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BY E-MAIL

July 11, 2012

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

Dear Ms. Walli:

Re: Sioux Lookout Hydro Inc.
Application for 2012 Smart Meter Cost Recovery effective September 1, 2012
Board File Number EB-2012-0245

In accordance with the process documented in the Notice of Application and Hearing, please find attached Board staff's submission in the above proceeding with respect to Sioux Lookout Hydro Inc.'s application for rate riders to recover smart meter costs.

Yours truly,

Original signed by

Violet Binette
Project Advisor, Applications & Regulatory Audit

Attach

2012 ELECTRICITY DISTRIBUTION RATES
SIOUX LOOKOUT HYDRO INC.
APPLICATION FOR DISPOSITION AND RECOVERY OF COSTS RELATED TO SMART METER DEPLOYMENT

EB-2012-0245

Board Staff Submission

July 11, 2012

Introduction

Sioux Lookout Hydro Inc. ("SLHI") is a licensed electricity distributor serving the Municipality of Sioux Lookout. SLHI filed a stand-alone application (the "Application") with the Ontario Energy Board (the "Board") on May 4, 2012, 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. SLHI requested approval of proposed Smart Meter Disposition Riders ("SMDRs") and Smart Meter Incremental Revenue Requirement Rate Riders ("SMIRRs") effective September 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 May 16, 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 posed interrogatories to SLHI on June 13, 2012, and VECC filed interrogatories on June 14, 2012. SLHI filed responses to the interrogatories on June 27, 2012.

The following is Board staff's submission on the Application and updates as provided in response to interrogatories.

Approvals Sought

In the Application, SLHI applied for SMDRs for both residential and GS < 50 kW customer classes. The SMDRs would refund the difference between the 2006 to December 31, 2011 revenue requirement related to smart meters deployed as of December 31, 2011 (plus interest on OM&A and depreciation expenses) and the SMFA revenues collected from May 1, 2006 to April 30, 2012 (and corresponding interest on the principal balance of SMFA revenues).

[1] *Guideline G-2011-0001*, dated December 15, 2011
[2] Response to Board staff IR #1.

SLHI also applied for SMIRRs for both residential and GS < 50kW customer classes. The SMIRRs would collect the 2012 incremental revenue requirement related to smart meter costs from September 1, 2012 to April 30, 2013, or the effective date of SLHI's 2013 cost of service rates.

SLHI did not request the recovery of stranded meter costs in this Application. These meters continue to be included in rate base for rate-making purposes until SLHI's next rebasing in 2013.

In response to interrogatories, SLHI made corrections and updates for the following:

- SLHI corrected an error in the calculation of the weighted average cost per meter;
- Interest on SMFA principal was included in the determination of the SMDR;
- When the Application was originally filed, the actual SMFA revenues to April 30, 2012 were not known. Final numbers have been applied in the smart meter model; and
- SLHI revised its initial request to include revenues foregone from May 1, 2012 to August 31, 2012 in the SMDR since no SMIRR revenue is collected during that period.

The SMDRs and SMIRRs, as initially applied for on May 4, 2012 and as updated in interrogatory responses filed on June 27, 2012, are summarized in the following table:

Table 1: Initial and Updated SMDR and SMIRR

	SMDR ($/month) Sept. 1, 2012 to Aug. 31, 2014			**SMIRR ($/month) Sept. 1, 2012 to Rebasing**	
1- Class	**2- Initial**	**3- Board Staff IR#10 and VECC#7**	**4- Board Staff IR#19 – Including Foregone Revenue**	**5- Initial**	**6- Board Staff IR#18 and VECC#7**
Residential	$1.85	$1.63	$2.38	$4.59	$4.10
GS < 50 kW	$2.16	$2.37	$3.83	$5.31	$8.26

Prudence of Smart Meter Costs

As of December 31, 2010, SLHI had completed 100% of smart meter installations to existing residential and GS < 50 kW customers. In this Application SLHI is applying for recovery of its smart meter costs as at December 31, 2011. The costs up to December 31, 2011 have been audited by an external auditor, and the audited financial statements were included with the Application. The smart meter costs as provided in the Application are summarized below:

