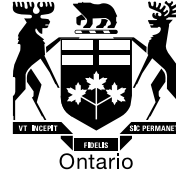


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BY E-MAIL

March 5, 2013

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

Dear Ms. Walli:

**Re: Hydro One Brampton Networks Inc.
Smart Meter Cost Recovery
Board Staff Submission
Board File No. EB-2012-0440**

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 One Brampton Networks Inc. on December 17, 2012. This document is also being forwarded to Hydro One Brampton Networks Inc. and to registered parties to this proceeding.

Yours truly,

Original Signed

Kelli Benincasa

Encl.

2012 ELECTRICITY DISTRIBUTION RATES

Hydro One Brampton Networks Inc.

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

EB-2012-0440

BOARD STAFF SUBMISSION

March 5, 2013

INTRODUCTION

Hydro One Brampton Networks Inc. (“HOBNI”) is a licensed electricity distributor serving approximately 138,000 customers in the city of Brampton. HOBNI filed a stand-alone application (the “Application”) with the Board on December 17, 2012, seeking Board approval for the disposition and recovery of costs related to smart meter deployment from January 1, 2010 to December 31, 2012, offset by Smart Meter Funding Adder (“SMFA”) revenues collected from January 1, 2010 to December 31, 2011.¹ HOBNI requested approval of proposed Smart Meter Disposition Riders (“SMDRs”) and Smart Meter Incremental Revenue Requirement Rate Riders (“SMIRRs”) effective May 1, 2013. The Application is based on the Board’s policy and practice with respect to recovery of smart meter costs.²

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 December 17, 2012, HOBNI sought the following approvals of the Board:

¹ HOBNI had smart meter costs for smart meters deployed to December 31, 2009 reviewed and approved in its 2011 cost of service rates application under EB-2009-0132, and initial deployments to May 31, 2007 reviewed in the combined smart meter proceeding EB-2007-0063 and disposed of for recovery in HOBNI’s 2008 IRM application EB-2007-0882. The amounts for which HOBNI is seeking approval for recovery pertain to historical and ongoing capital and operating costs related to smart meters deployed from January 1, 2010 to December 31, 2012, and costs in 2013, as well as depreciation expense for smart meters deployed from June 1, 2007 to December 31, 2009. This is detailed in section 2.2 of HOBNI’s Application.

² Current guidelines and filing requirements were issued by the Board in *Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition* (“Guideline G-2011-0001”), issued December 15, 2011.

- A SMDR of \$1.39 per Residential customer per month, \$1.39 per General Service less than 50kW (“GS < 50 kW”) customer per month and \$22.87 per General Service 50 to 699 kW (“GS 50 to 699 kW”) customer per month for the period from May 1, 2013 to December 31, 2013. These rate riders will collect the difference between the revenue requirement deferred from January 1, 2010 to April 30, 2013 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 January 1, 2010 to December 31, 2011 (and corresponding interest on the principal balance of SMFA revenues); and
- A forecasted SMIRR of \$0.71 per Residential customer per month, \$0.71 per GS < 50 kW customer per month and \$9.55 per GS 50 to 699 kW for the period May 1, 2013 to December 31, 2014. These rate riders will collect the incremental revenue requirement related to smart meter costs until HOBNI rebases its rates through a cost of service application, expected to be for 2015 rates effective January 1, 2015.

Updated Evidence

In response to Board staff and Vulnerable Energy Consumers Coalition (“VECC”) interrogatories, HOBNI made the following updates to its Application:

- HOBNI updated the models to account for changes to the OM&A for years 2011, 2012 and 2013 (Board Staff IR #1);
- HOBNI confirmed the tax rates correspond to the rates for taxes/PILS that underpin distribution rates in each of the historical years and that HOBNI forecasts that it will pay in 2012 and 2013 (Board Staff IR #2); and
- HOBNI updated the models to establish class specific smart meter rate riders (Board Staff IR’s #3, #6 a, #6 b and VECC IR’s #1 d #11 a).

Board staff has no issues with the updated evidence.

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

The revised class-specific SMDRs and SMIRRs calculated as a result of responses to Board staff and VECC's interrogatories are summarized below:

Table 1: Original and Revised SMDRs and SMIRRs

Class	SMDR (\$/month, from May 1, 2013 to December 31, 2014)		SMIRR (\$/month, from May 1, 2013 to December 31, 2014)	
	Original	Revised	Original	Revised
Residential	\$1.39	\$0.35	\$0.71	\$0.41
GS <50 kW	\$1.39	\$17.93	\$0.71	\$6.16
GS 50 to 699 kW	\$22.87	\$23.15	\$9.55	\$9.93

The increase in the SMDR and SMIRR for the GS < 50 kW is due to the allocation of costs on a class-specific basis, instead of on a per meter basis. The average higher per meter costs for GS classes, reflecting a larger fraction of more sophisticated and more expensive polyphase meters, is driving the change, particularly in the GS < 50 kW class.

Prudence of Smart Meter Costs and Minimum Functionality

	2006-2009	2010	2011	2012	2013	Total	
Capital	\$ 20,156,683	\$ 3,500,850	\$ 3,793,357	-\$ 6,023	\$ -	\$ 27,444,867	
OM&A	343345.37	\$ 350,061	\$ 41,178	\$ 35,832	\$ 157,337	\$ 927,753	
Number of Smart Meters	125192	7554	4330	57	0	137,133	
						Total	Average Per Meter
						Total (capex+opex)	\$ 206.90
						Capex Only	\$ 200.13

Based on the costs provided by HOBNI in the revised smart meter model, Board staff notes that the total cost per meter from years 2006 to 2013 works out to an average of \$206.90 (capital and OM&A) or \$200.13 (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 \$226.92.³

Board staff notes that HOBNI's total cost per meter of \$206.90 is below the provincial average of \$226.92.

