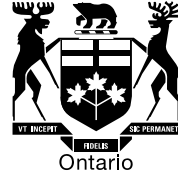


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BY E-MAIL

September 28, 2012

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

Dear Ms. Walli:

**Re: Hydro Hawkesbury Inc.
Smart Meter Cost Recovery
Board Staff Submission
Board File No. EB-2012-0198**

Pursuant to the process documented in the Notice of Application and Hearing, please find attached Board staff's submission on the rate application for the disposition and recovery of costs related to smart meter deployment filed by Hydro Hawkesbury Inc. on July 18, 2012. This document is also being forwarded to Hydro Hawkesbury Inc. and to registered parties to this proceeding.

Yours truly,

Original Signed By

Kelli Benincasa

Encl.

2012 ELECTRICITY DISTRIBUTION RATES

Hydro Hawkesbury Inc.

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

EB-2012-0198

BOARD STAFF SUBMISSION

September 28, 2012

INTRODUCTION

Hydro Hawkesbury Inc. ("HHI") is a licensed electricity distributor serving approximately 5,500 customers in the town of Hawkesbury. HHI filed a stand-alone application (the "Application") with the Board on July 16, 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. HHI requested approval of proposed Smart Meter Disposition Riders ("SMDRs") and Smart Meter Incremental Revenue Requirement Rate Riders ("SMIRRs") effective September 1, 2012. The Application is based on the Board's policy and practice with respect to recovery of smart meter costs.

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 its Application, HHI applied for the following approvals:

- A SMDR of (\$1.28) per Residential customer per month and (\$1.25) per General Service less than 50kW ("GS < 50 kW") customer per month for the period September 1, 2012 to August 31, 2014. These rate riders will refund the difference between the revenue requirement deferred from 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 SMFA revenues collected from May 1, 2006 to April 30, 2012 (and corresponding interest on the principal balance of SMFA revenues); and
- A forecasted SMIRR of \$1.38 per Residential customer per month and \$2.56 per GS < 50 kW customer per month for the period September 1, 2012 to August 31, 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, HHI made the following updates:

- HHI confirmed the tax rates correspond to the rates for taxes/PILS actually paid by HHI in each of the historical years and that HHI forecasts it will pay for 2012 (Board staff IR # 3);
- HHI calculated the interest on OM&A and depreciation expenses based on monthly data on sheet 8A of the Smart Meter model Version 2.17 (Board staff IR # 7);
- HHI allocated the residual SMFA revenues and interest collected from other metered customer classes (i.e., GS 50-4999 kW and Large Use) equally to the Residential and GS < 50 kW classes for the purposes of calculating the SMDRs (Board staff IR # 8 and VECC IR# 5);
- HHI updated the model to account for interest up until the assumed implementation date of for OM&A and depreciation November 1, 2012 (Board staff IR # 9 a); and
- HHI calculated the deferred SMIRR for 6 months starting May 1, 2012 to October 31, 2012 and proposes the Board allow the amount to be recovered through an increase to the SMDRs (Board staff IR # 9 b).

Board staff has no issues with the updated evidence.

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

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, for 18 months)	
	Original	Revised	Original	Revised
		Board staff and VECC		Board staff and VECC
Residential	(\$1.28)	(\$1.35)	\$1.38	\$1.39
GS <50 kW	(\$1.25)	(\$0.09)	\$2.56	\$2.46

Prudence of Smart Meter Costs and Minimum Functionality

Based on the costs provided by HHI in the revised smart meter model, Board staff notes that the total cost per meter works out to an average of \$122.74 (capital and OM&A) or \$119.97 (capital only). 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 HHI's reported costs are well below this average

Board staff notes that HHI has not included OM&A costs for 2012 related to the operation of smart meters and related infrastructure systems. In response to Board staff IR #5b HHI stated their understanding was that starting May 1, 2012, all OM&A costs would be considered normal ongoing expenses, and therefore

¹ ["Monitoring Report Smart Meter Investment – September 2010", March 3, 2011](#)

HHI recorded these costs in account meter expense. Due to there being no OM&A costs recorded for 2012, Board staff submits that the SMIRR may be understated depending on what costs were included in HHI's 2010 revenue requirement. The SMIRR is intended to recover the incremental revenue requirement (i.e., the capital related costs for installed smart meters and the OM&A expenses for their operation) until these costs can be directly reflected in rate base and revenue requirement in the utility's next cost of service rates application. The SMIRR is based on a test year, in this case 2012, as is the process for setting rates through a full cost of service rates application. Omission of the OM&A expenses from the 2012 revenue requirement used to derive the SMIRR could mean that the SMIRR will under-recover the incremental revenue requirement going forward until the next cost of service rate application.

