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September 28, 2012

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

**Re: Final Disposition of Smart Meter Deferral/Variance Accounts 1555 & 1556
Rate Zones: (i) Chatham-Kent, (ii) Strathroy, Mount Brydges & Parkhill, (iii) Dutton and (iv) Newbury
Board File No.: EB-2012-0289**

Dear Ms. Walli,

Please find enclosed the reply submission of Entegrus Powerlines Inc. in the above mentioned file.

If you have any further questions, please do not hesitate to contact me at (519) 352-6300, extension 243 or via email at regulatory@entegrus.com.

Regards,

[Original Signed By]

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Application for Final Disposition of
Smart Meter Funding and Cost Recovery

Reply Submission
Board File No.: EB-2012-0289
Date Filed: September 28, 2012

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Background

On July 5, 2012, Entegrus Powerlines Inc. (“Entegrus”) filed a stand-alone application (the “Application”) to the Ontario Energy Board (the “Board”) for the approval of Smart Meter Disposition Riders (“SMDRs”) and Smart Meter Incremental Revenue Requirement Riders (“SMIRRs”) related to the remainder of its Smart Meter deployment and implementation not addressed in the previous Smart Meter applications discussed below.

Entegrus serves sixteen non-contiguous communities of the former Chatham-Kent Hydro Inc. (“CKH”) and Middlesex Power Distribution Corporation (“MPDC”), maintaining four sets of rates. The four rate zones are described below, together with the period in respect of which recovery is being sought in this Application:

- Chatham-Kent rate zone (“CK”) for the period January 1, 2009 to December 31, 2011;
- Strathroy, Mount Brydges & Parkhill rate zone (“SMP”) for the period January 1, 2008 to December 31, 2011;
- Dutton rate zone for the period January 1, 2009 to December 31, 2011, and;
- Newbury rate zone for the period January 1, 2009 to December 31, 2011.

Entegrus completed Smart Meter deployment and TOU billing implementation on deadline for June 2011. This achievement was consistent with the commitments of CKH and MPDC to the Board and Ministry of Energy at the outset of the process.

Utilizing Board-issued models (the “Models”), Entegrus calculated and seeks to dispose of Smart Meter Capital and OM&A costs as follows:

- SMDR charges by rate zone and by customer class, commencing November 1, 2012. These charges will allow Entegrus to recover the variance between:
 - the deferred revenue requirement for unclaimed Smart Meters installed up to December 31, 2011,
 - the Smart Meter Funding Adder (“SMFA”) collected to April 30, 2012 (based on actual amounts collected to April 30, 2012), and
 - associated interest; and
- SMIRR charges by rate zone and customer class, commencing November 1, 2012. These charges represent a proxy for the incremental change in the distribution rates that the actual expenditures would have generated had they been incorporated into the rate base and revenue requirement calculation. It is requested that the SMIRR continue until the effective date of Entegrus’ next final rate order based on a Cost of Service application, currently scheduled for May 1, 2016.

CKH and MPDC have received previous Board approvals for Smart Meter recoveries as follows:

- CKH and MPDC (previous to the acquisition of Dutton and Newbury) both participated with 11 other LDCs in the EB-2007-0063 Combined Proceeding. This was the first group of LDCs to be

approved to deploy Smart Meter solutions. In that proceeding, CKH and MPDC were approved for recovery of costs related to all Smart Meters installed up to April 30, 2007.

- CKH and MPDC were jointly approved for recovery of costs for Smart Meters installed between May 1, 2007 and December 31, 2007, in EB-2008-0155.
- Through its 2010 cost of service application (EB-2009-0261), CKH recovered costs related to Smart Meters installed in 2008, along with recovery of all operating costs not previously recovered.

On July 23, 2012, the Board issued its Letter of Direction and Notice of Application and Hearing (the “Notice”) in this proceeding. The Notice was posted in the Chatham Daily News on July 27, 2012 and in the Strathroy Age Dispatch on August 2, 2012. The Vulnerable Energy Consumers’ Coalition (“VECC”) requested and received intervenor status. No letters of comment were received.

On August 24, 2012, Board Staff and VECC submitted interrogatories and on September 7, 2012 Entegrus filed responses to those interrogatories. Entegrus also filed updated Models as part of the interrogatory response submission.

On September 14, 2012, Board Staff filed its submission. The VECC submission was filed September 18, 2012. The following matters were discussed in these submissions:

1. Cost of Capital Parameters;
2. Cost Allocation;
3. OM&A Cost Savings and Operational Efficiencies;
4. Prudence of Smart Meter Costs;
5. Costs Beyond Minimum Functionality;
6. Interest Calculation;
7. Stranded Meters;
8. Rate Rider Calculation and Disposition Period; and,
9. Application of Guideline G-2011-0001.

