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BY EMAIL

April 18, 2012

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Board Staff Submission of COLLUS Power Corp.
Smart Meter Cost Recovery Application
EB-2012-0017**

Further to the Board's Notice of Application and Hearing for an Electricity Distribution Rate Change of COLLUS Power Corp., dated February 7, 2012, please find attached Board staff's Submission on the smart meter cost recovery application filed by COLLUS Power Corp. on January 16, 2012.

Please forward the attached to COLLUS Power Corp. and all intervenors in this proceeding.

Yours truly,

Original signed by

Christie Clark
Case Manager

Enclosure

2012 ELECTRICITY DISTRIBUTION RATES

COLLUS Power Corp.

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

EB-2012-0017

STAFF SUBMISSION

April 18, 2012

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COLLUS Power Corp.
Smart Meter Cost Recovery Application
EB-2012-0017

Board Staff Submission

Introduction

COLLUS Power Corp. (“COLLUS”) is the electricity distributor licenced by the Ontario Energy Board (the “Board”) that serves the towns of Collingwood, Thornbury, Stayner and Creemore. On January 16, 2012, COLLUS 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”). The proposed effective date for both riders is May 1, 2012 and COLLUS is requesting that they remain in effect until April 30, 2013. The Application is based on the Board’s policy and practice with respect to the recovery of smart meter costs.¹

The Board issued its Letter of Direction and Notice of Application and Hearing on February 7, 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 COLLUS on March 13, 2012. COLLUS filed its responses to the interrogatories on March 29, 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*. COLLUS 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

COLLUS requested the following in its Application:

- An SMDR (per metered customer per month) of -\$0.32 for Residential and -\$0.90 for General Service < 50 kW for one year (May 1, 2012 to April 30, 2013); These rate riders reflect the Net Deferred Revenue Requirement of a credit of \$74,020 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 May of 2012;
- An SMIRR (per metered customer per month) of \$2.79 for Residential and \$5.87 for General Service < 50 kW for one year (May 1, 2012 to April 30, 2013). These rate riders reflect the Incremental Revenue Requirement for that one year period; and
- In the event that the Board is unable to issue its' Decision and Order for rates effective May 1, 2012 with respect to this smart meter prudence review of costs, COLLUS Power Corp is requesting a rate adder in the sum of \$2.50 for all customers per month per customer. The rate adder amount being requested is based on the net of the SMDR and SMIRR based on the lower of the proposed riders (\$2.79 - \$0.32 rounded).

In its EB-2011-0161 IRM application for 2012 rates, COLLUS did not request the continuation of the Smart Meter Funding Adder.

COLLUS has stated that the Net Book Value for its stranded meters remains in rate base, and that the net book value as of December 31, 2011 was \$559,264.

Updated Evidence

Through the interrogatory process the original Application, including the Smart Meter Model, Version 2.17 (the "Model") and the proposed rate riders were updated for the following changes:

- An increase in CAPEX for metering equipment of \$32,085;
- An increase in OM&A for Advanced Metering Communications Device ("AMCD") of \$28,201 in 2011 and \$12,000 in 2012;
- A return on equity of 9% for 2006 and 2007 in the Model;

- A blended cost of debt for 2006 and 2007 of 5.88% in the Model;
- A debt rate of 6.3% for 2008 used in the Model to reflect its K-factor debt rate in its 2008 IRM;
- An equity return of 8.01%, a short term debt rate of 1.33% and a long term debt rate of 6.20% for 2009 in the Model;
- A long term debt rate of 6.20% for 2012 in the Model;
- Updating the PILs used in the Model to reflect actual PILs for the respective years,;
- Updating of the Smart Meter Funding Adder Revenues to reflect actual revenues since September 2012;
- Removing interest from the deferral accounts after April 30, 2012 in the Model; and
- Calculating the deferral account interest expense based on monthly balances.

COLLUS 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.

Board staff submits that, with the exceptions stated below, the above changes are appropriate.

