

2012 ELECTRICITY DISTRIBUTION RATES

Northern Ontario Wires Inc.

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

EB-2012-0353

STAFF SUBMISSION

December 17, 2012

INTRODUCTION

Northern Ontario Wires Inc. (“NOW”) is a licensed electricity distributor serving approximately 6,150 customers in the Town of Cochrane, Town of Iroquois Falls, and Town of Kapuskasing. NOW filed a stand-alone application (the “Application”) with the Board on August 31, 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. NOW requested approval of proposed Smart Meter Disposition Riders (“SMDRs”) effective January 1, 2013. NOW has not requested approval of Smart Meter Incremental Revenue Requirement Rate Riders (“SMIRRs”), as its next cost of service application for rates effective May 1, 2013 will include recovery of smart meter capital and operating costs going forward as part of its 2013 revenue requirement. The Application was 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 October 3, 2012. The Vulnerable Energy Consumers’ Coalition (“VECC”) requested and was granted intervenor status and cost award eligibility. No letters of comment were received. The Notice of Application and Hearing established that the Board would consider the Application by way of a written hearing and established timelines for discovery and submissions.

Board staff and VECC posed interrogatories to NOW on October 31, 2012. Responses to interrogatories were due on November 14, 2012. The Board issued Procedural Order No. 1 on November 28, 2012 extending the date for interrogatory responses to December 7, 2012, as requested by NOW in letters filed with the Board on November 20, 2012 and November 23, 2012. In its letter filed on November 23, 2012, NOW stated that the deadline for filing interrogatory responses could not be met as a result of key staff turnover. NOW filed its responses to all interrogatories on December 7, 2012.

¹ On December 15, 2011, the Board issued *Guideline -2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition* (“Guideline G-2011-0001”).

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, NOW applied for the following approval:

- Approval for a SMDR (per metered customer per month) of \$6.47 for 16 months (January 1, 2013 to April 30, 2014) for Residential customers, and a SMDR (per metered customer per month) of \$13.85 for 16 months (January 1, 2013 to April 30, 2014) for General Service < 50 kW customers.

Updated Evidence

NOW revised its proposed SMDRs in responses to interrogatories, with respect to the following:

- NOW 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 #10); and
- NOW updated the smart meter model to reflect the allocation of SMFA revenues and associated interest to the GS > 50 kW rate class (Board staff interrogatory #11).

NOW filed a revised smart meter model and class-specific SMDRs in response to Board staff interrogatory #12, which requested that NOW update and re-file the smart meter model to reflect changes as a result of interrogatories by Board staff and/or VECC. The revised smart meter model reflects the updates in response to Board staff interrogatories #10 and #11 noted above. The revised class-specific SMDRs are summarized below:

Table 1: Original and Revised SMDRs

| Class | SMDR (\$/month, for 16 months from January 1, 2013 to April 30, 2014) | |
|----------------------|-----------------------------------------------------------------------------|----------------------------------|
| | Original | Revised |
| | | Board staff interrogatory #12 |
| Residential | \$6.47 | \$6.92 |
| GS < 50 kW | \$13.85 | \$10.87 |

Through its interrogatories, VECC also asked NOW to prepare class-specific revenue requirements based on smart meter models which calculate costs for each class. In response to VECC interrogatory #8, NOW stated that the rate riders have been appropriately calculated using the Board approved methodology and that the proposed results are fair and reasonable for all affected customer classes. In addition, NOW stated that it believed that class-specific revenue requirement calculations would not yield results that would be materially different than the results obtained with the model already submitted.

Board staff observes that the capital and operating costs shown on sheet 2 of the revised smart meter model Version 3.00 filed on December 7, 2012 remain unchanged from the costs originally filed. The documented capital costs are \$1,399,608 and OM&A expenses are \$505,183. Board staff is unclear whether any costs related to the 6 installed GS > 50 kW meters to date are included in these costs. Board staff submits that NOW should confirm that no capital and/or operating costs related to the GS > 50 kW meter replacements are included in this Application. Alternatively NOW should provide revised numbers and models excluding these costs.

In response to Board staff interrogatory #11b, which asked NOW why it did not allocate capital-related and operating expenses to the GS > 50 kW rate class, NOW responded that it has only installed 6 smart meters and therefore did not propose any cost recovery from this rate class. In response to Board staff Interrogatory #3a and #3c, NOW indicated that it proposes to deal with the costs for GS > 50 kW smart meter replacements as part of its 2013 cost of service

application recently filed with the Board and being dealt with under file number EB-2012-0153. Board staff concurs that the GS > 50 kW meter replacement should be dealt with in its entirety in NOW's 2013 cost of service application.

In this Application, NOW did not document in detail how it determined the allocation of SMFA revenues and associated interest for the purpose of calculating class-specific SMDRs. In response to Board staff interrogatory #11c which asked NOW to provide this detail, NOW responded that it updated the smart meter model to reflect the allocation of SMFA revenues and associated interest to include the GS > 50 kW rate class. While Board staff notes that there is a mismatch between the proposed treatment of revenue and costs for the GS > 50 kW rate class, Board staff submits that the revenue for that class are not material and hence does not take issue with NOW's approach.

