



1 Greendale Drive, Caledonia, ON, N3W 2J3 Tel: (905) 765-5344 Fax: (905) 765-5316

October 17, 2012

Delivered By Courier and RESS

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

Attention: Kirsten Walli
Board Secretary

**Re: Haldimand County Hydro Inc.
Smart Meter Cost Recovery Application (EB-2012-0272)
Reply Submission**

Dear Ms. Walli:

Haldimand County Hydro Inc. filed an application with the Ontario Energy Board (the "Board") on July 18, 2012 seeking approval for rates with respect to the disposition and recovery of Smart Meter costs to be effective November 1, 2012.

Pursuant to the Notice of Application issued July 31, 2012, Board staff and Vulnerable Energy Consumers Coalition ("VECC") filed written submissions on October 1, 2012 and October 5, 2012 respectively. Haldimand County Hydro is required to file its written response by October 18, 2012.

Two hard copies of Haldimand County Hydro's Reply to the Board staff and VECC Submissions are now enclosed. An electronic copy in PDF format will be submitted through the Board's *Regulatory Electronic Submission System* ("RESS"). In addition, an electronic copy in PDF format will be forwarded via email to VECC, the only intervenor of record.

Yours truly,
HALDIMAND COUNTY HYDRO INC.

Original signed by

Jacqueline A. Scott
Finance Manager

IN THE MATTER OF the Ontario Energy Board Act, 1998,
being Schedule B to the Energy Competition Act, 1998,
S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Haldimand
County Hydro Inc. to the Ontario Energy Board for an
Order or Orders approving or fixing just and reasonable
rates with respect to the recovery of smart meter costs,
effective November 1, 2012.

HALDIMAND COUNTY HYDRO INC.

REPLY SUBMISSION

FILED OCTOBER 17, 2012

Introduction

Haldimand County Hydro Inc. ("HCHI") owns and operates the electricity distribution system in its licensed service area in Haldimand County, serving approximately 21,147 customers. HCHI filed an application (the "Application") with the Ontario Energy Board (the "Board") on July 18, 2012, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval of just and reasonable rates for the disposition and recovery of costs related to smart metering activities in its service territory. HCHI requested approval of proposed class specific Smart Meter Disposition Riders ("SMDRs"), Foregone Revenue Rate Riders ("FRRRs"), and Smart Meter Incremental Revenue Requirement Rate Riders ("SMIRRs"), all to be collected over an 18-month period from November 1, 2012 to April 30, 2014.

Vulnerable Energy Consumers Coalition ("VECC") filed a "Notice of Intervention" on August 8, 2012 to HCHI's Application with regards to the disposition of costs, the

proposed rate riders, and the prudence of costs and appropriate recovery from proper rate classes.

Interrogatories were filed by Board staff on August 29, 2012 and by VECC on August 30, 2012. HCHI filed responses to both Board staff and VECC interrogatories on September 12, 2012 and updated its evidence as follows:

1. HCHI applied for total operations, maintenance, and administration (“OM&A”) spending of \$426,246 in the 2012 test year which included actual operating costs to May 31, 2012 and a forecasted amount for the remaining 7 months of 2012, June 1 to December 31, 2012. HCHI updated unaudited actual operating costs to July 31, 2012 with a forecast for the remaining five months of 2012 based upon the actual spending to date for total OM&A spending of \$405,266 in the 2012 test year (response to Board staff interrogatory #8);
2. HCHI calculated the SMDRs for each customer rate class to now include the recovery of foregone revenues for the period of May 1, 2012 to October 31, 2012, eliminating the need for separate FRRRs (response to Board staff interrogatory #11 b));
3. HCHI updated its Smart Meter Models (the “Models”) for each customer rate class to now calculate the interest on OM&A and amortization on monthly amounts using sheet 8A versus the Models as filed that used sheet 8B where the interest was calculated on the average annual balance of deferred OM&A and amortization (response to Board staff interrogatory #12);
4. Utilizing the Board staff revised Model provided with its interrogatories, HCHI updated its Models for each customer rate class to account for interest up to the end of October 2012 for the Smart Meter Funding Adder (“SMFA”) revenues collected, and the OM&A and amortization (response to Board staff interrogatory #13 a)); and

5. Utilizing the Board staff revised Model provided with its interrogatories, HCHI updated its proposed class specific SMDRs and class specific SMIRRs (response to Board staff interrogatory #13 b)).

