kW</b>	(\$0.24)	(\$0.30)	\$2.34	\$3.95

Board Staff stated that 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 and had no issue with Welland's proposal for class-specific SMDRs and SMIRRs.

VECC states that it could not support uniform rate riders or rate riders based on the 2006 cost allocation model as the data is outdated. VECC submitted that the only way to avoid undue cross subsidy is to approve class specific rate riders based on VECC's proposed cost allocation methodology (Response to VECC IR #1). This methodology produces capital costs of \$127.20/meter for residential customers and \$263.37/meter for GS<50 kW customers which VECC viewed as reasonable. The only issue VECC appears to have with the Revised Rate Riders in Table 2 above is the methodology of apportioning revenues collected from the GS>50 kW and Large Use classes. Welland apportioned these based on the percentage of customers in the Residential and GS<50kW classes. VECC stated that this method differs from the Board's decision in PowerStream's Decision (EB-2011-0128) where revenues were split equally between Residential and GS<50 kW classes. In response to VECC interrogatory 1C Welland acknowledged that smart meter revenues had not been tracked by customer class. Welland also stated that the methodology it selected (customers by class) may be slightly in favour of the residential class but believes that the amount is not material.

As a result of the above, Welland believes the Board should approve SMDR and SMIRR rate riders based on response to Board Staff IR #9 and VECC IR #1 as shown in Table 2 above.

### **Exclusion of 2012 Costs and Demand for Customer Growth**

Board staff noted that Welland has not included costs for smart meters forecasted to be installed in 2012 which is consistent with what the Board has approved for final smart meter disposition in recent applications. Welland can confirm for the Board that it has budgeted these meters as part of its 2012 Capital Plan (\$12,000) and that no charges will be made to the Smart Meter Deferral Accounts in 2012 with the exception of interest.

## **Stranded Meters**

Welland responded to interrogatories regarding the net book value of stranded conventional meters, and provided 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 the disposition in its next rebasing application scheduled for 2013 rates. Board Staff submitted that this is compliant with Guideline G-2011-001.

In response to Board Staff Interrogatory 2B Welland identified the net book values by customer class as \$441,084 for Residential and \$39,156 for GS<50kW. Welland intends to use these amounts as the basis for the disposition of stranded meters in its 2013 Cost of Service Rate Application.

## **New CIS/Billing System and TOU**

As indicated earlier Welland has not included any conversion or maintenance costs related to the new CIS/Billing system in this Smart Meter Application. In order to prepare for TOU billing Welland was forced into making a decision on the cost/benefits of a major overhaul to its existing system which is not currently being used by any other LDC in Ontario or to purchase new software. Welland opted to purchase new software in 2011 (Harris/NorthStar) which is in use at over 40 LDCs in Ontario and capable of producing TOU bills. Rather than debate the amount of the new CIS charges attributable to Smart Meters in this proceeding, Welland opted to wait to reflect the cost of the new CIS in its 2013 Cost of Service Rates.

Welland has reviewed past COS applications involving new CIS/Billing systems including the Decision on EB-2009-0260. In this Decision, VECC acknowledged that billings systems have shorter economic lives compared to many utility assets. Board Staff submitted that CIS/Billing systems are integral to the provision of electricity distribution services and hence ongoing costs for the operation of these systems are legitimate costs for which recovery should be allowed in rates. However, the comments which Welland considered to be most appropriate to its situation were made by the Board in this Decision. The Board noted that the vintage of the LDCs existing CIS/Billing System and delays in its replacement were largely responsible for the situation in which the LDC found itself. The Board went on to state that it had concerns about management's efforts to recognize and react to the situation. Given the age of Welland's previous billing system (unique to Welland Hydro) and the retirement of the Director of Information Service, Welland faced an important decision on the merits of a major overhaul and the risks involved. Welland accessed all of the factors including the time line for TOU billing and the complexity of integrating a system to the MDMR (moving target), AMI, and ODS. The risks involved with a conversion could lead to significant delays, testing would be complex, likely lead to cost overruns, and even the

distinct possibility of having to abandon the conversion in favour of a new CIS/Billing System. As a result of its assessment, Welland made the decision in favour of proceeding with the new CIS/Billing System.

Welland believes that the appropriate place to evaluate the new system costs/benefits is in its 2013 Cost of Service Rate Application as a separate increase to OM&A when comparing to 2009 Approved OM&A costs.

## **Conclusion**

Welland submits that its 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.

As a result, Welland respectfully requests that the Board approve the clearing of 1555 and 1556 deferral accounts as outlined in the application and approve the proposed Smart Meter Disposition Riders and Smart Meter Incremental Revenue Requirement Rate Riders included in Table 2 above (revised per interrogatories) effective May 1, 2012. Welland can confirm to the Board that its current Smart Meter Funding Adders were removed from rates effective May 1, 2012 in the Board's Decision and Order EB-2011-0202 - Welland 2012 IRM Rate Application.