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BY EMAIL

April 16, 2012

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: Orangeville Hydro Limited
Application for 2012 Smart Meter Cost Recovery
Board Staff Submission
Board File No. EB-2012-0039

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Orangeville Hydro Limited and to all other registered parties to this proceeding.

In addition, please advise Orangeville Hydro Limited that its Reply Submission is due by April 27, 2012.

Yours truly,

Original signed by

Martha McOuat
Project Advisor

Encl.

2012 ELECTRICITY DISTRIBUTION RATES

Orangeville Hydro Ltd.

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

EB-2012-0039

STAFF SUBMISSION

April 16, 2012

INTRODUCTION

Orangeville Hydro Ltd. (“Orangeville”) is a licensed electricity distributor serving approximately 11,300 customers within the Town of Orangeville and the Former Village of Grand Valley. Orangeville filed a stand-alone application (the “Application”) with the Board, received on January 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. Orangeville requested approval of proposed Smart Meter Disposition Riders (“SMDRs”) and Smart Meter Incremental Revenue Requirement Rate Riders (“SMIRRs”) effective May 1, 2012. The Application is based on the Board’s policy and practice with respect to recovery of smart meter costs.

The Board issued its Letter of Direction and Notice of Application and Hearing on February 21, 2012. The Vulnerable Energy Consumers’ Coalition (“VECC”) requested and was granted intervenor status and cost award eligibility. No letters of comment were received[1]. 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 Orangeville on March 20, 2012. Orangeville filed its responses to all interrogatories on April 3, 2012.

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.

[1] Orangeville response to Board staff IR #1

THE APPLICATION

Approvals Sought

In the Application as filed on January 31, 2012, Orangeville applied for the following approvals:

- Smart Meter Disposition Rider (SMDR) – An actual cost recovery rate rider of ($0.61) per Residential customer per month and ($1.99) per General Service less than 50kW customer per month for the period May 1, 2012 to April 30, 2013. This rate rider will refund the difference between the 2006 to December 31, 2011 revenue requirement related to smart meters deployed as of December 31, 2011 [plus interest on operations, maintenance and administration ("OM&A") and depreciation expenses] and the smart meter funding adder collected from May 1, 2006 to April 30, 2012 [and corresponding interest on the principal balance of SMFA revenues].
- Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) – A forecasted cost recovery rate rider of $2.76 per Residential customer per month and $7.82 per General Service less than 50kW customer per month for the period May 1, 2012 to April 30, 2013.[2] This rate rider will collect the 2012 incremental revenue requirement related to smart meter costs to be incurred from January 1, 2012 to December 31, 2012.
- Smart Meter Funding Adder (SMFA) – A termination of Orangeville's current SMFA of $2.00 per metered customer per month effective May 1, 2012 to reflect the smart meter costs approved for recovery through the SMDR and SMIRR rate riders above.

Board staff notes that approval for the termination of Orangeville's current SMFA has been previously determined by the Board. In Orangeville's 2011 EDR IRM3 rates application (EB-2010-0096), the Board approved the current SMFA of $2.00 with a sunset date of April 30, 2012.[3] Further, the cessation of the SMFA has been factored

[2] The SMIRRs are designed to remain in effect until the utility next rebases its rates through a cost of service application. In response to Board staff interrogatory # 14, Orangeville confirmed that its next cost of service application will take place for 2014, and revised its request to continue the SMIRR until April 30, 2014.

[3] Decision and Order EB-2010-0105, issued April 7, 2011, p. 5.

into Orangeville's 2012 IRM3 rates application (EB-2011-0190). A Rate Order in that proceeding was issued on April 10, 2012.

Updated Evidence

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

- Updated the OM&A and capital cost balances to December 31, 2011 actual balances from Actual December 31, 2010 balances plus forecast costs to December 31, 2011 (Board staff IR#2)
- Corrected the useful life for Computer Hardware on Sheet 3 of the model to 5 years from 10 years, corresponding with information submitted in its 2010 cost of service application (Board staff IR #5)
- Corrected the CCA rate for Computer Equipment for 2007 to 2012 from 50% to 55%, corresponding with information submitted in its 2010 cost of service application (Board staff IR #5)
- Corrected the tax rates in the model to correspond with tax rates underpinning Orangeville's approved rates for 2006 to 2009 (Board staff IR #6)
- Re-calculated the interest on the principal of OM&A and depreciation expense using the more accurate monthly calculation using sheet 8A of the Smart Meter model. In this case, the improved accuracy is minor ($4,037, versus $4,294 in the original application, a difference of $257). (Board staff IR # 10);

In its response to Board staff IRs, Orangeville filed a revised smart meter model and class-specific SMDRs and SMIRRs to reflect the corrections noted in Board staff IRs # 2, 5, 6 and 10.

