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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: Bluewater Power Distribution Corporation**
**Application for 2012 Smart Meter Cost Recovery effective November 1, 2012**
**Board File Number EB-2012-0263**

In accordance with the process documented in the Notice of Application and Hearing, please find attached Board staff's interrogatories in the above proceeding with respect to Bluewater Power Distribution Corporation's application for rate riders to recover smart meter costs.

Yours truly,

*Original signed by*

Violet Binette
Project Advisor, Applications & Regulatory Audit

Attach

# Bluewater Power Distribution Corporation
# 2012 Smart Meter Cost Recovery
# EB-2012-0263

## Board Staff Interrogatories

### *General*

**1. Letters of Comment**

Following publication of the Notice of Application, the Board has, to date, received no letters of comment. Please confirm whether Bluewater Power Distribution Corporation ("Bluewater Power") has received any letters of comment. If so, please file a copy of any letters of comment. For each, please confirm whether a reply was sent from Bluewater Power to the author of the letter. If confirmed, please file that reply with the Board. Please ensure that the author's contact information except for the name is redacted. If not confirmed, please explain why a response was not sent and confirm if Bluewater Power intends to respond.

### *Application*

**2. Ref: Application p10 and p21 – Smart Meters Installed**

Table 3.1 on p10 indicates that 4 GS < 50 kW smart meters were installed in 2012. However, on p21 of the application, it states that installation of polyphase GS<50 kW smart meters began in November 2010 and the project was completed in November 2011. Bluewater shows no additions to residential smart meters in 2012 in Table 3.1 on p10. Please explain the additional 4 GS < 50 kW meters in 2012.

**3. Ref: Application p13 – Pilot Study**

In 2006, Bluewater Power completed a pilot study in the town of Watford using funds sourced from the 3rd MARR as a CDM program. Bluewater Power states that it is not seeking any costs for the pilot in the current application. On p13 of the application, Bluewater Power also states that it "spent a significant amount of time researching technologies, pilot programs and approaches taken by other utilities in the province."

a) With the exception of the Watford pilot, are the costs for the research included in the current application?
b) If yes, what is the estimated cost for this activity, and when was the research conducted? Where are these costs represented in Sheet 2 of the smart meter model?

c) Have any of these costs been previously reviewed and approved in previous applications (i.e. Bluewater Power's 2009 cost of service application)?

**4. Ref: Application p12-32 – Procurement and Installation**

Bluewater Power has provided a full commentary on its progression through procurement and installation of AMI related to minimum functionality and beyond minimum functionality. Please confirm whether the additional costs of each of the following is included in the costs that Bluewater Power is seeking approval for recovery in this Application. If yes, please quantify the costs.

a) P15 – AMI Selection

A preliminary vendor matrix was developed internally to compare the technical aspects of each vendor based on a needs analysis completed by all affected departments within Bluewater Power. Although the analysis revealed that there were clearly only two vendors that met the criteria the team identified in the departmental needs analysis, we felt it was important to continue to evaluate all vendors.

b) P 17 – Meter Installation Vendor

In order to benefit from further sharing opportunities, Bluewater Power continued to work with London Hydro on the development of a Statement of Work for a possible Third Party Installation service provider RFQ. Bluewater Power was not satisfied with the pace of progress, so we turned to the OUSM Working Group to find alternative ways to work with other utilities. Bluewater Power utilized the Installation Service Provider RFQ template developed by the OUSM group.

c) P17 – Meter Installation Vendor

The Smart Meter Installation Services RFP 433-08 was issued November 5, 2008 to five vendors. However, after a thorough evaluation of the proponent's responses to the RFP, Bluewater Power made the decision to terminate the process. The initial RFP had a limited response, which resulted in a lack of comparative data. In addition, concerns with health & safety could not be resolved by the proponents. Accordingly, the proponents were notified on January 29, 2009 that we would not be awarding the contract under that RFP.