	2010	2011	2012	2013	Total	
Capital	\$ 3,500,850	\$ 3,793,357	-\$ 6,023	\$ -	\$ 7,288,184	
OM&A	\$ 350,061	\$ 41,178	\$ 35,832	\$ 157,337	\$ 584,408	
Number of Smart Meters	7554	4330	57	0	11,941	
					Total	Average Per Meter
					Total (capex+opex)	\$ 659.29
					Capex Only	\$ 610.35

Board staff further notes that HOBNI's cost per meter from years 2010 to 2013 included in this application works out to an average of \$659.29 (capital and OM&A) or \$610.35 (capital only). This is significantly higher than the average unit cost previously approved of \$186.56 in HOBNI's cost service application EB-2010-0132. The reason for this is that lower cost single phase meters were installed first from years 2006 to 2009 for the Residential and GS < 50 kW customer classes. From years 2010 to 2012 the balance of the lower cost smart meters were installed with a larger proportion of the more expensive poly phase meters installed for both the GS < 50 kW and GS 50 to 699 kw customer class.

Board staff also observes that the proposed SMIRR is \$0.41/month for Residential customers. The SMIRR is significantly lower than the average due to

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

prior approvals of smart meter costs in applications EB-2007-0882 and EB-2010-0132. Given HOBNI's prior approvals, comparison to SMIRRs approved for other distributors is not relevant. With this understanding, Board staff accepts that the SMIRR related to the remaining smart meters at issue in this Application appears reasonable.

Board staff further observes that HOBNI was authorized to deploy smart meters under O.Reg 427/06 as amended by O.Reg 238/08 in accordance with the London Hydro Request for Proposal ("RFP") process. HOBNI noted that the Board found that the purchasing decisions by HOBNI were implemented with the necessary due diligence and the terms of contracts, including the pricing, were prudent in combined proceeding EB-2007-0063. HOBNI stated, in their Manager' Summary, procurement activities for the period from 2010 to 2012 were a continuation of the same procurement processes previously accepted by the Board in 2007 combined proceeding.

For these reasons, Board staff considers that the documented costs are reasonable.

Cost Allocation

HOBNI 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 HOBNI.

Costs Beyond Minimum Functionality

HOBNI's Application includes a request to recover \$1,377,579 in capital costs and \$19,044 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. Of this amount Board staff notes \$1,188,856 is related to the GS 50 to 699 kW customer class. These costs include smart meters for the GS 50 to 699 kW customer class and outage notification capabilities of smart meters for the residential and GS < 50 kW class customers.

With respect to the costs in relation to smart meters for the GS 50 to 699 kW customer class and the technical capabilities pertaining to outage notification, 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.

Stranded Meters

HOBNI is proposing not to dispose of stranded meters at this time, but to deal with disposition in its next rebasing application, scheduled for 2015 rates. In the Application, HOBNI noted in its 2011 Cost of Service application the Board ordered that HOBNI estimate the cost of stranded meters to December 31, 2011, track the Stranded Meter costs in "Sub-account Stranded Meter Costs" of Account 1555, and remove the stranded meter costs from rate base. Also, the Board approved Stranded Meter Rate Riders in the 2011 Cost of Service rate application for the recovery of Stranded Meters and the associated recoveries from these rate riders were recorded in this sub-account to reduce the balance in the sub-account. Given that HOBNI had not completed 100% of its Smart Meter deployment at the time of the 2011 application, the Board required that the approved 2011 estimate for the stranded meter costs be trued-up to actual stranded meter costs after the installation of all Smart Meters is completed. The true-up would be made through an adjusting entry based on the final balance of

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

stranded meters (net of recoveries) to be submitted for review in HOBNI's next cost of service application. HOBNI stated that the estimated net book value of stranded meters as of December 31, 2012 (i.e., prior to 2015 when HOBNI is next expected to rebase its rates through a cost of service application) is \$425,177.

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

Operational Efficiencies

In response to Board staff interrogatory #4 a), HOBNI documented that there has been \$1.3 million in savings from 2008 to 2011 on meter reading costs. These cost savings were reflected in their 2011 cost of service application and are therefore reflected in their current revenue requirement.

HOBNI also stated, in response to Board staff interrogatory #14 b), that HOBNI will be considering utilizing its AMI to operate remote meter disconnects. This will allow HOBNI to remotely disconnect meters for final billing purposes or nonpayment and reduce the trucking and labour costs of performing this function manually. The second project involves utilizing the smart meters ability to provide outage management information. Once this program is implemented, HOBNI will be able to detect a customer outage immediately. HOBNI noted, as these programs are under development, it is unknown what cost savings are associated with these projects.

Board staff takes no issue with HOBNI explanations at this time, and recognizes that it may take time for further savings to be recognized. As HOBNI, 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.

Board staff submits that HOBNI should be prepared to further address any operational efficiencies resulting from smart meter deployment and operationalization in its next cost of service rebasing application.

Accounting Matters

Board staff notes that this is HOBNI's third application for the disposition and recovery of costs related to Smart Meter installations, and that with this Application, HOBNI has completed its smart meter deployment. The Board, in the majority of recent decisions regarding approval for disposition and recovery of smart meter costs, has determined that no future smart meter costs should be recorded in either Account 1555 (capital) or Account 1556 (operating expenses) going forward. Only the sub-account of Account 1555 for recording the stranded meters, including accumulated depreciation recovered until the utility next rebases rates, should continue to be used. Board staff submits that this accounting treatment is also appropriate for this Application relating to 100% smart meter deployment.

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