

ONTARIO ENERGY BOARD

IN THE MATTER OF *the Ontario Energy Board Act, 1998* (the “OEB Act”);

AND IN THE MATTER OF an Application by Chatham-Kent Hydro
 (“CKH”) and Middlesex Power Distribution Corporation (“MPDC”)
Pursuant to Section 78(1) and (2) of the OEB Act
for new Rates Effective November 1, 2008;

APPLICATION

CKH and MPDC hereby apply to the Ontario Energy Board (the “Board”) for recovery of prudently incurred costs for the second tranche of meter installations as part of the Applicants’ smart meter program. In EB-2007-0063 the Board approved, in addition to the general parameters of the smart meter program, recovery in rates for the meters installed by CKH and MPDC up to December 31, 2007. The Applicants have installed additional meters to complete the residential smart meter program during the period May 1, 2007 and December 31, 2007. The amount expended was funded by the rate rider of \$1.09 (CKH) and \$1.35 (MPDC) both were approved in EB-2007-0063, which was collected from November 1, 2007 until April 30, 2008, a continuation of the rate rider of \$1.09 (CKH) and \$1.35 (MPDC) until October 30, 2008, approved in EB-2007-0881 (CKH) and EB-2007-0867 (MPDC). The Applicants now wish to have the ongoing revenue requirement for the additional meters accepted by the Board included in rates effective November 1, 2008. The current rate riders will be adjusted at that time.

This application will not have any rate impact on the customers of CKH and MPDC as the most recently approved rates have a rate rider that recovers the revenue requirement relief being requested.

CKH and MPDC are seeking the following approvals from the Board through this application:

1. The revenue requirement for smart meters installed between May 1, 2007 and December 31, 2007 which all costs have been audited.
2. The proposed methodology for recovering the smart meter revenue requirement through rates.
3. The proposed accounting procedures related to the smart meter costs.

Confidential Information

In EB-2007-0063 the details of the smart meter contracts and detailed costs were considered confidential. This was due to the fact that the smart meter vendors did not want their detailed contracts and pricing to be public as there were still a large number of utilities that had not selected their smart meter solution. In that Decision it was stated:

“The Board finds that it is in the public interest that the prices charged to the Applicants, including unit prices, installation costs and contractual terms, be kept confidential”.¹

The smart meter market in Ontario has not changed much since the Decision was released as only one other RFP has taken place, led by London Hydro with nineteen other utilities. However, the Ontario regulations have not yet been modified to allow for any new smart meter contracts to be signed. Therefore the same competitive issues are in place today as during the previous hearing.

Tantalus Systems Corp (“Tantalus”), which is the smart meter solution provider for CKH and MPDC, made written and oral submissions in EB-2007-0063 to keep the details of the contracts and prices confidential. Mr Crocker, counsel for Tantalus, made the following statement:

“Mr Chairman, for the moment, my instructions are that beyond the information which has been submitted not with the caveat that it is

¹ Ontario Energy Board Decision EB-2007-0063, page 5, paragraph 4

confidential – that the confidential information should not be released to any of the parties, intervenors or observers to the hearing ... our main concerns are of course with respect to competitors and future customers.”²

Tantalus once again is filing a submission in this application (Appendix A) requesting that the details of its contract and the detailed costing for smart meters for CKH and MPDC remain confidential.

CKH and MPDC respectfully request that the Board ensure that the commercial details of the supply contract, equipment and installation costs, be kept confidential in this proceeding. We would also like to maintain the confidentiality of the Tantalus supply contract itself, which the Board established in EB-2007-0063. The material for which the Applicant is seeking confidential treatment is contained in Appendices A1, A2, B1, B2, C1 and C2 (marked portions).

CKH and MPDC Current Smart Meter Installation Program

CKH and MPDC were named in Ontario Regulation 427/06 as a priority installation. In our commitment to the Ministry of Energy we had agreed to install smart meters in the total residential class, CKH 27,872 and MPDC 6,015, by the end of December 2007. CKH and MPDC met those commitments.

