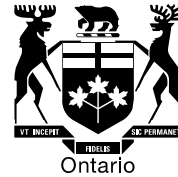


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BY E-MAIL

August 1, 2012

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

Dear Ms. Walli:

**Re: Orillia Power Distribution Corporation
Smart Meter Cost Recovery
Board Staff Submission
Board File No. EB-2012-0261**

In accordance with the Notice of Application and Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Orillia Power Distribution Corporation and to all other registered parties to this proceeding.

In addition please advise Orillia Power Distribution Corporation that its Reply Submission is due by August 17, 2012.

Yours truly,

Original Signed By

Suresh Advani

Encl.

2012 ELECTRICITY DISTRIBUTION RATES
Orillia Power Distribution Corporation
Application for Disposition and Recovery of
Costs Related to Smart Meter Deployment

EB-2012-0261

BOARD STAFF SUBMISSION

August 1, 2012

INTRODUCTION

Orillia Power Distribution Corporation (“Orillia”) is a licensed electricity distributor serving approximately 12,800 customers within the City of Orillia. Orillia filed a stand-alone application (the “Application”) with the Board, received on May 23, 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. Orillia requested approval of proposed Smart Meter Disposition Riders (“SMDRs”) and Smart Meter Incremental Revenue Requirement Rate Riders (“SMIRRs”) effective October 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 June 5, 2012. The Vulnerable Energy Consumers’ Coalition (“VECC”) requested and was granted intervenor status and cost award eligibility. No letters of comment were received¹. 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 Orillia on June 27, 2012 and July 3, 2012 respectively. Orillia filed its responses to all interrogatories on July 16, 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.

THE APPLICATION

Approvals Sought

In the Application as filed on May 23, 2012, Orillia applied for the following approvals:

¹ Orillia response to Board staff IR #1

- Smart Meter Disposition Riders – A cost recovery rate rider of \$0.75 per Residential customer per month and \$5.36 per General Service less than 50kW (“GS < 50 kW”) customer per month for the period October 1, 2012 to September 30, 2014. These rate riders 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 Riders – A forecasted cost recovery rate rider of \$2.59 per Residential customer per month and \$7.56 per GS < 50 kW customer per month for the period October 1, 2012 to April 30, 2014. These rate riders will collect the 2012 incremental revenue requirement related to smart meter costs to be incurred from January 1, 2012 to December 31, 2012; and
- Smart Meter Funding Adder – Termination of Orillia’s current SMFA of \$1.00 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 Orillia’s current SMFA has been previously determined by the Board. In Orillia’s 2011 EDR IRM3 rates application (EB-2010-0106), the Board approved the current SMFA of \$1.00 with a sunset date of April 30, 2012.² Further, the cessation of the SMFA has been factored into Orillia’s 2012 IRM3 rates application (EB-2011-0191). A Rate Order in that proceeding was issued on May 1, 2012.

Updated Evidence

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

² Decision and Order EB-2010-0106, issued April 7, 2011, p. 5.

- Updated the Interest on Deferred OM&A and Amortization from \$4,070 to \$8,591, and the resulting Total Revenue Requirement from \$993,629 to \$998,150 (Board staff interrogatory #6a);
- Updated the Smart Meter Funding Adder collected to April 30, 2012 from \$594,519 to \$595,171 (Board staff interrogatory #6a);
- Updated the Carrying Cost on Smart Meter Funding Adder from \$22,009 to \$22,011 (Board staff interrogatory #6a);
- Based on the above, updated the Smart Meter True-up Balance for Disposition Rider from \$377,101 to \$380,968 (Board staff IR#6a); and
- Re-calculated the interest on the principal of OM&A and depreciation expense after including depreciation expenses which were missing in sheet 8A of the Smart Meter model. This resulted in a calculation of \$15,613 versus \$7,686 in the original application, a difference of \$7,927. (Board staff interrogatory # 5).