1. Cost of Capital Parameters

In response to Board Staff interrogatory 5, Entegrus noted that it had inadvertently utilized partial CKH parameters from the CKH 2010 Cost of Service in the SMP GS>50kW Model. Entegrus confirmed in its response to this interrogatory that the Model had been updated and included in the interrogatory response submission.

Board Staff submitted that the cost of capital parameters on Tab 3 of the SMP GS>50kW Model remain incorrect. Specifically, the LTD and STD rates for 2009 through 2012 should be 7.25% and 9.00% respectively.

Entegrus has considered the Board Staff submission in this regard, and confirms that while certain parameters were updated, Entegrus inadvertently failed to update certain other parameters in the SMP GS>50kW Model.

Entegrus respectfully requests that the Board direct Entegrus to revise its Smart Meter Models to update for these cost of capital parameters.

2. Cost Allocation

As part of the Application, Entegrus submitted 11 separate Smart Meter Models to represent each applicable rate zone and rate class. Entegrus noted that the capital costs were tracked for each rate zone and applicable rate class separately. Capital costs not previously applied for or approved were input into the applicable Models on Tab 2. OM&A and TOU costs incurred to December 31, 2011 were pooled among the four rate zones and allocated based on meter points and then included in Tab 2 of the appropriate Model.¹

In its response to Board Staff interrogatory 2, Entegrus confirmed that very limited shared capital costs were incurred given the non-contiguous nature of the Entegrus service territory. Entegrus also confirmed previously approved OM&A costs for the various rate zones.²

Board Staff agreed that the above approach provides a reasonable allocation of costs to the customer classes.³

VECC submitted the difference in costs per customer class warrants class-specific Smart Meter models, which reflect the costs borne by each customer class consistent with the principle of costs causality. VECC took no issue with Entegrus' proposed calculation and allocation of costs to each customer class.⁴

Entegrus concurs with Board Staff and VECC and respectfully requests the Board approve the proposed cost allocations.

3. OM&A Cost Savings and Operational Efficiencies

In VECC interrogatory 5, it was requested that Entegrus confirm the operational efficiencies and cost savings experienced or anticipated from Smart Meter implementation, and how these savings have been reflected in the current Application.

In response, Entegrus confirmed there was \$40,550 in operation efficiencies and cost savings, of which \$23,000 had previously been reflected in the CKH 2010 cost of service application.⁵ The remaining

¹ Application, July 5, 2012, Page 26-27

² IR Responses, September 7, 2012, Page 5

³ Board Staff Submission, September 14, 2012, Page 9

⁴ VECC Submission, September 18, 2012, Page 8

⁵ IR Responses, September 7, 2012, Page 26

\$17,550 was reflected in the revised Models submitted as part of the interrogatory phase of this proceeding.

Board Staff noted in its submission that the revised Smart Meter models filed by Entegrus reflect revisions and shows a decrease in OM&A costs. Board Staff noted that it cannot trace the reductions to a specific interrogatory and submitted that Entegrus should provide a more detailed explanation of the changes in OM&A. Board Staff further noted that Entegrus is not expected to file its next Cost of Service application until 2016, and by that time, it is possible that more operational efficiencies might be found. Lastly, Board Staff requested that Entegrus explain the negative cost of \$3,660 for the GS>50 kW rate class in the CK rate zone.

VECC noted its agreement with the Board Staff submission on this matter.

Entegrus confirms that it made revisions to the Models in relation to the cost savings and operational efficiencies described in its response to VECC interrogatory 5. Specifically, in response to VECC interrogatory 5(b), Entegrus stated:

The CK Residential Smart Meter operational efficiencies and cost savings of \$23,000 annually noted in the above table were reflected in CKH's 2010 Cost of Service application and have therefore not been reflected in the current Application.

The other Smart Meter operational efficiencies and cost savings noted in the above table were inadvertently not reflected in the current Application. Accordingly, the Smart Meter Models have been updated for the above cost savings; specifically the savings have been included in tab "2. Smart Meter Costs" line 2.5.6. The updated Smart Meter Models have been included as described in Board Staff Question 8.