Table 2: Smart Meter Capital Cost and Operational Expense

	Total Cost	Cost per Meter
Overall Capital Costs	$715,162	$264.29
Overall OM&A Costs	$110,010	$40.65
Total Costs	**$825,172**	**$304.94**
Overall Capital Costs Beyond Minimum Functionality	$13,088	$4.84
Overall OM&A Costs Beyond Minimum Functionality	$6,671	$2.47
Total Costs Beyond Minimum Functionality	**$19,759**	**$7.30**
TOTAL	**$844,931**	**$312.24**
Total Number of Smart Meters	2,706	

SLHI has a service agreement with Thunder Bay Utility Services ("TBHUS") to provide billing functions. In response to Board staff IR #3c, SLHI states that it pays incremental costs for the smart meter program of $2,000 per month to TBHUS. Board staff observe that a similar cost was noted in the Atikokan Hydro Inc. ("Atikokan") proceeding, EB-2011-0293. In its reply, Atikokan submitted that the $2,100 monthly cost could be argued as being more appropriately billing costs rather than smart meter costs. Board staff invites SLHI to comment on this matter in its reply submission.

SLHI provided a brief description of work related to smart meters costs beyond minimum functionality. The costs include: Time-of-Use ("TOU") Customer education materials; staff training for TOU implementation; and web presentment. In general, the costs beyond minimum functionality in Table 2 appear low, and are perhaps captured in the costs related to minimum functionality. Board staff invites SLHI to comment on how it has distinguished between minimum functionality and beyond minimum functionality costs in its reply submission.

Board staff takes the position that the total per meter cost summarized in Table 2 is high in comparison with province-wide data and in comparison with some neighbouring utilities.

On October 26, 2010 the Board issued a letter to all licensed distributors requiring them to file information about smart meter investments on a quarterly basis. On March 3, 2011, the Board issued the Monitoring Report, Smart Meter Investment – September 2010 (“the Monitoring Report”). The Monitoring Report summarized the total smart meter related investments of 78 distributors, as of September 30, 2010, and showed an average cost of $226.92 per smart meter.

SLHI’s per meter costs are significantly higher than the September 30, 2010 average for 78 distributors. Board staff notes that smaller utilities may have higher costs due to economies of scale. Further, due to the nature of SLHI’s service territory, higher costs for installation and communication services would be expected. However, Board staff questions whether these factors support costs that are 38% above the average.

SLHI was part of the Northwest Group (Thunder Bay Hydro Distribution Inc, Kenora Hydro Electric Corporation Ltd, Fort Frances Power Corporation, Atikokan and Sioux Lookout Hydro Inc.), that contracted with Util-Assist Inc. (“Util-Assist”) to manage the various smart meter related procurements, develop the overall project plan and to monitor and guide the project through to TOU bill production. The Northwest Group also contracted with Kinetiq Canada Ltd. (“Kinetiq”) to prove that the Elster automated metering infrastructure (“AMI”) system was meeting the provincial standard, to integrate the AMI data with the meter data management repository (“MDM/R”), to reconcile that the meter data sent to the MDM/R matched the data received back to the utility, and finally to automate business processes. SLHI is also taking part in an RFP with the Northwest group to procure a vendor to provide a web presentment solution.

It is not clear from the Application whether the costs were shared equally or pro-rated on some basis. In response to Board staff IR #2, SLHI indicated that Util-Assist services were shared, but no further detail on the allocation was provided.

SLHI states that the services of Kinetiq for the Operational Data Store are shared among the utilities in the Northwest Group based on the number of customers.

In response to Board staff IR #13, SLHI states that software maintenance costs are paid to TBHDI and that the costs are shared amongst the Northwest Group. Board staff invites SLHI to provide the allocation mechanism for these costs within the Northwest Group, and the justification for the allocation, in its reply submission.

