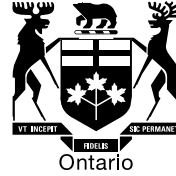


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BY E-MAIL

October 1, 2012

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

Dear Ms. Walli:

**Re: Haldimand County Hydro Inc.
Smart Meter Cost Recovery
Board Staff Submission
Board File No. EB-2012-0272**

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 Haldimand County Hydro Inc. on July 18, 2012. This document is also being forwarded to Haldimand County Hydro Inc. and to registered parties to this proceeding.

Yours truly,

Original Signed

Kelli Benincasa

Encl.

2012 ELECTRICITY DISTRIBUTION RATES

Haldimand County Hydro Inc.

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

EB-2012-0272

BOARD STAFF SUBMISSION

October 1, 2012

INTRODUCTION

Haldimand County Hydro Inc. ("HCHI") is a licensed electricity distributor serving approximately 21,147 customers in Haldimand County. HCHI filed a stand-alone application (the "Application") with the Board on July 18, 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. HCHI requested approval of proposed Smart Meter Disposition Riders ("SMDRs"), Foregone Revenue Rate Rider ("FRRR") 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.

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 filed on July 18, 2012, HCHI sought the following approvals of the Board:

- A SMDR of \$1.22 per Residential customer per month, \$2.11 per General Service less than 50kW ("GS < 50 kW") customer per month and (\$0.83) per General Service greater than 50kW ("GS > 50kW") for the period from November 1, 2012 to April 30, 2014. These rate riders will collect 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);
- A FRRR of \$1.19 per Residential customer per month, \$1.78 per GS < 50kW customer per month and \$3.28 per GS > 50kW customer per

- month. These rate riders will collect the six months of the 2012 incremental costs not recovered commencing May 1, 2012 to October 31, 2012 due to the SMIRR implementation date of November 1, 2012; and
- A forecasted SMIRR of \$3.56 per Residential customer per month, \$5.33 per GS < 50 kW customer per month and \$9.83 per GS > 50kW 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, and in successive years until HCHI rebases its rates through a cost of service application.

Updated Evidence

In response to Board staff interrogatories, HCHI made the following updates to its Application:

- HCHI confirmed the tax rates correspond to the rates for taxes/PILS actually paid by HCHI in each of the historical years and that HCHI forecasts it will pay for 2012 (Board staff IR # 6);
- HCHI calculated the SMDR's for each customer class to now include the recovery of foregone revenues for the period of May 1, 2012 to October 31, 2012, eliminating the need for a separate FRRR (Board staff IR # 8 b);
- HCHI 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 # 12); and
- HCHI 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 # 13 a).

Board staff has no issues with the updated evidence.

In its response to Board staff interrogatories, HCHI filed a revised smart meter model and class-specific SMDRs and SMIRRs to reflect the updates noted in the Board staff 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, from November 1, 2012 to April 30, 2014)		SMIRR (\$/month, from November 1, 2012 to April 30, 2014)	
	Original ¹	Revised	Original	Revised
	(SMDR + FRRR)	Board staff		Board staff
Residential	\$2.41	\$2.42	\$3.56	\$3.47
GS <50 kW	\$3.89	\$3.91	\$5.33	\$5.24
GS >50 kW	\$2.45	\$2.49	\$9.83	\$9.75

Prudence of Smart Meter Costs and Minimum Functionality

Based on the costs provided by HCHI in the revised smart meter model, Board staff notes that the total cost per meter works out to an average of \$235.01 (capital and OM&A) or \$180.93 (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 \$226.92.²

¹ Sum of SMDR and FRRR

² ["Monitoring Report Smart Meter Investment – September 2010", March 3, 2011](#)

Board staff notes that HCHI has a large service territory of 1,252 km² consisting of 1,216 km² rural area and only 36 km² urban area; this has resulted in increased costs for multiple collectors, repeaters and other communication infrastructure to collect data from geographically separate and less dense service territories, compared to a utility serving a similar number of customers within one, smaller urbanized geographic service area. While Board staff observes HCHI costs are above the higher end of the average cost per meter, Board staff is of the view that HCHI has provided adequate documentation on the prudence of the costs incurred for smart meter deployment and operation and for which HCHI is seeking recovery in this Application.

Board staff also observes that the proposed SMIRR is \$3.47/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 within 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 2005.³ The Board has continued to use the \$3 to \$4 range as a bench-mark for assessing the appropriateness of the SMIRR and hence the smart meter costs underlying the rate.

Costs Beyond Minimum Functionality

HCHI's Application includes a request to recover \$95,632 in capital costs and \$53,940 in OM&A costs beyond minimum functionality, as defined in the combined proceeding related to Smart Meters (EB-2007-0063) and in Guideline G-2001-0001⁴. These costs include TOU rate implementation, web presentation,

³ *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

⁴ 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

integration with MDM/R and installation of smart meters for the GS > 50 kW customer class.

Board staff notes that \$59,638 of the capital costs are related to the installation of smart meters for the GS > 50 kW customer class. Board staff further notes that these costs have been allocated to the GS > 50 kW customer class and are reflected in the proposed SMDR and SMIRR for that class. Board staff submits that this approach is consistent with the principle of cost causality.

With respect to the costs in relation to TOU rate implementation, web presentation, and the integration with MDM/R, Board staff notes that the Board has previously approved costs of that nature. Board staff further considers that the documented capital and OM&A costs are reasonable.

Security Audit

In response to Board staff IR # 5 b) HCHI stated that the NEPA consulting group service fees will be a recurring expense as they relate to facilitating the annual security audit that is performed on the AMI system. In response to staff IR #5 d) HCHI stated that the OM&A expenses under section 2.5.6 for residential customer class for 2012 included the annual security audit that is performed by Bell Wurldtech for the AMI system in the amount of \$11,486. In response to Board staff IR #8/Table 2 HCHI provided at table showing \$18,000 in Security Audit costs and testing. Board staff suggests HCHI provide additional information in its reply submission to provide clarity, as to why two separate security audits are being performed on the AMI system and what the value for money is to HCHI's customers.

Cost Allocation

HCHI has calculated the class-specific smart meter revenue requirement using the following methodology:

- 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
- Direct allocation by rate class of the SMFA revenue collected from the residential, GS < 50 kW and GS > 50 kW.

Board staff has no issues with the approach used by HCHI.

Stranded Meters

HCHI 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, HCHI noted that it continues to recover these costs by including the net book value of the stranded meters in its rate base. HCHI stated that the estimated net book value of stranded meters as of December 31, 2013 (i.e., prior to 2014 when HCHI is next expected to rebase its rates through a cost of service application) is \$439,049.

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

Operational Efficiencies

In its Application and in response to VECC interrogatory #4 a, HCHI documented that the most significant cost savings are the elimination of manual electric meter reading for those customers with an installed smart meter. HCHI has not included the reduction of the manual electric meter reading costs as this has already been reflected in HCHI's distribution rates EB-2009-0265.⁵ HCHI also stated they have experienced some additional operation and engineering efficiencies and cost savings resulting from integration of the AMI system with the MDM/R and the AMI system with the ODS and with its Geographical Information System ("GIS"). The implementation of the AMI system has provided, and should continue to provide, engineering staff with useful information for engineering and design purposes.

⁵ Decision on Partial Settlement Agreement EB-2009-0265, Appendix A: Settlement Agreement, page 10, February 18, 2010.

Board staff takes no issues with HCHI's initiatives in this regard, but submits that HCHI should be prepared to address any operational efficiencies and cost savings due to smart meter and TOU implementation in its next cost of service application.

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