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**BY EMAIL**

April 23, 2012

Board Secretary  
Ontario Energy Board  
2300 Yonge Street, Ste. 2700  
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Board Staff Submission; Peterborough Distribution Inc.  
Smart Meter Cost Recovery Application EB-2012-0008**

Further to the Board's Notice of Application and Hearing, dated February 17, 2012, please find attached Board staff's submission on the smart meter cost recovery application filed by Peterborough Distribution Inc. on January 10, 2012.

Please forward the attached to Peterborough Distribution Inc. and all intervenors in this proceeding.

Yours truly,

*Original Signed By*

Christie Clark  
Case Manager

Enclosure

**2012 ELECTRICITY DISTRIBUTION RATES**

**Peterborough Distribution Inc.**

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

**EB-2012-0005**

**STAFF SUBMISSION**

**April 23, 2012**

**Peterborough Distribution Inc.  
Smart Meter Cost Recovery Application  
EB-2012-0008**

**Board Staff Submission**

## **Introduction**

Peterborough Distribution Inc. (“PDI”) is the electricity distributor licensed by the Ontario Energy Board (the “Board”) to serve the communities of Peterborough, Lakefield, and Norwood. On January 10, 2012, PDI 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 the SMDR is May 1, 2012 and PDI is requesting that it remain in effect for 24 months. The proposed effective date for the SMIRR is May 1, 2012 and PDI is requesting that it remain in effect for 12 months. The Application is based on the Board’s policy and practice with respect to recovery of smart meter costs.<sup>1</sup>

The Board issued its Letter of Direction and Notice of Application and Hearing on February 17, 2012. The Vulnerable Energy Consumers’ Coalition (“VECC”) requested and was granted intervenor status and cost award eligibility. No letters of comment were received.<sup>2</sup> 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. Procedural Order #1 was issued on April 27 revising the deadlines for PDI’s response to interrogatories, Board staff and intervenor submissions and Reply Argument.

Board staff and VECC submitted interrogatories to PDI on March 26, 2012. PDI filed its responses to Board staff’s interrogatories on April 5, 2012 and to VECC’s interrogatories on April 16, 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.

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<sup>1</sup> *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*. PDI used Smart Meter Model, Version 2.17 and prepared its application considering recent Board decisions on smart meter cost disposition and recovery.

<sup>2</sup> Response to Board staff IR #1.

## The Application

### Approvals Sought

PDI has requested the Board to approve:

- An SMDR of \$0.75 per metered customer per month for Residential customers and \$2.45 per metered customer per month for General Service < 50 kW customers for a two year period (May 1, 2012 to April 30, 2014); and
- An SMIRR of \$1.46 per metered customer per month for Residential customers and \$5.11 per metered customer per month for General Service < 50 kW customers for a one year period (May 1, 2012 to April 30, 2013);

PDI did not request a Smart Meter Funding Adder (“SMFA”) in its 2012 IRM application.

PDI is not seeking disposition of its stranded meters in this Application, stating that the assets continue to be accounted for in rate base. PDI stated that its net book value on December 31, 2012 for stranded meters will be \$2.00 million.<sup>3</sup>

### Updated Evidence

Through the interrogatory process, the original Application, including the Smart Meter Model, Version 2.17 (the “Model”) the proposed rate riders were updated for actual SMFA revenues for December 2011 through to February 2012.

PDI filed a revised smart meter model and SMDR and SMIRR to reflect the above updated evidence and in response to interrogatories from Board staff and VECC.

Board staff submits that, with the exceptions stated below, the updated evidence is appropriate.

## Prudence of Smart Meter Costs

### Smart Meter Costs – General

PDI was asked to update its smart meter costs if more recent costs were available. PDI stated that the amounts in the Application were consistent with the audited December 31, 2011 balances.<sup>4</sup> PDI also confirmed that it installed 34,924 smart meters as of December 31, 2011.<sup>5</sup> As a result there were no changes to the Application for smart meters costs.

Board staff reviewed PDI’s comparison of actual costs to budget.<sup>6</sup> There was a cost overrun of \$306,783 (5.7%) as indicated in Table 4: Budget to Actual Cost Summary on page 14 of the Application. PDI provided details of its costs and showed that actual US

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<sup>3</sup> Response to Board staff Interrogatory 13

<sup>4</sup> Response to Board staff Interrogatory 2 b.