On May 25, 2011, the Board issued its decision in proceeding EB-2010-0135 relating to Kenora Hydro Electric Corporation Ltd.'s ("Kenora") 2011 cost of service application. Kenora was one of the first utilities to seek recovery of smart meter costs (and the first such utility in the Northwest Group); further those costs were reviewed in a cost of service proceeding. Kenora's evidence indicated that smart meter costs averaged about $212 per meter, but VECC, in its submission in that hearing submitted that those costs did not include costs beyond minimum functionality.

On June 21, 2012, the Board issued its decision in proceeding EB-2012-0015 relating to Thunder Bay Hydro Distribution Inc.'s ("TBHDI") application for recovery of smart meter costs. That decision notes that TBHDI's per meter costs were $212.25 – below the September 30, 2010 average for 78 distributors.

On June 18, 2012, the Board issued its decision in proceeding EB-2011-0293 relating to Atikokan's 2012 cost of service application. In that proceeding, Board staff observed that Atikokan's claimed costs were higher than the Board has seen to date with the exception of Hydro One Networks Inc. Board staff submitted that the Board should disallow 20% of the costs to bring the costs to approximately $350 per meter. The Board allowed for recovery of 50% of the requested smart meter costs and directed that Atikokan's smart meter costs be audited.

Board staff observes that both Atikokan and SLHI are classified as "small northern low undergrounding" utilities, and Kenora is classified as a "small northern medium undergrounding" utility, while TBHDI is classified as a "mid size northern" utility. However, given the collaboration intended to achieve economies of scale and reduce administrative burden and its cost, the disparity in costs among these utilities is wide. Size may be one contributing factor, particularly with respect to recovery of fixed costs that may be invariant to size (number of customers), but the reasons for the apparent variability is not clear.

Board staff submits that while SLHI's smart meter costs are significantly higher than TBHDI, and apparently Kenora as well, SLHI's costs are lower than Atikokan's. Accordingly, Board staff does not take issue with SLHI's smart meter costs as documented in the Application, and submits that the higher level may be due to characteristics of utilities in the Northwest Group. Board staff notes that SLHI has elected to use a 2012 return on equity treatment, discussed later in this submission, that is favourable to ratepayers and is to some extent an offset of the higher per meter costs. Board staff also observes that SLHI is planning on rebasing its distribution rates for 2013. While that application should not reconsider the prudence of costs for which approval is being sought in this Application, Board staff submits that SLHI will have to support prospective operating costs related to the installed smart meters, and should also reflect operational efficiencies and savings in its 2013 rebasing application.

Allocation and Rate Design

In its response to Board staff and VECC interrogatories, SLHI addressed the matter of class-specific revenue requirements and associated SMDR and SMIRR. SLHI calculated class-specific SMDR using the Guelph model provided by the Board which:

- Allocated OM&A expenses on the basis of the number of meters installed for each class;
- Allocated Return and Amortization on the basis of the capital costs of the meters installed for each class;
- Allocated PILs based on the revenue requirement derived for each class before PILs; and
- Calculated SMFA revenues and interest on the principal first directly for the Residential and GS < 50 kW classes. The residual SMFA revenues and interest collected from other metered customer classes (i.e., GS 50-4999 kW and Large Use) is then allocated 50:50 to the residential and GS < 50 kW classes.

In the course of revising the cost allocation and SMDR, SLHI discovered an error in the calculation of the weighted average cost per meter. VECC IR #3 and #4 sought information on meter costs. Board staff observes that the responses to these interrogatories do not appear to be consistent with the meter costs summarized in the first line of the table provided in response to Board staff IR#19. It is Board staff's understanding that the costs provided in Board staff IR # 19 are correct. In reply submission, SLHI is invited to clarify the meter cost data as filed in the responses to these interrogatories.

Board staff submits that the re-calculated class-specific SMDRs provided in response to Board staff IR # 10, and summarized in column 3 of Table 1 of this submission, are more reflective of cost causality, and are consistent with the methodology approved by the Board in its Decision for PowerStream Inc. (EB-2011-0128). These SMDRs would true up costs related to the 2,706 smart meters installed since the beginning of the smart meter program up to December 31, 2011.

