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July 13, 2012

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

Dear Ms. Walli:

Re: **Oakville Hydro Electricity Distribution Inc.**
Application for 2012 Smart Meter Cost Recovery effective
May1, 2012, OEB File No. EB-2012-0193

Please find accompanying this letter, two copies of Oakville Hydro's reply to the written submissions of Board staff and the Vulnerable Energy Consumers Coalition.

Should there be any questions, please contact me at the number below.

Respectfully Submitted,

Maryanne Wilson
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IN THE MATTER of the *Ontario Energy Board Act 1998*,
Schedule B to the *Energy Competition Act*, 1998, S.O. 1998, c.15;

AND IN THE MATTER of an Application by Oakville Hydro
Electricity Distribution Inc. to the Ontario Energy Board for an
Order or Orders approving or fixing just and reasonable rates with
respect to Smart Meters as of May 1, 2012.

Oakville Hydro Electricity Distribution Inc.

Reply Submission

Filed: July 13, 2012

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Introduction

Oakville Hydro Electricity Distribution Inc. (“Oakville Hydro”) filed a stand-alone application (the “Application”) with the Ontario Energy Board (the “Board”) on April 3, 2012 seeking approval for the final disposition and recovery of costs related to smart meter deployment. The Application was prepared in accordance with the Board’s Guideline, G-2011-0001 – Smart Meter Funding and Cost Recovery – Final Disposition (the “Guideline”) and the revised Smart Meter Model version 2.1.7. In its Application, Oakville Hydro requested approval of its proposed Smart Meter Disposition Riders (“SMDRs”) and Smart Meter Incremental Revenue Requirement Rate Riders (“SMIRRs”).

The Board issued its Letter of Direction and Notice of Application and Hearing on May 2, 2012. The Vulnerable Energy Consumers Coalition (“VECC”) received intervenor status and cost award eligibility. No letters of comment were received. Board staff and VECC filed interrogatories on June 1, 2012. Oakville Hydro filed its responses to Board staff and VECC interrogatories on June 15, 2012.

On June 29, 2012 Board staff filed submissions on the following matters:

- Approvals sought
- Updated evidence
- Prudence of Smart Meter Costs
- Cost allocation methodology
- Treatment of 2012 costs
- Other Matters

On July 4, 2012 VECC filed submissions on the following matters:

- Prudence review of Smart Meter costs
- Recovery of Smart Meter costs
- Cost allocation and calculation of Smart Meter Rate Riders

Oakville Hydro offers the following submissions in these matters along with its submissions on the effective date of the requested SMDRs and SMIRRS:

Approvals Sought

Oakville Hydro updated its smart meter model to reflect revisions made as a result of its responses to both Board staff and VECC interrogatories and updated its class specific SMDRs and SMIRRs in response to a Board staff interrogatory¹. In its Application, Oakville Hydro proposed that the SMDRs would be in effect from May 1, 2012 until April 30, 2014 and that the SMIRRs would be in effect from May 1, 2012 until the effective date resulting from Oakville Hydro's next cost of service application. In its response to Board staff's interrogatory, Oakville Hydro also used a two-year period to calculate the revised SMDRs. The following table summarizes the revised class-specific SMDRs and SMIRRs.

Rate Class	SMDR	SMIRR
Residential	\$ (0.45)	\$ 2.49
General Service < 50 kW	\$ 2.61	\$ 7.33

- SMDRs**

In response to an interrogatory from VECC, Oakville Hydro provided the SMDRs using a period of one-year instead of two-years². The following table summarizes the impact of the calculation based on one-year on the SMDRs and on the total bill.

SMDR	One Year Disposition		Two Year Disposition	
Rate Class	\$/month	Bill Impact	\$/month	Bill Impact
Residential	\$ (0.89)	1.87%	\$ (0.45)	1.47%
General Service < 50 kW	\$ 5.23	3.49%	\$ 2.61	4.41%

¹ Board staff interrogatory number 22.

² VECC interrogatory number 11(b).

In its response, Oakville Hydro also pointed out that a one-year disposition would result in a total bill increase of 0.8% for Residential customers and a total bill decrease of 1.76% for General Service < 50 kW in the year following the expiry of the SMDRs.