Prudence of Smart Meter Costs

NOW confirmed an average cost per meter per rate class of \$297.12 for the Residential class and \$464.24 for the GS < 50 kW class in response to Board staff interrogatory #9. In addition to requesting average costs per meter for each rate class, Board staff interrogatory #9 sought the total cost per meter for all rate classes. Board staff notes that NOW has not provided this information. Board staff has calculated the total cost per meter using the data provided in the response to Board staff interrogatory #9 and has determined that it works out to an average of \$318.05² (capital and OM&A) or \$233.70³ (capital only). Board staff invites NOW to confirm these calculations in its reply submission.

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.

² Capital + OM&A/Total Smart Meters Deployed (\$1,904,792/5,989 = \$318.05)

³ Capital/Total Smart Meters Deployed (\$1,399,609/5,989 = \$233.70)

NOW's per meter costs are higher than the September 30, 2010 average for 78 distributors. In its Application, NOW stated that it is a small utility which serves three communities with a large distance between each community. This contributes to its higher costs in comparison to urban utilities that have lower per meter costs. Although NOW did not provide much additional detail on why its per meter costs are higher than average, Board staff takes no issue with NOW's increased costs. Characteristics of smaller size, non-contiguous service territories, and geographical and socio-economic characteristics can work against achieving cost efficiencies. This was acknowledged by the Board in its decision with respect to Lakeland Power Distribution Ltd.'s ("Lakeland") application (EB-2011-0413) earlier this year:

The Board agrees that Lakeland has provided adequate explanation of the circumstances in its operating environment that support the higher per meter costs. The Board accepts that circumstances such as scale, non-contiguous service areas, and topography and forestation can impact on the costs for deployment and reliable operation of smart meters and remote meter reading.⁴

Board staff observes that NOW's operating characteristics, including size and discontinuity of service territory, are not dissimilar from those of Lakeland.

Finally, Board staff observes that NOW, as part of the District 9 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.

Based on the above, Board staff considers that the documented costs have been prudently incurred.

Costs Beyond Minimum Functionality

⁴ Decision and Order EB-2011-0413, page 4, April 19, 2012

NOW's Application includes a request to recover \$7,785 in capital costs and \$87,426 in OM&A costs beyond minimum functionality, as defined in the combined proceeding related to Smart Meters (EB-2007-0063) and in Guideline G-2001-0001. These costs include web presentation and MDM/R integration.

With respect to the costs in relation to 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 these documented capital and OM&A costs for "beyond minimum functionality" are reasonable.

Cost Recovery Period for SMDR

In its Application, NOW has proposed a recovery period of 16 months, from January 1, 2013 to April 30, 2014. Board staff observes that the revised SMDRs are \$6.92 per month for Residential customers, and \$10.87 per month for GS < 50 kW customers. These are relatively large SMDRs, and would have significant percentage impacts on NOW's Residential and GS < 50 kW customers. Further, NOW also filed its 2013 cost of service application and is proposing further rate increases in that application.

Board staff submits that the Board may wish to consider rate mitigation to smooth out rate impacts while keeping NOW whole with respect to the recovery of the deferred revenue requirement of the installed smart meters in the long run. Board staff suggests that the magnitude of rate impacts may be more manageable through a longer recovery period for the SMDRs, and submits that a 28 month or 40 month recovery period would be more appropriate.

Board staff also notes that, while NOW has proposed a January 1, 2013 effective date for the SMDRs, this is unlikely given the current schedule, which was necessitated by delays in the interrogatory responses. Board staff notes that any delays past January 1, 2013 should not materially impact the SMDRs, and that NOW will still be held whole on the recovery of costs from January 1, 2013 onwards as these are part of NOW's 2013 revenue requirement which is the subject of the separate cost of service application.

Other Matters

NOW 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 \$173,897. NOW stated in its Application that it no longer books depreciation expense on the majority of its stranded meters effective 2010. In response to Board staff interrogatory #2a, NOW provided an excerpt from its recently filed cost of service application for 2013 rates to explain why it no longer books depreciation.⁵

Board staff has considered the explanation provided by NOW for no longer booking depreciation and is concerned that NOW has not adequately addressed the issue. While NOW may have removed the stranded conventional meters for financial reporting purposes as of December 31, 2010, these meters were still in rate base from its last cost of service application, and capital-related and operating expenses are still being recovered in approved distribution rates. In reality, NOW has continued to recover a return on capital and depreciation expense in approved rates, and Board staff submits that this, particularly the depreciation expense, needs to be accounted for in the remaining net book value of stranded meters to be recovered. However, this issue of the stranded meter recovery is best addressed in NOW's 2013 cost of service application, and Board staff intends to address the matter there.

In response to Board staff interrogatory #6, NOW discussed operational efficiencies and cost savings resulting from smart meter deployment. NOW noted that it has seen a shift of approximately \$150,000 in costs from meter reading to Capital and Operation and Maintenance Expense accounts (mostly to capital). NOW stated that these savings have not been accounted for in its Application and that the time previously spent by linemen reading meters is now used to perform infrastructure upgrades. Board staff notes that NOW, in seeking economies of scale for a cost effective deployment of smart meters, along with other utilities that form the District 9 Group engaged in a collaborative initiative of entering into a professional services agreement with Util-Assist.

⁵ Response to Board staff interrogatory #2 - Tab 1, Schedule 2, Attachment 2 of 2

Board staff takes no issue with NOW's explanations, and recognizes that it may take time for further savings to be recognized. Board staff submits that NOW should be prepared to address both the stranded meters and any operational efficiencies further in its recently filed cost of service rebasing application.

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