d) P20 – Installation of Polyphase GS < 50 kW Meters

On Bluewater Power's behalf, Util-Assist issued RFP BBP-440-10 to cover the installation of all polyphase GS<50 kW Smart Meters in our territory (approximately 1,800 meters). Factors such as customer communication, safety, pricing and installation service offerings were taken into account during the RFP. Three submissions were received from all three vendors invited to bid. After a thorough review, a decision was made to reject all of the proposals submitted and to install the polyphase meters with internal resources. The narrow scope of this project made it possible to complete the work with internal resources and the savings associated with carrying out the project internally were significant.

e) P32 – Testing

In May of 2011, due to the required Measurement Canada solution changes that affected the Provincial MDM/R, Bluewater Power made the decision to halt our Unit Testing and discontinue redundant effort around testing issues that would be rectified after the anticipated new release from the IESO.

**5. Ref: Application p23 – AMI Annual Security Audit**

An RFP for an AMI Network Security Audit was developed and executed by Util-Assist for several LDCs, including Bluewater Power. Please confirm that Bluewater Power's share of the Util-Assist's costs for this RFP was $13,750.

The Application states that there are no costs relating to the security measures recommended following the audit conducted at PowerStream. Does Bluewater Power expect to propose costs related to the security audit recommendations in its 2013 cost of service application?

**6. Ref: Application p25 - Beyond Minimum Functionality**

Table 6.1 summarizes capital expenditures beyond minimum functionality. The Application states, "The total amount claimed in this application for recovery as Beyond Minimum Functionality is $2.53M or $71.49 per customer."

Please confirm that Bluewater Power is also seeking $21,120 of OM&A costs beyond minimum functionality. Further, please confirm that the $71.49 per customer of beyond minimum functionality reflects only the capital costs.

**7. Application p10 and p26 – Beyond Minimum Functionality**

At p26, it states that the majority of beyond minimum functionality capital costs "fall under the category of MDM/R integration and relate to the integration of the MDM/R with Bluewater Power's SAP-based CIS."

At p10, Bluewater Power elected to do a partial cutover to the R7.0 MDM/R environment and then full migration to R7.2. Bluewater Power was approached by the IESO to complete testing of the R7.2 environment as it one of only a few LDCs ready to function in R7.2.

What is the estimated cost of this testing, and where is this cost represented in Sheet 2 of the Smart Meter Model?

**8. Ref: Application, pp 25-28 – Software Costs**

In Table 6.1 on p25, Bluewater Power documents about $2.5M in software costs for MDM/R intergration, TOU billing, web presentment, etc. This corresponds with "1.6.3 Costs for TOU rate implementation, CIS system upgrades, web presentation, integration with the MDM/R, etc." on row 105 of sheet 2 of the Smart Meter Model. Board staff observes that these costs of $2.5M represent about 29% of total smart meter capital costs for which Bluewater Power is seeking recovery.

On pp 26-27, Bluewater Power states:

> The majority of costs set out in Table 6.1 fall under the category of MDM/R Integration and relate to the integration of the MDM/R with Bluewater Power's SAP-based CIS. Bluewater Power implemented SAP Industry Solution Utilities in the year 2002 as the industry prepared for the deregulated electricity market. The system represents a substantial investment in an Enterprise Resource Planning ("ERP") solution. SAP serves to function as Bluewater Power's primary business software. The solution includes Finance, Supply Chain, Plant Maintenance, Engineering, Metering, Customer Information, Billing, web presentment, retail and wholesale settlement functions in a completely integrated solution.
>
> In 2008, Bluewater Power engaged SJH consulting to perform an upgrade assessment. This assessment looked at the need to upgrade SAP in order to move to an updated software solution utilizing new functionality and having the ability to accommodate the pending Smart Meter Initiative. The facts considered at the time pointed to the need to upgrade from ERP Version 4.7 Enterprise to Version 6.0 EhP 4 of SAP. The version of SAP that Bluewater Power was operating on at the time was entering into a period of 'Extended Support Coverage' and was less than 2 years away from no longer being supported by SAP. In addition, the upgrade addressed a number of limitations in the existing system that improved functionality and, in some cases, better prepared the CIS for the introduction of smart meters. Finally, given the timeline in place to implement the smart metering initiative at Bluewater Power, it was necessary for the SAP upgrade to occur prior to that required effort.
>
> The upgrade to ERP Version 6.0 EhP 4 is an example of the kind of "normal budget for maintenance" of Bluewater Power's CIS. The costs related to this upgrade are not included for recovery in this Smart Meter Final Disposition. Likewise, Bluewater Power engaged in an upgrade of SAP to accommodate the move to International Financial Reporting Standards (IFRS) in the year 2009. Those costs are also not included for recovery in this application, just like other routine upgrades and modifications to SAP continue to form part of Bluewater Power's normal maintenance of its CIS.