Through its interrogatories, VECC also asked Orangeville to prepare class-specific revenue requirements, as well as SMDRs and SMIRRs based on smart meter models that calculated the costs for each class. In response to VECC IR # 9, Orangeville stated that it did not have the data available to complete smart meter revenue requirement models by rate class, as it had not collected its capital and OM&A costs on a class-specific basis. Rather, costs were determined on a service requirement basis, which does not necessarily correspond to a particular rate class. Orangeville referred to

Board staff interrogatory #11, which showed the calculation of the SMDR and SMIRR on the basis of separate allocators for Return and Amortization, OM&A, PILs and Smart Meter Funding Adder Collected. These were described in Orangeville's Manager's Summary as follows:

- Return and Amortization have been allocated based on the Weighted Average of the Residential and General Service less that 50 kW 1860 Weighted Meter Capital allocators approved in Orangeville's 2010 cost of service filing;
- OM&A has been allocated based on the number of meters installed for each class;
- PILs have been allocated based on the revenue requirement allocated to each class before PILs; and
- Smart Meter Funding Adder collected, including carrying costs, has been allocated based on the revenue requirement allocated to each class before PILs.

These calculations were based on the updated information noted above in response to Board staff IRs. Board staff has no concerns with the allocation of costs proposed by Orangeville.

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

Table 1: Original and Revised SMDRs and SMIRRs

Class	**SMDR ($/month, for 12 months)**		**SMIRR ($/month)**	
	Original	**Revised**	**Original**	**Revised**
		Board staff IR #11		Board staff IR #11
Residential	($0.61)	($0.62)	$2.76	$2.75
GS <50 kW	($1.99)	($2.03)	$7.82	$7.81

Prudence of Smart Meter Costs

In response to VECC IR #2, Orangeville confirmed that the total cost per meter works out to an average of $200 (capital and OM&A) or $175 (capital only). Board staff notes that these are slightly higher per meter costs than the Board has seen for most utilities, with Hydro One Networks Inc. being the main exception; however the range of costs established in EB-2007-0063 considered only costs for minimum functionality[4]. Adjusting to remove the $233,404 included in Orangeville's application for costs beyond minimum functionality results in an average cost per meter of $179, which is within the range established in EB-2007-0063.

Board staff also observes that the revised proposed SMIRR is $2.75/month (from Board staff IR # 11) for Residential customers. The SMIRR is, by design, a proxy for the incremental increase in distribution rates to recover the annualized capital-related and operating costs of smart meters as if they were in rate base and operating expenses. This is below the range of $3 to $4 that was originally estimated (albeit on limited and preliminary data) in the Board's Report on smart meters in 2005[5].

Orangeville's application included a request to recover $110,618 in capital costs and $122,775 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, MDM/R integration, TOU implementation, customer education and web presentment. In the Application, Orangeville noted that it participated in group RFPs

[4] In Appendix A of the Board's Decision with Reasons EB-2007-0063, issued August 8, 2007, with respect to the combined smart meter proceeding, the Board documented the per meter cost for the 13 applicant utilities then authorized for smart meter deployment. For "urban" distributors for which data was available, the per meter costs ranged from $123.59 to $189.96, while Hydro One Networks' costs were estimated at $479.47. Hydro One Networks' higher per meter costs reflected, in part, the need for more communications infrastructure and increased costs to install smart meters for customers over a larger and less dense service area. The cost information in the combined smart meter proceeding is informative, but reflects an early stage of smart meter deployment, and so must be used with caution. However, similar patterns and ranges for utilities serving urban areas as those observed in Appendix A of the Decision with Reasons EB-2007-0063 have been observed in more recent cases in which smart meter costs have been considered.

[5] *Smart Meter Implementation Plan - Report of the Board To the Minister*, January 26, 2005, pg. vi, http://www.ontarioenergyboard.ca/documents/communications/pressreleases/2005/press_release_sm_implementationplan_260105.pdf

through the Cornerstone Hydro-Electric Concepts ("CHEC") group to select vendors for these activities. Board staff takes no issue with the nature or quantum of Orangeville's documented costs above minimum functionality.

