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August 27, 2012

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

Re: EB-2012-0263 Bluewater Power Reply Submission

Dear Ms. Walli:

Please find attached Bluewater Power's reply submission in response to the submissions of Board Staff and VECC.

Two hard copies will follow.

Sincerely,

A handwritten signature in blue ink that reads "L. Dugas".

Leslie Dugas
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Ms. Shelley Grice, shelley.grice@rogers.com



**Application for Final Disposition of Smart Meter
Costs
EB-2012-0263**

**Bluewater Power Distribution Corporation
Reply Submission
To**

**ONTARIO ENERGY BOARD
Board Staff**

And

**Vulnerable Energy Consumers Coalition
("VECC")**

**Bluewater Power Distribution Corporation
P.O. Box 2140
855 Confederation Street
Sarnia, ON N7T 7L6**

August 27, 2012

REPLY SUBMISSION

Bluewater Power is pleased to have the opportunity to submit this Reply Submission with respect to our claim for final disposition of Smart Meter costs incurred up to December 31, 2012. This reply submission has been structured to match the format of Board Staff's Submission. The submissions made by VECC are also fully addressed below in the context of the response to Board Staff's Submissions.

Prudence of Smart Meter Costs

The submissions of Board Staff and VECC attempt to frame the discussion regarding Bluewater Power's claimed costs for Smart Meters in the context of average costs for the industry. This Reply submission addresses the fact that comparisons of that nature are dangerous and have limited probative value in a proceeding intended to assess the prudence of spending of an individual LDC on a mandated initiative. In their respective submissions, each of Board Staff and VECC acknowledge that the circumstances of an individual distributor must be considered in evaluating the prudence of spending. This Reply Submission addresses the issue of whether the suggested circumstances of size and urban density are truly appropriate when assessing spending on Beyond Minimum Functionality ("BMF") costs for Smart Meters, which is the primary issue of concern raised by Board Staff and VECC.

Bluewater Power submits that any use of benchmarking data is only appropriate to provide context to the application. We submit that the use of benchmarking to justify the imposition of an arbitrary reduction to the amount sought for recovery is neither appropriate nor fair. Bluewater further submits that if the goal is to use benchmarking to provide context then it is also incumbent to get the information as "right" as possible to properly understand the unique circumstances of each applicant.

That in mind, the submission of VECC refers to comparative data that is nearly five years old when it refers to Appendix A of the Combined Proceeding Decisions (EB-2007-0063, September 21, 2007) comparing data from 9 out of 13 utilities participating in that proceeding. VECC and Board Staff both make reference to slightly more recent data from the "Sector Smart Meter Audit Review Report" dated March 31, 2010 and updated on October 26, 2010 with data to the end of September 30, 2010. However, Bluewater Power respectfully submits, that data may be unreliable as a true indication of full smart meter costs given that the information was submitted by distributors on a voluntary basis with potentially different understandings of the information required; Bluewater Power, for example, can advise that we provided actual spending for the period ending September 2010, and the amount reported represented a cost of \$210.77 per meter. By

contrast, the amount that we applied for recovery in this application was \$261.01 per meter, which might suggest that the numbers being quoted by Board Staff and VECC are understated to the extent other LDCs were not fully deployed, including their full BMF costs, by September 2010. The Board will only know the true average of Minimum Functionality (“MF”) and BMF costs when every distributor has applied for final disposition and any comparisons until that time are flawed.

Bluewater Power contemplated these weaknesses in the data, which is why it submitted data based on the fourteen applications for full smart meter cost recovery that were or had been before the Board at the time of the filing of this application. However Bluewater Power submits that this data also has material deficiencies and those deficiencies are addressed in our submission. In fact, there does not appear to be any comprehensive or reliable basis to-date on which to perform benchmarking of MF costs, let alone BMF costs. Bluewater Power’s submission further addresses the issue of benchmarking, but that does not imply our acceptance of the methodology. We believe the application should be evaluated on its merits and those merits are discussed thoroughly in the pre-filed evidence, responses to Interrogatories and this Reply submission.

The submission that follows responds to the issues addressed by Board Staff under the heading of “Prudence of Smart Meter Costs” by the five categories set out in the submission as (a) through to (e) below.