On p28, Bluewater continues:

> These costs are considered "required" for Smart Meters because the SAP billing system that Bluewater Power operates was not inherently capable of billing TOU pricing. SAP's utility offering is an Enterprise Resource Planning solution. It is not an "off the shelf" product, but its design is end-user driven. Prior to the commencement of Phase 2 Smart Meter Project, the system was not configured for integration with the MDM/R or for producing a TOU bill. It is clear that "but for" the requirements of the Smart Metering Initiative, none of the costs for which we are seeking recovery in this application would have been incurred.

When Bluewater Power did its SAP upgrade in 2008-2009, the requirements for TOU billing were better defined.

a) Please clarify the statements on p28 that the SAP ERP was not inherently capable of MDM/R integration and TOU billing with the statements on pp 26-27 that the earlier upgrade "improved functionality and, in some cases, better prepared the CIS for the introduction of smart meters."

b) Why did Bluewater Power not upgrade its SAP system to be capable of smart meters and TOU billing when it did its upgrade in 2009?
c) Are there any capabilities or functionality of the CIS/billing system upgrade which are used to service customers other than residential and GS < 50 kW customers? If so, please identify these and provide Bluewater Power's rationale for the costs of the CIS/billing system upgrade to be borne solely by smart metered residential and GS < 50 kW customers.

**9. Ref: Application p37 – Smart Meter Costs**

The Application seeks approval of recovery of all costs for the period 2006 to 2012, net of the funding adder, through an SMDR. Table 7.1 on p37 indicates that 89% of the costs requested for disposition have been audited, which is below the suggested 90% threshold.

a) Please provide actual YTD capital costs to June 2012. If June 2012 costs are not available, please provide the most recent data available.
b) Please provide actual YTD OM&A costs to June 2012. If June 2012 costs are not available, please provide the most recent data available.

**10. Ref: Application p21 and p41 – 2012 IRM Rate Application**

There is a variance of ($1,304,597) in smart meter costs between the 2012 IRM rate application, filed on October 4, 2011 and this Application. Bluewater Power states that one of the contributing factors was cost containment related to installing GS < 50 kW meters with internal resources. At p21 of the Application, it indicates that this work was completed in November 2011.

Please explain why the 2012 IRM application overstated the expenses by $230,000 for work which was nearing completion.

**11. Ref: Application p5 and p44 – Cost Allocation and Class-specific SMDRs**

At p5 of the application, Bluewater Power confirms that it has not deployed smart meters to classes other than residential and small commercial (i.e. GS < 50 kW). At p44 of the application, it states that the SMFA was a uniform rate amongst all metered customers.

Allocating revenue and interest from other classes 50:50 to the residential and GS < 50 kW classes is an approach approved in recent smart meter decisions, and documented in section 3.5 of *Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition* ("Guideline G-2011-0001"), issued December 15, 2011.

a) How has Bluewater Power allocated the SMFA revenues from the GS 50 kW to 999 kW, GS 1,000 kW to 4,999 kW, and large use customer classes for calculating the class-specific SMDRs for the residential and GS < 50 kW classes?

b) Using the attached spreadsheet taken from Guelph Hydro's draft Rate Order filing, please provide calculations for class-specific SMDRs using a more direct allocation of SMFA revenues. This should also reflect any and all revisions to Smart Meter Model, Version 2.21 made as a result of Bluewater Power's responses to interrogatories.