The implication of VECC interrogatory 5(b) was that cost savings not currently reflected in rates were to be incorporated into the Models. However, Entegrus has considered this matter further in light of the above-noted submissions by Board Staff and VECC. Entegrus has reviewed the Board's Decision on this point in the Cambridge and North Dumfries Hydro Inc. ("Cambridge") Smart Meter application (EB-2012-0086). The Board's decision on this point in the Cambridge proceeding was as follows:

Efficiencies and Cost Savings

In its submission, VECC stated:

CND identified \$155,000 per year in savings for no longer requiring residential and GS<50 kW customer meters to be read. In response to VECC interrogatory #3 regarding how these savings are accounted for in this application, [CND] indicates it has not accounted for the savings in this application. As a matter of principle, VECC submits these savings should be incorporated during the IRM period. Otherwise consumers pay the added costs associated with smart meters via the rate adder and rate rider (after full implementation) but don't benefit from any of the cost savings.

Board staff submitted that CND should be prepared to address any operational efficiencies due to smart meter and TOU implementation in its next cost of service rebasing application.

In its reply submission, CND concurred with Board staff that operational savings be addressed in the utility's next cost of service rates application. CND noted that its focus has been on the smart meter deployment and TOU implementation, and that it has not had an opportunity to identify if there are any unanticipated additional costs to lower savings, or any additional savings, that may occur, and submitted that the \$155,000 in savings not be explicitly incorporated into the rates resulting from the Board's Decision on this Application.

With regard to VECC's concern, the Board is of the view that savings from any productivity gains due to smart meter implementation are one source of the gains that CND is incented to realize under the IRM rate adjustment mechanism. The Board concurs with both Board staff and CND that realized savings should be addressed in CND's next cost of service application, when there should be better information on actual costs and savings and these will be factored into rebased rates.

As a result, the Board will not make any adjustments to the rates during the IRM period.⁶

Entegrus respectfully submits that a consistent approach should be taken here in respect of the \$17,550 in operational efficiencies and cost savings not accounted for in Entegrus' previous Cost of Service application. This will allow for the possibility that additional and unanticipated smart meter-related costs or savings may arise prior to Entegrus' next Cost of Service application and Entegrus submits that it is appropriate and reasonable to consider and address both the realized savings and additional actual costs at the time of that application.

Entegrus respectfully requests that the Board direct Entegrus to revise its Smart Meter Models to remove the impact of the cost savings.

Entegrus notes that such revision will result in its total cost per unit increasing by \$1. Further, this will result in the negative cost of \$3,660 in the GS>50 kW rate class in the CK rate zone, as noted by Board Staff, being revised to a cost of \$3,340.

In response to the Board Staff request for clarification on the negative cost of \$3,660 in the GS>50 kW rate class, Entegrus notes this to have been the result of anticipated cost savings being slightly in excess of deployment costs.

4. Prudence of Smart Mater Costs

In the Application, Entegrus originally submitted a summary chart of capital and OM&A costs with Residential and GS<50 kW rate classes combined, reflecting Minimum Functionality, and a line item for

⁶ EB-2012-0086, Decision of the Board dated July 26, 2012, pages 6-7

GS>50 kW rate class. These charts were further updated in the interrogatory responses to separate all rate classes.

In response to interrogatories, Entegrus provided the following explanations and contributing factors for the levels and variances noted:

- Travel time between multiple communities;
- Hard-to-reach customers;
- The higher more variable costs of poly-phase meters;
- The mix of poly-phase meters within the various rate zones;
- The non-contiguous nature of the services territory, and;
- Troubleshooting costs on the entire system.

Board Staff submits that these explanations are reasonable for both capital and OM&A costs. Board Staff also submitted that it does not consider Entegrus' costs for Smart Meters inappropriate.

In Table 4 of its submission, VECC compares Entegrus' cost per meter against the costs of other selected distributors in the "Mid-Size Southern Medium-High Undergrounding" group⁷. VECC professes an "understanding that LDCs in Entegrus' peer group have similar circumstances, i.e. the non-contiguous nature of the service territory".

Entegrus respectfully disagrees with VECC. Its circumstances with respect to Smart Meter and TOU deployment are very unique in comparison to these other selected distributors. First, as noted in the expanded table below, the Entegrus service territory is in fact much more non-contiguous in comparison to the other distributors. Additionally, the expanded table, which has been prepared using publicly available information (the sources of the information are set out in the notes accompanying the table), illustrates that Entegrus' early involvement in Smart Meter implementation; the advanced state of its GS<50 kW implementation (with associated higher costs as discussed in the Application and Interrogatory responses) in comparison to the other LDCs selected by VECC; and the timeliness of its implementation in comparison to those other LDCs.