(a) GS<50kW – Average Meter Cost

The Board Staff submission at page 5 asserts that, in the absence of a satisfactory explanation of the GS<50 “other costs” of \$67,091.20 described in Table 2.2 provided at VECC IR#2(b) that *“the Board may wish to consider disallowing these costs”*. In fact, the explanation for these costs has been provided in the preamble to the table of costs provided in response to VECC IR#2(b) as follows:

“...the cost of installation for the GS<50 meters includes \$67,091 in costs under the heading of ‘Other’. This represents the installed costs for conversion bases required for some of the installations encountered. Bluewater Power did not track the costs for conversion bases by the type of meter. Therefore, the costs are added to the total for the GS<50 category rather than arbitrarily dividing the costs amongst the three types of meters in the GS<50 category”

These other costs relate to conversion bases, which were required in some situations in order to permit the Sensus Meter to fit into the existing meter bases. We note that the Smart Meter model produced by Board Staff includes a line item for Installation Costs which states that costs *“may include socket kits, labour, vehicle, benefits, etc.”* (Smart

Meter Model, Sheet 2, line 1.1.2). It would appear that Board Staff inadvertently overlooked the explanation of “other costs”; Bluewater Power submits that the costs were adequately explained given the nature of the expenditure and that the costs are legitimate Smart Meter Costs specifically contemplated by both the Smart Meter Model produced by Board Staff and the Smart Meter Filing Guidelines.

(b) Smart Meter Training and Conferences

Board staff notes at page 6 that Bluewater Power *“allocated considerable resources to the Smart Meter project”*, including \$38,363 to attend conferences and for Vendor presentations. Board Staff noted that, *“there is an absence of evidence demonstrating that these costs are fully incremental... and that they were necessary for Bluewater Power’s smart meter program”* and that *“in the absence of a satisfactory explanation by Bluewater Power in its reply submission, the Board may wish to consider disallowing these costs.”*

These costs were discussed in response to Board Staff IR#3(a), wherein we advised that \$9,305 was incremental conference fees and travel expenses. Bluewater Power acknowledges that the remaining \$28,958 was for the allocation of internal labour to the Smart Meter initiative. The Smart Meter Initiative was the single biggest capital project that Bluewater Power has ever undertaken. It required staff to become familiar with new technologies, new processes and the development of a new relationship with customers. It seems trite to suggest that research was required before undertaking an initiative of this magnitude. Bluewater Power submits it was not only prudent, but it was our obligation, to dedicate resources to research. To put the total cost questioned by Board Staff into perspective, it represents less than one-half of one percent of the total spending on the project.

(c) Smart Meter Procurement and Installation

The Board Staff submission under the heading of “Smart Meter Procurement and Installation” contains two distinct submissions and each is addressed separately below.

First, the Board Staff submission at page 6 describes Bluewater Power’s implementation as *“very thorough, but that some of the efforts were not effective.”* The submission points to four efforts that were ultimately abandoned by the utility, at a total cost of \$6,000. Bluewater Power believes that these costs are justified for recovery as prudent investments because they furthered our understanding of the Smart Meter initiative and the progress of the project. The decision to change direction reflects the utility’s willingness to monitor its progress and adjust direction as appropriate. That process of monitoring and continuous improvement is critical to prudent management. Although the costs claimed are minimal (\$6,000 in total amongst the four initiatives), the principle

that costs related to abandoned efforts cannot be recovered from ratepayers would be a dangerous principle for the Board to endorse. Utilities regulated by the Board ought to be encouraged to constantly evaluate their progress without fear that adjusting direction will result in the inability to recover prudently incurred costs. Accordingly, we submit the costs were not only prudently incurred, but their denial would set a dangerous precedent.

The second submission of Board Staff under this heading at page 7 is that Phase 1 “Unit Testing” described as an \$80,000 cost in response to Board Staff IR#4(e) ought to be reduced by 50% in the absence of a satisfactory explanation of why the cost claimed is seven times the cost of the “R7.2 Cut-Over Testing” described in response to Board Staff IR#7. Board Staff states at page 6 that *“It is unclear from the record why seven times more costs were required to test the earlier version which consisted of 14 scenarios, while the later version was tested for the remaining 30 scenarios”* The explanation for the difference in cost is that the second claim for \$10,497 was not the completion of the remaining 30 scenarios as Board Staff has mistakenly asserted; The \$10,497 claim is for “R7.2 Cutover testing” which is unrelated to the “Unit testing” that took place in two phases (14 scenarios in May of 2011 and the remaining 30 scenarios starting in July of 2011). The types of testing identified in Appendix 1 of the Pre-filed evidence includes “Connectivity Testing”, “Unit Testing (Phase 1&2)”, System Integration Testing (SIT)”, and “Quality Testing (QT)”. In fact, what we have described in response to Board Staff IR#4(e) was not on our list of tests because it was an extra test done at the request of the IESO to assist the IESO in testing their own systems. To make that point more clear, page 32 of the pre-filed evidence states that Unit Testing was halted in May 2011 and resumed as “Phase 2 of our Unit Testing” in July 2011. Compare that timing to the “R7.2 Cut-over Testing” described in response to Board Staff IR#4(e) which took place in January of 2012 - one month after the Unit Testing was complete. The Cut-Over Testing took place at the IESO’s request (as discussed at page 11 of the pre-filed evidence) and took place with Bluewater Power because we were one of the first utilities to have completed the Unit Testing for R7.2. Bluewater Power would not have been able to Cut-over without the testing, and that testing of IESO systems then benefitted all subsequent LDCs when they were ready for Cut-over. In summary, the presumption that the two instances of testing were comparable such that the costs of each should be similar is incorrect; not only were the two sets of testing dissimilar in purpose, the R7.2 Cut-Over Testing was performed at the request of the IESO for the benefit of Bluewater Power and all other LDCs. Accordingly Bluewater Power submits that the arbitrary 50% reduction in the \$80,000 cost proposed by Board Staff should be rejected.