**12. Ref: Application p4, Appendix 2 and Smart Meter Model, Sheet 2 – OM&A Expenses**

Bluewater Power seeks approval of foregone revenue requirement related to smart meter deployment from 2006 to present. Appendix 2 of the application is a copy of a May 30, 2008 letter from the Fairness Commission, indicating compliance with the London Hydro RFP process.

a) Bluewater Power lists capital ($172 in 2006 and $1,316 in 2007) and OM&A ($13,439 in 2006 and $25,755 in 2007) expenses prior to 2008 in Sheet 2 of the model.
    i) Please explain the nature of the work done for these expensed costs incurred prior to Bluewater Power becoming authorized and commencing its smart meter deployment.
    ii) Please explain whether or not these costs were necessary for and integral to the implementation of Bluewater Power's smart meter program and do not replace operating expenses for legacy distribution operations whose costs are reflected in Bluewater Power's normal revenue requirement and recoverable through base distribution rates.
b) Under section 2.1.2, Other (row 116 of sheet 2), Bluewater Power lists OM&A expenses labelled as "ODS Fees" with $1,935 for 2006, $6,112 for 2007, $4,497 for 2008 and $4,727 for 2009. These expenses then increase to $16,584 for 2010, $40,456 for 2011 and decrease to $22,067 for 2012.
    i) What are the ODS Fees for during the period from 2006 to 2009?
    ii) What is the reason for the increased fees in 2010 and 2011?
    iii) Are these costs one-time or recurring? In particular, is the 2012 forecasted cost of $22,087 a reasonable estimate of recurring ODS fees?
c) Under section 2.5.3, Program Management (row 152 of sheet 2), Bluewater Power lists costs of $2,151 for 2006, $14,796 for 2007, $16,322 for 2008, $6,583 for 2009, ($1,590) for 2010 and $nil for 2011-2013.
    i) Given that Bluewater Power commenced smart meter deployment in 2010, please explain why the majority of the costs were incurred prior to then.
    ii) Please explain the negative cost entry of ($1,590) for 2010.

**13. Ref: Application p37 and Smart Meter Model, Sheet 2 – Capital Expenses**

On row 107 of Sheet 2, Bluewater Power forecasts capital costs beyond minimum functionality of $557,785 in 2012. The note indicates the asset type is computer software related to TOU implementation, CIS upgrades, web presentment, integration with the MDM/R, etc.

a) Please provide further explanation of the $557,785 of capitalized software costs forecast for 2012.
b) Please also document what portion of these forecasted costs have been incurred to date.

**14. Ref: Application p39 and Smart Meter Model, Sheet 2 – OM&A Expenses**

Please provide further description and justification by category of the OM&A expenses that Bluewater Power is seeking to recover. For each category please respond to the following questions.

a) Are any of the expenses internal (i.e. done by Bluewater Power staff)?
b) Please describe how Bluewater Power determined that each category of costs is fully incremental.
c) Are there costs that Bluewater Power no longer incurs as a result of now transmitting customer usage data from smart meters over communications lines?

**15. Ref: Application p39-40 and Smart Meter Model, Sheet 2 – OM&A Expenses**

a) Under section 2.2.2 of Sheet 2, Bluewater Power lists Network Fees of $29,633 in 2010, $49,134 in 2011 and $21,563 in 2012. Please explain the nature of these fees. Please explain the higher fees in 2011.
b) Under section 2.5.5, Bluewater Power lists Administration Costs of $104,826 in 2011 and $107,072 in 2012. Please explain the nature of these administration costs. Are they forecast to continue?
c) The bulleted list on p40 indicates $72,000 of expenses related to membership fees, training, conferences and research. Please quantify the membership fees and explain the nature of the membership fees and how they are necessary and prudent with respect to Bluewater Power's smart meter program.

