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Ontario

BY E-MAIL

August 13, 2012

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Festival Hydro Inc.
Smart Meter Cost Recovery
Board Staff Submission
Board File No. EB-2012-0260

In accordance with the Notice of Application and Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Festival Hydro Inc. and to all other registered parties to this proceeding.

In addition please advise Festival Hydro Inc. that its Reply Submission is due by August 27, 2012.

Yours truly,

Original Signed By

Suresh Advani

Encl.

2012 ELECTRICITY DISTRIBUTION RATES

Festival Hydro Inc.

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

EB-2012-0260

BOARD STAFF SUBMISSION

August 13, 2012

INTRODUCTION

Festival Hydro Inc. (“Festival”) is a licensed electricity distributor serving approximately 19,900 customers in the City of Stratford and the surrounding towns of St. Marys, Seaforth, Brussels, Dashwood, Hensall and Zurich. Festival filed a stand-alone application (the “Application”) with the Board, received on May 29, 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. Festival 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.

The Board issued its Letter of Direction and Notice of Application and Hearing (the “Notice”) on June 1, 2012. The Vulnerable Energy Consumers’ Coalition (“VECC”) requested and was granted intervenor status and cost award eligibility. No letters of comment were received. The Notice established that the Board would consider the Application by way of a written hearing and established timelines for discovery and submissions.

Board staff and VECC served and filed interrogatories on July 6, 2012 and July 16, 2012 respectively. Festival filed its responses to all interrogatories on July 30, 2012.

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.

THE APPLICATION

Approvals Sought

In the Application as filed on May 29, 2012, Festival applied for the following approvals:

- Smart Meter Disposition Riders – A cost recovery rate rider of ($0.92) per Residential customer per month and $2.17 per General Service less than 50kW (“GS < 50 kW”) customer per month for the period November 1, 2012 to April 30, 2014. These rate riders will refund/recover the difference between the 2006 to December 31, 2011 revenue requirement related to smart meters deployed as of December 31, 2011 (plus interest on operations, maintenance and administration (“OM&A”) and depreciation expenses) and the smart meter funding adder collected from May 1, 2006 to April 30, 2012 (and corresponding interest on the principal balance of SMFA revenues); and
- Smart Meter Incremental Revenue Requirement Rate Riders – A forecasted cost recovery rate rider of $2.47 per Residential customer per month and $6.01 per GS < 50 kW customer per month for the period November 1, 2012 to April 30, 2014. These rate riders will collect the 2012 incremental revenue requirement related to smart meter costs to be incurred from January 1, 2012 to December 31, 2012.

Updated Evidence

In response to Board staff interrogatories, Festival made the following updates:

- Updated the Aggregate Corporate Income Tax Rate for the years 2010, 2011 and 2012 from 30.29% for each year to 29.51%, 28.25% and 24.58% respectively (Board staff interrogatory #3a);
- Updated “Other AMI Capital” (item 1.5.6 in the smart meter model):
  - Removed amounts in years 2009 to 2011; and
  - Updated amount in year 2012 from $14,057 to $939 (Board staff interrogatory #4b);
- Updated Meter Troubleshooting costs (item 2.1.2 in the smart meter model) for the year 2012 from $20,917 to $24,917 (Board staff interrogatory #5a);
- Updated Communication Services costs (item 2.4.2 in the smart meter model) for the years 2010 and 2012 from $67,060 and $8,468 to $55,785 and $12,630 respectively (Board staff interrogatory #7b);

- Updated Other AMI Expenses (item 2.5.6 in the smart meter model) for the years 2010, 2011 and 2012 from $84, $4,278 and $9,255 to $0, $173 and $71 respectively (Board staff interrogatory #8a);
- Updated Costs for TOU rate implementation, CIS system upgrades, web presentation, integration with the MDM/R, etc. (item 2.6.3 in smart meter model) for the year 2012 from $99,631 to $115,231 (Board staff interrogatory #9a);
- Updated the Net Deferred Revenue Requirement for the Residential and GS < 50 kW rate classes from respectively ($293,248) and $77,648 to ($232,858) and $28,848 (Board staff interrogatory #13b);
- Updated the Incremental Revenue Requirement for 2012 for the Residential and GS < 50 kW rate classes from $528,034 and $143,195 to $595,227 and $112,452 respectively (Board staff interrogatory #14b);
- Provided previously missing for November and December 2012, OM&A Expenses ($20,880 for each month) and Amortization/Depreciation Expense ($21,136 for each month) (Board staff interrogatory #15).
- Updated Total Smart Meter OM&A Costs from $516,640 to $545,028.

Board staff has no issues with the updated evidence.

In its response to Board staff interrogatories, Festival filed a revised smart meter model and class-specific SMDRs and SMIRRs to reflect the updates noted in the Board staff interrogatories referenced above.

Festival stated that it has revised the smart meter model to include projections to December 31, 2012 in response to VECC interrogatory #1. Board staff notes that this update is captured in Festival's response to Board staff interrogatory #15 noted above.