As acknowledged by VECC⁸ and as shown below, Entegrus played a pioneering role in the rollout of Smart Meters in Ontario. In fact, multiple distributors listed in the table attended the CKH February 2005 Open House in Chatham⁹, during which CKH shared Smart Meter implementation information with other utilities. The Entegrus team continues to take great pride in the organization's pioneering role in the successful launch of Smart Meters and TOU deployment in Ontario.

⁷ Based on PEG Report groupings

⁸ VECC Submission, September 18, 2012, Page 3

⁹ Application, July 5, 2012, Page 9

Distributor	Total Cost per Meter	Number of Non-Contiguous Communities in Service Territory	Named in O.Reg 427/06	Residential Meters Installed by Provincial Target Date of Dec 31, 2007	Met Board's TOU Deadline without Extension
Note 1	Note 1	Note 2	Note 3	Note 4	Note 5
COLLUS	\$191.86	3	No	0.0%	No
Peterborough	\$161.42	2	No	4.9%	No
Welland	\$146.83	-	No	0.0%	No
Bluewater Power	\$261.01	4	No	0.0%	No
Festival	\$215.94	6	No	0.0%	No
Entegrus	\$233.00	14	Yes	65.5%	Yes

Note 1: Comparative distributors and total cost per meter as defined in the VECC submission of Sep 19, 2012.

Note 2: Information per the following Ontario Energy Board Distribution Licences: ED-2002-0518 (COLLUS), ED-2002-0504 (Peterborough), ED-2003-0002 (Welland), ED-2002-0517 (Bluewater Power) and ED-2002-0513 (Festival). Entegrus information per page 6 of the Application which corresponds to licence ED-2002-0563. Non-contiguous communities are defined above as communities served outside of the city or cities where the distributor's operational service centre(s) are located.

Note 3: Entegrus' predecessor companies Chatham-Kent Hydro and Middlesex Power Distribution Corporation where amongst the 13 distributors named by Ontario Regulation 427/06. The complete list of distributors named in the regulation are provided on page 18 of the Application.

Note 4: Information per the following applications for Final Disposition of SM Funding and Cost Recovery: EB-2012-0017 (COLLUS), EB-2011-0415 (Welland), EB-2012-0263 (Bluewater Power) and EB-2012-0260 (Festival). Entegrus information per Attachment A of the Application. Note that Entegrus remaining Residential and GS<50 kW installations remaining at December 31, 2007 are inclusive of meter requirements for the communities of Dutton and Newbury, which had not yet been acquired at that time.

Note 5: For TOU extension applications and approvals see EB-2011-0080 (COLLUS), EB-2011-0116 (Welland), EB-2011-0224 (Bluewater Power), and EB-2011-0138 (Festival). As described in the June 2012 Board Smart Meter Deployment and TOU Pricing Monitoring Report, the Peterborough extension related to the MDM/R upgrade to R7.2 and did not require an application to the Board.

Entegrus submits that its costs are prudent, reasonable and consistent with the uniquely non-contiguous nature of its service territory, as well as the pioneering role played by Entegrus in the development of Smart Meter technology. As confirmed by Entegrus in the Application, 100% of the costs submitted for disposition (with the exception of ongoing costs) are complete and have been audited.

In addition, it is noteworthy that the unit costs in the table above do not take into account stranded meter costs, which are to be disposed in Entegrus' next Cost of Service application. However, as noted on pages 8 and 17 of the Application, Smart Meter implementation with minimized stranded meter costs was a key focus for Entegrus. Comparatively, Entegrus notes the following stranded meter costs from recent Board proceedings: COLLUS: \$559,264 (16,000 total Smart Meters installed)¹⁰; Peterborough: \$2,000,000 (34,967 total Smart Meters installed)¹¹; Welland: \$559,473 (21,892 total Smart Meters installed)¹²; Bluewater Power: \$1,897,063 (35,379 total Smart Meters installed)¹³; and Festival: \$242,810 (19,650 total Smart Meters installed)¹⁴. While the dates at which these costs are measured vary among the proceedings cited herein (and, accordingly, the

¹⁰ Stranded meter costs at December 31, 2011, see EB-2012-0117, interrogatory response to Board Staff #14

¹¹ Stranded meter costs at December 31, 2012, see EB-2012-0008, Interrogatory response to Board Staff #13

¹² Stranded meter costs at December 31, 2011,, see EB-2011-0415, application page 8

¹³ Stranded meter costs at December 31, 2012, see EB-2012-0263, Interrogatory response to Board Staff #22

¹⁴ Stranded meter costs at December 31, 2013, see EB-2012-0260, Interrogatory response to Board Staff #16

accumulated depreciation), Entegrus notes that it has the highest number of Smart Meters installed and yet the second lowest stranded meter costs. Entegrus believes that these comparative stranded meter figures demonstrate another context by which its costs are prudent and reasonable.

