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**BY EMAIL**

November 12, 2012

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Parry Sound Power Corporation**
**2013 Distribution Rates Application**
**Board Staff Submission**
**Board File No. EB-2012-0159/EB-2012-0344**

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding.

As a reminder, Parry Sound Power Corporation's Reply Submission is due by November 23, 2012.

Yours truly,

*Original Signed By*

Daniel Kim
Analyst, Applications & Regulatory Audit

Encl.

Ontario

# ONTARIO ENERGY BOARD

## STAFF SUBMISSION

2013 DISTRIBUTION RATES

Parry Sound Power Corporation

EB-2012-0159/EB-2012-0344

**November 12, 2012**

# Board Staff Submission
# Parry Sound Power Corporation
# 2013 Rates Application
# EB-2012-0159/EB-2012-0344

## Introduction

Parry Sound Power Corporation ("Parry Sound Power") filed an application with the Board on August 3, 2012, seeking Board approval for the disposition and recovery of costs related to smart meter deployment. The application was filed under section 78 of the *Ontario Energy Board Act, 1998* (the "Act"), S.O. 1998, c.15 (Schedule B), under the Board's *Guideline G-2011-001: Smart Meter Funding and Cost Recovery – Final Disposition*. Parry Sound Power filed a revision to the application on September 6, 2012.

By way of a separate application, Parry Sound Power also applied on August 3, 2012 to change its delivery charges beginning January 1, 2013 under the Board's Guidelines for 3rd Generation Incentive Regulation Mechanism ("IRM"), which provides for a mechanistic and formulaic adjustment to distribution rates.

The Board issued its Letter of Direction and Notice of Application and Hearing (the "Notice") on September 14, 2012. The Notice established that, pursuant to its powers under section 21(5) of the Act, the Board decided to combine and hear both applications at the same time and would consider both applications by way of a written hearing. The Notice also established timelines for discovery and submissions. The Vulnerable Energy Consumers' Coalition ("VECC") requested and was granted intervenor status and cost award eligibility. No letters of comment were received.

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by Parry Sound Power.

Board staff makes submissions on the following matters:

- Disposition of Deferral and Variance Accounts as per the *Electricity Distributors' Deferral and Variance Account Review Report* (the "EDDVAR Report");
- Removal of Rate Mitigation Rate Rider; and
- Disposition and Recovery of Costs Related to Smart Meter Deployment.

Board staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Parry Sound Power. Pursuant to Guideline G-2008-0001, updated on June 28, 2012, Board staff notes that the Board will update the applicable data at the time of this Decision based on any available updated Uniform Transmission Rates.

## DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT

The EDDVAR Report provides that during the IRM plan term, the distributor's Group 1 audited account balances will be reviewed and disposed if the preset disposition threshold of $0.001 per kWh (debit or credit) is exceeded.

Parry Sound Power completed the Deferral and Variance Account continuity schedule included in the 2013 IRM Rate Generator Model at Tab 5 for its Group 1 Deferral and Variance Accounts. Parry Sound Power's total Group 1 Deferral and Variance Account balances amount to a credit of $542,504 includes interest calculated to December 31, 2012. Based on the disposition threshold test calculation, the Group 1 Deferral and Variance Account balances equate to $0.0061 per kWh which exceeds the threshold, and as such, Parry Sound Power requested disposition of these account balances over a one year period.

Board staff has reviewed Parry Sound Power's Group 1 Deferral and Variance Account balances and notes that the principal amounts to be disposed of as of December 31, 2011 reconcile with the amounts reported as part of the RRR. Board staff therefore submits that the amounts should be disposed of on a final basis. Board staff also submits that Parry Sound Power's proposal for a one-year disposition period for its Group 1 Account balances is in accordance with the EDDVAR Report.