In the normal course, new information should not be provided following the closing of the evidentiary phase of a proceeding. However, given the material impact of the missing OM&A costs, HHI may wish to provide in its reply submission the following:

- a) OM&A costs for the full year 2012 including actuals incurred to date and costs estimated to December 31, 2012 that are incremental to those included in the 2010 revenue requirement. HHI should provide a disaggregation of the costs between actual YTD (including the time period covered) and forecasted costs. HHI should also disaggregate between "minimum functionality" and "beyond minimum functionality" costs.
- b) An updated smart meter model and re-estimated class specific SMIRRs reflecting the full year operating costs for 2012.

Board staff also observes that the proposed SMIRR is \$1.38/month 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

Subject to the comments below, Board staff submits that HHI'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.

Costs Beyond Minimum Functionality

The HHI Application included a request to recover \$6,043 in capital costs and \$5,000 in OM&A costs beyond minimum functionality, as defined in the combined proceeding related to Smart Meters (EB-2007-0063) and in Guideline G-2001-0001³. These costs include costs for deployment of smart meters to customers other than residential or small general service and web presentment.

Board staff considers that the documented OM&A costs are reasonable.

However Board staff notes that HHI has included capital costs for deployment of smart meters to customers other than residential or small general service in section 1.6.2 of the Smart Meter model. In row 33 of the smart meter model, HHI shows no customers other than Residential and GS < 50 kW customers receiving smart meters.⁴ Board staff requests HHI to confirm in its reply submission whether smart meters were installed for General Service > 50 kW customers. If yes, then HHI should re-calculate SMDRs and SMIRRs applicable with allocated costs for Residential, GS < 50 kW and GS > 50 kW customer classes. In the alternative, HHI should explain the capital expenditures documented under 1.6.2.

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

⁴ This also corresponds with the table shown in the Application in Exhibit 1/Tab 1/Schedule 6/page 3.

In the absence of satisfactory explanation, Board staff submits that the Board consider the option of disallowing the \$6,043 documented under 1.6.2, on the basis of lack of supporting material and because these costs are not for smart meter deployment to Residential and GS < 50 kW customers, and hence should not be borne by them under the principle of cost causality.,

Stranded Meters

HHI is proposing not to dispose of stranded meters at this time, but to deal with disposition in its next cost of service application, scheduled for 2014 rates. In the Application, HHI noted that it continues to recover these costs by including the net book value of the stranded meters in its rate base. HHI stated that the estimated net book value of stranded meters as of December 31, 2013 (i.e., prior to 2014 when HHI is next expected to rebase its rates through a cost of service application) is \$54,357.

Board staff submits that HHI's proposal regarding the treat of stranded meters is in accordance with Guideline G-2011-0001.

Operational Efficiencies

In response to Board staff interrogatory #1 a and b, HHI discussed why operational efficiencies and cost savings resulting from smart meter deployment have not occurred.

In response to Board staff's interrogatory #1 a, HHI stated it does not have a SCADA system or any other type of AMI head-end system in place that would result in earlier detection and response to meter tampering, failures and service disruptions. HHI has inquired with their service provider about this capability and will consider this option if the price is reasonable.

In response to Board staff's interrogatory #1 b, HHI stated it has to pay its service provider for monthly reads. Prior to Smart Meter implementation their meter reading cost average was \$1,752 per month while smart meter reading costs are

\$2,160 per month. Therefore there have been no net cost savings from cancelling manual meter reads as a result of smart meter deployment.

Board staff takes no issue with HHI's explanations, and recognizes that it may take time for further savings to be recognized. As HHI, 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. As one example, HHI has documented that, beginning in November 2011, the utility has switched from bi-monthly to monthly billing for its customers.⁵ Smart meter deployment and remote meter reading enable more exact billing on a regular basis. HHI explained that the switch was done to enable it to better control its collections process. Board staff observes that the switch to monthly billing should also enable better management of bad debt and reduce the cash working capital requirement.

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

- All of which is respectfully submitted -

⁵ Response to Board staff interrogatory # 6, parts b) and c).