(d) Beyond Minimum Functionality Costs

With respect to Bluewater Power’s claim for BMF Costs that amount to \$72.09 per meter, Board Staff states at page 10 that *“Given the circumstances, Board staff submits*

that a reduction of 50%, to \$36.04 could be considered, as this would bring Bluewater Power's costs down to the range of Niagara-on-the-Lake Hydro, but would still be at the high end of what the Board has seen to date in applications for smart meter costs recovery." To put that suggestion in context, the \$72.09 per customer is made up of capital costs of \$2,530,673 and OM&A costs of \$21,120. The Board Staff submission continues on to state that "the Board could provide direction that the remaining beyond minimum functionality costs should be reviewed as part of Bluewater Power's 2013 cost of service application". VECC argues that Bluewater Power's claimed costs for BMF are "significant and extreme compared to other LDCs" and they submit at page 6 that "the Board provide direction that 100% of Bluewater Power's costs beyond minimum functionality be reviewed as part of Bluewater Power's 2013 cost of service application."

The question at stake is fundamental to the role of the Board in reviewing the prudence of investments by utilities in Ontario. Bluewater Power was required to implement Smart Meters and it did so in a prudent and well-managed manner. Moreover, the application filed by Bluewater Power has been acknowledged by Board Staff to contain *"a full commentary on its progression through procurement and installation of AMI related to minimum functionality and beyond minimum functionality"* (Board Staff IR#4). Considerable effort was devoted to this application in order to assist the Board in its understanding of the unique circumstances of Bluewater Power's implementation of Smart Meters.

The positions of both Board Staff and VECC rely heavily on benchmarking to evaluate the prudence of Bluewater Power's spending on BMF costs. This issue was anticipated by Bluewater Power in our pre-filed evidence and we sought to provide more up-to-date data based on applications for full smart meter cost recovery that were or had been before the Board at the time this application was filed. Having done that, Bluewater Power also noted the limited probative value of the comparative data that was presented given the limited sample size and the potential for skewed data (pre-filed evidence at page 26) and we further cautioned the Board in response to VECC IR#1. We have also noted that comparisons of BMF costs can be misleading because they do not reflect the amount spent on BMF, but the amount claimed for recovery as BMF. In fact, Board Staff have acknowledged at page 8 of its submission *"Board staff agrees that there are likely some inconsistencies in the records with respect to smart meter costs beyond minimum functionality, but these are also related to the circumstances of individual distributors."*

Although Board Staff have proposed an arbitrary reduction of Bluewater Power's claim for BMF costs by 50%, Board Staff's position clearly acknowledges the need to consider the *"circumstances of individual distributors"*. VECC also noted at page 6 of its submission that *"VECC agrees with Board Staff that there are likely some inconsistencies with respect to smart meter costs beyond minimum functionality, but these are also*

related to the circumstances of the individual distributors". VECC therefore appears to agree that the available data may be of limited value given the inconsistencies and that, to the extent there are valid differences in the quantity of BMF costs claimed, they are related to the circumstances of the individual distributors.

It is Bluewater Power's position that Board Staff and VECC have acknowledged the importance of considering circumstances of a distributor in assessing the prudence of BMF costs; however, Bluewater Power respectfully submits each has incorrectly identified the appropriate and relevant circumstances. Board Staff's submission considered the circumstances to be related to size of the utility and the level of urbanization. Size may be a valid circumstance when considering BMF costs, which are fixed costs that must be allocated amongst a finite number of customers. However, level of urbanization would be more relevant to MF costs (as density can affect the cost of deployment of Smart Meters in the field) but not necessarily BMF costs. VECC compared Bluewater Power to a peer group that it identified in Table 3 of its submission that appears to be based primarily on size, but only for those who have submitted to-date (which is potentially misleading since 3 of the 5 utilities in that "peer group" reported \$0 in BMF spending).