Both Board staff and VECC had no issues with the updated evidence and resulting revised class specific SMDRs and SMIRRs, all as summarized in the table below.

**Table 1 – SMDR & SMIRR Rate Riders
“Applied For” versus “Revised”**

Customer Class	SMDR		SMIRR	
	Applied For (includes FRRR)	Revised (Updated Evidence)	Applied For	Revised (Updated Evidence)
Residential	2.41	2.42	3.56	3.47
General Service Less than 50 kW	3.89	3.91	5.33	5.24
General Service 50 to 4,999 kW	2.45	2.49	9.83	9.75

Submission

HCHI received the Submission from Board staff on October 1, 2012 and from VECC on October 5, 2012. HCHI’s reply submission reviews the submissions of both parties, Board staff and VECC, and provides comments on the following matters:

- Prudence of Smart Meter Costs and Minimum Functionality;
- Costs Beyond Minimum Functionality;
- Security Audit;
- Cost Allocation and Calculation of Rate Riders;
- Stranded Meters; and
- Operational Efficiencies.

Prudence Review of Smart Meter Costs and Minimum Functionality

In its Application, HCHI noted its participation in the Niagara Erie Power Alliance (“NEPA”), a cooperative arrangement of local distribution companies (“LDCs”) in south central Ontario. Nine NEPA members developed a collective and collaborative approach to planning, as well as procurement of the Advanced Metering Infrastructure (“AMI”) and installation services. The NEPA group also retained the services of an Ontario consulting firm, Util-Assist Inc. (“Util-Assist”), which provided guidance and direction in order to assist in the planning, implementation, testing, security auditing, and complete back office integration for the Smart Meter Initiative. VECC’s submission acknowledges HCHI’s efforts as part of the NEPA group.

As part of its updated evidence in response to interrogatories, HCHI updated the OM&A spending for the 2012 test year which resulted in a revised Capital Expenditures plus Operating Cost per Smart Meter equal to \$235.01 per meter. The following table provides a comparison of HCHI’s average cost per Smart Meter and the sector average costs as found in the Board’s *“Sector Market Meter Audit Review Report”* dated March 31, 2010 and the *“Monitoring Report Smart Meter Investment – September 2010”* dated March 3, 2011.

Table 2 – Comparison of Average Cost per Smart Meter

	HCHI Revised Total Costs	OEB Sector Market Report (March 31, 2010)	OEB Monitoring Report (March 3, 2011)
Capital Expenditures	\$ 3,795,630	\$ 570,339,200	\$ 843,121,068
Total Smart Meters Installed	20,978	3,053,931	4,382,194
Capital Expenditures per Smart Meter	\$ 180.93	\$ 186.76	\$ 192.40
Capital Expenditures plus Operating Costs	\$ 4,930,086	\$ 633,294,140	\$ 994,426,187
Total Smart Meters Installed	20,978	3,053,931	4,382,194
Capital Expenditures plus Operating Costs per Smart Meter	\$ 235.01	\$ 207.37	\$ 226.92

HCHI provided detailed documentation of the above capital and operating expenditures in the Manager's Summary of its Application and in response to VECC interrogatory #5, HCHI provided a summary of audited versus budgeted Smart Meter capital costs and Smart Meter operating costs as at December 31, 2011. As noted on page 4 of VECC's submission, the actual capital costs were 0.1% less than budget and the actual operating costs were 20.1% less than budget.

