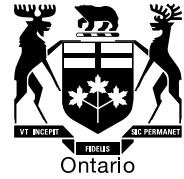


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**BY E-MAIL**

January 31, 2014

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, Suite 2700  
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Niagara Peninsula Energy Inc.  
Application for Disposition and Recovery of Costs Related to Smart Meter  
Deployment  
Board File Number EB-2013-0359**

Pursuant to the process documented in Procedural Order No.1, 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 Niagara Peninsula Energy Inc. on October 11, 2013.

Yours truly,

*Original signed by*

Georgette Vlahos  
Analyst, Applications & Regulatory Audit

cc: Parties to EB-2013-0359 proceeding

**2014 ELECTRICITY DISTRIBUTION RATES**

**Niagara Peninsula Energy Inc.**

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

**EB-2013-0359**

**STAFF SUBMISSION**

**January 31, 2014**

## INTRODUCTION

Niagara Peninsula Energy Inc. (“NPEI”) is a licensed electricity distributor serving customers within the City of Niagara Falls, the Town of Lincoln, the Township of West Lincoln and the Town of Pelham. NPEI filed a stand-alone application (the “Application”) with the Board on October 10, 2013, 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. NPEI requested approval of proposed Smart Meter Disposition Riders (“SMDRs”) and Smart Meter Incremental Revenue Requirement Rate Riders (“SMIRRs”) effective February 1, 2014 and May 1, 2014, respectively. 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, NPEI applied for the following approvals:

- Smart Meter Disposition Rider (SMDR) – rate rider of (\$0.04) per Residential customer per month and \$2.32 per General Service less than 50kW customer per month effective February 1, 2014.
- Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) – rate rider of \$0.90 per Residential customer per month and \$1.53 per General Service less than 50kW customer per month effective May 1, 2014.

### ***Updated Evidence***

In response to Board staff interrogatories, NPEI made corrections for the following:

- Based on Procedural Order No. 1, NPEI realized that an effective date of February 1, 2014 was not realistic in terms of timing. NPEI now has requested an effective date of March 1, 2014 for its SMDR. NPEI has updated Tabs 9 and 10A of the Smart Meter Model to reflect the newly requested date of March 1, 2014 (i.e. 1.25 to 1.666667). NPEI updated the interest rate on Tab 8 of the Smart Meter Model, which calculates funding adder revenues as per the response to Board staff interrogatory #6.
- NPEI has entered the percentage of Smart Meter Funding Adder revenues collected from the General Service > 50kW class in the amount of 1.71% as per response to Board staff interrogatory #7.

In response to Board staff interrogatories, NPEI filed a revised smart meter model and class-specific SMDRs and SMIRRs to reflect corrections noted in Board staff interrogatories and which are summarized below:

**Table 1: Original and Revised SMDRs and SMIRRs for Residential Rate Class**

Rate Rider	Per Original Application		Revised for Interrogatory Responses	
	Proposed Effective Date	Amount (\$/month)	Proposed Effective Date	Amount (\$/month)
<b>SMDR</b>	February 1, 2014	(\$0.04)	March 1, 2014	-
<b>SMIRR</b>	May 1, 2014	\$0.90	May 1, 2014	\$0.90

**Table 2: Original and Revised SMDRs and SMIRRs for GS<50kW Rate Class**

Rate Rider	Per Original Application		Revised for Interrogatory Responses	
	Proposed Effective Date	Amount (\$/month)	Proposed Effective Date	Amount (\$/month)
<b>SMDR</b>	February 1, 2014	\$2.32	March 1, 2014	\$2.53
<b>SMIRR</b>	May 1, 2014	\$1.53	May 1, 2014	\$1.53

### ***Prudence of Smart Meter Costs***

The following table summarizes NPEI's overall per meter costs, costs above minimum functionality and capital and OM&A expenses:

#### **Average Capital Cost Per Meter**

Smart Meter Capital Costs, Including Costs Exceeding Minimal Functionality	\$6,088,399
<b>Remove Smart Meter Capital Costs Exceeding Minimal Functionality</b>	<b>\$(193,248)</b>
Smart Meter Capital Costs, Excluding Costs Exceeding Minimal Functionality	\$5,895,151
Number of Meters Installed	51,366
Average Capital Cost per Meter, Includes Costs Exceeding Minimum Functionality	\$118.53
Average Capital Cost per Meter, Excludes Costs Exceeding Minimum Functionality	\$114.77

#### **Average Total Cost Per Meter**

Smart Meter Capital Costs, Including Costs Exceeding Minimal Functionality	\$6,088,399
<b>Remove Smart Meter Capital Costs Exceeding Minimal Functionality</b>	<b>\$(193,248)</b>
Smart Meter OM&A Costs, Including Costs Exceeding Minimal Functionality	\$1,602,232
Remove Smart OM&A Costs Exceeding Minimum Functionality	\$(298,470)
Total Smart Meter Costs, Excluding Costs Exceeding Minimum Functionality	\$7,198,913
Number of Meters Installed	51,366
Average Cost per Meter, Including Costs Exceeding Minimum Functionality	\$149.72
Average Cost per Meter, Excluding Costs Exceeding Minimum Functionality	\$140.15

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. Board staff observes that NPEI's costs are below the

average costs identified in the Monitoring Report. Given the fact that NPEI's per meter costs do not exceed values shown in the Monitoring Report, Board staff takes no issue with the nature and quantum of NPEI's reported per meter costs.

Board staff observes that NPEI was 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. NPEI 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. As such, Board staff considers that the documented costs are prudent.

### ***Minimum Functionality***

NPEI's Application included a request to recover \$193,248 in capital costs and \$298,470 in OM&A costs beyond minimum functionality, as defined in the combined proceeding related to Smart Meters (EB-2007-0063). These costs include CIS system upgrades, TOU implementation, web presentment, bill presentment and integration with MDM/R. NPEI noted that all costs claimed in its Application are incremental and have been incurred only for the purpose of implementing the TOU and Smart Meter programs. Board staff takes no issue with the nature or quanta of NPEI's documented costs above minimum functionality.

### ***Operational Efficiencies***

In response to VECC interrogatory #2, NPEI stated that it has not yet performed any analysis relating to cost savings from smart meter implementation, and therefore has not identified any preliminary operational savings at this time. As indicated in its Application, NPEI proposes to address this issue in its next cost of service application. Board staff takes no issue with NPEI's proposal.

### ***Other Matters***

#### ***Smart Meter Pilot Project***

Board staff interrogatory #2 noted that on Tab 2 of the Smart Meter Model, NPEI included \$37,457 in 2006 and \$5,665 in 2007, totalling \$43,122 for installation costs. Board staff noted that NPEI was not authorized to begin the installation of smart meters until 2008 and asked NPEI to explain the nature of these costs.

In its response, NPEI noted that these costs were incurred by Peninsula West Utilities (“PenWest”) (one of NPEI’s predecessors) and relate to a Smart Meter pilot project.

Similarly, Board staff interrogatory #3 asked NPEI to explain \$25,434 in operating expenses in 2006. In its response, NPEI noted that these costs represent smart meters purchased by PenWest as part of a pilot project prior to the Government releasing the procedures for the RFP process (i.e. the London Hydro RFP process as documented in O.Reg. 427/06 amended by O.Reg. 238/08). The operating expenses for these meters purchased for the pilot project are included in this Application.

The breakdown of the costs can be seen below:

<b>1.1.2 - Installation Costs (Peninsula West Utilities)</b>		
<b>Year</b>	<b>Description</b>	<b>Amount</b>
2006	Single Phase A to S adapter (88)	3,787.34
	Single Phase A to S adapter (600)	21,660.00
	Conversion Adapter with Small By Pass Switch (100)	7,020.00
	Single Phase A to S adapter (12)	516.46
	Materials and Supplies	4,473.17
		<u>37,456.97</u>
2007	Call processor sticks (10)	1,080.00
	Call processor sticks (10)	1,080.00
	Contractor to install phone jack/cable for meter, program stick (20 locations)	3,505.48
		<u>5,665.48</u>

