



Burlingtonhydro inc.

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

June 1, 2012

Dear Ms. Walli,

**RE: Burlington Hydro Inc., EB-2012-0081
Applicant's Reply Submission**

As provided for in Procedural Order No. 1, dated May 9, 2012, please find Burlington Hydro Inc.'s Reply Submission attached.

I can be reached at 905-332-1851 x234 should you require anything further.

Yours truly,

Original signed by

Stephen Shields
Manager, Regulatory Affairs

Cc: Vulnerable Energy Consumers Coalition
Mr. Michael Janigan

2012 ELECTRICITY DISTRIBUTION RATES

Burlington Hydro Inc.

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

EB-2012-0081

APPLICANT'S REPLY SUBMISSION

June 1, 2012

Introduction

Burlington Hydro Inc. (Burlington Hydro) as a licensed electricity distributor filed an application (the "Application") with the Ontario Energy Board (the "Board" or the "OEB") on February 29, 2012, seeking Board approval for the disposition and recovery of costs related to smart meter deployment. Burlington Hydro is seeking recovery of \$9,848,657 capital and \$2,101,832 operations, maintenance and administration ("OM&A").

To effect this recovery, Burlington Hydro requested approval of a proposed Smart Meter Disposition Rider ("SMDR") and a Smart Meter Incremental Revenue Requirement Rate Rider ("SMIRR") effective May 1, 2012 to recover smart meter expenditures which had been partially off-set by Smart Meter Funding Adder ("SMFA") revenues. The Application was based on the Board's policy and practice with respect to recovery of smart meter costs and, in particular, Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, December 15, 2011 (the "Guideline").

The Board issued its Letter of Direction and Notice of Application and Hearing on March 19, 2012; the Notice stated the Board would consider the Application by way of a written hearing. The Vulnerable Energy Consumers Coalition ("VECC") received intervenor status and cost award eligibility. One letter of comment was received by the Board and this was placed on the public record.

Board staff filed interrogatories on April 18, 2012 and Burlington Hydro filed its responses on May 1, 2012. VECC filed interrogatories on April 19, 2012 but were unaddressed by Burlington Hydro due to an administrative oversight. On May 9, 2012, the Board issued Procedural Order No. 1 granting an extension to May 16 for Burlington Hydro to respond to VECC's interrogatories; corresponding extensions for parties to file submissions were granted. Burlington Hydro filed its responses to VECC's interrogatories on May 16, 2012.

Board staff filed its Submission on May 23, 2012; VECC filed its Submission on May 25, 2012. This Reply Submission by Burlington Hydro summarizes the evidence on record, responds to issues raised by Board staff and VECC in their respective submissions, confirms the prudence of the claimed costs and seeks Board approval of the resulting SMDR and SMIRR rate riders.

Approvals Sought

In its February 29, 2012 Application, Burlington Hydro applied for approval of specific SMDR and SMIRR amounts and requested the termination of the then-current SMFA. The values applied for were the output from the Board's smart meter model. Uniform rate riders were requested.

In response to Board staff interrogatories, Burlington Hydro accepted various data input changes and included these into the Board's smart meter model. This resulted in new uniform rate rider values. Hence, with the input data changes, Burlington Hydro respectfully requests Board approval for:

- SMDR – A rate rider of (\$0.01) per customer per month for Residential, General Service less than 50 kW (“GS<50kW”) and General Service greater than 50 kW (“GS>50kW”) classes to be effective for the period May 1, 2012 to April 30, 2013. This rate rider would refund the difference between the May 1, 2006 to December 31, 2011 revenue requirement related to smart meters deployed as of December 31, 2011 and the SMFA collected from May 1, 2006 to April 30, 2012; all appropriate interest on OM&A, depreciation expenses and interest on the principal balance of SMFA revenues are included.
- SMIRR – A cost recovery rate rider of \$3.21 per customer per month for Residential, GS<50kW and GS>50kW classes for the period May 1, 2012 to April 30, 2014. This rate rider would collect the 2012 incremental revenue related to smart meter costs to be incurred from January 1, 2012 to December 31, 2012.
- SMFA – Confirmation of the termination of Burlington Hydro’s SMFA of \$2.50 per customer per month effective May 1, 2012 as has been factored into Burlington Hydro’s 2012 IRM3 rates Decision and Order, EB-2011-0155, March 22, 2012 and the Revised Rate Order, EB-2011-0155, March 28, 2012.