HCHI's capital cost per Smart Meter of \$180.93 is below the sector average and its average total cost (capital and operating) per Smart Meter of \$235.01 is above the most recent sector average of \$226.92. Both Board staff and VECC have acknowledged in their submissions that HCHI has a large service territory of 1,252 km², consisting of 1,216 km² rural area and only 36 km² of urban area represented by six communities including Caledonia, Cayuga, Dunnville, Hagersville, Jarvis, and Townsend which has resulted in increased costs for additional communications infrastructure. On page 4 of Board staff submission and also referenced on page 5 of VECC submission it states the following:

"... this has resulted in increased costs for multiple collectors, repeaters and other communication infrastructure to collect data from geographically separate and less dense service territories, compared to a utility serving a similar number of customers within one, smaller urbanized geographic service area. While Board staff observes HCHI costs are above the higher end of the average cost per meter, Board staff is of the view that HCHI has provided adequate documentation on the prudence of the costs incurred for smart meter deployment and operation and for which HCHI seeking recovery in this Application."

Board staff also noted on page 4 of their submission that HCHI's updated SMIRR of \$3.47 per month for the Residential customer class is within the range of \$3 to \$4 that was originally estimated in the Board's Report *"Smart Meter Implementation Plan – Report of the Board to the Minister"* dated January 26, 2005. Board staff state:

“The Board has continued to use the \$3 to \$4 range as a bench-mark for assessing the appropriateness of the SMIRR and hence the smart meter costs underlying the rate.”

Both Board staff and VECC agree that HCHI has provided adequate documentation and take no issue with the Smart Meter costs proposed for recovery in its Application. HCHI has no further submission in this regard.

Costs Beyond Minimum Functionality

HCHI has applied to recover capital costs of \$95,632 and OM&A costs of \$53,940 for total costs of \$149,572 beyond minimum functionality. These costs are related to time-of-use (“TOU”) rate implementation, web presentation, integration with the Meter Data Management and Repository (“MDM/R”) and installation of Smart Meters for the General Service 50 to 4,999 customer rate class.

Board staff noted on page 5 of their submission that \$59,638 of the capital costs were related to the installation of Smart Meters for the General Service 50 to 4,999 kW customer rate class. Also on page 5, Board staff state the following:

“Board staff further notes that these costs have been allocated to the GS > 50 kW customer class and are reflected in the proposed SMDR and SMIRR for that class. Board staff submits that this approach is consistent with the principle of cost causality.”

Board staff and VECC have both noted that HCHI’s costs beyond minimum functionality are reasonable and in accordance with the Board’s Guideline, G-2011-0001 *“Smart Meter Funding and Cost Recovery – Final Disposition”* dated December 15, 2011, and that HCHI has provided sufficient documentation and justification for these costs. Board staff further notes that the Board has previously approved costs of that nature. HCHI has no further submission in this regard.

Security Audit

Board staff's submission on page 5 states the following:

"In response to Board staff IR #5 b) HCHI stated that the NEPA consulting group service fees will be a recurring expense as they relate to facilitating the annual security audit that is performed on the AMI system. In response to staff IR #5 d) HCHI stated that the OM&A expenses under section 2.5.6 for residential customer class for 2012 included the annual security audit that is performed by Bell Wurldtech for the AMI system in the amount of \$11,486. In response to Board staff IR #8/Table 2 HCHI provided at table [sic] showing \$18,000 in Security Audit costs and testing. Board staff suggests HCHI provide additional information in its reply submission to provide clarity, as to why two separate security audits are being performed on the AMI system and what the value for money is to HCHI's customers."

In response to Board staff interrogatory #8, HCHI provided updated evidence of its OM&A spending in the 2012 test year of which \$18,000 represents the security audit costs and testing. The annual security audit that is currently performed by Bell Wurldtech for the AMI system accounts for \$13,000 of this spending, of which \$11,486 is allocated to the Residential customer class. The Smart Meter security testing for the Regional Network Interface ("RNI"), which is a partnership with the NEPA group using PowerStream's Work Bench, accounts for the remaining \$5,000 of which \$4,418 is allocated to the Residential customer class.