## REMOVAL OF RATE MITIGATION RATE RIDER

As a rate mitigation measure, the Board's rate order (EB-2010-0140) dated August 9, 2011, Appendix B, directed Parry Sound Power to record the deferred revenues associated with the Rate Mitigation Rate Riders in Account 1574, Deferred Rate Impact Amounts "Sub-account 2011 Deferred Revenues". At the end of each month, the deferred revenue amount derived from the product of the respective Rate Mitigation Rate Rider times the volumes billed to customers for the month in the Residential and General Service Less than 50 kW ("GS<50 kW") customer rate classes would be recorded as separate journal entries for each customer class in this sub-account.

The monthly journal entries for the Residential and GS<50 kW customer rate classes would continue to be recorded until such time that the deferred revenues are authorized for inclusion in distribution rates or as directed by the Board. The Board also directed that the carrying charges be calculated using simple interest applied to the monthly opening balances in the sub-account (exclusive of accumulated interest and shall be recorded in "Sub-account 2011 Deferred Revenues Carrying Charges" of Account 1574. The rate of interest would be the rate prescribed by the Board.

In this application, Parry Sound Power proposed to remove the rate mitigation rate riders for both the Residential and the GS<50 kW customer rate classes.

In response to Board staff interrogatory #2a, Parry Sound Power noted that the principal balance in Account 1574 as at September 30, 2011 is $95,799.23. Parry Sound Power also noted carrying charges of $801.43. Board staff understands that Parry Sound Power intended to indicate that the balance as at September 30, 2012 is $95,799.23. Board staff has not been able to determine for what period the carrying charges of $801.43 have been calculated and invites Parry Sound Power to clarify this in its reply submission. Parry Sound Power noted that this amount represents approximately 4.25% of Parry Sound Power's base revenue requirement. Parry Sound Power explained that the continuation of the rate mitigation rate riders would hinder its ability to operate effectively that the rate riders for PILs will mitigate bill impacts in a fashion similar to the rate mitigation rate riders. As the bill impacts are less than 10% when the rate mitigation rate riders are removed and the PILs rate riders are implemented, Parry Sound Power submitted that the rate mitigation rate riders are no longer required.

The monthly deferred revenue amounts from September 2011 to December 2012 were also provided and the amounts for October, November and December 2012 were based on a forecast. In response to Board staff interrogatory #2c, Parry Sound Power indicated that it proposes to recover the deferred revenues starting January 1, 2013.

In response to Board staff interrogatory #2d, Parry Sound Power further provided rate rider calculations to recover the deferred revenue from the Residential and GS<50 kW customer rate classes using a one year to four year disposition periods. The table below summarizes the rate riders to recover the deferred revenue under these four scenarios.

| Rate Class | Allocated Account 1574 | Board Approved Annual Billing Determinants | Proposed One Year Rate Rider | Proposed Two Year Rate Rider | Proposed Three Year Rate Rider | Proposed Four Year Rate Rider |
|---|---|---|---|---|---|---|
| Residential | $ 101,593.64 | 33,572,049 | $ 0.0030 | $ 0.0015 | $ 0.0010 | $ 0.0008 |
| General Service Less Than 50 kW | $ 8,101.77 | 16,873,256 | $ 0.0005 | $ 0.0002 | $ 0.0002 | $ 0.0001 |
| Total | $ 109,695.41 | | | | | |

Board staff notes that when the rate mitigation rate rider was implemented (i.e. in Parry Sound Power's 2010 cost of service proceeding), the key concern was the total bill impact on Parry Sound Power's customers. Board staff notes that with the current Board approved rate riders from Parry Sound Power's Deferred PILs application (EB-2012-0229), and the inclusion of the rate riders to recover the deferred revenue over one year and the elimination of the rate mitigation rate riders, the total bill impacts for the Residential and GS<50 kW customer rate classes are below the 10% threshold. Board staff also agrees with Parry Sound Power that the recovery of the deferred revenues over a one year period is appropriate to align with the disposition of Parry Sound Power's Group 1 Deferral and Variance Accounts and the sunset date of the deferred PILS rate riders. Board staff also submits that the carrying charges on the amount to dispose should be forecasted to December 31, 2012.