In the event that a retrospective change in rates is not practical (i.e. the Board decides that the SMDR and SMIRR rate riders should take effect at a date later than May 1, 2012), Burlington Hydro respectfully requests that a proportional change in the rate riders requested is approved in order to effect full reimbursement.

Updated Evidence

In response to various Board staff interrogatories, Burlington Hydro updated its evidence with respect to tax rates, cost of capital, prescribed interest rates and recovery period of SMDR. Also in response to Board staff’s interrogatories, Burlington Hydro calculated class-specific SMDRs and SMIRRs based on the cost allocation methodology used by PowerStream in its smart meter application. The details of these updates are provided in the Board staff Submission. The effect of the changes was reflected in the following table filed by Burlington Hydro:

Rate Rider	Uniform Rate Riders	Class-Specific Rate Riders		
		Residential	GS<50kW	GS>50kW
SMDR	\$(0.01)	\$(0.57)	\$6.19	\$1.49
SMIRR	\$3.21	\$2.90	\$6.63	\$4.18
Forecast Revenue		\$1,648,633	\$788,430	\$61,848
	\$2,495,923	\$2,498,911		

(Please note that in presenting the above class-specific information, Burlington Hydro did not *propose* class-specific rate riders; it simply provided the calculations requested by Board staff in its interrogatories.)

Burlington Hydro noted in its response to the interrogatories that a significant difference among the three class-specific rate riders is evident for both SMDR and SMIRR and, while the difference is to be expected for the Residential class since the Rex2 meters cost less than the A3RL meters, all the cost elements in the two commercial classes are the same. Burlington Hydro went on to show that the large difference in rate rider values between the two commercial classes was caused by the difference in the number of interval-metered customers who would be required to *pay* for a smart meter but not *receive* one.

Because of the observed inequalities between the rate riders for the two commercial classes, Burlington Hydro calculated rate riders for a combined "commercial" class. (Again, in presenting this information, Burlington Hydro did not propose a combined commercial class as it continues to request uniform rate riders for all three metered customer classes; rather, it simply showed for completeness that the inequalities identified previously would be eliminated in this scenario.)

Board staff observed in its Submission¹ that combining the two classes for the purpose of calculating the rate riders was more logical but stated that they would be concerned if the smaller single-phase customers in the GS<50kW class were disadvantaged and requested that Burlington Hydro address the impact on these customers.

The impact on the two separate commercial classes can be determined from Burlington Hydro's response to Board staff IR # 10(e). The table below summarizes the rate riders for the combined commercial class.

Rate Rider	Separate Commercial Classes		Combined Commercial Classes
	GS<50kW	GS>50kW	
SMDR	\$6.19	\$1.49	\$5.48
SMIRR	\$6.63	\$4.18	\$6.26
Forecast Revenue	\$788,430	\$61,848	\$850,070
	\$850,278		

It will be observed that the SMDR and the SMIRR for the GS<50kW customers decrease from \$6.19 and \$6.63 respectively to \$5.48 and \$6.26 respectively. That is, the impact of combining the two commercial classes is a positive effect on the GS<50kW customers; i.e. combining the two commercial classes mitigates the rate riders for the GS<50kW while the expected revenue from these rate riders remains essentially the same through compensation by the GS>50kW customer class.

In its Submission, VECC examined at length the allocation of costs across the three customer classes. VECC accurately summarized Burlington Hydro's rationale for advocating a uniform SMDR and a SMIRR; i.e. while Burlington Hydro has detailed records of the value of the smart meters acquired for each class, an accurate allocation of the balance of the capital costs and operating costs was not possible with any degree of accuracy; also, Burlington Hydro does not have information to accurately allocate the broader

¹ Board staff Submission, page 6

infrastructure and installation costs to individual classes. Noting that the cost per meter for meters purchased for commercial customers is significantly greater than those meters purchased for Residential customers, VECC stated it did not support uniform rate riders.²

VECC continued in its submission by considering the significant difference in the rate rider values between the customer classes and the unexpected difference in rate riders between the two commercial classes (as referenced above). VECC expressed reservations about combining the GS<50kW and GS>50kW rate classes.³ VECC submitted that to combine the rate classes for the purpose of calculating SMDR and SMIRR is contrary to the current methodology underpinning existing rates. VECC expressed its support for the individual rate riders calculated by Burlington Hydro in response to Board staff IR #10(e) based on the PowerStream cost allocation methodology.⁴

Burlington Hydro notes that the foregoing data presents three options for the full recovery of its smart meter cost recovery claim:

1. Uniform SMDR and SMIRR rate riders,
2. Three class-specific SMDR and SMIRR rate riders, and
3. SMDR and SMIRR rate riders for Residential customers together with SMDR and SMIRR rate riders for combined GS<50kW and GS>50kW customers.