5. Costs Beyond Minimum Functionality

Board guidance related to costs Beyond Minimum Functionality are outlined on page 14 of the Board's Smart Meter Funding and Cost Recovery Guideline (G-2011-0001) (the "Board Guideline") These costs are grouped into three types outlined below:

- A. Costs for technical capabilities in the smart meters or related communications infrastructure that exceed those specified in O.Reg 425/06;
- B. Costs for deployment of smart meters to customers other than residential and small general service (i.e. Residential and GS<50 kW customers); and
- A. Costs for TOU rate implementation, CIS system upgrades, web presentation, integration with the MDM/R, etc.

In the Application, Entegrus applied for costs relating to activities conducted in Type B and Type C.

Board Staff submitted that it takes no issue with the proposal for recovery of the quanta of capital and OM&A expenses incurred "beyond minimum functionality" that Entegrus proposes.

VECC made no submission in this matter.

Entegrus concurs with Board Staff and respectfully requests Board approval for disposition of all costs relating to the Type B and Type C expenditures as outlined in the Application.

6. Interest Calculation

In the Application, Entegrus proposed calculating the applicable interest utilizing the average annual balance provided in the Models in Tab 8B.¹⁵

In Board Staff interrogatory 7, Board Staff requested further explanation as to why Entegrus elected to use the Tab 8B approach. In response, Entegrus stated that it chose the less complex Tab 8B annual method due to the composition and evolution of its service territory, and the various rate territories which result in 11 Models.

Board Staff accepted this response and submitted that the proposed Tab 8B interest calculation is appropriate.

VECC made no submission in this matter.

¹⁵ Application, July 5, 2012, Page 28

Entegrus concurs with Board Staff and respectfully requests the Board approve the Tab 8B calculation as proposed in the Application.

7. Stranded Meters

In the Application, Entegrus noted that as per the Board's Guideline, it would not be seeking further Stranded Meter cost recovery at this time or in the Application. Rather, consistent with the Board Guideline, Stranded Meter costs will be included in rate base for rate-making purposes until Entegrus' next Cost of Service application.

In response to Board Staff interrogatory 9, Entegrus confirmed that it continues to record depreciation expense on the replaced conventional meters and advised that the estimated net book value of the stranded meters will be \$324,490 as of December 31, 2015.¹⁶

Board Staff submitted that this is an appropriate treatment for stranded meters.

VECC made no submission in this matter.

Entegrus concurs with Board Staff regarding the above-noted treatment for stranded meters.

8. Rate Rider Calculation and Disposition Period

In the Application, Entegrus utilized 2011 RRR customer numbers to calculate appropriate SMIRRs and SMDRs. Entegrus also proposed two types of SMDR and SMIRR disposition periods for the various rates zones and rate classes as follows:

- Group A: 1 year disposition period for: CKH Residential, CKH GS>50 kW, SMP Residential, SMP >50 kW, Newbury GS>50 kW
- Group B: 3.5 year disposition period for: CKH GS<50 kW, SMP GS<50 kW, Dutton Residential, Dutton GS<50 kW, Newbury Residential, Newbury GS<50 kW

Due to Model revisions resulting from the interrogatory phase, the proposed SMDRs and SMIRRs were updated accordingly as described in Board Staff interrogatory 8.

Board Staff submitted that the proposed periods for the rate riders are reasonable.

VECC submitted that it takes no issue with Entegrus' proposed calculation and allocation of costs to each customer class.

¹⁶ Interrogatory Responses, September 7, 2012, Page 17

Entegrus concurs with Board Staff and subject to the comments above (with respect to capital parameters and cost savings and operational recoveries), respectfully requests the Board approve the proposed rate rider calculations and disposition periods.

9. Application of Guideline G-2011-0001

Board Staff concluded its submission by stating that, subject to the comments set out in its submission, Entegrus' Application is consistent with the Board Guideline, 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.

VECC submitted that Entegrus has conformed to the Board's Guidelines.

Entegrus submits that it has prudently incurred all costs, consistent with Board policy and practice, and respectfully requests that the Board approve the recoveries proposed in its Application, as modified through the interrogatory process, and with respect to operational efficiencies, as discussed above. For the Board's assistance, Entegrus' requested SMDRs and SMIRRs are set out in the table on the following page.

All of which is respectfully submitted.