Prudence of Smart Meter Costs

Smart Meter Installation Costs

COLLUS stated on page 9 of its Application that deployment of smart meters started in late 2008. However, COLLUS reports the following expenditures prior to authorization from the Fairness Commissioner:³

³ Response to Board staff Interrogatory 4 a.

Table 1
Smart Meter Expenses Prior to Authorization

	Smart Meter	Installation	Professional	Total
2007	\$0	\$65,295	\$16,300	\$81,595
2008	\$103,114	\$91,328	\$15,971	\$210,413
Total	\$103,114	\$156,623	\$32,271	\$292,008

Board staff notes that COLLUS has not reported any installations for 2007 and 2008 on Tab 2 Smart Meter Costs of the Model.⁴

COLLUS stated that the Smart Meter capital purchases prior to the mass installation phase were for installations for small commercial customers that required the work to be performed outside normal business hours so as not to interrupt business. Also, COLLUS stated that these purchases were to ensure that there was stock on hand in advance of the mass deployment date in case there were any supplier problems.⁵

Board staff submits that the record is unclear as to the number of meters that COLLUS purchased and installed prior to being authorized by the Fairness Commissioner. It is reasonable that some meters would be purchased prior to authorization for the utility to gain familiarity with respect to installation and operation to aid with project planning. However COLLUS states that they actually started installing small commercial and industrial smart meters before authorization.

Board staff submits that COLLUS should inform the Board of the quantity of meters purchased and the quantity of meters installed prior to authorization. COLLUS should present any information in its Reply Submission ("Reply") of any direction given by any authority allowing COLLUS to purchase and install meters, without authorization, for anything other than purchases and installations for standard engineering diligence required for becoming familiar with the tasks involved and for planning purposes based on such diligence. Board staff submits that in order for the Board to determine if COLLUS acted in a prudent manner and therefore should be permitted to recover its costs, COLLUS should provide further information with respect to these purchases before the authorization by the Fairness Commissioner.

⁴ Response to Board staff Interrogatory 12

⁵ Response to Board staff Interrogatory 4 b.

COLLUS updated the 2011 CAPEX by increasing its smart meter expense by \$32,085 for actual November purchases.⁶ While it may be appropriate to acquire smart meters, COLLUS did not change the number of installed meters on Tab 2 Smart Meter Costs of the Model, which indicates that they were not installed in 2011. Board staff submits that COLLUS should address why it acquired meters but seems to not have installed the meters in its Reply. Without justification linking the meters to a need, the Board should disallow the \$32,085.

Cost of Capital Parameters

COLLUS has responded to Board staff by updating the Costs of Capital Parameters in the Model.^{7, 8} COLLUS stated that they have employed a weighted cost for long term debt of 6.62% for 2009. It pointed out that through a Motion to Review (EB-2009-0130) the Board found that its weighted cost for long term debt ought to be 6.62%, and not 7.62%. However, COLLUS used 6.20% in the Model. Board staff submits that COLLUS either correct the Model, or explain the anomaly in its Reply.

Board staff accepts the remaining revisions to the Costs of Capital parameters.

Smart Meter Operating Costs

In comparison to the Application, COLLUS changed its OPEX for 2011 by increasing expenses as found on line 2.1.2 AMCD Other on Tab 2 Smart Meter Costs of the Model by \$28,201, and decreasing expense for line 2.5.2 Communications from \$30,000 to \$0. The net is a reduction of (\$1,799).

Part of the \$28,201 increase was due to unbudgeted audit costs of \$1,000 per month, totalling \$9,281. No explanation was given for the remaining \$18,920. The Budget for OM&A, per Table 2: Budget to Actual Cost Comparison 2006 to 2012 was \$409,998. The Actual CAPEX after interrogatories is \$390,201, which is \$19,797 under budget for the smart meter programme according to COLLUS.

Board staff accepts these changes as reasonable, except for the \$18,920. Board staff submits that COLLUS should explain this amount in its Reply.