CKH and MPDC have been working with the Independent Electricity System Operator (IESO) and the Meter Data Management Repository (“MDMR”) to interface the smart meter data so that time-of-use pricing can be passed on to the customers. The MDMR project has been successful. Milestones achieved include:

- CKH and MPDC have certified with the MDMR

² EB-2007-0063 Transcript V1, P 14, L 14-21

- CKH and MPDC are in pilot programs with the MDMR that require more than 2,000 customers' information to be transferred and tested on a daily basis.

The fact that CKH and MPDC now have the hourly smart meter data interfaced with the customer information system ("CIS") allows customers to review their hourly consumption. Currently there are over 1,500 customers signed up who use the service regularly.

CKH and MPDC continue to read all meters on a daily basis and continue to attain read reliability in the high 90% range.

Combined Proceeding – Smart Metering EB-2007-0063

CKH and MPDC were two of thirteen utilities that participated in the above noted proceeding. In that proceeding the Applicants sought the Board's approval of:

1. The Applicants' interpretation of Minimum Functionality.
2. The Applicants' prudence in the purchasing of smart meters.
3. The Applicants' proposed methodology for dealing with stranded smart meter costs.
4. The Applicants' proposed methodology for recovering smart meter costs through rates.
5. The Applicants' proposed accounting procedures related to the smart meter costs.

In its decision, the Board:

1. Determined that there are fourteen cost categories in relation to smart meter minimum functionality.³ The cost categories were set out in Appendix A of the Decision;
2. Found that the purchasing decisions of the thirteen utilities involved in this proceeding were implemented with the necessary due diligence, and the terms of the contracts each had concluded with suppliers, including the pricing, were prudent;⁴
3. Decided that Utilities could, if they choose, bring forward applications for the recovery of stranded costs in the 2008 rates; and
4. approved the rate relief for smart meter investments.

CKH and MPDC made the necessary accounting changes to reflect the Board's decision.

Current Application

Minimum Functionality – Capital Costs

CKH and MPDC are providing the costs for the minimum functionality in the same cost categories and format as provided for in the EB-2007-0063. Appendix B in that decision is the “bundling” of the various detailed costs. In that preceding the Board stated that “the general consensus was that the public interest could be met by bundling smart meter costs on a cost per installation basis and publicly disclosing only these bundled costs”.⁵

The costs incurred between May 1, 2007 and Dec 31, 2007 is the same type of costs as filed in the previous application (see Table 1 below). These costs are for smart meters installed and do not include any smart meters or other material that are purchased and not installed. These costs have also been audited as part of the 2007 year end audit, which the financial statements have been filed with the Board previously.

³ Ontario Energy Board Decision EB-2007-0063, page 7, paragraph 2

⁴ Ontario Energy Board Decision EB-2007-0063, page 16, paragraph 2

⁵ Ontario Energy Board Decision EB-2007-0063, page 5, paragraph 2

Table 1

	CKH		MPDC	
		Current Application EB-2008-0155		Current Application EB-2008-0155
	EB-2007-0063		EB-2007-0063	
Installed	17,052	9,820	3,063	2,824
Capital Costs	\$2,862,000	\$1,747,126	\$557,000	\$421,361
Avg / Unit	\$167.84	\$177.92	\$181.48	\$149.21

Difference in average capital costs

CKH – there are three main cost categories that have impacted the difference in capital costs for this period:

- Cost of meters and modules
- Installation costs
- Other costs such as hardware/ software and WAN

The costs of the modules, new GE meters and retrofits have decreased by \$4.61 per installed smart meter because we did not require as many new meters during this period, compared to the period prior to April 30, 2007. The reduction in new meters was offset by higher retrofit and sealing costs which were previously included in the cost of new meters.

The unit cost for installing the smart meters has increased. The CKH service territory is quite vast and covers an area that is 2,400 square kilometres. The smart meters installed up to April 30, 2007 totalled 17,052 with 90% of the smart meters installed in the Chatham service area where the employees report for duty each day. This significantly reduced the travel time required to get to the service area where the smart meters would be installed.