Board staff and VECC made no submissions regarding the appropriateness of the calculation of the SMDRs based on a two-year period rather than a one-year period. Board staff and VECC submitted that the updated SMDR of \$(0.45) for Residential customers and \$2.61 for General Service < 50 kW customers, which are calculated based upon a two year period, should be approved³.

Oakville Hydro respectfully submits that the calculation of the SMDRs over a longer period minimizes rate instability and requests that the Board approve the calculation of the SMDRs with an ending date of April 30, 2014. Oakville Hydro will recalculate the SMDRs in the draft rate order based on the implementation date to be determined by the Board in its decision on this Application.

- **SMIRRs**

Oakville Hydro has requested an effective date of May 1, 2012 for its proposed SMIRRs. Board Staff and VECC made no submissions on this matter.

In its recent decision on Burlington Hydro's smart meter application, the Board permitted Burlington Hydro to recover the applicable revenue requirement related to the period from May 1, 2012 to its implementation date⁴. Oakville Hydro acknowledges that the Board's decision in Burlington Hydro's proceeding is not to be construed as predictive in its determination on Oakville Hydro's effective date. However, Oakville Hydro submits that it filed its Application at its earliest opportunity following the availability of audited costs in accordance with the Guideline. Oakville Hydro respectfully requests that the Board approve an effective date of May 1, 2012 for its SMIRRs and that Oakville Hydro be permitted to recover to the forgone revenue

³ Board staff submission, page 9. VECC submission, page 7.

⁴ EB-2012-0081, Decision and Order, page 10.

requirement related to the period from May 1, 2012 to the implementation date as determined by the Board in its decision on this Application.

Oakville Hydro proposes that the forgone revenue requirement for the period May 1, 2012 to the implementation date be recovered through a separate rate rider to be in effect from the implementation as determined by the Board in its decision on this Application through April 30, 2012. Oakville Hydro will recalculate the rate riders in the draft rate order.

Updated Evidence

- **Smart Meter Model**

In response to Board staff interrogatories Oakville Hydro corrected the smart meter model for the following:

- To remove the calculation of carrying charges on smart meter funding adder revenues from May 1, 2012 to December 31, 2012⁵; and
- To update the depreciation expense for capital costs incurred in 2010⁶.

As noted by Board staff in its submission, Oakville Hydro also updated its 2012 capital costs from \$200,000 to \$206,700 in response to Board staff interrogatories⁷. However, Oakville Hydro did not update its smart meter model and is only requesting recovery of its 2012 forecasted capital costs of \$200,000 in this Application as the incremental costs of \$6,700 are not considered material.

Oakville Hydro notes that, in its submission, Board staff provided a table summarizing the SMDRs and SMIRRs that Oakville Hydro had proposed in its Application and the revised SMDRs and SMIRRs that had been provided in response to Board staff interrogatories⁸. In the table, Board staff indicated that the SMDRs had been calculated based on a 12-month period. As discussed above, Oakville Hydro's revised SMDRs of \$(0.45) for Residential customers and

⁵ Board staff interrogatory number 18.

⁶ Board staff interrogatory number 19.

⁷ Board staff submission, page 3.

⁸ Board staff submission, page 4.

\$2.61 for General Service < 50 kW customers have been calculated based upon a two-year period as provided in response to Board staff interrogatory number 22, and Oakville Hydro respectfully submits that a two-year recovery period is a more appropriate approach for the reasons noted above in the discussion of the requested SMDR and SMIRR approvals. Oakville Hydro reiterates that Board staff and VECC submitted that the updated SMDRs, calculated based on a two-year period, should be approved.

Prudence of Smart Meter Costs

In their submissions, Board staff and VECC observed that Oakville Hydro's overall per meter costs are within the ranges of per meter costs that the Board has seen for most utilities at the early stages of smart meter deployment as documented in the Combined Smart Meter Proceeding Decision (the "Combined Proceeding"), EB-2007-0063⁹. Board staff also observed that Oakville Hydro's per meter costs are in line with the average costs identified in the Boards Monitoring Report, Smart Meter Investment – September 2010 while VECC observed that Oakville Hydro's average costs are less than these more recent averages¹⁰.

Board staff submitted that Oakville Hydro's documented costs are prudent¹¹. VECC took no issue with respect to the quantum or nature of Oakville Hydro's smart meter costs¹².