## DISPOSITION AND RECOVERY OF COSTS RELATED TO SMART METER DEPLOYMENT

*Background*

In the application filed on August 3, 2012 and revised on September 6, 2012, Parry Sound Power applied for the following approvals:

a) Addition of a Smart Meter Disposition Rider ("SMDR") (per metered customer per month) of $1.80 for two years (January 1, 2013 to December 31, 2014) for Residential customers and a SMDR (per metered customer per month) of $5.45 for two years for GS < 50 kW customers; and
b) Addition of a Smart Meter Incremental Revenue Rider ("SMIRR") (per metered customer per month) of $4.01 for Residential customers and a SMIRR (per

metered customer per month) of $10.43 for GS < 50 kW customers. In response to Board staff interrogatory #5a, Parry Sound Power confirmed the proposed SMIRR is requested for the period January 1, 2013 to December 31, 2014, which is until Parry Sound Power's next cost of service application.

Board staff notes that approval for the termination of Parry Sound Power's current SMFA has been previously determined by the Board. In Parry Sound Power's 2011 cost of service application (EB-2010-0140), the Board approved the current SMFA of $2.50 per metered customer per month with a sunset date of April 30, 2012[1]. The Rate Order issued on August 9, 2011 accepted the removal of the $2.50 SMFA as one aspect of mitigating rate impacts arising out of the decision[2].

*Updated Evidence*

Parry Sound Power revised its proposed SMDRs and SMIRRs in responses to interrogatories, with respect to the following:

- Updated Column P on Sheet 8 of the Smart Meter Model to reflect the $0.24 as the SMFA from the Tariff sheet for May 1, 2006 to December 31, 2006 (Board staff interrogatory #3);
- Revised the cost of capital parameters for 2009 and 2010 on Sheet 3 of the Smart Meter Model to reflect the 2006 EDR approved rates of 7.25% on debt and 9.00% on return on equity (Board staff interrogatory #9);
- Updated the Smart Meter Model to include OM&A expenses related to Web Presentment (Board staff interrogatory #11); and
- Entered actual and forecasted OM&A and depreciation expenses for the months in the year 2012 into Sheet 8A of the Smart Meter Model (Board staff interrogatory #13).

In its response to Board staff interrogatories, Parry Sound Power filed a revised smart meter model and class-specific SMDRs and SMIRRs to reflect the corrections noted in Board staff interrogatories #3, 9, 11, and 13.

The proposed class-specific SMDRs and SMIRRs calculated in response to Board staff interrogatories are summarized below:

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[1] Decision and Order (EB-2010-0140) issued June 17, 2011, p. 41.
[2] Rate Order (EB-2010-0140) issued August 9, 2011, p. 4.

Table 1: Original and Revised SMDRs and SMIRRs

| **Class** | **SMDR ($/month, for 12 months from January 1, 2013 to December 31, 2014)** | | **SMIRR ($/month)** | |
|---|---|---|---|---|
| | **Original** | **Revised** | **Original** | **Revised** |
| | | Board staff interrogatory #17a | | Board staff interrogatory #17b |
| **Residential** | $1.80 | $1.94 | $4.01 | $4.11 |
| **GS < 50 kW** | $5.45 | $4.40 | $10.43 | $8.51 |

Through its interrogatories, VECC also asked Parry Sound Power to prepare class-specific revenue requirements, as well as SMDRs and SMIRRs based on smart meter models that calculated the costs for each class. In response to VECC interrogatory #5, Parry Sound Power stated that it is unable to provide separate smart meter revenue requirement models by rate class because it did not record the costs for smart meters on a class specific basis.

Parry Sound Power proposes the class-specific SMDRs and SMIRRs as calculated based on an allocation of costs in accordance with the methodology documented in Guideline G-2011-0001. This methodology has been accepted by the Board in a number of other cases.