SLHI indicates that it will be applying for 2013 cost of service. SLHI is seeking a SMIRR, to cover incremental smart meter costs, which would be in place until this revenue requirement is incorporated in distribution rates established in the cost of service application.

Board staff queried the use of a 13% working capital allowance factor for 2012 in the smart meter model. In its response to Board staff IR #14, SLHI stated that it used 13% in response to the Board's letter of April 12, 2012. Board staff submits that the Board's direction in the April 12, 2012 letter applies to 2013 cost of service applications. Board staff submits that applying a 15% working capital allowance factor for 2012 in the smart meter model would be consistent with SLHI's current distribution rates and would be consistent with the Board's decision in the Atikokan proceeding, EB-2011-0293. However, SLHI's application of a 13% working capital allowance factor for 2012 is consistent with the utility's efforts to minimize ratepayer impact; these efforts are described further in the following paragraph. Accordingly, Board staff has no concerns with application of a 13% working capital allowance factor for 2012.

In its application, SLHI excluded return on equity from the SMIRR calculation since its current Board-approved rates recover a return on stranded meter assets which are still included in rate base. Board staff notes that SLHI's treatment is unique. However, this is a conscious decision by the utility to make this proposal which is favourable to its ratepayers. Board staff also observes that the SMIRR will only be in effect until the effective date of SLHI's rebased rates, tentatively May 1, 2013. Thus the impact is limited and poses no material impact on SLHI's financial viability. As such, Board staff takes no issue with SLHI's proposal.

SLHI's application and smart meter model indicate that a uniform SMIRR would be $4.69 per month. 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. Board staff notes that SLHI's proposed SMIRR is above 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[3] for the reasons outlined earlier in this submission on the quanta of costs claimed for recovery.

The class-specific SMIRRs that SLHI originally applied for are summarized in column 5 of Table 1. In response to interrogatories, SLHI updated the SMIRR to those listed in column 6 of Table 1. As noted in the Board's Guideline G-2011-0001, *Smart Meter Funding and Cost Recovery – Final Disposition*, issued on December 15, 2011, "In general, the cost allocation methodology should be the same for both the SMDR and SMIRR."

It is not apparent how the SMIRR was allocated by SLHI in the interrogatory responses to the residential and GS < 50 kW customer classes. Board staff invites SLHI to provide the details of the allocation in its reply submission.

Foregone SMIRR Revenue

In its IR #19, Board staff noted that SLHI's proposal with respect to foregone revenue requirement for the period May 1 to August 31, 2012 was not clear. In reply, SLHI stated that it feels it would be appropriate to include the foregone revenue for this period as no revenue was being collected. SLHI provided its

[3] *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

determination of class-specific SMDR including foregone SMIRR for the period May 1 to August 31, 2012, using the methodology established in the Orangeville Hydro Limited smart meter application, EB-2012-0039. These SMDRs are summarized in column 4 of Table 1.

As noted above in comments related to the allocation of the SMIRR, it is not apparent how the foregone SMIRR for the period May 1 to August 31, 2012 was allocated by SLHI to the residential and GS < 50 kW customer classes. Board staff invites SLHI to provide the details of the allocation in its reply submission.

Other Matters

In response to Board staff IR #8 and VECC IR # 5, SLHI stated that it has not yet identified any operational efficiencies other than not requiring any additional billing staff. As noted above, Board staff submits that SLHI should be prepared to address operational efficiencies and savings in its 2013 cost of service application, particularly given the higher level of smart meter costs documented in this Application.

SLHI has also responded to interrogatories regarding the net book value of stranded conventional meters. The NBV at December 31, 2012 is estimated to be $181,592, of which $156,169 would be residential and $25,423 would be GS < 50 kW customer class. As required by Guideline G-2011-0001, Board staff submits that SLHI should address stranded meter costs in its next cost of service application.

- All of which is respectfully submitted -