

2012 ELECTRICITY DISTRIBUTION RATES
Brant County Power Inc.
Application for Disposition and Recovery of Costs
Related to Smart Meter Deployment

EB-2012-0265

STAFF FINAL SUBMISSION

September 28, 2012

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Board Staff Submission
Brant County Power Inc.
Smart Meter Cost Recovery Application
EB-2012-0265

Introduction

Brant County Power Inc. ("BCP") is an electricity distributor licensed by the Ontario Energy Board (the "Board") that serves the communities of Paris, Burford, St. George, and the County of Brant. On June 19, 2012, BCP filed a stand-alone Smart Meter Cost Recovery application (the "Application") requesting a Smart Meter Disposition Rider ("SMDR") of \$2.19 for both the Residential and General Service < 50 kW ("GS<50 kW") classes and a Smart Meter Incremental Revenue Requirement Rider ("SMIRR") of \$2.60 for both the Residential and GS<50 kW classes. The proposed effective date for the SMDR and SMIRR is November 1, 2012. BCP is requesting that the SMDR and the SMIRR remain in effect for one year. The Application is based on the Board's policy and practice with respect to recovery of smart meter costs.¹

The Board issued its Letter of Direction and Notice of Application and Hearing on July 5, 2012. The Vulnerable Energy Consumers' Coalition ("VECC") requested and was granted intervenor status and cost award eligibility. No letters of comment were received by the Board.² The Notice of Application and Hearing established that the Board would consider the Application by way of a written hearing and established timelines for interrogatories and submissions.

Board staff and VECC submitted interrogatories to BCP on August 2, 2012. BCP requested extensions for filing responses to interrogatories on August 27, 2012

¹ On December 15, 2011, the Board issued *Guideline -2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition* ("Guideline G-2011-0001"). BCP used Smart Meter Model, Version 2.17 and prepared its Application considering recent Board decisions on smart meter cost disposition and recovery.

² Response to Board Staff Interrogatory 1.

and September 18, 2012. BCP filed partial responses to the interrogatories on September 11, 2012, and completed the responses on September 25, 2012.

The following submission reflects observations and concerns arising from Board staff's review of the record of the proceeding, which includes the original Application and updates as provided in response to interrogatories.

The Application

General

BCP was authorized by the Fairness Commissioner, as set out in a letter dated June 30, 2009, to proceed with the installation of smart meters. Smart meter installations began in 2010 and BCP has installed 100% of the smart meters.³

In its decision on BCP's 3rd Generation IRM application for 2012 rates [EB-2011-0154], the Board ordered that the SMFA continue to October 31, 2012. BCP has confirmed that they are billing the SMFA until October 31, 2012.⁴ BCP has included SMFA revenues for the period ending October 31, 2012. However, interest on the SMFA revenues for the period January 2012 to October 2012 is not included.

The December 31, 2011 balances were audited and represent 96% of the investments in smart meters.

Approvals Sought

BCP is seeking one SMDR and one SMIRR for both the Residential and GS<50 kW classes with a one year term for each, commencing on November 1, 2012.

The proposed rate riders are:

- SMDR \$2.19 per month
- SMIRR \$2.60 per month

BCP is also seeking to make the required adjustments to its rate base for its stranded meters in its next Cost of Service application, currently scheduled for 2015 rates.

³ Response to Board Staff Interrogatory 5 b.

⁴ Response to Board Staff Interrogatory 11 b.

Updated Evidence

Through interrogatories, BCP updated its evidence for:

- Costs of capital parameters;
- PILs;
- Amortization of professional fees and project management costs;
- Interest for January 2012 through to October 2012 for the SMFA.; and
- Calculations of the SMDR and SMIRR by class.

Board staff submits that changes to the costs of capital parameters on Tab 3 of the Smart Meter Model (the “Model”) are appropriate. Comments on the remainder of the updates are found below.

Board staff has set out its submissions as follows:

- Prudence of smart meters and related costs;
- Unit costs;
- Costs beyond minimum functionality;
- Customer repairs;
- PILs; Stranded meters;
- SMFA Interest;
- Cost allocation; and
- Rider periods.

