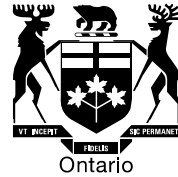


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BY E-MAIL

February 7, 2014

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

Dear Ms. Walli:

**Re: EnWin Utilities Ltd.
Smart Meter Cost Recovery
Board Staff Submission
Board File No. EB-2013-0348**

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 EnWin Utilities Ltd. on September 11, 2013. This document is also being forwarded to EnWin Utilities Ltd. and to the Vulnerable Energy Consumers Coalition.

Yours truly,

Original Signed

Stephen Vetsis
Analyst – Electricity Rates and Prices

Encl.

2014 ELECTRICITY DISTRIBUTION RATES

EnWin Utilities Ltd.

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

EB-2013-0348

BOARD STAFF SUBMISSION

February 7, 2014

INTRODUCTION

EnWin Utilities Ltd. (“EnWin”) filed an application (the “Application”) with the Board on September 11, 2013, seeking Board approval for the disposition and recovery of costs related to smart meter deployment from 2009 through December 31, 2012, offset by Smart Meter Funding Adder (“SMFA”) revenues collected from 2006 to April 30, 2012. EnWin requested approval of proposed Smart Meter Disposition Riders (“SMDRs”) and Smart Meter Incremental Revenue Requirement Rate Riders (“SMIRRs”) effective May 1, 2014. The Application is based on the Board’s policy and practice with respect to recovery of smart meter costs.¹

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 September 11, 2013, EnWin sought the following approvals of the Board:

- A credit SMDR of \$0.42 per Residential customer per month and a debit SMDR of \$2.36 per General Service less than 50kW (“GS < 50 kW”) customer per month for the period from May 1, 2014 to April 30, 2016. These rate riders will collect the difference between the revenue requirement deferred from 2009 to April 30, 2013 related to smart meters deployed as of December 31, 2012 (plus interest on operations, maintenance and administration (“OM&A”) and depreciation expenses) and the SMFA revenues collected from 2006 to April 30, 2012 (and corresponding interest on the principal balance of SMFA revenues); and

¹ 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 forecasted SMIRR of \$0.69 per Residential customer per month and \$2.11 per GS < 50 kW. These rate riders will collect the incremental revenue requirement related to smart meter costs until EnWin rebases its rates through a cost of service application.

Prudence of Smart Meter Costs and Minimum Functionality

	2008	2009	2010	2011	2012	2013	2014	Total	
Capital	\$0.00	\$5,362.00	\$6,290,314.00	\$3,347,406.00	\$160,617.00	\$0.00	\$0.00	\$9,803,699.00	
OM&A	\$5,771.00	\$9,004.00	\$106,735.00	\$135,403.00	\$219,861.00	\$0.00	\$0.00	\$476,774.00	
Number of Smart Meters	0	0	66,941	17,631	455	0	0	85,027	
								Total	Average Per Meter
							Total (capex+opex)	\$10,280,473.00	\$120.91
							Capex Only	\$9,803,699.00	\$115.30

Based on the costs provided by EnWin in the smart meter model, Board staff notes that the total cost per meter from years 2008 to 2014 works out to an average of \$120.91 (capital and OM&A) or \$115.30 (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 Board staff notes that EnWin's total cost per meter of \$120.91 is below the provincial average of \$226.92.

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

When asked why it did not seek recovery for any smart meter operating costs or capital costs post-2012, including the ongoing costs for meters installed as of December 31, 2012, EnWin stated³ that it “has proposed to manage its ongoing costs within the envelope of funding the Board allows for regular distribution operations. EnWin is concerned about the impact of provincial energy costs on its rate payers. In exercising its business judgement, EnWin has determined that the recovery it has applied for will appropriately balance the interests of its stakeholders.” Board staff takes no issue with EnWin’s decision to manage ongoing smart meter costs within its current rates.

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

Cost Allocation

EnWin 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 and GS < 50 kW classes. SMFA revenues from other classes were allocated equally to the residential and GS < 50 kW classes.

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

Costs Beyond Minimum Functionality

³ Response to Board Staff Interrogatory #4a), EB-2013-0348.

EnWin's Application does not include a request to recover any costs beyond minimum functionality. On page 7 of the Manager's Summary, EnWin states that it "is also seeking final disposition of its Smart Meter Initiative costs pursuant to G-2011-0001."

In response to Board staff interrogatory #1b), EnWin states:

Any smart meters used for customer classes other than Residential and GS < 50 have been allocated to a GL associated with USoA 1860. Distribution rates fund this metering infrastructure.

In response to Board staff interrogatory #1c), EnWin states:

EnWin tracks all of its costs in accordance with accounting and regulatory standards. EnWin does not designate any costs as "beyond minimum functionality costs." To EnWin, these costs are part of its standard operations. The distributions rates set by the Board annually provide an envelope of funding that enables those investments in infrastructure.

