

2012 ELECTRICITY DISTRIBUTION RATES

Waterloo North Hydro Inc.

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

EB-2012-0266

STAFF SUBMISSION

August 2, 2012

INTRODUCTION

Waterloo North Hydro Inc. (“WNH”) is a licensed electricity distributor serving customers in the City of Waterloo and the Townships of Wellesley and Woolwich. WNH filed a stand-alone application (the “Application”) with the Board on May 31, 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 October 31, 2012. WNH requested approval of proposed Smart Meter Disposition Riders (“SMDRs”) and Smart Meter Incremental Revenue Requirement Rate Riders (“SMIRRs”) effective November 1, 2012. The Application is based on the Board’s policy and practice with respect to recovery of smart meter costs.¹

Board staff notes that one letter of comment was filed on July 13, 2012. In response to Board staff IR # 1, WNH stated that it had not received any letters of comment. Board staff invites WNH to confirm in its reply submission whether it has responded to the letter of comment. If so, WNH should file that response, in redacted format, with its reply submission. If not, WNH should explain why it has not responded. .

This submission reflects observations and concerns which arise from Board staff’s review of the record of the proceeding, including the original Application and updates as provided in response to interrogatories.

¹ On December 15, 2011, the Board issued *Guideline -2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition* (“Guideline G-2011-0001”). In preparing its Application, WNH used a modified version of Smart Meter Model, Version 2.17, issued along with Guideline G-2011-0001, and prepared its application considering recent Board decisions on smart meter cost disposition and recovery.

THE APPLICATION

Approvals Sought

In the Application filed on May 31, 2012, WNH applied for the following approvals:

- a) Elimination of the existing SMFA of \$1.00 per metered customer per month effective October 31, 2012;
- b) Addition of a SMDR of (\$0.30) per metered Residential customer per month and \$7.05 per metered General Service < 50 kW customer per month, effective November 1, 2012 to October 31, 2013; and
- c) Addition of a SMIRR of \$2.11 per metered Residential customer per month and \$5.51 per metered General Service < 50 kW customer per month, effective November 1, 2012.²

Board staff notes that approval for the termination of WNH's current SMFA is not required in this Application. In WNH's 2012 IRM rates application (EB-2011-0201), the Board approved the continuation of the current SMFA of \$1.00 with a sunset date of October 31, 2012.³

Further, Board staff notes that WNH has included in its calculated SMDR recovery of foregone SMIRR revenues for the period May 1 to October 31, 2012. Also, WNH, in its Application, has used a customized version of the Smart Meter Model Version 2.17. This version was prepared by Board staff at the request of WNH prior to WNH submitting its Application. The methodology inherent in the model is unchanged but allows SMFA revenues up to October 31, 2012, and interest on both SMFA revenues and on OM&A and depreciation expenses to October 31, 2012 to be calculated.

² Application, page 1

³ Decision and Order [EB-2011-0201], April 4, 2012, pp. 13-15

Updated Evidence

WNH revised its proposed SMDRs and SMIRRs in responses to interrogatories, with respect to the following:

- WNH corrected data in the smart meter model so that OM&A and depreciation expenses shown on sheet 8 correspond with smart meter cost data shown on sheet 2.⁴

WNH responded to other interrogatories from Board staff and VECC seeking clarification, explanation and correction of certain evidence and data provided in the Application. For example, WNH explained that a “negative” cost entry of \$13,242 for smart meter capital costs in 2012 was to avoid double-counting of the capital costs for certain “failed” smart meters. Board staff is satisfied that WNH has adequately explained its smart meter cost data in the Application, and that the revised Smart Meter model and the derived SMDRs and SMIRRs accurately reflect WNH’s documented smart meter costs.

The proposed class-specific SMDRs and SMIRRs calculated in response to Board staff IR # 7 are summarized below:

Table 1: Original and Revised SMDRs and SMIRRs

Class	SMDR (\$/month, for 12 months from November 1, 2012 to October 31, 2013)		SMIRR (\$/month)	
	Original	Revised	Original	Revised
		Board staff IR # 7a		Board staff IR # 7b
Residential	(\$0.30)	unchanged	\$2.11	unchanged
GS < 50 kW	\$7.05	\$7.06	\$5.51	unchanged

WNH proposes the class-specific SMDRs and SMIRRs as calculated based on an allocation of costs in accordance with the methodology documented in Guideline G-2011-0001. This methodology has been accepted by the Board in a number of other cases. In its response to VECC IR # 6, WNH stated that it does

⁴ Response to Board staff IR # 6a

not have all of the smart meter cost data recorded on a class-specific basis and thus was unable to provide class-specific models as requested by VECC.