Bluewater Power submits that the single most significant circumstance to consider in assessing the prudence of its BMF costs are the type of IT deployed and the stage of the systems lifecycle by the utility rather than the density of its customers. Those circumstances are discussed below. Before exploring that issue there is an important point to consider about benchmarking Smart Meter costs.

Bluewater Power acknowledges that there may be probative value to benchmarking MF costs. The MF costs relate to the purchase and installation of a particular smart meter and the associated AMI. Those costs would not be expected to vary greatly across utilities, particularly since those costs were in large part negotiated by groups of LDCs in cooperation with one another. Moreover, variations in MF costs are usually explained by unique geographic challenges or an atypical mix of residential/GS meters.

On the other hand, BMF costs can be expected to vary widely across utilities for various reasons. A group of utilities' can have CIS systems that vary materially in design, and may have been purchased at different times and/or maintained along a different path. Some CIS systems may contain a high level of automation, attracting large up front capital costs, while others may have lower up front capital costs but require higher year over year OMA in order to operate. Some systems are based on made-in-Ontario solutions, while others require customer configuration to function in the Ontario market.

Those are the circumstances that the Board ought to consider in determining whether Bluewater Power has met the challenge of prudently managing its Smart Meter spending, given its particular circumstances. Those circumstances have been described in the pre-filed evidence (page 24 to 36). In summary, Bluewater Power has employed SAP since 2002. We have a robust billing system and we have managed to control its costs through the development of internal expertise. The choice of SAP has proven to be an appropriate and prudent choice for this utility, but the constant change in our industry has contributed to the cost of maintaining the custom configured system. The cost of SAP deployment and continued maintenance has been approved twice previously by the OEB (2006 transition costs EB-2005-0340 and 2009 Rebasing EB-2008-0221) and the utility has invested in the software and the training of its staff accordingly.

If the Board is inclined to believe there is probative value in benchmarking Bluewater Power's spending, then it faces a challenging dilemma. Bluewater Power was marginally below the industry average cost for MF (\$188.92 per meter versus the average of the 14 applications to date of \$194.93 set out in response to VECC IR#1). As suggested earlier, these MF costs are likely more comparable amongst utilities than are BMF costs. Accordingly, Bluewater Power suggests that its spending on MF supports the notion that Bluewater Power prudently managed its spending on Smart Meter deployment. It would seem to follow that the utility prudently managed its BMF costs as well. The most likely explanation for differences in BMF costs between other utilities and Bluewater Power, as acknowledged by Board Staff, is that Bluewater Power's circumstances were different, not that the utility was imprudent.

To illustrate the challenge further, Board Staff's suggestion is that Bluewater Power be benchmarked against the costs claimed by Niagara on the Lake Hydro, without introducing any evidence into this proceeding about the specifics of that utility's BMF costs, and without an opportunity for Bluewater Power to directly compare its own circumstances to that of Niagara on the Lake Hydro to demonstrate how it may be that both levels of BMF costs are reasonable when viewed within the context of each utility's unique context.¹

Accordingly Bluewater Power respectfully submits that its BMF costs can only be reasonably considered and evaluated on the basis of the evidence that has been filed in

¹ By way of further issues, one can imagine a scenario where the Niagara on the Lake application was not before the Board, or the Bluewater Power application was the first application for full smart meter cost recovery decided by the Board. Without any benchmarking data available, the only reasonable approach, and the only approach that would produce identical results despite the happenstance of the timing of applications by different utilities, is a review of the application on its own merits.

this proceeding. The pre-filed evidence provides significant detail on the level of effort required to perform integration of Bluewater Power's CIS with the AMI; Board Staff has explored those details and commented on certain aspects that we will address separately below.

Board Staff's submission at page 9 states *"Board staff agrees that upgrading the version of the utility's business software is a major undertaking, however, it is staff's position that there was an opportunity to include most, if not all, of the smart meter related upgrades in the version upgrade project."* That assertion has no basis in fact and was clearly addressed in response to Board Staff IR#8(a). At the risk of repeating that evidence, we can summarize to say that SAP is a world-class platform on which a billing system must be built by the end user; it is not like other off-the-shelf products that are developed for the Ontario market. Bluewater Power's evidence is that the possibility of a single phase capital project including smart meter related upgrades project within the version upgrade could have been considered but would have been rejected based on an assessment of the ability of Bluewater Power to manage two projects of that magnitude with the limited staff of a mid-sized utility. Furthermore it is Bluewater Power's evidence that even if managing both projects at the same time had been feasible, doing so would not have provided any material savings, and would in fact have likely increased the cost as discussed below.