Festival demonstrated in its response to Board staff interrogatory numbers 13b and 14b that it has calculated class-specific smart meter revenue requirement using the methodology described by Board staff as set out below.

- OM&A expenses have been allocated on the basis of the number of meters installed for each class;

- The Return and Amortization have been allocated on the basis of the capital costs of the meters installed for each class;
- PILs have been allocated based on the revenue requirement derived for each class before PILs; and
- SMFA revenues and interest on the principal first calculated 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) are then allocated equally to the Residential and GS < 50 kW classes.

These calculations were based on the updated information noted above in response to Board staff interrogatories. Board staff has no concerns with Festival's methodology for the allocation of costs as proposed in response to Board staff interrogatories #s 13b and 14b.

The revised class-specific SMDRs and SMIRRs calculated as a result of responses to Board staff interrogatories are summarized below:

Table 1: Original and Revised SMDRs and SMIRRs

Class	**SMDR ($/month, for 18 months)**		**SMIRR ($/month)**	
	Original	**Revised**	**Original**	**Revised**
		Board staff and VECC interrogatory response – "General" section		Board staff and VECC interrogatory response – "General" section
Residential	($0.92)	($0.73)	$2.47	$2.79
GS <50 kW	$2.17	$0.81	$6.01	$4.72

Prudence of Smart Meter Costs and Minimum Functionality

Based on the response to VECC interrogatory #4b and the costs provided by Festival in the revised smart meter model, Board staff notes that the total cost per meter works out to an average of $215.94 (capital and OM&A) or $188.20 (capital only). For comparison purposes, Board staff observes that Appendix A of the Decision with Reasons of the Combined Smart Meter Proceeding (EB-2007-0063, August 8, 2007) compares data for 9 out of 13 utilities and shows the total cost per meter ranged from $123.59 to $189.96, with Hydro One Networks Inc. being the main exception at $479.47, due in part for the need for more communications infrastructure and increased costs to install smart meters for customers over a larger and less dense service area.

For more updated data, the Board's report, "Sector 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 (64% complete) with a capital cost of $570,339,200 as at September 30, 2009). The review period was January 1, 2006 to September 30, 2009. The average total cost per meter (capital and OM&A) is $207.37 (based on 3,053,931 meters (64% complete) with a total cost of $633,294,140 as at September 30, 2009).

The Board followed up on this review on October 26, 2010 and issued a letter to all distributors requiring them 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 was $226.92.[1]

Board staff notes that Festival serves non-contiguous service areas which could result in increased costs for multiple collectors, repeaters and other communications infrastructure to collect data from geographically separate territories, compared to a utility serving a similar number of customers but in one geographic service area. While Board staff observes that Festival's costs are

[1] "Monitoring Report Smart Meter Investment – September 2010", March 3, 2011 http://www.google.ca/url?sa=t&rct=j&q=monitoring%20report%20smart%20investment%20-%20september%202010&source=web&cd=1&sqi=2&ved=0CEAQFjAA&url=http%3A%2F%2Fwww.ontarioenergyboard.ca%2FOEB%2F_Documents%2FSMdeployment%2FSM_Cost_Report_September2010.pdf&ei=avgjUJOFDqfu0gGn24DIAQ&usg=AFQjCNHAKMclCtZudvGGBpUaRnL2vqYZ7g

towards the higher end of average cost per meter, Board staff is of the view that Festival has provided adequate documentation on prudence of the costs for which Festival is seeking approval.

Board staff also observes that the proposed SMIRR is $2.79/month (from Board staff and VECC interrogatory response – "General" section) for Residential customers. 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. This is below 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.[2]

Festival's Application included a request to recover $145,147 in capital costs and $152,674 in OM&A costs beyond minimum functionality, as defined in the combined proceeding related to Smart Meters (EB-2007-0063) and in Guideline G-2001-0001[3]. These costs include CIS system upgrades, TOU implementation, customer education and web presentment.

In the Application, Festival noted that it utilized the Hydro One Networks Inc. ("Hydro One") approved procurement process identified in paragraph 1. (1) 5 of O. Reg. 427/06. Festival further noted that the price received from its meter supplier Trilliant Networks Canada was the same price paid by Hydro One. In response to VECC interrogatory #2, Festival stated that, in order to minimize costs and promote efficiencies in the implementation of the smart meter program, it collaborated with other distributors on various aspects of the smart meter project.

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[2] *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

[3] Smart Meter Funding and Cost Recovery – Final Disposition (December 15, 2011) http://www.ontarioenergyboard.ca/OEB/_Documents/Regulatory/OEB_Guideline_G-2011-0001_SmartMeters.pdf

Board staff considers that the documented costs are reasonable. However Board staff notes that Hydro One's smart meters have super capacitors that are "beyond minimum functionality" that allow the smart meters, collectors and repeaters to provide more SCADA-like functions. Board staff requests Festival to confirm in its reply submission whether their smart meters have this "beyond minimum functionality" technical feature, and if so to provide a justification.