Board staff accepts WNH's explanations on how costs have been allocated, as documented in the Application and augmented in its response to VECC IR # 5 and submits that the class-specific SMDRs and SMIRRs revised in response to Board staff IR#7 have been calculated appropriately and in accordance with Board policy and practice.

Prudence of Smart Meter Costs

In its Application, WNH stated that it had completed smart meter deployment as of December 31, 2012, with the exception of 153 GS < 50 kW customers whose meters were installed in 2012. WNH documented the total smart meter costs as follows in Table 1 in its Application:

Total Smart Meter Capital Costs	\$9,500,731
Total Smart Meter OM&A Costs	\$531,849
Total Smart Meter Costs	\$10,032,580

WNH's evidence is that all costs up to December 31, 2011, accounting for 96.2% of the costs for which disposition and recovery is being sought in this Application, have been audited. Board staff submits that WNH's Application complies with Guideline G-2011-0001 with regard to the expectation that at least 90% of the smart meter costs be audited actuals.

WNH notes that it completed a pilot project involving the installation of 500 smart meters in 2007, which costs were funded by and approved as part of the 3rd tranche of MARR rate adjustment in WNH's 2005 rates application. WNH notes that the Tantalus smart meters installed in the pilot project were removed and sold in 2009, and that the costs for the smart meter pilot are not part of WNH's rate base as approved in its 2011 cost of service application EB-2010-0144, nor are they part of the smart meter costs for which WNH is seeking recovery in this Application.⁵

⁵ Application, page 7

In its Application, WNH documented its procurement process and the process to become authorized for smart meter deployment in compliance with O.Reg. 427/06. WNH documented its adherence to the London Hydro RFP process, and its cooperation with other Ontario local distribution companies (and specifically its neighbouring utilities Kitchener-Wilmot Hydro Inc. and Cambridge & North Dumfries Hydro Inc.) resulted in improved technology selection and deployment, and cost benefits to WNH and, ultimately, to ratepayers.⁶ Board staff takes no issue with WNH's explanations on these matters.

WNH claims an average cost per meter of \$178.46, excluding costs beyond minimum functionality and \$184.43 including costs beyond minimum functionality.⁷ For comparison purposes, Board staff observes that the Board's *Smart Meter Audit Review Report*, dated March 31, 2010, indicates a sector average capital cost of \$186.76 per meter (based on 3,053,931 meters with a capital cost of \$570,339,200 as from January 1, 2006 to September 30, 2009). The corresponding average total cost per meter (capital and OM&A) is \$207.37 from the data in that report. Following the audit review, the Board issued a letter on October 26, 2010 requiring all distributors to provide information on their smart meter investments on a quarterly basis. The first distributors' quarterly update represented life-to-date investments in smart meter implementation as of September 30, 2010 and, as of this date, the average total cost per meter for reporting Ontario LDCs was \$226.92.⁸

Board staff notes that WNH's per meter costs are below the average, and within the range, seen for distributors of similar sizes and largely serving urbanized areas in these reports and in applications for smart meter cost recovery that have been made to the Board for approval.

Noting that WNH became authorized to deploy smart meters through adherence with the London Hydro RFP process, as required in subsection 1.(1) 8 of O. Reg. 427/06, Board staff submits that WNH has acted in accordance with the

⁶ Application, pp. 7-9

⁷ Application, page 5, Tables 3A and 3B

⁸ Monitoring Report Smart Meter Investment – September 2010, March 3, 2011

regulations in its processes for the procurement of smart meters and associated equipment and for services to install and operate the smart meters and associated equipment. As such, Board staff considers that the documented historical costs and the forecasted costs are prudent.

Costs Beyond Minimum Functionality

As documented in its Application, WNH's smart meter deployment is solely for Residential and GS < 50 kW customers, and so do not exceed minimum functionality in this regard.

In its Application, WNH documents \$231,587 capital costs and \$221,672 operating expenses for costs beyond minimum functionality, related to TOU rate implementation, CIS system changes, web presentment, bill presentment, and integration with the MDM/R. Board staff takes no issue with the documented costs related to "beyond minimum functionality" aspects of its smart meter program based on the documentation provided in the Application.