Smart Meter Unit Costs

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

⁶ Response to Board staff interrogatory 2 b.

⁷ Response to Board staff Interrogatory 6

⁸ Response to Board staff Interrogatory 12

Interrogatories.⁹ Board staff does not consider these costs to be out of line when considering the costs the Board is seeing submitted in other applications. COLLUS is a small distributor that is spread out over the Collingwood area, and would have costs that would be different and presumably higher than seen from higher density urban areas.

Table 2
Unit Cost Calculation

	Cost	Meter Count	Unit Cost
Smart Meter CAPEX	\$2,606,507	15,619	\$166.88
Smart Meter OPEX	\$390,201	15,619	
Total OPEX & CAPEX	\$2,996,708	15,619	\$191.86

Board staff observes that COLLUS, 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. With the exception of the unauthorized purchased mentioned above, Board staff submits that COLLUS 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 have been prudently incurred.

Costs Beyond Minimum Functionality

COLLUS, on Page 15 Section 15, states that the installed meters and systems do not exceed minimum functionality. However, on page 10 Section 8 of its Application, COLLUS explains system changes that were made in preparation for TOU billing. On page 12 Section 11 of its Application, COLLUS also discusses CIS enhancements in order to include web access for customers and changes to the bill format. COLLUS also has stated that it began invoicing customers on TOU rates on February 21, 2012.¹⁰

Board staff questioned this apparent dichotomy.¹¹ However, COLLUS stated that it did not include any costs beyond the minimum functionality, as set out O.Reg 425/06.

⁹ Response to Board staff Interrogatory 10

¹⁰ Response to Board staff Interrogatory 3 b.

¹¹ Response to Board staff Interrogatory 8.

Board staff is not convinced that there are not costs for functionality beyond the defined minimum in COLLUS' Application. If these costs were not included in Account 1555, and were absorbed by COLLUS, then COLLUS should explain why they have absorbed costs that were not included in its revenue requirement. If indeed these costs are in Account 1555, Board staff submits that COLLUS should provide the details as requested in Board staff Interrogatory 8. In that interrogatory, Board staff specifically referred to any expenditures related to the MDM/R, web presentment, CIS changes, TOU rates, process changes, training, and customer education costs that by definition are beyond minimum functionality. In responding to this submission, Board staff refers COLLUS to O.Reg 425/06, and the related document *Functional Specifications for an Advanced Metering Infrastructure Version 2, July 5, 2007*, which is found on the Ministry of Energy's website, and to the Board's Guideline G-2011-0001 *Smart Meter Funding and Cost Recovery – Final Disposition*.

Cost Allocations

COLLUS 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. The net of the total revenue requirement and the revenues from the SMFA with interest are allocated based on the total revenue requirement by class. These allocated costs are the basis for determining the SMDR. The rate riders base on the updated evidence are now:

Table 3

Rate Riders¹

	SMDR	SMIRR
Residential	(\$ 0.33)	\$2.97
GS<50 kW	(\$ 0.92)	\$6.00

1 Response to Board staff Interrogatory 13

Board staff notes that the credit proposed for the SMDR is greater for the GS<50 kW class than for the Residential class. This appears to be due to the allocation used for the revenues from the SMFA. This allocation is based on the distribution of the allocated revenue requirement between the two classes. A more accurate means for determining revenues is to assign the revenues based on class revenues over the period of the SMFA. Interest on the SMFA revenues could be allocated to the class assigned revenues. In response to VECC #10 (c) COLLUS provided the following SMFA revenues by rate class:

Table 4
Class Revenues¹

Residential	\$932,000
GS<50 KW	\$115,000
GS>50 KW	\$8,000

1 Response to VECC Interrogatory #10 (c)

Board staff submits that using these revenues in the determination for the class SMDR, with the interest on the revenues allocated as described would produce a rider that better reflects causality.

Subject to the above comments, Board staff submits that COLLUS' 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 -