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

Through its interrogatories, VECC asked Orillia to complete a separate class-specific smart meter revenue requirement model and re-calculate the SMDR and SMIRR rate riders based on full cost causality by rate class (VECC IR #s 7a and 7b). Orillia stated that it did not track costs on a rate class basis and hence was not in a position to complete a separate smart meter model by rate class or calculate SMDR and SMIRR rate riders on full cost causality by rate class.

Orillia affirmed in its response to Board staff interrogatory #6b that it has calculated class-specific smart meter revenue requirement using the methodology described by Board staff as set out below.

- 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

- SMFA revenues and interest on the principal first calculated directly for the Residential and GS < 50 kW classes. The residual SMFA revenues and interest collected from other metered customer classes (i.e., GS 50-4999 kW and Large Use) are then allocated equally to the Residential and GS < 50 kW classes.

These calculations were based on the updated information noted above in response to Board staff interrogatories. Board staff has no concerns with Orillia's methodology for the allocation of costs as proposed in response to Board staff IR # 6b.

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 interrogatory #6a		Board staff interrogatory #7
Residential	\$0.75	\$0.76	\$2.59	No change
GS <50 kW	\$5.36	\$5.40	\$7.56	No change

Tax/PILs Rates

Board staff notes that for the years 2010, 2011 and 2012, Orillia has used maximum tax rates (Aggregate Corporate Income Tax Rate) of 31%, 28.25% and 26.25% respectively. Board staff also notes that the Settlement Proposal accepted by the Board in Orillia's 2010 cost-of-service rate application (EB-2009-0273)³ reflects an effective tax rate of 28.8% for 2010. Board staff further notes that the Decision and Order related to Orillia's 2011 IRM rate application (EB-

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http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/175062/view/Orillia_Settlement_Proposal_20100208.PDF

Page 25 and Appendix D

2010-0106)⁴ and 2012 IRM rate application (EB-2011-0191)⁵ reflect effective tax rates of 24.24% and 22.26% respectively. In response to Board staff interrogatory #2, Orillia responded that “[it] used maximum tax rates for the years 2010, 2011 and 2012 as this was its understanding in completing the smart meter model.”

Board staff submits that the maximum tax rates do not apply to Orillia. Board staff further submits that the tax rates noted above, i.e. 28.8% (2010), 24.24% (2011) and 22.26% (2012) would be more appropriate as they were approved by the Board to determine distribution rates previously as set out above in rates applications for the respective years 2010, 2011 and 2012. As such, Board staff submits that Orillia should update the smart meter model and re-calculate the class-specific SMDRs and SMIRRs to reflect the Board-approved tax/PILs rates applicable to Orillia in each year.

Prudence of Smart Meter Costs and Minimum Functionality

In response to VECC interrogatory #1, Orillia confirmed that the total cost per meter works out to an average of \$219.07 (capital and OM&A) or \$183.06 (capital only). For comparison purposes, Board staff observes that Appendix A of the Decision with Reasons of the Combined Smart Meter Proceeding (EB-2007-0063, August 8, 2007) compares data for 9 out of 13 utilities and shows the total cost per meter ranged from \$123.59 to \$189.96, with Hydro One Networks Inc. being the main exception at \$479.47, due in part for the need for more communications infrastructure and increased costs to install smart meters for customers over a larger and less dense service area.

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http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/search/rec&sm_udf10=EB-2010-0106&sortd1=rs_dateregistered&rows=200

Final Orillia IRM Models_20110407, Final Orillia Tax, Tab F1.1

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http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/338775/view/Orillia_Shared%20Tax%20WF_Decision_20120419.XLS

Tab 5

For more updated data, 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 \$226.92.⁶

In more recent applications by distributors seeking approval for and recovery of costs for installed smart meters, some variations in average costs are observed. The Board approved an average cost per smart meter of \$237.75 (capital only) and \$265.90 (capital and operating expenses) in its Decision and Order EB-2011-0413, issued April 19, 2012. Operating characteristics, such as a non-contiguous service territory, topographical factors and vegetation can result in higher costs. Size is another consideration. While Board staff observes that Orillia's costs are towards the higher end of average cost per meter, Board staff is of the view that Orillia has provided adequate documentation on prudence of the costs for which Orillia is seeking approval.