Foregone Revenues

Board staff observes that, if the SMDR and SMIRR are both effective November 1, 2012, the SMIRR will only be in effect for 18 months (from November 1, 2012 to April 30, 2014). The SMIRR is a rate adjustment to recover the ongoing (prospective) capital-related and operating expenses for installed smart meters. In effect, Festival would not be recovering these costs for the period from May 1 to October 31, 2012.

Board staff notes that the Board has approved the recovery of foregone SMIRR revenues back to May 1, 2012 in decisions[4] on other recent applications for smart meter cost recovery.

In another recently filed application for smart meter cost recovery, Waterloo North Hydro Inc. proposed an effective date of November 1, 2012, and adjusted the SMDR similarly to account for six months of foregone SMIRR revenues from May 1, 2012 to October 31, 2012.[5]

Board staff observes that this approach can be applied at a customer class level to calculate revised class-specific SMDRs.

Board staff requests Festival to provide in its reply submission,

a) Festival's views on the appropriateness of "bumping up" the deferred revenue requirement to be recovered through the SMDR to recover the

[4] Decision and Order EB-2012-0039, regarding Orangeville Hydro, issued May 24, 2012, Decision and Order EB-2012-0086, regarding Cambridge and North Dumfries Hydro, issued July 26, 2012, Decision and Order EB-2012-0187, regarding London Hydro, issued July 26, 2012.
[5] Waterloo North Hydro Inc. EB-2012-0266 (filed on May 31, 2012). EB-2012-0266.

foregone SMIRR revenues for the period May 1 to October 31, 2012; and

b) If Festival proposes to avail itself of this approach, the re-estimated class-specific SMDRs including estimated foregone SMIRR revenues for the period May 1 to October 31, 2012, including calculations, and any applicable spreadsheets.

Stranded Meters

Festival is proposing not to dispose of stranded meters at this time, but to deal with disposition in its next rebasing application, scheduled for 2014 rates. In the Application, Festival noted that it continues to recover these costs by including the net book value of the stranded meters in its rate base. Festival further stated that stranded meters continue to be amortized, being charged to Account 5705 (Amortization Expense). In response to Board staff interrogatory # 16, Festival stated that the estimated net book value of stranded meters as of December 31, 2013 (i.e., prior to 2014 when Festival is next expected to rebase its rates through a cost of service application), is $242,810. Board staff submits that Festival's proposal is in accordance with Guideline G-2011-0001.

Operational Efficiencies

In response to Board staff interrogatory #6b and VECC interrogatory # 6, Festival discussed operational efficiencies and cost savings resulting from smart meter deployment.

In response to Board staff's interrogatory #6b, Festival stated its expectation is that there will be no reduction in staff requirements in either billing or customer service as a result of moving to TOU billing. Festival further stated that since TOU implementation took place effective May 1, 2012, they have in fact seen greater demands in both billing and customer service and an increase in the demand on existing staff members as they become familiar with the TOU billing processes. Festival noted there has also been an increase in checking and verification processes to ensure bills are accurate and complete and that some work normally completed by billing staff has had to be temporarily shifted to other departments due to the additional activity in billing associated with TOU cut-over. Festival also noted that they anticipate their pre-TOU level of efficiency will be achieved once TOU cut-over is complete and operational for a few months. Since cut-over to TOU billing, Festival states that they have experienced a slight increase in call volumes but anticipates that after the next few months the volume of phone calls should return back to normal as customers become familiar with TOU pricing and the web presentment tool.

Festival also stated that no additional savings were reflected in this Application beyond the savings in meter reading costs and that it has not experienced and does not anticipate any additional operational efficiencies and cost savings as a result of smart meter implementation. Furthermore, after the roll-out of smart meters, Festival will continue to require the same complement of staff in the metering department, billing department, customer service department and an increased complement of one FTE in the IT department. All other administrative expenses are projected to remain the same after the roll-out of smart meters.

Board staff takes no issue with Festival's explanations, and recognizes that it may take time for further savings to be recognized. As Festival, and the utility sector generally, become more accustomed to customer and operational data (i.e. service interruptions, meter tampering) that smart meters and TOU pricing provide, re-engineering of business processes may allow for more efficiencies to be realized over time.

Board staff submits that Festival should be prepared to further address any operational efficiencies in its next cost of service rebasing application.

GS > 50 kW Customers

In the Application, Festival noted that it recognized that the installation of smart meters for GS > 50 kW customers was beyond the definition of minimum functionality, however, decided it was prudent to change the 135 GS > 50 kW meters (i.e. GS > 50 kW to 200 kW) at the same time for operational efficiency reasons. The costs for these meters are not included in this Application.

In response to Board staff interrogatory #10, Festival demonstrated that in view of the fact that it is recovering the SMDR and SMIRR only from Residential and GS < 50 kW customers, any cross-subsidization occurring towards GS > 50 kW customers for services such as automated data collection and web presentment that they also receive, is minimal.

Board staff submits that Festival's explanation is reasonable, and expects that it will be amended through an updated cost allocation study filed as part of Festival's next cost of service rates application.

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