Finally, Board staff observes that Orangeville, as part of the CHEC group of utilities, has become 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. Board staff considers that the documented costs are reasonable.

Inclusion of 2012 Costs and Demand for Customer Growth

Board staff notes that Orangeville has included costs for 2012, including capital costs for smart meters to be forecasted to be deployed in 2012 due to customer growth. Orangeville has forecasted 110 new Residential smart meters for 2012 and 5 new GS < 50 kW customers.

This approach is different than that for which the Board has approved final smart meter disposition in recent applications. In PowerStream's 2011 smart meter application (EB-2011-0128), the utility included costs to the end of 2011. In Kenora Hydro's 2011 cost of service application (EB-2010-0135), smart meter costs to the end of the 2010 test year were included in the SMDR, and capital and operating costs for 2011 were included in the test year rate base and revenue requirement. Similarly, in Hydro Ottawa's 2012 cost of service application (EB-2011-0054), only costs to the end of 2011 were included in the determination of the SMDR.

In Orangeville's Application, the utility has noted that there are some costs for MDMR and TOU implementation also included in its 2012 costs. Orangeville has also included the capital costs for 115 smart meters forecasted to be installed in 2012. Board staff notes that the capital cost for 115 new meters is relatively small at $10,400, and will not have a significant impact on the calculation of the SMIRRs. Board staff does not oppose this approach in that Orangeville has been consistent in matching costs with demand. On sheet 9 of the model, it appears that Orangeville has factored the new growth in 2012 in calculating the average annual number of metered customers in the

Residential and GS < 50 kW classes used as the denominator for the SMDR and SMIRR. While the SMIRR may be marginally increased for including the new growth, the SMDR will be marginally lower as the denominator is increased due to growth.

Section 3.5 of the G-2011-0001 Filing Guidelines for Smart Meter Funding and Cost Recovery – Final Disposition (“the Guidelines”) states that:

> *The Board expects that the majority (i.e. 90% or more) of the total program costs for which the distributor is seeking recovery will be audited.*

Board staff notes that Orangeville updated its application in response to Board staff interrogatory # 2 to include 2011 actual costs. Orangeville’s total capital and OM&A costs for 2011 are $565,722 (VECC IR#2), which is approximately 25% of the total program costs. It is unclear from Orangeville’s response to Board staff IR#2 whether these are audited or unaudited costs. Board staff requests that Orangeville provide confirmation that the 2011 costs are audited by its external auditor in reply. In the event that audited 2011 costs are not available, Board staff submits that the Board may wish to consider ordering only disposition of audited actual costs to December 31, 2010. Orangeville would then have to re-apply seeking final disposition of audited actual costs for 2011 and forecasted costs for 2012.

Board staff submits that both the approach approved in PowerStream and in previous cost of service applications, including costs only to the end of 2011, and the current approach of Orangeville, including costs for 2012, are both legitimate so long as the costs and the demand (number of customers) are for the same period and the unaudited costs for both 2011 and 2012 are less than 10% of the total costs of the program. In the long run, both approaches should be equivalent. Due to extensions granted for TOU implementation, Board staff suspects that other utilities will include costs for 2012, including costs for additional smart meters due to growth. As long as the denominator on which the SMDR and SMIRR are calculated also includes the new additions (based on average in-service in the year), Board staff takes no issue with this approach.

Other Matters

Orangeville has also responded to interrogatories regarding the net book value of stranded conventional meters. Orangeville is proposing not to dispose of stranded meters at this time, but to deal with disposition in its next rebasing application, scheduled for 2013 rates. Board staff submits that this is compliant with Guideline G-2011-0001.

In response to VECC IR # 11, Orangeville has discussed operational efficiencies and cost savings resulting from smart meter deployment. Orangeville stated that manual meter readings for Residential and GS <50kW have been eliminated, resulting in a cost saving of approximately $5,000 per month. Orangeville has also described the areas where savings have likely been achieved through its collaborations with the CHEC Group and Utility Collaborative Services Inc., but has not quantified these cost savings. Board staff takes no issue with Orangeville's explanations, and recognizes that it may take time for savings to be recognized. As Orangeville, 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, and more substantial, efficiencies to be realized over time.

Board staff submits that Orangeville should be prepared to address both the stranded meters and any operational efficiencies further in its next cost of service rebasing application.

Subject to the above comments, Board staff submits that Orangeville's Application is compliant 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 -