Board staff also observes that the proposed SMIRR is \$2.59/month (from Board staff interrogatory # 7) 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 2005.⁷

⁶ Monitoring Report Smart Meter Investment – September 2010, March 3, 2011

⁷ *Smart Meter Implementation Plan - Report of the Board To the Minister*, January 26, 2005, pg. vi,

Orillia's application included a request to recover \$19,653 in capital costs and \$104,209 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, TOU implementation, customer education and web presentment. In the Application, Orillia noted that it participated in group RFPs 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 Orillia's documented costs above minimum functionality.

Finally, Board staff observes that Orillia, as part of the CHEC group of utilities, became 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.

Foregone Revenues

Board staff observes that, if the SMDR and SMIRR are both effective October 1, 2012, the SMIRR will only be in effect for 19 months (from October 1, 2012 to April 30, 2014). The SMIRR is a rate adjustment to recover the ongoing (prospective) capital-related and operating expenses for installed smart meters. In effect, Orillia would not be recovering these costs for the period from May 1 to September 30, 2012.

In response to Board staff interrogatory #8, Orillia responded that it believes it is appropriate to "bump up" the deferred revenue requirement to be recovered through the SMDR to recover the foregone SMIRR revenues for the period May 1 to September 30, 2012. In response to part b of that interrogatory, Orillia

http://www.ontarioenergyboard.ca/documents/communications/pressreleases/2005/press_release_sm_implementationplan_260105.pdf

provided corresponding class-specific SMDRs including foregone SMIRR revenues for the period May 1 to September 20, 2012 of \$1.30/month (Residential) and \$6.97/month (GS < 50 kW).

Board staff notes that the Board has approved the recovery of foregone SMIRR revenues back to May 1, 2012 in decisions⁸ on other recent applications for smart meter cost recovery, and using the methodology suggested by Orillia. As such Board staff takes no issue with Orillia's proposal for the recovery of foregone SMIRR revenues from May 1 to September 30, 2012.

Stranded Meters

Orillia is proposing not to dispose of stranded meters at this time, but to deal with disposition in its next rebasing application, scheduled for 2014 rates. In response to Board staff IR # 3, Orillia stated that it continues to amortize the book value of stranded conventional meters replaced by smart meters, and that the estimated net book value of stranded meters as of December 31, 2013 (i.e., prior to 2014 when Orillia is next expected to rebase its rates through a cost of service application), is \$342,301. Board staff submits that Orillia's proposal is compliant with Guideline G-2011-0001.

Operational Efficiencies

In response to VECC IR # 6, Orillia has discussed operational efficiencies and cost savings resulting from smart meter deployment. Orillia stated that manual (walk-up) meter readings for Residential and GS < 50 kW have been eliminated, resulting in annual cost saving of approximately \$100,000 for 2012 and future years. Orillia also stated that, at this stage, no other operational efficiencies or cost savings are anticipated. Further, Orillia stated that it had hired an additional staff member within the billing group in 2012 as a result of increased responsibilities related to smart meters and operating within an AMI environment.

⁸ e.g. Decision and Order EB-2012-0039, regarding Orangeville Hydro, issued May 24, 2012, Decision and Order EB-2012-0086, regarding Cambridge and North Dumfries Hydro, issued July 26, 2012, Decision and Order EB-2012-0187, regarding London Hydro, issued July 26, 2012.

Board staff takes no issue with Orillia's explanations, and recognizes that it may take time for further savings to be recognized. As Orillia, 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 Orillia should be prepared to address any operational efficiencies further in its next cost of service rebasing application.

Subject to the above comments, Board staff submits that Orillia'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 -