The Board Staff submission goes further to state that *"Given the integrated nature of Bluewater Power's SAP system, it is Board staff's understanding that testing of all functions from finance to customer information to billing was required twice: once for the version upgrade project and once for the smart meter related project. Board staff submits that, at a minimum, testing costs would have been reduced had the projects been executed simultaneously."* The response to Board Staff IR#8(b) clearly and concisely answers this issue. The newly asserted notion that testing costs would have been reduced at a minimum ignores the fact that you would be testing two completely separate implementations. While Board Staff's assertion may appear intuitive, the disparate nature of the two acts makes the assertion akin to the suggestion that it is more efficient to study for, and write, an English exam and Math exam at the same time; it is simply not true, and obviously so once one understands the nature of the two activities. Moreover, Board Staff suggest that the undue demand on staff could be addressed by heavier reliance on outside personnel; with respect, even if there were potential savings from carrying out testing simultaneously, which Bluewater Power does not agree was the case, such savings would have been entirely offset by the increased cost of hiring outside personnel to assist with the entire project.

The final Board Staff specific submission states *"In its response to Board staff IR #8, Bluewater Power noted the complexity and offerings of the billing portion of the SAP software. Board staff claims no expertise in this area, however, a business software*

system with sophisticated offerings in the billing portion of the software should be expected to be readily configured for TOU and for integration with the MDM/R. As the majority of distributors have started billing on TOU, and are prepared to integrate with MDM/R, without charges of \$72.09 per meter, Board staff submits that Bluewater Power's proposal for recovery should be reduced." This submission ignores the significant evidence on the record and the specific context of Bluewater Power's implementation discussed at detail in both the pre-filed evidence and the responses to Interrogatories. Board Staff candidly concedes that it has no expertise in the area of Bluewater Power's software; Bluewater Power respectfully submits that it employs both internal and external experts in the area of the software employed by the utility for the purposes of implementing smart meter related modifications, and that there is no reason for the Board to conclude that Bluewater Power's internal staff or external consultants acted in bad faith or imprudently to inflate the smart meter related costs incurred by Bluewater Power.²

Deferral of BMF related costs to the 2013 Cost of Service Application

As stated earlier both Board Staff and VECC have suggested that the issue of Bluewater Power's BMF costs, to the extent they are not allowed in this proceeding, should be considered in Bluewater Power's next cost of service proceeding. In summary, Board Staff submitted that the Board should consider disallowing 50% of the BMF costs applied for in this application, with the remaining costs to be reconsidered in the cost of service application, whereas VECC submitted that all of the claimed BMF costs claimed in this application should be considered in the cost of service application.

On the one hand, Bluewater Power appreciates the fact that neither Board Staff nor VECC submits that the costs claimed for BMF by Bluewater Power, based on the evidence before the Board in this proceeding, should be denied. It appears to Bluewater Power that both Board Staff and VECC believe that reconsidering these costs in Bluewater Power's next cost of service filing will either:

- a) produce evidence that will allow them to support the recovery of the applied for costs, while at the same time delaying the recovery of those costs and, therefore, the impact of the recovery of the costs on consumers,
- b) produce evidence that will allow them to assert the costs were in some material way imprudent, such that they can submit that they should be disallowed in some material way for all time, or

² The inference that other utilities did not have to spend as much as \$72.09 per meter also, by way of example, ignores the fact that several utilities failed to claim any BMF costs at all, such that how much they actually spent, and why that was the case, are entirely unknown to either the Board or to Bluewater Power.

- c) produce evidence that will allow them to support the prudence of the applied for costs, but not as recoverable BMF costs, instead classifying the costs as prudent capital costs that, like any other non-smart meter related prudent capital costs incurred during an IRM period, are only directly recovered upon rebasing, and then only on a go-forward basis.

Based on the detailed evidence and interrogatory responses Bluewater Power has filed in the proceeding specific to the BMF costs it is claiming, Bluewater Power cannot agree that the deferral of the BMF costs issue as suggested by both Board Staff and VECC is appropriate under the circumstances.