Exclusion of 2012 Costs and Demand for Customer Growth

Board staff notes that WNH has not included costs for smart meters to be forecasted to be deployed in 2012 due to customer growth.⁹

This approach is consistent with what the Board has approved for final smart meter disposition in recent applications. In PowerStream's 2011 smart meter application (EB-2011-0128), the utility included costs to the end of 2011. In Kenora Hydro's 2011 cost of service application (EB-2010-0135), smart meter costs to the end of the 2010 test year were included in the SMDR, and capital and operating costs for 2011 were included in the test year rate base and revenue requirement. Similarly, in Hydro Ottawa's 2012 cost of service application (EB-2011-0054), only costs to the end of 2011 were included in the determination of the SMDR.

⁹ Application, page 12

In other smart meter stand-alone applications currently before the Board, other distributors have included both the capital costs and forecasted number of new smart meters expected to be installed due to customer growth in the determination of the SMIRR. In these cases, utilities have generally also documented capital and one-time operating expenses due to, for example, TOU implementation in 2012.

Board staff submits that both approaches set out above are acceptable, so long as the costs and the demand (number of customers) are for the same period and the forecasted costs for 2012 are less than 10% of the total costs of the program. In the long run, both approaches should be equivalent. Board staff submits that WNH will be compensated through the SMIRR for incremental smart meter costs associated with customer growth until its distribution rates are next rebased through a cost of service application.

Other Matters

Stranded Meters

WNH is proposing not to dispose of stranded meters at this time, but to deal with disposition in its next rebasing application, scheduled for 2015 rates. The aggregated net book value of stranded meters, in aggregate for the Residential and GS < 50 kW classes, is estimated as \$1,900,000 as of December 31, 2011 and \$1,400,000 as of December 31, 2014.¹⁰ The stranded conventional meters continue to be amortized until disposition.

Board staff submits that WNH's proposal is in accordance with Guideline G-2011-0001. However, in its next cost of service application for 2015 rates, WNH should make a proposal for the recovery of stranded meter costs through class-specific Stranded Meter Rate Riders, as envisaged in section 3.7 of Guideline G-2011-0001.

¹⁰ Application, page 6

Operational Efficiencies

In response to VECC IR # 1, WNH states that it is unable to quantify the cost savings and efficiencies from participating in the London Hydro RFP process. Board staff notes that WNH and other Ontario electricity distributors may, more generally, be able to, and be expected to realize longer term productivity gains as they gain experience with smart meters and TOU data, and are able to undertake business process re-designs to integrate these new systems with existing operational systems and practices. Board staff submits that WNH should be prepared to address any operational efficiencies due to smart meter and TOU implementation in its next cost of service rebasing application.

Foregone SMIRR Revenues for the Period May 1 to October 31, 2012

In its Application, WNH has proposed an effective date for the SMIRR of November 1, 2012, which coincides with the cessation of the SMFA on October 31, 2012.

WNH has included the estimated SMIRR revenues for six months (i.e., from May 1 to October 31, 2012) in the calculation of the SMDR. Board staff submits that this approach is reasonable and has been applied correctly. The SMIRR is left unchanged as a monthly rate to recover the ongoing incremental revenue requirement until smart meter costs can be explicitly factored into WNH's rate base and revenue requirement in a cost of service application. WNH's approach also holds it whole for the incremental revenue requirement for 2012, while WNH has taken into account the additional SMFA revenues that it has received, or will receive, from May 1 to October 31, 2012.

Board staff notes that WNH's proposal is consistent with the treatment as approved by the Board in recent smart meter cost recovery applications.¹¹

¹¹ Decision and Order [EB-2012-0039] (re: Orangeville Hydro), May 24, 2012, Decision and Order [EB-2012-0081] (re: Burlington Hydro), June 21, 2012, Decision and Order [EB-2012-0086] (re: Cambridge and North Dumfries Hydro), July 26, 2012, Decision and Order [EB-2012-0187] (re: London Hydro), July 26, 2012, Decision and Order [EB-2012-0094] (re: Co-operative Hydro Embrun), July 26, 2012.

Board staff submits that WNH's proposal for calculation and recovery of the foregone SMIRR revenues from May 1 to October 31, 2012 is in accordance with the Board's current policy and practice, and that this approach is appropriate in terms of enabling the distributor to more fully recover the historical deferred and ongoing costs related to smart meters until the rates are rebased through a cost of service application for the utility. Board staff submits that WNH's methodology is appropriate and that no further adjustments are necessary assuming the effective date of November 1, 2012 is approved as requested.

Subject to the above comments, Board staff submits that WNH's Application is in accordance 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.

- All of which is respectfully submitted -