<b>2.5.3 - Program Management (Peninsula West Utilities)</b>		
<b>Year</b>	<b>Description</b>	<b>Amount</b>
2006	Centron C1S meters (250)	10,530.00
	Sentinel SS4A2L meters (6)	4,374.00
	Centron C1S meters (250)	10,530.00
		<u>25,434.00</u>

Board staff is unsure about the nature and authorization of this pilot project. It is uncertain, based on the record of this case or a review of PenWest's previous rate applications in 2005 EDR and 2006 EDR as to whether these costs were part of PenWest's third tranche Market Adjusted Revenue Requirement ("MARR") Conservation and Demand Management ("CDM") initiatives or of some other pilot project authorized by the Government or by the Board.

Board staff notes that the Board has, in other cases, approved some smart meter costs prior to authorization for a distributor for consulting, engineering, project planning and training applications for recovery of smart meter costs. However, the recovery of costs for smart meters installed prior to authorization under the regulation is another matter.

Subsection. 1(1) of O.Reg. 427/06 (as amended by O.Reg. 235/08) states:

**Authorized discretionary metering activity**

1. (1) The following activities are authorized discretionary metering activities for the purposes of section 53.18 of the Act:

1. Metering activities conducted pursuant to the distributor's Conservation and Demand Management Plan approved by a Board order referenced as RP-2004-0203, including pursuant to a reallocation of funds within an approved Conservation and Demand Management Plan as authorized by the Board order approving the Conservation and Demand Management Plan or that is otherwise approved by the Board.
2. If not otherwise authorized by this subsection, a distributor may utilize funds to conduct metering activities that are for the purpose of testing smart meter technology if,
  - i. the distributor has the prior approval of the Board, and
  - ii. the funds that are utilized were collected pursuant to the Board's approval to include capital and operating costs related to smart meters in distributors' revenue requirements for 2006, as set out in the Board's Generic Issues decision, dated March 21, 2006 and referenced as RP- 2005-0020, as is incorporated into each



distributor's 2006 electricity distribution rate order provided by the Board pursuant to section 78 of the *Ontario Energy Board Act, 1998*.

...

Subsection 1 (4) states:

(4) The activities authorized as discretionary metering activities in subsection (1) are subject to the cost recovery requirements set out in Ontario Regulation 426/06 (Smart Meters: Cost Recovery) made under the *Ontario Energy Board Act, 1998*. O. Reg. 427/06, s. 1 (4).

Board staff submits that the regulation is very clear about when distributors are authorized to conduct smart metering activities.

Board staff notes that pre-authorization of smart meter installations have been dealt with in two previous Board decisions regarding smart meter cost recovery; COLLUS Power Corp. (EB-2012-0017) and Peterborough Distribution Inc. (EB-2012-0008) ("PDI"). The Board stated, in Decision and Order EB-2012-0008:

Central to the Board's considerations in the disposition of this deferral account balance is whether or not the assets to be accounted for in rate base were a prudently made investment. There is no dispute that a portion of PDI's Smart Meter acquisitions (those not required for CDM purposes) were purchased and installed prior to it being authorized to do so. The Board does not consider PDI's investment decision with respect to the early purchase of these assets to have been prudent.

The Board notes PDI's argument that its Smart Metering activity, prior to authorization, was intended to minimize the cost of replacing conventional meters and to minimize the value of the stranded asset. While the intent, considered in isolation, may appear to be reasonable, it is not reasonable to ignore the fact that a provincial

regulation existed with the explicit purpose of ensuring that the very activity that PDI undertook was avoided.

A general purpose of the regulatory rules pertaining to the roll out of Smart Meters was to control the pace and development of its implementation. This was considered important in order to mitigate the potential of the system being fragmented and potentially unworkable.

The Board considers the prudence of a prior investment in the context of what was reasonable given the information available to the investor at the time of its investment. PDI knew of the regulations and furthermore, although not determinative of this matter, PDI ought to have understood the general purpose of the regulatory direction. PDI's unauthorized investment carried with it the inherent risk of causing the suboptimal situation that the regulation was designed to avoid. PDI chose to make its investment anyway. In this context, the Board considers PDI's investment, prior to being authorized, to have been imprudent irrespective of any subsequent eventualities that may have resulted in the realization of an economic benefit. The Board will not allow costs associated with the early purchase and installation of these assets to be recovered from ratepayers.