During the period of May 1, 2007 and December 31, 2007 smart meters were being installed in the 10 other service areas, such as Wallaceburg, Tilbury and Wheatley, where the travel times one way are 20 minute, 15 minutes and 35 minutes respectively. Having to travel to the various communities had reduced the productivity of the smart meter installation programs.

The outlying service areas also have older homes and neighbourhoods. The majority of the new construction over the past 20 years has been in the Chatham service territory.

In its Decision EB-2007-0063 the Board accepted that it is more expensive to install smart meters in a rural area than an urban area. The Board also accepted that it is more expensive to install meters in areas characterized by older construction as opposed to new subdivisions.⁶

Therefore CKH believes that its costs for installing smart meters from May 1, 2007 to December 31, 2007 is reasonable under these circumstances.

There is also less computer hardware and software costs as they were installed prior to April 30, 2007. There is also a reduction in WAN costs as a higher percentage of this equipment was installed prior to April 30, 2007.

⁶ Ontario Energy Board Decision EB-2007-0063, page 12, paragraph 4

MPDC - there are three main cost categories that have impacted the difference in capital costs for this period:

- Cost of meters and modules
- Installation costs
- Other costs such as hardware/ software and WAN

The combined cost of the modules, new GE meters and retrofits has decreased by approximately \$10.59 per installed smart meter because we did not require as many new meters during this period compared to the meters installed prior to April 30, 2007. The reduction in new meters was offset by requiring more retrofit and sealing costs, which were previously included in the cost of new meters.

The installation costs did increase, as they did for CKH, but not to the same extent, as the MPDC service territory is only 800 kilometres and the travel times to the two service areas outside of Strathroy, Mount Brydges and Parkhill are not as far. We believe that these costs are reasonable for the reasons identified above.

The hardware, software and WAN costs have decreased as the items were installed prior to April 30, 2007 and, therefore, were not incurred during this period.

Minimum Functionality – O&M Costs

CKH and MPDC have incurred O&M costs during the last year that reflect the costs of the smart meters installed and are only to meet the minimum functionality of the smart meter system (see Table 2 below).

Table 2

	CKH	MPDC
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	EB-2007-0063	Current Application EB-2008-0155	EB-2007-0063	Current Application EB-2008-0155
Installed	17,052	9,820	3,063	2,824
O&M Costs	\$367,000	\$192,378	\$25,000	\$36,920
Avg / Unit	\$21.52	\$19.59	\$8.16	\$13.07

Difference in average O&M costs

The O&M average cost increase for MPDC is because the total number of units installed in the current period is lower than in the previous period. Many of the O&M costs are similar to the previous year as they are required to support the smart meter system regardless of how many meters are installed.

Moreover, MPDC's O&M increases because the meters installed were done earlier in the year compared to the previous year's installations. Therefore the assets were in service longer in the year in which they were installed.

Prudency Review

CKH and MPDC continue to purchase and install the smart meters under the same contracts and methods brought forward in evidence in EB-2007-0063. We submit that the smart meter program continues to be "prudent" and therefore a detailed prudency review is not required in this proceeding.

Stranded Costs

CKH and MPDC did not apply for recovery of stranded costs in the 2008 rate application as it was an Incentive Rate Mechanism (IRM) application and not a cost of service application. Neither Applicant is requesting recovery of its stranded costs at this time. The Applicants will come forward with a proposal for recovery of stranded costs when they rebase rates, which is scheduled for 2010.

Approval requested – Revenue Requirement

CKH and MPDC have filed the Smart Meter Rate Calculation Model, which is the same model used and approved in EB-2007-0063, as a confidential document due to the details provided in the model.

The revenue requirement being submitted to the Board is found on the schedule entitled “Smart Meter Revenue Requirement & Proposed Rates - Summary”, which is highlighted in Table 3.