<sup>5</sup> Response to VECC Interrogatory # 1

<sup>6</sup> Response to Board staff Interrogatory 3 c.

exchange rates were the major factor, being \$457,111 greater than estimated.<sup>7</sup> This exchange rate loss occurred in 2009 when the Canadian dollar was below par with the American dollar. PDI showed a small exchange rate gain for 2010.

### **Installations Prior to Authorization**

PDI installed 3,303 smart meters at a cost of \$476,351 prior to being authorized under O.Reg. 427/06, as amended by O.Reg. 235/08 on June 25, 2008. This represents 9.4% of the total smart meters installed, and 8.4% of the total capital and OM&A costs of \$5,707,283 which PDI is requesting. These smart meters were installed beginning in 2006 and continued until PDI was authorized in 2008.

PDI stated that they started installing smart meters before authorization and submitted that it acted in the best interest of its customers and in a prudent and fiscally responsible manner:

“Given the Province’s mandate for TOU rates and the requirement for the installation of smart meters, PDI, in an effort to minimize the cost of replacing conventional meters and to minimize the value of the stranded asset, began installing Elster smart meters in place of conventional meters for new or replacement meters prior to receiving authorization to engage in smart meter activities. Elster metering was also the proposed vendor as noted by the Fairness Commissioner. PDI’s smart metering activities were also identified to Board staff in Responses to Board Staff Interrogatories filed February 4, 2009 Page 9, response 7b during the 2009 Electricity Rate Application process that asked “what, if any, efforts will PDI take in 2009 or has taken in recent years to minimize the costs for replacing conventional meters unless necessary?” “<sup>8</sup>

PDI also stated that some of the smart meters to enable TOU billing were used in 120 social housing units along with 75 load shifting devices in customer homes as a CDM pilot. PDI stated that the cost of these meters were not part of its third tranche Market Adjusted Revenue Requirement (“MARR”) Conservation and Demand Management (“CDM”) initiatives, and were, instead, included as smart meter costs.

While Board staff is of the view that it would be reasonable to expect that some smart meters could be purchased prior to authorization for a distributor to gain familiarity with respect to installation and operation to aid with project planning, Board staff is concerned about the magnitude of smart meters installed prior to receiving authorization. Board staff sees two issues that should be addressed in regards to these installations prior to authorization. The first issue is whether the Board should allow the

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<sup>7</sup> Response to Board staff Interrogatories 3 c. and 3 d.

<sup>8</sup> Response to Board staff Interrogatory 7 b.

costs for replacing 9.4% of a distributor's meters over the period 2006, 2007 and 2008 prior to authorization. The second issue is whether the Board should allow the costs for smart meters purchased for the MARR CDM project.

With respect to the first issue, Board staff would like to point out that, while the objective of minimizing costs is a prudent step by PDI, it nonetheless was an unauthorized discretionary metering activity.

Board staff has attached copies of O.Reg. 427/06 and O.Reg. 426/06 as originally enacted as attachments. O.Reg. 427/06 deals with discretionary metering activities, while O.Reg. 426/06 deals with the Board's jurisdiction with respect to reviewing and approving the recovery of smart meter costs. While the regulations have been subsequently revised, last in 2008, the updated regulations are not materially changed with respect to PDI's premature and unauthorized smart meter deployment. As noted by PDI, it was not authorized to deploy smart meters in the period from 2006 to mid-2008. PDI was not named specifically in O.Reg. 427/06.

O.Reg. 426/06 deals with the Board's approval of smart meter costs. Board staff observes that O.Reg. 426/06 does not reference O.Reg. 427/06 or O.Reg. 428/06, pertaining to authorized discretionary meter activities. Instead, the regulation only addresses costs for "minimum functionality" as defined in O.Reg. 425/06 and costs "beyond minimum functionality". Board staff therefore submits that the Board has latitude in deciding whether the costs for unauthorized smart meter installations should be recoverable in whole or whether some disallowance should be made.

Board staff recognizes that this is largely a matter of timing. All Ontario distributors attached to the IESO-controlled grid are expected to deploy smart meters to all residential and small commercial and industrial customers. Based on the evidence, there is no substantive evidence that PDI went beyond minimum functionality or incurred excessive costs due to "jumping the gun". Nonetheless, the utility's management did knowingly undertake discretionary metering activities before being authorized; it acted clearly contrary to O.Reg. 427/06.