Burlington Hydro submits that all three options effectively produce the same forecasted recovery; also, that a calculation that produces uniform SMDR and SMIRR rate riders involves the least amount of arbitrary cost allocation and is thus the most supportable methodology.

Minimum Functionality

In the Application, Burlington Hydro addressed in turn the three components of *cost beyond minimum functionality* as identified in the Guideline.

- Costs for technical capabilities that exceed those in O. Reg. 425/06: Although the Rex 2 meters slightly exceeded the specification adopted in the Regulation, these acquired meters were the most basic meters manufactured as a standard item; to have acquired Rex 2 meters that *just* met the minimal functionality requirement would have resulted in additional cost to “de-rate” the standard meter.
- Costs for deployment of smart meters to other than Residential and GS<50kW customers: While Burlington Hydro recognized that the installation of smart meters for GS>50kW customers was technically beyond minimal functionality, it decided it was the only prudent course of action and not to do so would be an evidently bad decision. The three key factors were:

² VECC Submission, page 5

³ VECC Submission, page 6

⁴ *ibid*

- Changing out virtually a complete bank of meters so they could be read remotely while leaving only one or two meters which required to be read manually would result in a grossly inefficient meter reading operation.
- Since the majority of the GS>50kW customers had loads which could potentially fall into the GS<50kW customer class for any month(s) in the year (in fact, 61% of GS>50kW fell into that category in 2011), it made no sense to wait to replace the existing meter with a smart meter only when the customer designation actually changed.
- Providing the GS>50kW customers with a smart meter would provide these customers with peak and energy-saving opportunities consistent with the Government's CDM objectives.
- Costs for TOU rate implementation, CIS system upgrades, web presentment, integration with MDM/R, etc.: The costs that Burlington Hydro incurred for this function were the minimal costs necessary for implementing the smart meter program and a functioning time-of-use ("TOU") system. All costs claimed in the Application are strictly incremental; that is, they are the essential minimal additional costs necessary to meet the Government's smart meter mandate.

In its Submission, Board staff noted that Burlington Hydro has not documented any costs beyond minimal functionality in its smart meter models and noted specifically that TOU etc. costs are – essentially by definition – beyond minimum functionality. However, Board staff noted, these costs may be recoverable nevertheless. In its Submission, Board staff requested that a breakdown of these costs be provided. The costs are provided in the table below.

Year	Sky Energy- MDM/R support	Elster – Project Support	Aladaco – Program Admin	Olameter – Data Collection Fee
2007	\$12,438		\$7,783	\$1,163
2008			\$27,334	\$4,972
2009		\$20,088	\$39,368	\$4,153
2010	\$227,878		\$942	\$831
2011	\$295,110	\$15,000		
Total	\$535,425	\$35,088	\$75,427	\$11,119

In its Submission, VECC examined the requirement in the Guideline for audited results. VECC noted that in Burlington Hydro's Application, 89% of total program costs were audited when the Application was filed (compared to the Guideline standard of 90%) but the subsequently-provided 2011 audited financial statements confirmed that the values in the financial statements are in agreement with those in Burlington Hydro's OEB submission.

VECC concluded:

"VECC submits that Burlington Hydro's application conforms to the Board's Guideline regarding audited costs."⁵

Burlington Hydro submits that with the above clarification, all the evidence on record supports its declaration that the incremental smart meter and related infrastructure costs incurred did not exceed those necessary to achieve minimal functionality of a smart meter-based TOU billing system.