Table 3

	CKH	MPDC
Return on rate base	\$195,952	\$50,143
Operating expenses	\$288,200	\$57,048
Grossed up PILs	\$43,572	\$7,979
Total	\$527,724	\$115,170
Carrying Costs	(\$6,004)	(\$2,002)
Net Revenue Requirement	\$521,720	\$113,168

Notes on the revenue requirement:

- Return on rate base reflects the change in the capital structure at May 1, 2008 from 50 / 50 Debt / Equity to 53 / 47 Debt / Equity.
- Operating costs includes depreciation.
- PILs reflects current tax rates.
- Carrying costs are a credit due to the fact that CKH and MPDC currently have rate riders and the cash flow coming in is faster than the cash flow going out.

Approval Requested- Proposed Methodology for Recovering Revenue Requirement

The schedule that calculated the revenue requirement also calculates the proposed rates to recover the revenue requirement and is provided in Table 4.

Table 4

	CKH			MPDC		
	Rate	Customers	Revenue	Rate	Customers	Revenue
Nov–Apr ⁽¹⁾	\$1.09	31,872	\$208,443	\$1.35	6,764	\$54,788
May-Oct ⁽²⁾	\$1.09	31,872	\$208,443	\$1.35	6,764	\$54,788
Nov-Apr ⁽³⁾	\$0.55	31,872	\$104,834	\$0.09	6,764	\$3,592
Total Rev ⁽⁴⁾			\$521,720			\$113,168

Notes:

- (1) The period of the recovery is November 2007 to April 2008 and rates were approved in EB-2007-0063 for both CKH and MPDC.
- (2) The period of the recovery is May 2008 to October 2008 and the rate was approved in EB-2007-0881 (CKH) and EB-2007-0867 (MPDC).
- (3) The period of the recovery is November 2008 to April 2009 and is being proposed in this application.
- (4) The total revenue matched the revenue requirement in above Table.

CKH and MPDC are also requesting that a rate rider continue to support continued investments in smart meters and, in particular, the investments required for the general service class of customers. The rate riders being proposed are in Table 5.

Table 5

	CKH			MPDC		
	Rate	Customers	Revenue	Rate	Customers	Revenue
Nov-Apr	\$0.54	31,872	\$103,401	\$1.26	6,764	\$51,241

There will be no rate impact to the customers because the sum of the rate for the recovery of the revenue requirement and the new rate rider is the same as the rate rider currently in rates as summarized in Table 6.

Table 6

	CKH	MPDC
Proposed rate – Table 4	\$0.55	\$0.09
Proposed rate rider –Table 5	\$0.54	\$1.26
Total rate	\$1.09	\$1.35
Current rate rider	\$1.09	\$1.35

CKH and MPDC are also requesting approval of the permanent rate adjustment that would be reflected in the May 2009 rates. This is the same process as in EB-2007-0063 where the permanent rate adjustment effective May 2007 was approved. The rate being proposed for implementation in May 2009, which is again calculated in the model, is \$0.78 for CKH and \$0.77 for MPDC.

Approval requested- Proposed Accounting Procedures for the Smart Meter Costs

The proposed accounting procedures are provided in Appendix B.

Chatham-Kent Hydro Inc.