Board staff submits that Parry Sound Power's methodology for calculating the class-specific SMDRs is not consistent with the approach currently being accepted and approved by the Board. Specifically, as documented in its response to Board staff interrogatory #14a, Parry Sound Power has allocated the SMFA revenues and interest in accordance with the overall cost allocation.

Currently accepted practice, as documented in Guideline G-2011-0001 and accepted in most recent decisions[3] for disposition and recovery of smart meter costs, is for SMFA revenues and interest to be directly allocated to each class, based on the number of customers from which it would have been recovered. For metered customer classes that do not receive smart meters, as the amounts are not material on a per customer basis, the SMFA revenues and interest are evenly split between those classes that do receive smart meters – in this application, Residential and GS < 50 kW. This

[3] Decision and Order EB-2012-0288, November 8, 2012 and Decision Order EB-2012-0263, October 18, 2012

methodology is that designed into the “Guelph Hydro” spreadsheet that Parry Sound Power was requested to complete in response to Board staff interrogatory #14b. Unfortunately, in preparing its response, Parry Sound Power has cut off part of the response. Board staff requests that Parry Sound Power file the complete spreadsheet to Board staff interrogatory #14b in working Microsoft Excel format in its reply.

Board staff takes the position that there appear to be differences in this response and the updated SMDRs and SMIRRs documented in the response to Board staff interrogatory #17. Board staff submits that the “Guelph Hydro” approach is the more suitable methodology for calculating class-specific SMDRs. As the allocation of SMFA revenues does not affect the SMIRR calculations, Board staff takes no issue with the methodology for allocating the costs to calculate the SMIRRs.

*Prudence of Smart Meter Costs*

In response to VECC interrogatory #1, which requested average meters costs based on meter type per rate class, Parry Sound Power corrected the total number of meters installed to 3,384 from 3,357. Parry Sound Power noted that the latter incorrect total equals the number of active meters that are on Time-of-Use billing.

Parry Sound Power confirmed an average cost per meter per rate class of $84.89 for the Residential class and $213.60 for the GS < 50 kW class in response to VECC interrogatory #1 and Board staff interrogatory #15. Total cost per meter provided in response to Board staff interrogatory #15 works out to an average of $286.69 (capital and OM&A) or $260.18 (capital only).

On October 26, 2010 the Board issued a letter to all licensed distributors requiring them to file information about smart meter investments on a quarterly basis. On March 3, 2011, the Board issued the Monitoring Report, Smart Meter Investment – September 2010 (“the Monitoring Report”). The Monitoring Report summarized the total smart meter related investments of 78 distributors, as of September 30, 2010, and showed an average cost of $226.92 per smart meter.

Parry Sound Power’s per meter costs are higher than the September 30, 2010 average for 78 distributors. However, Board staff notes that smaller utilities may have higher costs due to economies of scale. In its response to VECC interrogatory #2, Parry

Sound Power stated that some capital costs incurred are the same regardless of the number of smart meters, and that a smaller LDC should be expected to have higher capital costs per smart meter installed.

Parry Sound Power is a smaller utility with a non-contiguous service territory in the Muskoka region. The rocky and forested terrain, and buildings in built-up areas, has impacted the reliability of remote reading for smart meters, necessitating increased capital costs for more collectors, “buddy” meters, etc. to effect reliable communications. Although Parry Sound Power did not provide much detail on why it’s per meter costs are higher than average, Board staff takes no issue with Parry Sound Power’s increased costs. Additional costs to improve web presentment were also provided in response to Board staff interrogatory #11; this is discussed below under “Beyond Minimum Functionality”.

Finally, Board staff observes that Parry Sound Power, as part of the Cornerstone Hydro-Electric Concepts (“CHEC”) group of utilities, became authorized to deploy smart meters under O. Reg. 427/06 as amended by O.Reg. 238/08 in accordance with the London Hydro RFP process. It has complied with the regulation and the London Hydro RFP process for the procurement of smart meters and associated equipment and for services to install and operate the smart meters and associated equipment. Board staff considers that the documented costs are reasonable.