Prudence of Smart Meter Costs

In response to VECC IR #1, Burlington Hydro calculated the average cost per meter to be \$138 (capital and OM&A) and \$122 (capital only). Referencing this calculation, Board staff observed in its Submission:

*"These average per meter costs are within the ranges observed for other utilities in EB-2007-0063, and are below the sector average total cost of \$207.37 reported in the Board's "Sector Smart Meter Audit Review Report", dated March 31, 2010, and the average total cost of \$226.92 reported by distributors in the Monitoring Report of Smart Meter Investment as of September 30, 2010". [Emphasis added.]*⁶

Board staff further observed in its Submission that the proposed SMIRR of \$3.21 per month for Residential customers is within the range of \$3 to \$4 that was originally estimated by the Board; also, that Burlington Hydro was authorized to deploy smart meters per the regulations.

Regarding the prudence of Burlington Hydro's costs, Board staff concluded:

*"Board staff considers that the documented costs are reasonable."*⁷

VECC, in its Submission, reviewed the calculations provided by Burlington Hydro in response to VECC's IR #1 which showed, as noted above, the unit cost per smart meter on a total cost basis (capital and OM&A) to be \$138 and the average capital cost to be \$122. VECC went on to compare the Burlington Hydro values against those obtained in the Combined Proceeding Decision, EB-2007-0063, September 21, 2007 (which showed a range from \$123.59 to \$189.96) and the Board report "Sector Smart Meter Audit Review Report", March 31, 2010 (which indicated a sector average capital cost of \$186.76 per meter and an average cost (capital and OM&A) of \$207.37.)

VECC concluded:

"VECC observes that Burlington Hydro's costs are within the range established in EB-2007-0063, and significantly less than the more recent sector averages.

*VECC takes no issue with the nature or quantum of Burlington Hydro's smart meter costs."*⁸

⁵ VECC Submission, page 4

⁶ Board staff Submission, pages 6-7

⁷ Board staff Submission, page 7

Burlington Hydro submits that the detailed examination by Board staff and VECC through the interrogatory process substantiates the sound judgment and cost-effective processes exercised by Burlington Hydro, and establishes the prudence of its smart meter costs.

Other Matters

In its Submission, Board staff noted Burlington Hydro's stated intention to wait and dispose of stranded meter costs at its next rebasing which, Board staff submitted, is compliant with the Guideline. Board staff further submitted that Burlington Hydro should address its Rex 1 meter cost recovery in its next rebasing application. Burlington Hydro confirms its intention to do so.

Board staff noted that Burlington Hydro had identified operational efficiencies afforded by its smart meters and noted that manual meter readings for Residential and GS<50kW customers had been virtually eliminated with a resultant cost saving of \$216,000 per year. (As stated in the Application, this saving has already been incorporated into the smart meter model.) Board staff stated that while this was the only saving included, it realized it may take time for further savings to be recognized and more substantial efficiencies may be possible over time. As recommended by Board staff, Burlington Hydro will address any further operational efficiencies in its next rebasing application.

Burlington Hydro submits that all cost savings identified to date have been incorporated into the claim for recovery of costs; further, Burlington Hydro confirms that it will continue to seek out additional cost savings as experience is gained with its smart meters.

Conclusion and Submission

In concluding its Submission, Board staff stated:

"Subject to the above comments, Board staff submits that Burlington Hydro'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."⁹

⁸ VECC Submission, page 4

⁹ Board staff Submission, page 8

As noted earlier, VECC in its Submission stated:

"VECC observes that Burlington Hydro's costs are within the range established in EB-2007-0063, and significantly less than the more recent sector averages.

VECC takes no issue with the nature or quantum of Burlington Hydro's smart meter costs."¹⁰

In response therefore, Burlington Hydro respectfully submits that the costs requested for recovery in this Application have been necessary to fulfill Burlington Hydro's obligations under the Provincially-mandated Smart Meter Initiative; have been prudently incurred in accordance with the Board's guidelines; the proposed rate riders are just and reasonable; the associated customer bill impacts are modest; and it is therefore appropriate that the Board approve the proposed uniform rate riders and confirm the elimination of the funding adder for implementation effective May 1, 2012.

In the event that a retrospective change in rates is not practical (i.e. the Board decides that the SMDR and SMIRR rate riders should take effect at a date later than May 1, 2012), Burlington Hydro respectfully requests that a proportional change in the rate riders requested is approved in order to ensure full reimbursement.

¹⁰ VECC Submission, page 4