Proposed Accounting Treatment
May 1 2007 to December 31, 2007

Work Order Account	Account Description	Debit	Credit	Details
The distribution of Smart Meter Capital Cost to Fixed Assets Accounts				
1860 Meters - sub-account residential smart meters				Modules/Ge Meters/Sealing Rings/Meter Base Extenders/Labour and Truck Costs
1555 Smart Meter residential capital sub-account				Modules/Ge Meters/Sealing Rings/Meter Base Extenders/Labour and Truck Costs
1920 Computer equipment - hardware				Computer Hardware/Installation Tower
1555 sub-account - Smart meter computer hardware				Computer Hardware/Installation Tower
1925 Computer Software				Computer Software/transceivers
1555 sub-account - Smart meter computer software				Computer Software/transceivers
1555 accumulated amortization residential smart meter sub-account				Depreciation based on 15 years
2105 Accum. Amort. - sub-account residential smart meters				
1555 Accumulated amortization - Computer Equipment - hardware				Depreciation based on 5 year
2105 Accum. Amort. - smart meter computer hardware				
1555 Accumulated amortization - Computer Software				Depreciation based on 3 years
2105 Accum. Amort. - smart meter computer software				
The distribution of Smart Meter OM&A costs to Expense Accounts				
5705 Amortization expense - residential smart meters				Depreciation- New assets from May 1 2007 to December 31 2007
5705 Amortization expense - Smart meter computer hardware				
5705 Amortization expense - Smart meter computer software				
1556 Smart Meter OM&A sub-account - Depreciation				
4405 Interest and Dividend income - sub-account Smart Meter				Carrying Cost - Interest
1556 Smart Meter OM&A sub-account - Interest carrying charge				
5615 Admin Salary - Smart Meter				Administrative cost - Salary
1556 Smart Meter OM&A sub-account - Admin Salary				
5665 - Misc General Expense -Contract - Software Support				Software Support
1556 Smart Meter OM&A sub-account - Contract				
5665 - Misc General Expense -Contract - Radio License				Radio License
1556 Smart Meter OM&A sub-account - Radio License				
5665 Misc General Expense - Material - Smart Meter				Small Tools and Supplies/Garbage Collection
1556 Smart Meter OM&A sub-account - Small Tools				
5660 Advertising - Smart Meter				Advertising
1556 Smart Meter OM&A sub-account - Advertising				
5665 Misc General Expense - Material - Smart Meter				Miscellaneous Inventory Items
1556 Smart Meter OM&A sub-account - Misc				
		192,378.63	192,378.63	

Middlesex Power Distribution Corp.

Proposed Accounting Treatment
May 1 2007 to December 31 2007

Work Order Account	Account Description	Debit	Credit	Details
The distribution of Smart Meter Capital Cost to Fixed Assets Accounts				
1860 Meters - sub-account residential smart meters				Modules/Ge Meters/Sealing Rings/Meter Base Extenders/Labour and Truck Costs
1555 Smart Meter residential capital sub-account				Modules/Ge Meters/Sealing Rings/Meter Base Extenders/Labour and Truck Costs
1920 Computer equipment - hardware				Computer Hardware/Installation Tower
1555 sub-account - Smart meter computer hardware				Computer Hardware/Installation Tower
1925 Computer Software				Computer Software/transceivers
1555 sub-account - Smart meter computer software				Computer Software/transceivers
1555 accumulated amortization residential smart meter sub-account				Depreciation based on 15 years
2105 Accum. Amort. - sub-account residential smart meters				
1555 Accumulated amortization - Computer Equipment - hardware				Depreciation based on 5 year
2105 Accum. Amort. - smart meter computer hardware				
1555 Accumulated amortization - Computer Software				Depreciation based on 3 years
2105 Accum. Amort. - smart meter computer software				
The distribution of Smart Meter OM&A costs to Expense Accounts				
5705 Amortization expense - residential smart meters				Depreciation- New assets from May 1 2007 to December 31 2007
5705 Amortization expense - Smart meter computer hardware				
5705 Amortization expense - Smart meter computer software				
1556 Smart Meter OM&A sub-account - depreciation				
4405 Interest and Dividend income - sub-account Smart Meter				Carrying Cost - Interest
1556 Smart Meter OM&A sub-account - Interest carrying charge				
5615 Admin Salary - Smart Meter				Administrative cost - Salary
1556 Smart Meter OM&A sub-account - Admin Salary				
5665 - Misc General Expense -Contract - Software Support				Software Support
1556 Smart Meter OM&A sub-account - Contract				
5665 - Misc General Expense -Contract - Radio License				Radio License
1556 Smart Meter OM&A sub-account - Radio License				
5665 Misc General Expense - Material - Smart Meter				Courier charges
1556 Smart Meter OM&A sub-account - Small Tools				
5665 Misc General Expense - Material - Smart Meter				Modem rental fees
1556 Smart Meter OM&A sub-account - Misc				
		36,920.10	36,920.10	