O.Reg. 426/06 is intended to provide guidance to the Board with respect to approving recovery of smart meter costs where the utility has acted prudently. While PDI acted prudently with respect to the smart meter costs, the timing issue is of some concern. As a result of "jumping the gun", PDI is now seeking recovery of the costs for smart meters back to and including 2006, two years before the utility became authorized. The amounts to be recovered also include interest and depreciation expenses, both of which are for two additional years. The prescribed interest rates ranged from 4.08% to 5.14% for that period, which are higher than the subsequent period through to April 2012. Thus, PDI's customers are being asked to pay a larger deferred revenue requirement because of PDI's decision to prematurely deploy smart meters; this results in a much higher SMDR.

The second issue is whether the meters used in PDI's CDM pilot are to be allowed as smart meter costs. In RP-2004-0203/EB-2004-0500 the Board approved PDI's CDM plan, which included thermal storage and load shifting among other CDM items. Board

staff considers it as understandable that smart meters would be required to monitor these projects, and as such does not object to the smart meters. However, PDI was not authorized to purchase these meters.

While PDI states that the smart meter deployment was in support of an approved third tranche MARR CDM project, the costs for the smart meters were not approved. This is different from other distributors, such as Hydro Ottawa, which were approved smart meter pilot projects as part of their third tranche MARR CDM projects.<sup>9</sup>

The Board, in making its decision on these two issues, should consider Sections 1 (c) and 1 (g) of the *Electricity Act, 1998*:

**Section 1 (c)** to facilitate load management in a manner consistent with the policies of the Government of Ontario;

**Section 1 (g)** to promote economic efficiency and sustainability in the generation, transmission, distribution and sale of electricity;

Board staff notes that in regards to facilitating load management, the Board approved PDI's load management projects under its third tranche CDM initiative. With respect to acquiring smart meters in advance of authorization to minimize costs, PDI was acting in an economically efficient manner.

Board staff submits that the Board has two options. It could point to the fact that PDI was not authorized to deploy smart meters when it purchased and installed the 3,303 smart meters over 2006, 2007 and part of 2008, and disallow related depreciation and carrying costs for this period prior to authorization. Management took a risk deciding to install smart meters knowing that it was not authorized to purchase and install smart meters.

Board staff is not suggesting that the costs for smart meters be disallowed. The concern Board staff has is with the timing and associated related costs of the smart meter purchases.

On the other hand, given the inevitability with respect to deploying smart meters, and that the costs would have been incurred otherwise, the Board could find that PDI has provided justification in making the purchases and installations, and allow the costs to be recovered in the SMDR.

### **Unit Costs**

Board staff has produced Table 1 from the totals found in Tab 2 Smart Meter Costs in the Model, which was revised by PDI to reflect the changes made through the Interrogatories. Board staff does not consider these unit costs to be out of line when considering the unit costs found in other applications.

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<sup>9</sup> This was dealt with in Hydro Ottawa's recent 2012 cost of service application (EB-2011-0054), whereby the utility adjusted its smart meter costs to exclude those related to the smart meter pilot project as the costs were already approved and recovered in rates.

**Table 1**  
**Unit Cost Calculation**

	<b>Cost</b>	<b>Meter Count</b>	<b>Unit Cost</b>
Smart Meter CAPEX	\$5,535,936	35,363	\$156.55
Smart Meter OPEX	\$172,327	35,363	
Total OPEX & CAPEX	\$5,708,263	35,363	\$161.42

On May 30, 2008 the Fairness Commissioner issued a letter stating that PDI had made fair (objective and competent) determination of smart meter suppliers in compliance of the London Hydro RFP approach allowed for in O.Reg. 427/06.

Given the above, Board staff considers that the documented costs have been prudently incurred; this includes smart meter costs incurred prior to PDI becoming authorized with respect to the functionality and per meter costs.

### **Cost Allocation**

In response to interrogatories from Board staff and VECC, PDI has produced SMDR and SMIRR rate riders by rate class that mostly follow cost causality principles.<sup>10 11</sup> However, the revenues used to determine the SMDR are allocated on the basis of the line item "Total Revenues Requirement 2006 – 2011". Board staff is of the opinion that the actual revenue should be assigned to each class based on the SMFA revenue collected from customers over time. The carrying charges on the revenue should be allocated based on the assigned revenues. Board staff submits that this would produce a more appropriate SMDR.

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

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<sup>10</sup> Response to Board Staff Interrogatory 12

<sup>11</sup> Response to VECC Interrogatory 8