While Board staff considers the quantum of smart meter costs that meet “minimum functionality” are reasonable, Board staff submits that Parry Sound Power’s temporal allocation of costs is not consistent with standard policy and practice. In its interrogatory #8, Board staff asked Parry Sound Power about the absence of smart meter capital costs in 2010 and 2011 when Parry Sound Power had a number of smart meter conversions and installations. In part b) of its response to that interrogatory, Parry Sound Power stated:

> The capital costs are included in the $326,157 documented as smart meter capital costs in 2009. The basis for including the capital costs in rate base and calculating a deferred revenue requirement in advance of the smart meters being deployed and coming into service is because the costs were incurred in 2009 and recorded in our financial statements as assets and depreciation was recorded on the assets monthly as a pool regardless if they were installed or not. Also, capital cost allowance, Ontario capital tax, and PILs were all accounted for

using the total amount spent on smart meters in 2009, which was $326,157.

Board staff submits that Parry Sound Power's treatment of these costs has been inconsistent with standard practice. While Parry Sound Power may have procured the smart meters in 2009, there were only 95 installed in 2010 and only 66 installed in 2011. Those meters, even if purchased in 2009, were sitting in inventory; they were not deployed and "used and useful". Also, they could not be considered "major spare parts and stand-by equipment" as defined in the Accounting Procedures Handbook. Hence, they should not have been depreciated or attracted a return on capital or taxes/PILs.

The impact of Parry Sound Power's treatment is to increase the deferred revenue requirement and hence to increase the SMDR. Additional depreciation will lower the net book value of installed smart meters as of December 31, 2012 and hence will reduce the SMIRR. In the long run, the utility will be held whole with respect to recovery of prudently incurred costs. However, Board staff submits that the smart meter procurement and installation capital costs should be allocated in line with when and how many smart meters were installed in each year, with the class-specific SMDRs and SMIRRs recalculated. This treatment would be in line with standard rate-setting treatments for smart meters in other applications and with distribution assets generally in cost of service applications.

*Costs Beyond Minimum Functionality*

As documented in its application, Parry Sound Power's smart meter deployment is solely for Residential and GS < 50 kW customers, and so do not exceed minimum functionality in this regard.

In its application and confirmed in response to VECC interrogatory #4, Parry Sound Power documents $25,600.00 capital costs and $10,388.38 operating expenses for costs beyond minimum functionality, related to TOU rate implementation, CIS system changes, web presentment, bill presentment, and integration with the MDM/R.

In its interrogatory #11, Board staff sought further information on Parry Sound Power's plans for and associated costs for web presentment and other "beyond minimum functionality" features. To be specific, in part b) of its response, Parry Sound Power provided descriptions of the: CSR:Connect; Customer:Connect; Home:Connect and

Bill:Connect features that Parry Sound referenced in its Application with respect to web presentment. As Board staff understands Parry Sound Power's response, it would appear that these features are solely related to enhanced functionality of distribution-related services for customers, such as access to TOU data, electronic bill payment, and automated service ordering, rather than to "smart grid"-related features such as in-home displays and direct control of customers' appliances.

In its Decision with respect to Guelph Hydro-Electric System Ltd.'s 2012 cost of service application (EB-2011-0123), the Board disallowed costs related to the Zigbee chip and to "smart grid" devices and features such as in-home displays as "smart meter" costs; the Board determined that such costs should be better categorized as smart grid and the utility would have to support allowance for the recovery of such costs through a business case. The Board also noted that the determination of whether in-home displays and smart grid technologies in the customers' home were distribution functions was not known. Board staff submits that Parry Sound Power confirm in its reply submission that the "web presentment modules/features discussed above are not "smart grid" functionality and do not rely on smart grid functionality like the Zigbee chip. If these are "smart grid" costs, then they should be removed from the costs applied for; they would be more appropriately considered as smart grid costs to be reviewed in Parry Sound Power's next cost of service application.