Prudence of Smart Meters and Related Costs

General

BCP has stated that the OM&A expenses being claimed are incremental to its approved costs that are recovered in its distribution rates.⁵

In response to a question as to whether any of the OM&A should be considered as capital, BCP responded stating costs in 2006 were capital in nature, but this was reversed in 2007.⁶ It is unclear to Board staff as to which OM&A costs in 2006 BCP was referring, for BCP discusses different costs such as network and infrastructure costs as well as consulting costs. In addition, Board staff could not find a reversal of costs for 2007 in Tab 2 of the Model. Board staff submits that BCP should clarify for the Board the exact nature and amount of the expenses in

⁵ Response to Board Staff Interrogatory 6 d.

⁶ Response to Board Staff Interrogatory 6 e.

2006, and indicate how and where the reversal in 2007 is documented on the record, and how and where it is factored into the determination of the SMDR.

BCP has provided the smart meter program budget through an interrogatory response and provided the actual costs in Tab 2 of the Model.⁷ BCP only provided the budgeted costs in total. The following table compares the performance of BCP:

	Budget	Tab 2	Diff	Var
1 Number of Meters	9,681	9,612	-69	-0.7%
2 Total Capital	\$1,211,627	\$1,668,878	\$457,251	37.7%
3 Average Capital	\$125	\$174	\$48	38.7%

Board staff does not have the disaggregated component costs to determine the source of the 37.7% over-run in total capital expenses. Board staff submits that BCP state in its reply the causes, nature, and amount each component over-run contributes to the variance.

Unit Costs

BCP has stated that the unit costs per meter are:⁸

	<u>\$/Meter</u>
Total Assets	173.62
Total OM&A	30.75
Total	204.37

In response to an interrogatory, BCP identified the costs beyond minimum functionality and provided the following unit costs per meter:⁹

Smart Meters Minimum Functionality

	<u>\$/Meter</u>
Total Assets	172.17
Total OM&A	28.99
Total	201.16

Beyond Minimum Functionality

	<u>\$/Meter</u>
Total Assets	1.46
Total OM&A	1.77
Total	3.23

⁷ Response to Board Staff Interrogatory 3

⁸ Application page 2

⁹ Response to Board Staff Interrogatory 9

The Board has reported that, in total for Ontario, 4,382,194 smart meters have been installed, with an investment cost of \$994,426,187 as of September 30, 2010. This results in an average investment cost of \$227.¹⁰ Based on this, and subject to a reasonable explanation of the cost overruns pointed out above, Board staff considers BCP's costs for smart meters reasonable.

Costs Beyond Minimum Functionality

BCP stated that it capitalized approximately \$14,000 for TOU implementation and web presentment.¹¹ BCP also stated that it expensed \$17,000 incremental OM&A costs for CIS implementation.¹² Board staff submits that while these costs appear to be appropriate, and have a small impact of \$3.23 compared to the overall costs of the smart meter program, Board staff is unclear as to the nature of the CIS enhancement expenses, and why they are expensed and not capitalized. Board staff submits that BCP address this in its Reply.

Customer Repairs

BCP stated that it didn't record costs of \$5,000 for repairs to customer-owned equipment in a sub-account of 1556.¹³ The repairs were for damaged siding for two customers and for replacing meter bases for 4 customers. In the Combined Proceeding Decision, the Board addressed repairs to customer owned equipment:¹⁴

"The Board considers that the costs of repairing or replacing the meter base extend the useful life of the service asset. Therefore all labour and associated costs incurred, with the exception of material and parts costs for customer owned equipment, shall be capitalized and tracked in a sub-account of the Smart Meter Capital and Recovery Offset Variance Account 1555. The actual material costs to repair or replace any customer owned equipment shall be expensed and also tracked separately in a different sub-account of the Smart Meter OM&A Variance Account 1556 until disposition is ordered by the Board. As the

¹⁰ *Monitoring Report Smart Meter Investment – September 2010 March 3, 2011*

¹¹ Response to Board Staff Interrogatory 9

¹² *ibid*

¹³ Response to Board Staff Interrogatory 10

¹⁴ *Decision with Reasons Combined Hearing EB-2007-0063, August 8, 2007*

meter base will remain the property of the customer, it would not be appropriate to have it form part of the utility's rate base. Since there are cost allocation considerations, the capitalized costs of repairs, replacements and labour etc. should be recorded by customer rate class just as the smart meter costs will be recorded by customer rate class."