Oakville Hydro submits that it complied with O. Reg. 427/06 and the London Hydro RFP process for the procurement of smart meters and associated equipment and that its costs are in line with average costs. Oakville Hydro agrees with the submissions made by Board staff and VECC that Oakville Hydro's smart meter costs are prudent.

- **Costs Beyond Minimum Functionality**

In its Application, Oakville Hydro requested recovery of \$591,565 for capital and OM&A costs beyond minimum functionality as defined in O. Reg. 426/06¹³. As noted by VECC in its

⁹ Board staff submission, page 5. VECC submission, page 4.

¹⁰ Board staff submission, page 5. VECC submission, page 4.

¹¹ Board staff submission, page 6.

¹² VECC submission, page 4.

submission, the Board's Guideline states that a distributor may incur costs that are beyond minimum functionality¹⁴. It is the distributor's responsibility to demonstrate how these costs are required for its smart meter program and how these costs are incremental.

VECC submitted that Oakville Hydro had appropriately demonstrated consistency with the Board's Guidelines regarding the nature of costs beyond minimum functionality¹⁵. Board staff made no submission specific to these costs.

Oakville Hydro submits that it has adequately demonstrated that these costs are required for its smart meter program and are incremental and respectfully requests that the Board approve its total costs including those costs beyond minimum functionality.

- **Time of Use Pricing Pilot**

In its Application, Oakville Hydro requested recovery of \$24,041 in OM&A expenses related to a third party review of its Board approved Time of Use Pricing Pilot ("Pilot"), EB-2006-0306¹⁶. The Board had approved Oakville Hydro's Pilot on the condition that Oakville Hydro, in consultation with Board staff, complete an independent third party analysis of the results and share those results with the Board. Oakville Hydro filed the third party report with the Board on April 3, 2008.

In its submission, Board staff took no issue with either the nature or the quantum of these costs¹⁷. VECC made no submissions with regard to these costs.

Oakville Hydro undertook the study under the direction of the Board; it consulted with Board staff to ensure consistency with the analytical approach used by the Board; and it submitted the final report to the Board. Oakville Hydro respectfully requests that the Board approve the recovery of these costs in this Application.

¹³ Oakville Hydro's Smart Meter Application, pages 20 to 23.

¹⁴ Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, December 15, 2011, page 14 and VECC submission, page 5.

¹⁵ VECC submission, page 5.

¹⁶ Oakville Hydro's Smart Meter Application, page 6.

¹⁷ Board staff submission, page 7.

Recovery of Smart Meter Costs

In its submission, VECC submitted that Oakville Hydro's audited costs conform to the Board's Guideline which requires that the majority (90% or more) of the cost for which a distributor is seek recovery of will be audited¹⁸. Board staff made no submission on this matter.

In its Application, Oakville Hydro confirmed that its Board of Directors had approved the audited Financial Statements for the year ended December 31, 2011 and that the majority of its historical cost information (93%) had been audited¹⁹. In response to VECC interrogatories, Oakville Hydro filed its audited financial statements as evidence in this proceeding²⁰. Oakville Hydro agrees with VECC's submission that its audited costs conform to the Board's Guideline.

Cost Allocation Methodology

In response to VECC interrogatories, Oakville Hydro completed separate smart meter models for its Residential and General Service < 50 kW rate classes²¹. In its response, Oakville Hydro also noted that the two separate models reflected full cost causality and, as such, are a more reasonable approach than the allocation of the smart meter true-up based upon the proportionate share of the revenue requirement of each class.

In their submissions, Board staff and VECC agreed that the revised cost allocation method proposed by VECC and accepted by Oakville Hydro was appropriate²².

Oakville Hydro is seeking approval for its proposed SMDRs and SMIRRs on this basis of allocation.

¹⁸ VECC submission, page 6.

¹⁹ Oakville Hydro's Smart Meter Application, page 10.

²⁰ VECC interrogatory number 5(b).

²¹ VECC interrogatory number 10(c).

²² Board staff submission, page 9. VECC submission, page 7.