When asked how EnWin was intending to seek recovery for smart meter costs beyond minimum functionality, EnWin states⁴:

EnWin expects that the costs listed by Board staff, as well as all of EnWin's other costs for which recovery has not previously been approved, will be considered by the Board during EnWin's next rebasing. Until that time, EnWin will continue to manage these and all other costs within the envelope provided by Board-approved distribution rates.

As EnWin has clearly stated that it is able to fund activities for smart meter costs beyond minimum functionality within the envelope of funding currently provided by Board approved rates, Board staff does not take any issue with EnWin's proposal to not recover any smart meter costs above minimum functionality.

⁴ Response to Board staff Interrogatory #1d), EB-2013-0348, January 24, 2014.

EnWin has stated that it is seeking final disposition of smart meter costs. Board staff notes that any similar costs in nature should only be considered on a prospective test-year basis in EnWin's next rebasing application.

Stranded Meters

EnWin is proposing not to dispose of stranded meters at this time, but to deal with disposition in its next rebasing application. In response to Board staff interrogatory #7a), EnWin stated that it does not currently have a planned date for its next cost of service rate application.

When asked for EnWin's estimate of the net book value of stranded conventional meters, EnWin stated that "this interrogatory pertains to actual and prospective costs that are not proposed for recovery in this application. The information sought is not relevant or material to this application."

In Board staff Interrogatory #7e), Board staff noted that an increasing gap would develop between the depreciation expense being recovered in rates and the expense actually booked for accounting purposes for stranded meters. Board staff asked if EnWin had any proposal for how to treat any over-recovery of depreciation expense of stranded conventional meters if EnWin chose to remain on the Annual IR Index rate setting method for an extended period. EnWin replied:

EnWin does not have a proposal nor would it be appropriate for the Board to entertain a proposal in respect of a single factor embedded within distribution rates in this proceeding. The Board's long standing policy precludes cherry-picking single factors for special treatment during IRM years. The Board's policy is for distributors to manage changes (and gaps) in revenue and costs within an envelope of funding. The envelope is established through Board-approved rates that are set during rebasing. For distributors on Annual IR, the Board adjusts the funding envelope through annual mechanistic adjustments to rates until the next rebasing.

Page 21 of the Board's *Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition* ("the Guideline") states:

The time to address the recovery of stranded meters is optimal starting in the 2011 cost of service applications process since most distributors have completed or nearly completed their installation of smart meters and have included a significant portion of those costs in rate base.

Page 22 of the Guideline states:

While it would be preferable, conceptually, to also deal with stranded meter costs in a non-cost of service (i.e. stand-alone) application, the Board recognizes the practical difficulties that arise since there is no restatement of rate base and base rates.

Board staff submits that the Interrogatories posed by Board staff and VECC regarding the treatment of stranded meters are relevant, particularly due to EnWin's selection of the Annual IR Index as its preferred rate-setting methodology. The Guideline clearly indicates that it is the Board's preference to address the recovery of stranded meters, as soon as possible following the completion of the installation of smart meters. The policy set out in the Guideline was contemplated under the 3rd generation IRM framework which anticipated that distributors would typically file a cost of service application every four years. EnWin last filed a cost of service application for 2009 rates. EnWin has selected the Annual IR Index rate-setting option that does not have a set deadline for when it will next be before the Board for rebasing. As such, Board staff submits that it is important for the Board to consider whether it is appropriate to use the treatment of stranded meters contemplated in the Guideline, as the issue will likely not be heard directly in subsequent Annual IR Index applications before the Board.

Board staff acknowledges EnWin's position that under the Annual IR Index rate-setting option, a distributor is expected to manage its costs within the available funding. However, Board staff submits that stranded meters are a different category of costs because they have been recorded in a variance account

(Account 1555 sub-account for stranded meters). Costs in deferral and variance accounts still need to be specifically addressed under the Annual IR Index option.

EnWin's current base rates include not only the depreciation of conventional meters that are no longer in service but, a return component on those assets, as well. The SMDRs and SMIRRs, requested for recovery in this application, also include the depreciation, as well as, a return on capital for the installed smart meters. Once the SMDRs and SMIRRs are approved, EnWin will begin to recover costs from customers for both conventional meter, which are no longer used and useful, and smart meter assets. This amount will continue to grow over time as stranded meters become more fully depreciated. Without an estimate of the net book value, Board staff cannot assess whether the over-recovery of depreciation and return on capital of stranded meters is material and whether or not some form of unique treatment would be warranted.

In the absence of this information, Board staff submits that the Board should consider ordering EnWin to file a stand-alone application for final disposition of any stranded meter costs; including consideration of both the amounts recorded in Account 1555 and amounts currently in rate base. The timing of this application could be set based on when the stranded meter assets have been fully depreciated. Board staff does not have the information on which to estimate when that would be.

Accounting Matters

Board staff notes that this is EnWin's application for the final disposition and recovery of costs related to Smart Meter installations, and that with this Application, EnWin 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 EnWin'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 -