The Smart Meter Filing Guidelines specifically state at page 15 “O.Reg. 425/06 specifies that costs that exceed minimum functionality may be approved by the Board for recovery.” Bluewater Power acknowledges that the guideline is permissive and that utilities were not required to submit their Smart Meter related costs via the Smart Meter Final Disposition. However, this utility has chosen to file its application in that manner and, provided the Board is satisfied that the tests set-out in the Guidelines have been met and that the costs were managed prudently, the claim should be approved through this proceeding. Given that the Board has approved CIS integration costs in prior applications for Smart Meter Final Disposition, the costs claimed and justified through this application are eligible for recovery through this process.

The fact that, perhaps, some distributors have chosen to recover costs through rebasing should not impact Bluewater Power’s decision to follow the process contemplated by the Smart Meter Filing Guidelines. We submit that the Board ought to concern itself with the test set out at page 17 for CIS system upgrade costs as follows:

“Costs for CIS systems, TOU rate implementation, etc., are beyond minimum functionality as established by the Board in the Combined Proceeding. However, such costs may be recoverable. In its application, a distributor should show how these costs are required for its smart meter program. Further, a distributor should document how these costs are incremental. For example, if a distributor has a normal budget for maintenance of its billing and CIS systems, costs claimed for system maintenance and upgrades must be shown to be incremental to the normal budget that is already recovered in base rates.”

The application contains significant evidence concerning the fact that this upgrade was required for the Smart Meter program and was incremental to normal CIS maintenance. In fact, the evidence highlights the fact that Bluewater Power had already completed an upgrade of its CIS almost two years prior to completing the integration of Smart Meters with its CIS. Therefore, there can be no concern that the Smart Meter integration was

simply a generic CIS upgrade by another name. We refer the Board to the detailed discussions concerning the CIS found in the evidence as follows:

- Pre-filed evidence, pages 24-36
- Board Staff IR# 6, 7, 8 and 13
- VECC IR#1

Additionally Bluewater Power takes this opportunity to reiterate that the utility has already reviewed its costs and, as a result, has identified \$571,049 in non smart meter related costs that will be considered during the 2013 Rebasing application. As set out at page 28 of the pre-filed evidence we state:

“It is important to note that Bluewater Power is able to confidently state that the costs submitted with this application were required for the Smart Meter Initiative, and incremental to the normal maintenance of our CIS, because we carried out a final internal review of the costs allocated to Accounts 1555 and 1556. In preparing for this final disposition application, the costs included in the Smart Meter deferral accounts were thoroughly reviewed by the Smart Meter Team. Those costs that were considered to be of broader benefit than Smart Meters, or part of normal CIS maintenance, were reallocated to regular OM&A or recorded to capital accounts that are not Smart Meter related. The total amount of capital reallocated through this internal review process was \$571,049; no OM&A was identified as being either normal OM&A or not required for Smart Meters.”

Bluewater Power respectfully submits that it fully understands the requirements set out in the Filing Guidelines and went through painstaking detail to address the matters with which we believe the Board ought to be concerned. Bluewater Power submits that, in light of the internal review that it has already conducted to defer certain costs to the 2013 Rebasing Application as being non-smart meter related costs, there is nothing to be gained by delaying the review to the 2013 rebasing application.

Generally speaking, Bluewater Power respectfully submits that it is not efficient to require a utility to justify its decisions by filing evidence twice, responding to Interrogatories twice, and making submissions twice. The issue to be decided by the Board, in this application, with respect to BMF costs is whether the applied for costs were both required for Smart Meters and incremental to normal CIS maintenance. The test set out by the Board is clear and the evidence on the record, Bluewater Power respectfully submits, meets that test. There is no reason for the Board to conclude, Bluewater Power suggests, that a delay in the consideration of these costs would permit a more fulsome exploration of the prudence of the expenditures.

Finally, VECC submits at page 6 that *“VECC does not agree that the highest cost per meter to date for costs beyond minimum functionality should represent an acceptable level.”* Bluewater Power agrees, but only to the extent that what one utility spent on BMF is, as submitted throughout our submission, likely irrelevant to what another utility spent. Whatever level the Board approves for Bluewater Power’s recovery ought not to be interpreted as the new “standard” for recovery. We expect that an approval should be interpreted to say that Bluewater Power recovered what it proved to have been prudently spent implementing Smart Meters in their specific circumstances, based on the evidence underpinning the several years of effort on its smart meter implementation.

(e) Treatment of Unaudited Costs

Bluewater Power notes that both Board Staff and VECC accept that this application should be finally disposed on the strength of 89% of Bluewater Power’s costs having been audited.