The independent annual security audit of the AMI system, from the Smart Meter to the AMI hardware and processes, determines overall security posture and exposure. HCHI views the annual security audit as a prudent approach to satisfying the due diligence requirements for protection not only of the customer information, but also to ensure that access to the infrastructure is properly protected, thereby securing against unwanted modifications to data collections and / or load-control functionality. The impact of one

breach of privacy or security has significant impacts to HCHI's reputation and customer relations. HCHI intends to review the selection of security vendors in collaboration with other LDCs at least every two years through a Request for Proposal ("RFP") process to ensure the most cost effective approach. VECC, in its submission on page 3 in the section on the *"Prudence Review of Smart Meter Costs"*, noted HCHI's participation as part of this group of LDCs working with Util-Assist in the issuance of an RFP to select the audit partner.

The Smart Meter security testing for the RNI reviews ongoing communication software version changes throughout the year prior to implementation. It is expected that one significant version upgrade will occur annually with micro changes periodically throughout the year. The importance of identifying shortfalls and correcting them in a test environment will minimize HCHI's exposure to risk. This testing has been, and will continue to be, completed in a collaborated approach to minimize cost without reducing effectiveness.

HCHI believes that the ongoing costs associated with the security audit portion of the OM&A spending are prudent and should be approved by the Board.

Cost Allocation and Calculation of Rate Riders

HCHI completed separate Smart Meter Models for each of its customer rate classes including Residential, General Service Less than 50 kW, and General Service 50 to 4,999 kW in its Application and updated these Models in responses to interrogatories. HCHI calculated the customer class specific Smart Meter revenue requirement using the following methodology:

- OM&A expenses allocated on the basis of the number of meters installed for each customer class;
- The Return and Amortization allocated on the basis of the capital costs of the meters installed for each customer class;

- PILs allocated based on the revenue requirement derived for each customer class before PILs; and
- Direct allocation of the SMFA revenue collected from each specific customer class including Residential, General Service Less than 50 kW, and General Service 50 to 4,999 kW.

The separate Models calculated the SMDRs and SMIRRs for each customer class based on full cost causality. Table 1 above details the revised class specific SMDRs and SMIRRs as a result of updated evidence from the responses to interrogatories.

Both Board staff and VECC had no issues with the cost allocation methodology used by HCHI and take no issue with the proposed rate riders. HCHI has no further submission in this regard.

Stranded Meters

HCHI is proposing not to dispose of the stranded costs of its conventional meters at this time but will bring forward the remaining net book value of Stranded Meters for recovery at its next cost of service rate application scheduled for 2014 rates. HCHI continues to recover these costs by including the net book value of the stranded meters in its rate base. In its response to Board staff interrogatory #10 HCHI estimates the net book value of stranded conventional meters as at December 31, 2013 is \$439,049.

Board staff submitted that HCHI's proposal regarding the treatment of stranded meters was in accordance with Guideline G-2011-0001 and had no issues. HCHI has no further submission in this regard.

Operational Efficiencies

Board staff's submission on page 6 states the following:

"In its Application and in response to VECC interrogatory #4 a, HCHI documented that the most significant cost savings are the elimination of manual electric meter reading for those customers with an installed smart

meter. HCHI has not included the reduction of the manual electric meter reading costs as this has already been reflected in HCHI's distribution rates EB-2009-0265. HCHI also stated they have experienced some additional operation and engineering efficiencies and costs savings resulting from integration of the AMI system with the MDM/R and the AMI system with the ODS and with its Geographical Information System ("GIS"). The implementation of the AMI system has provided, and should continue to provide, engineering staff with useful information for engineering and design purposes.

Board staff takes no issues with HCHI's initiatives in this regard, but submits that HCHI should be prepared to address any operational efficiencies and cost savings due to smart meter and TOU implementation in its next cost of service application."

VECC's submission on page 4 also states the following:

"... VECC agrees with Board Staff that Haldimand should address any savings due to smart meter and TOU implementation in its next cost of service application."

HCHI expects to address any additional operational efficiencies and cost savings due to Smart Meter and TOU implementation in its next cost of service rate application.

Conclusion

HCHI submits that its 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.

Accordingly, HCHI respectfully requests the Board to approve the disposition and recovery of costs for Smart Meter deployment and operation, through the revised customer class specific SMDRs and SMIRRs as summarized in Table 1 above to be recovered over an 18 month period effective November 1, 2012.

All of which is respectfully submitted.