Board staff point out that this is a small amount that probably should have been included in a separate sub-account of 1556. However, BCP has opted to include it in its historical expenses. Board staff submits that the time and trouble to reverse these historical costs and include them in Account 1556 would far outweigh any benefits. Board staff does not object to BCP's treatment of these costs in this Application.

PILs

Board staff noted that BCP in its Application used the default values in the Model for PILs, which were the maximum allowed tax rates for the period 2006 – 2012. Through an interrogatory, BCP updated its reported tax rates.¹⁵ The following table compares the two sets of rates:

		PILs						
Year		2006	2007	2008	2009	2010	2011	2012
1	Application	36.12%	36.12%	33.50%	33.00%	31.00%	28.25%	26.25%
2	IR 8	35.95%	36.12%	33.44%	36.29%	30.99%	33.65%	33.65%

Line 1 contains the maximum allowable tax rates. Line 2 contains the updated tax rates provided by BCP in response to Board staff interrogatory #8.

The highlighted rates are those that are above the maximum aggregate federal and provincial corporate income tax rate. Board staff submits that this is a situation that is clearly anomalous, and also questions that even the maximum rate would apply to BCP given its relative size. Board staff notes that overstated tax rates will increase the deferred revenue requirement to the disadvantage of BCP's customers.

¹⁵ Response to Board Staff Interrogatory 8

Board staff submits that the tax rates be reviewed and corrected to correspond to those that BCP received approval by the Board in its previous cost of service and tax sharing modules of IRM applications.

Stranded Meters

BCP's next cost of service application is for rates effective May 1, 2012.¹⁶ BCP stated that the NBV for the stranded meters as of December 31, 2011 is \$828,296.¹⁷ BCP is leaving the stranded meters in its rate base. Board staff submits that in doing so BCP continues to depreciate the stranded meters, as the depreciation is included in BCP's distribution rates.

Board staff submits that BCP's proposed treatment of smart meters is in accordance with Guideline G-2011-0001.

SMFA Interest

BCP is requesting an SMDR effective November 1, 2012. In the determination of the SMDR the historical capital related and operating costs are offset with the SMFA revenues with interest. Interest from January 2012 to October 2012 was not included in the Application. Through an interrogatory, BCP did update the interest for the stated period.¹⁸

Board staff submits that the SMFA revenue with interest up to the end of the month prior to effecting the SMDR in rates is now appropriate, and that such treatment has been approved by the Board in recent cases.¹⁹

Cost Allocation

BCP in the Application stated that it did not have sufficient data to calculate the SMDR and SMIRR by rate class. In response to interrogatories, BCP did a cost allocation to the classes.²⁰ The cost allocation followed the methodology in PowerStream's application which the Board has previously accepted.²¹ The proposed method allocates capital related costs using the cost of meters as an

¹⁶ Application page 3

¹⁷ Response to Board staff Interrogatory 15

¹⁸ Response to Board staff Interrogatory 14.

¹⁹ e.g. Decision and Order, EB-20102-0086, regarding Cambridge and North Dumfries Hydro's 2012 smart meter cost recovery application, August 23, 2012.

²⁰ Responses to Board staff Interrogatory 14, and VECC Interrogatories 4 & 6

²¹ PowerStream Inc. EB-2011-0128

allocator, OM&A expenses using meter counts by class, and PILs based on the allocated revenue requirement before PILs. Revenues are allocated based on the allocated revenue requirement. Board staff submits that the determinations of the SMDR and SMIRR are made on appropriate allocations. The resulting rate riders are:

	Residential	GS<50 kW
SMDR	\$1.22	\$2.15
SMIRR	\$1.76	\$4.35

Rider Periods

In its Application BCP proposed that both the SMDR and the SMIRR be in effect for one year, from November 1, 2012 to October 31, 2013.²² Through an interrogatory BCP changed the proposal for the SMIRR so that it is to remain in place until BCP's next cost of service application, which is planned for 2015.²³ Board staff does not object to the one year period for the SMDR, and finds the proposal for the SMIRR to be appropriate.

- All of which is respectfully submitted –

²² Application page 1

²³ Response to Board Staff Interrogatory 14