Allocation and Rate Design

Board Staff’s submission includes a comment at page 11 that *“...Board Staff observes that there appears to be an over-collection of SMFA of \$105 in the response to VECC IR#7. Bluewater Power should confirm this number and explain this over-collection in its reply submission.”*

Table 7.1 provided in response to VECC IR#7 indicates the amount of SMFA collected as \$1,806,218, whereas the original amount per Table 8.3 of the evidence is \$1,806,113, a variance of \$105. This variance is due to the method of pro-rating the SMFA revenue collected when populating two separate models. For the residential model, each monthly entry of SMFA amount entered on Sheet 8 of the smart meter model was multiplied by the allocation factor of 89.04%, and for the GS<50 model the SMFA amount was multiplied by 9.8%. The resulting principal and interest amounts were added together resulting in an estimated SMFA revenue collected of \$1,806,218 which leads to a small variance from what was presented in the combined model. Had we expanded the allocation factor to 4 decimal places the variance of \$105 would likely be eliminated.

Other Matters

Under the heading of “Other Matters” Board Staff addresses two issues:

(a) Operational Efficiencies and Cost Savings

This issue is addressed in response to Board Staff IR# 14 and 21 and VECC IR#5. Bluewater Power acknowledges that this issue will be raised again in the context of its 2013 Rebasing application.

(b) Update Filed August 2, 2012

Board Staff has fundamentally changed their position from that in the recent application by Cambridge and North Dumfries (“Cambridge”) in EB-2012-0086, claiming that only the incremental cost above the embedded manual meter reading costs is appropriate. Board Staff’s assertion ignores their own submission and the Decision of the Board in EB-2012-0086 wherein Cambridge was specifically allowed to recover their full automated meter reading costs on top of their full manual metering reading budget (the costs embedded in their base rates) despite the fact that their manual meter reading costs were no longer being incurred, and will do so for a full two years (Cambridge being scheduled for rebasing in 2014), a recovery to Cambridge of approximately \$310,000 in efficiency savings.³ It is Bluewater Power’s respectful submission that there is no principled reason why its recovery of manual meter reading costs no longer incurred should not mirror the Board’s decision in EB-2012-0086, and ask that the Board allow such recovery as set out in Bluewater Power’s letter dated August 2, 2012. Accordingly, Bluewater Power’s claim for recovery ought to be increased by \$95,098 as set out in the update dated August 2, 2012.

In the alternative, even if the Board were to adopt Board Staff’s “new” position on the treatment of manual meter reading costs in the face of automated meter reading costs, Board Staff has not understood Bluewater Power’s costs. The first four months of 2012 required both manual and automated meter-reading costs.⁴ The actual full year cost for 2012 is \$110,000*4/12 (this is the cost of manually reading meters for the first four

³³ The details of the decision and submissions in EB-2012-0086 are summarized in Bluewater Power’s letter dated August 2, 2012.

⁴ As set out in BS IR# 15 and in the Appendix provided in the August 2, 2012 update, there was a reduced level of cost for automated reads incurred in the first 4 months of 2012 while the meters continued to be read manually.

months of 2012) plus \$138,748 (the 2012 specific automated meter reading costs)⁵ for a total 2012 actual cost of \$175,414. That means that, relative to the 2012 “embedded” cost of \$110,000, Bluewater Power is, on Board Staff’s “new” position, entitled to recover an additional \$65,415. Bluewater Power’s original application included \$43,650 of automated meter reading costs, such that it would be entitled, under the Board Staff “new” position, to increase its recovery by \$21,765 relative to the original application, rather than decrease the amount as Board Staff suggest.

(c) Stranded Meters

Bluewater Power accepts Board Staff position and we note that we will be including stranded meter costs in our 2013 Rebasing Application to be filed shortly.

Cost Allocation and Rider Calculation Methodology:

Bluewater Power has reproduced Table 1 from page 3 of Board Staff’s Submission below, with an added Column 6 to include Bluewater Power’s proposed rate riders which represents the methodology implicit in VECC IR#7, the modifications requested by Board Staff, and the additional request of \$95,098 related to the incremental automated meter reading costs for the period May-December 2012 as set out in Bluewater Power’s letter dated August 2, 2012.

Bluewater Power concedes that the methodology used below is the most appropriate and that the rate riders set out in Column 6 are justified for recovery based on the evidence and the precedent set in EB-2012-0086.