As it stands now the assets that were purchased prior to PDI being authorized to do so are installed, being used and are useful. The Board finds it appropriate to account for these assets in rate base commencing from the date that PDI was authorized to invest in them. The Board will not allow the recovery of costs associated with the costs of capital, depreciation costs, associated carrying costs or related PILs prior to June 25, 2008.

To be clear, the accounting amortization schedules associated with these assets remain the same with the original entries to be maintained. For rate making purposes, only those costs associated

with the identified assets that remain as of June 25, 2008 will be collected from ratepayers.

The Board does not consider the effort that would likely be required to identify and remove any additional operation and maintenance costs associated with this small population of new assets to be warranted given that it is likely to be immaterial.<sup>1</sup>

NPEI may wish clarify the nature of and the authorization of PenWest's pilot project in 2006-2007. In the absence of a clear explanation that the smart meter pilot project was authorized in accordance with ss. 1.(1) 1. and 2. of O.Reg. 427/06, Board staff submits that the Board could consider treatment similar to what the Board determined in the case of PDI (i.e. to disallow costs prior to being authorized for smart meter installations in accordance with O.Reg. 427/06 associated with the early purchase and installation of these smart meters installed during the pilot project).

### ***Accounting Issues – Stranded Meters***

In its Application, NPEI noted that its stranded meter balance, as at December 31, 2012, is \$1,617,308, which represents the net book value of stranded meters. NPEI also stated that it is planning to file a cost of service application for 2015 rates, and that stranded meter costs will be addressed in that application. Board staff submits that NPEI's proposal is in accordance with Guideline G-2011-0001, however Board staff would like to address the accounting of NPEI's stranded meters in its current Application.

NPEI has responded to interrogatories regarding the net book value of its stranded conventional meters and has noted that it has not continued to record depreciation expense on stranded conventional meters subsequent to transferring the net book value to the sub-account of Account 1555. However, NPEI noted that it has now made an entry in 2013 to record the appropriate amount of depreciation expense on the stranded conventional meters for the period July 1, 2011 to December 31, 2013 of \$196,738.

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<sup>1</sup> Decision and Order EB-2012-0008, June 14, 2012, pp. 6-7

NPEI also noted that “the net book value of stranded meters that was recorded as at June 30, 2010 of \$1,189,293 was removed from rate base in NPEI’s 2011 cost of service rate application (EB-2010-0138). Therefore NPEI’s distribution rates from 2011 onward do not include depreciation expense on this balance. The net book value of stranded meters recorded after June 30, 2010 is \$428,015. NPEI has calculated depreciation expense on the net book value of \$428,015 for July 1, 2010 to December 31, 2013 which totals \$196,738. NPEI will record an additional amount of depreciation expense on stranded meters of \$56,211 in 2014”<sup>2</sup>.

Board staff notes that NPEI should only calculate depreciation expense from July 1, 2010 to December 31, 2010 due to the fact that the stranded conventional meters were removed from NPEI’s rate base as of January 1, 2011, as part of NPEI’s 2011 cost of service application. As such, NPEI has no longer been receiving a return on capital or return of capital (i.e. depreciation/amortization expense) through distribution rates.

Board staff notes however that until its rebased distribution rates from its 2011 cost of service application came into effect, NPEI was recovering the return on capital and depreciation expense. Board staff submits that NPEI’s net book value (“NBV”) for stranded meters should be the sum of \$1,189,293 (removed as of June 30, 2010) plus \$428,015, less depreciation expense on all such meters from July 1 to December 31, 2010. Board staff submits that NPEI should fully document any adjusted proposal in its reply submission for the NBV of stranded meters to be recovered as part of its next cost of service application, currently scheduled for 2015.

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Subject to the above comments, Board staff submits that NPEI’s Application is consistent 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 -

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<sup>2</sup> EB-2013-0359, Board staff Interrogatory Responses, Question 1(b)