Subject to the above comments, and assuming Parry Sound Power can confirm that no "beyond minimum functionality" features relate to enabling technologies that are more appropriately considered as "smart grid", Board staff takes no issue with the documented costs related to "beyond minimum functionality" aspects of its smart meter program based on the documentation provided in the application.

*Exclusion of 2012 Costs and Demand for Customer Growth*

Board staff notes that Parry Sound Power has not included costs for smart meters to be forecasted to be deployed in 2012 due to customer growth.

This approach is consistent with what the Board has approved for final smart meter disposition in recent applications. In PowerStream Inc.'s 2011 smart meter application (EB-2011-0128), the utility included costs to the end of 2011. In Kenora Hydro's 2011 cost of service application (EB-2010-0135), smart meter costs to the end of the 2010 test year were included in the SMDR, and capital and operating costs for 2011 were included in the test year rate base and revenue requirement. Similarly, in Hydro Ottawa's 2012 cost of service application (EB-2011-0054), only costs to the end of 2011 were included in the determination of the SMDR.

In other smart meter stand-alone applications currently before the Board, other distributors have included both the capital costs and forecasted number of new smart meters expected to be installed due to customer growth in the determination of the SMIRR. In these cases, utilities have generally also documented capital and one-time operating expenses due to, for example, TOU implementation in 2012.

Board staff submits that both approaches set out above are acceptable, so long as the costs and the demand (number of customers) are for the same period and the forecasted costs for 2012 are less than 10% of the total costs of the program. In the long run, both approaches should be equivalent. Board staff submits that Parry Sound Power will be compensated through the SMIRR for incremental smart meter costs associated with customer growth until its distribution rates are next rebased through a cost of service application.

*Other Matters*

Parry Sound Power is proposing not to dispose of stranded meters at this time, but to deal with disposition in its next cost of service application. The Net Book Value of stranded meters as of December 31, 2010 is $137,359.98. Parry Sound Power stated in its application that it no longer amortizes the meters and no longer records carrying charges. Further Parry Sound Power states that it "has not recorded depreciation for 2011 year and will not book any depreciation until the Ontario Energy Board offers direction." Board staff submits that Parry Sound Power should follow the accounting guidance contained in G-2011-0001, Appendix A-1. As documented in Board staff interrogatory #7, Parry Sound Power's stranded meter treatment was considered in its 2011 cost of service application EB-2010-0140 but without resolution.

Board staff notes that for rate-setting purposes, the conventional stranded meters are in its 2011 rate base and revenue requirement, and approved distribution rates will recover depreciation expenses, a return on capital and associated taxes/PILs until such time as Parry Sound Power rebases its rates through a cost of service application to remove the stranded meters from rate base. Therefore, Parry Sound Power continues to recover depreciation expense. This should be reflected in the remaining net book value of the stranded meters to be recovered through a Stranded Meter Rate Rider at the time of Parry Sound Power's next cost of service application, currently scheduled for rates effective January 1, 2015.

In response to Board staff interrogatory #12, Parry Sound Power discussed operational efficiencies and cost savings resulting from smart meter deployment. Parry Sound Power did not note any specific savings but did state its collaboration with other LDCs within CHEC in the development of project plans, RFPs, contract evaluations, award of contract, project monitoring, problem solving and reporting to gain operational efficiencies and cost savings. While Parry Sound Power noted that it expected to achieve operational efficiencies and cost savings in the future via CHEC, but did not provide any estimates as to the timing and nature of these savings due to the nature and timing of these savings being unclear and dependent on the Provincial mandate.

Board staff submits that Parry Sound Power should be prepared to address both the stranded meters and any operational efficiencies further in its next cost of service rebasing application.

Subject to the above comments, Board staff submits that Parry Sound Power'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 –