1- Class	2 - Recovery Period	3 - Initial Evidence	4 - Board Staff IR #11 and #19 (per Appendix 1 of IR Responses)	5 - VECC IR #7	6 - Update for inclusion of Meter Reading Costs
Residential	6 months	\$4.32	\$4.32	\$4.45	\$4.90
GS<50	24 months	\$9.02	\$8.82	\$8.52	\$8.64

Bluewater Power has proposed a 6 month disposition for Residential customers and a 24 month disposition for GS<50 customers. These recovery periods were set by the utility to provide smooth rates to customers. The 6 month period of disposition for Residential, in particular, will mean that the rate rider expires on April 31, 2013 to be

⁵ This is the reduced level of automated meter reading costs incurred in the first 4 months of 2012, plus the full cost of automated meter reading costs incurred in the last 8 months of 2012.

replaced by the ongoing revenue requirement associated with Smart Meters to be built into the 2013 Rebasing Application.

We note that Board Staff states at page 12 of its submission that “Board staff has no concerns with the proposed disposition period.”

Finally, we take this final opportunity to point out that, if the Board accepts the submission of Board Staff or VECC that some portion (or all) of the BMF costs be considered during the 2013 Rebasing application, then the opportunity for smoothed rates would be diminished by the delay. Additionally a direction from the Board to include costs for consideration during the 2013 Rebasing application would require Bluewater Power to alter its current intention to file its rebasing application without a Smart Meter Disposition Rider. That will complicate the application, and prolong its consideration when there is already substantial evidence on the record. It may also create customer confusion with no clear indication that it will allow for better information before the Board.

SUMMARY

In conclusion, either or both of Board Staff and VECC made the following suggestions, with the following responses by Bluewater Power:

1. It was suggested that \$67,091.20 of GS<50 “other meter costs” could be disallowed because they were not explained; Bluewater Power’s response is that the costs were fully described in response to VECC #2 (b) and fit the definition of “Installation costs” set out by the Board, and should therefore be allowed.
2. It was suggested that \$38,363 in smart meter training and conferences could be disallowed in the absence of evidence that they were fully incremental and necessary; Bluewater Power has described how the costs were necessary as part of its smart meter implementation and submits that the costs should be allowed; Bluewater Power does concede that \$28,958 of these costs related to allocations of internal labour costs.
3. It was suggested that \$6,000 in Smart Meter Procurement and Installation costs relating to abandoned initiatives could be disallowed if not further justified; Bluewater explained how this modest amount was prudently incurred and submit that the costs should be allowed.
4. It was suggested that 50% of testing costs totaling \$80,000 could be disallowed in the absence of an explanation as to how one phase of testing could cost 7 times as much as what Board staff understood to be another phase of testing; Bluewater Power explained the difference between the two types of testing and submits that the entire \$80,000 should be allowed.
5. It was suggested that, in this application, only 50% of the claimed BMF costs should be allowed, with the rest of the BMF costs (or in the case of VECC, all the BMF costs) deferred for consideration to Bluewater Power’s 2013 Cost of Service Application, on the basis that the claimed costs were high in comparison to the BMF costs claimed by other utilities; Bluewater Power made several submissions in response, including setting out the evidence underpinning its specific BMF costs, disputing the applicability of benchmarking data to this cost category, and asserting that it would be unreasonable to defer consideration of this issue to another proceeding, with the concluding request that the Board allow 100% of its claimed BMF costs.
6. It was suggested that the cost allocation and rider calculation underpinning VECC IR #7 was appropriate, based on the recovery periods proposed in the

application; Bluewater Power accepts the methodology underpinning VECC IR #7, based on the full costs in the application plus the additional automated meter reading costs as set out in Bluewater Power's letter dated August 2, 2012.

7. A reconciliation of \$105 related to the SMFA revenue was requested; Bluewater Power provided the reconciliation.
8. It was suggested that Bluewater Power could not claim both the cost of manual meter readings embedded in base rates at the same time it claimed the full cost of automated meter reading costs, despite the decision in EB-2012-0086; Bluewater Power maintained that it would be appropriate to extend the treatment of such costs within the EB-2012-0086 Decision to its costs for an increase of \$95,098 relative to the original application. In the alternative Bluewater Power submitted that the Board Staff position, properly applied to the evidence, provided for an increase in recovery of at least \$21,765 relative to the original application.
9. It was noted that there was no dispute with respect to the proposed treatment of stranded meters, the appropriateness of the application although based on 89% of the claimed costs being audited, or that operational efficiencies and savings would be the subject matter of the 2013 rebasing application.

Accordingly Bluewater Power respectfully requests that the Board allow it to recover an SMDR of \$4.90 from residential customers for 6 months and an SMDR of \$8.64 from GS<50 customers for 24 months, with both riders to commence November 1, 2012.

All of which is respectfully submitted.