Treatment of 2012 Costs

In its Application, Oakville Hydro requested recovery of the revenue requirement related to its forecasted capital costs of \$200,000 and forecasted normalized Operations, Maintenance & Administration (“OM&A”) costs of \$585,147²³. In response to Board staff interrogatories, Oakville Hydro identified the 2012 OM&A and capital costs that would be ongoing and those that are one-time costs²⁴. Oakville Hydro also confirmed that the one-time costs had been amortized over a two-year period.

In its submission, Board staff accepted the reasoning and need for the forecasted 2012 costs and took no issue with Oakville Hydro’s request for recovery of these costs²⁵. VECC observed that Oakville Hydro’s average smart meter costs, including the forecasted 2012 costs, are within the range of average costs²⁶.

Board staff noted that Oakville Hydro had identified that it would incur additional capital costs in 2013 for system upgrades and submitted that Oakville Hydro should confirm that the \$200,000 of capital costs are for 2012 only²⁷. Oakville Hydro hereby confirms that the capital costs of \$200,000 are for 2012 system upgrades as detailed in response to Board staff interrogatory number 16 and discussed on page six of this submission. Oakville Hydro identified the 2013 costs in its response to Board staff interrogatories as evidence that capital spending was ongoing and that it would be inappropriate to amortize 2012 capital spending over two years.

Oakville Hydro submits that its treatment of 2012 costs, including the amortization of one-time OM&A costs over two years, is appropriate and respectfully requests that Board approve these costs.

²³ Oakville Hydro’s Smart Meter Application, EB-2012-0193, page 19 and 21.

²⁴ Board staff interrogatory number 16(a).

²⁵ Board staff submission, page 11.

²⁶ VECC submission, page 4.

²⁷ Board staff submission, page 11.

Other Matters

- **Stranded Meters**

In accordance with the Guideline, Oakville Hydro has not requested approval for the disposition of its stranded meters in this Application. Oakville Hydro will include this request in its next cost of service application.

In its submission, Board staff noted that Oakville Hydro had not continued to amortize the stranded conventional meters and submitted that the net book value of the stranded meters should continue to be amortized until Oakville Hydro's next cost of service application where the residual balance will be disposed of as per the Guideline and current practice²⁸.

Oakville Hydro will address the recovery of its stranded meters, including amortization, in its next cost of service application.

- **Operational Efficiencies**

In its submission, Board staff noted that Oakville Hydro had identified cost savings related to smart meter deployment in response to VECC interrogatories but that these savings had been offset by the need for manual processes and inefficient workarounds²⁹. VECC noted that Oakville Hydro had incorporated the anticipated savings as a result of the reduction in meter reading expenses in its 2010 Cost of Service application³⁰.

Board staff took no issue with Oakville Hydro's explanation at this time and recognized that it may take time for further savings to be recognized. Board staff submitted that Oakville Hydro

²⁸ Board staff submission, page 12.

²⁹ Board staff submission, page 13.

³⁰ VECC submission, page 3.

should be prepared to address both the stranded meters and operational efficiencies in its next cost of service application³¹.

Oakville Hydro will address any operational efficiencies arising from the implementation of smart meters in its next cost of service application.

Conclusion

For the foregoing reasons, Oakville Hydro respectfully requests the following:

- a) The Board's determination that all Smart Meter capital of \$10,131,152 and operating expenditures of \$1,106,201 to December 31, 2011 are prudent;
- b) The approval of the proposed class specific Smart Meter Disposition Rate Riders ("SMDRs") for its Residential customers and General Service < 50 kW customers updated to reflect the calculation based on number of months between the implementation date as determined by the Board in its decision in this proceeding and April 30, 2014;
- c) The approval of Smart Meter Incremental Revenue Requirement Rate Riders ("SMIRRs") of \$2.49 for its Residential and \$7.33 for its General Service < 50 kW customers with an effective date of May 1, 2012 and an implementation date as determined by the Board in its decision in this proceeding; and
- d) The approval to recover the forgone revenue requirement that relates to the period from May 1, 2012 to the implementation date in the Board's decision in this proceeding through a separate rate rider effective with the implementation date in the Board's decision in this proceeding and ending on April 30, 2013.

³¹ Board staff submission, page 13.

All of which is respectfully submitted this 13th day of July, 2012.

OAKVILLE HYDRO ELECTRICITY DISTRIBUTION INC.

Original Signed By

Mary Caputi

Director Regulatory Affairs and Business Planning