**16. Ref: Smart Meter Model, Sheet 3 - Taxes/PILs Rates**

Bluewater Power has used the maximum taxes/PILs rates input on sheet 3, row 40, for the years 2006, 2007, 2008, 2009, 2010, 2011, 2012 and 2013 and beyond. These are summarized in the following table:

| Year | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|
| **Aggregate Federal and provincial income tax rate** | 36.12% | 36.12% | 33.50% | 33.00% | 31.00% | 28.25% | 26.25% | 25.50% |

Please confirm that these are the tax rates corresponding to the taxes or PILs actually paid by Bluewater Power in each of the historical years, and that Bluewater Power forecasts it will pay for 2012 and 2013. In the alternative, please explain the tax rates shown and their derivation.

**17. Ref: Smart Meter Model, Sheet 3 – CCA Rates**

a) Please explain why Bluewater Power has applied CCA class 8 for smart meters instead of CCA class 47. What CCA class is used for legacy conventional meters?
b) Please explain why Bluewater Power has applied CCA class 46 for computer equipment instead of CCA class 45

**18. Ref: Smart Meter Model, Sheet 8 SMFA Revenues**

On sheet 8 of the Smart Meter Model, Bluewater Power has input SMFA revenues for May and June 2012. Please explain these entries as the SMFA ceased on April 30, 2012 in accordance with the Board's decisions of its 2011 and 2012 IRM rates applications.

**19. Ref: Smart Meter Model – Interest on OM&A and Depreciation Expenses**

In the Smart Meter Model Version 2.21 filed by Bluewater Power, the utility has relied upon sheet 8B to calculate the interest on OM&A and depreciation/amortization expenses. Sheet 8B calculates the interest based on the average annual balance of deferred OM&A and depreciation/amortization expenses based on the annual amounts input elsewhere in the model.

For LDCs that have the appropriate data, the more accurate and preferred method for calculating the interest on OM&A and depreciation/amortization expense is to input the monthly amounts from the sub-account details of Account 1556, using sheet 8A of the model. This approach is analogous to the calculation of interest on SMFA revenues on sheet 8 of the model.

a) Please re-file the smart meter model using the monthly OM&A and depreciation/amortization expense data from Account 1556 records. Bluewater Power should also take into account any revisions necessary as a result of its responses to any preceding interrogatories.
b) If this is not possible, please explain.

**20. Ref: Smart Meter Model, Sheet 2 and Sheet 9**

Bluewater Power notes that it has installed a total of 35,401 smart meters. Sheet 9 of the smart meter model calculates the SMDR for the number of metered customers – average for 2013 test year.

a) Please confirm that the entry of 35,401 is Bluewater Power's current estimate of the average number of smart metered residential and GS < 50 kW customers for the year 2013.
b) In the alternative please provide Bluewater Power's estimate of the average number of residential and GS < 50 kW customers for the period from November 1, 2012 (i.e., the effective date of the SMDR) to December 31, 2013.

**21. Ref: Board Guideline G-2011-0001, Application p29**

P19 of the Guideline G-2011-0001, 2011 states that, "In considering the recovery of smart meter costs, the Board also expects that a distributor will provide evidence on any operational efficiencies and cost savings that result from smart meter implementation." Please provide a summary of any operational efficiencies and costs savings relating to the implementation of smart meters to date realized or expected by Bluewater Power.

**22. Ref: Application p2 - Stranded Meters**

In the application, Bluewater Power proposes that stranded meters continue to be included in rate base. Bluewater Power will seek recovery of stranded meter costs in its 2013 cost of service application.

Please provide the estimated NBV of stranded conventional meters as of December 31, 2012, disaggregated by Residential and GS < 50 kW customer classes.