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**BY EMAIL**

November 21, 2012

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Woodstock Hydro Services Inc.  
2013 Distribution Rates Application  
Board Staff Submission  
Board File No. EB-2012-0178**

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding.

As a reminder, Woodstock Hydro Services Inc.'s Reply Submission is due by December 5, 2012.

Yours truly,

*Original Signed By*

Daniel Kim  
Analyst, Applications & Regulatory Audit

Encl.



# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION**

2013 DISTRIBUTION RATES

Woodstock Hydro Services Inc.

EB-2012-0178

**November 21, 2012**

**Board Staff Submission  
Woodstock Hydro Services Inc.  
2013 Rates Application  
EB-2012-0178**

**Introduction**

Woodstock Hydro Services Inc. (“Woodstock Hydro”) filed an application (the “Application”) with the Ontario Energy Board on August 29, 2012 under section 78 of the *Ontario Energy Board Act, 1998* (the “Act”), S.O. 1998, c.15 (Schedule B), seeking approval for changes to the distribution rates that Woodstock Hydro charges for electricity distribution, to be effective May 1, 2013. The Application is based on the 2013 3<sup>rd</sup> Generation Incentive Regulation Mechanism (“IRM”). Under the Board’s *Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition*, Woodstock Hydro also included in its Application the disposition and recovery of costs related to smart meter deployment.

The Board issued its Letter of Direction and Notice of Application and Hearing (the “Notice”) on September 24, 2012. The Notice established timelines for discovery and submissions. The Vulnerable Energy Consumers’ Coalition (“VECC”) requested and was granted intervenor status and cost award eligibility. No letters of comment were received.

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by Woodstock Hydro.

Board staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Woodstock Hydro. Pursuant to Guideline G-2008-0001, updated on June 28, 2012, Board staff notes that the Board will update the applicable data at the time of this Decision based on any available updated Uniform Transmission Rates.

Woodstock Hydro completed the Deferral and Variance Account continuity schedule included in the 2013 IRM Rate Generator Model at Tab 5 for its Group 1 Deferral and Variance Accounts. Woodstock Hydro’s total Group 1 Deferral and Variance Account balances as of December 31, 2011 amount to a credit of \$320,425 which includes interest to April 30, 2013. Based on the disposition threshold test calculation, the Group

1 Deferral and Variance Account balances equate to \$0.0009 per kWh which does not exceed the threshold. As such, Woodstock Hydro did not request the disposition of these account balances. Board staff notes that the principal Group 1 Account balances as of December 31, 2011 reconcile with the amount reported as part of the Reporting and Record-keeping Requirements (“RRR”). Therefore, Board staff has no issues with Woodstock Hydro’s proposal to defer the disposition of its Group 1 Account balances.

Board staff makes submissions on the following matters:

- Revenue-to-Cost Ratio Adjustments; and
- Disposition and Recovery of Costs Related to Smart Meter Deployment.

## **REVENUE-TO-COST RATIO ADJUSTMENTS**

In this Application, Woodstock Hydro adjusted the revenue-to-cost ratios for the Residential, General Service 50 to 999 kW, General Service > 1000 kW, Street Lighting and the Unmetered Scattered Load rate classes. These adjustments were agreed upon in the Settlement Agreement, filed on April 8, 2011 in Woodstock Hydro’s 2011 cost of service proceeding (EB-2010-0145) and approved by the Board on April 20, 2011.

Board staff submits that the proposed revenue-to-cost ratio adjustments are in accordance with the Board’s decision in Woodstock Hydro’s 2011 cost of service proceeding and the Settlement Agreement filed in that proceeding.

## **DISPOSITION AND RECOVERY OF COSTS RELATED TO SMART METER DEPLOYMENT**

Woodstock Hydro applied for the following approvals:

- A Smart Meter Disposition Rider (“SMDR”) (per metered customer per month) of \$0.29 for a one year period (May 1, 2013 to April 30, 2014) for Residential customers and a SMDR (per metered customer per month) of \$6.47 for a one year period for GS < 50 kW customers; and
- A Smart Meter Incremental Revenue Rider (“SMIRR”) (per metered customer per month) of \$0.52 for Residential customers and a SMIRR (per metered customer per month) of \$3.15 for GS < 50 kW customers. The proposed SMIRR is

requested for the period May 1, 2013 until Woodstock Hydro's next cost of service application, which is scheduled for 2015.

### *Updated Evidence*

Woodstock Hydro revised its proposed SMDRs and SMIRRs in responses to interrogatories, with respect to the following:

- Reclassified costs between the Residential and GS<50 kW rate classes (VECC interrogatory #1);
- Removed the net proceeds from the disposition of conventional meters replaced by smart meters installed from 2009 to 2011 (i.e. credit amount of \$4,033 from the Smart Meter Model (Tab 2.Smart\_Meter\_Costs)) (Board staff interrogatory #2);
- Updated the cost of debt parameters for 2008, 2009 and 2010 to 6.76% (Board staff interrogatory #5b);
- Allocation of 2010 and 2011 capital costs are now 55.66% Residential and 44.34% GS<50 kW; and
- Updated the OM&A expense in the smart meter model to include 2013 estimated costs of \$34,628 and depreciation expense of \$78,635 (Board staff interrogatory #4).

Board staff notes that, while Woodstock Hydro updated the cost of debt in response to Board staff Interrogatory # 5 b), it did not address or correct the return on equity ("ROE"). Board staff submits that the 9.00% ROE for 2006 to 2009 correspond with that approved in Woodstock Hydro's 2006 EDR application RP-2005-0020/EB-2005-0436. However, that ROE of 9.00% should also apply for 2010, rather than the 9.85% input into cell O31 of sheet 3 of the Smart Meter Model, as Woodstock still had its rates adjusted under IRM for that year. The 9.58% ROE entered for 2011, 2013 and 2014 correspond with that approved as part of the Settlement Agreement in Woodstock Hydro's 2011 cost of service application (EB-2010-0145). Board staff has reflected this adjustment in Table 1, and is attaching a revised Smart Meter Model to this submission. This correction results in a minor reduction to the GS<50 kW SMDR.

In its response to Board staff and VECC interrogatories, Woodstock Hydro filed a revised smart meter model and class-specific SMDRs and SMIRRs to reflect the updates noted in the Board staff and VECC interrogatories referenced above.

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 from May 1, 2013 to April 30, 2014)			SMIRR (\$/month)		
	Original	Revised		Original	Revised	
		Board staff and VECC	Corrected 2010 ROE of 9.00%		Board staff and VECC	Corrected 2010 ROE of 9.00%
<b>Residential</b>	\$0.29	\$0.12	\$0.12	\$0.52	\$0.64	\$0.64
<b>GS &lt; 50 kW</b>	\$6.47	\$8.91	\$8.85	\$3.15	\$4.24	\$4.24

#### *Prudence of Smart Meter Costs and Minimum Functionality*

Based on the costs provided by Woodstock Hydro in the revised smart meter model, Board staff notes that the total cost per meter works out to an average of \$170.20 (capital and OM&A) or \$154.70 (capital only). 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<sup>1</sup>. Woodstock Hydro's reported costs are below this average.

Through its interrogatories, VECC also asked Woodstock Hydro to prepare class-specific revenue requirements, as well as SMDRs and SMIRRs based on smart meter models that calculated the costs for each class. In response to VECC interrogatory

<sup>1</sup> "Monitoring Report Smart Meter Investment – September 2010", March 3, 2011

#2a, Woodstock Hydro stated that it had recorded all capital and OM&A costs to the Residential and GS<50 kW rate classes where those costs were directly attributable to those rate classes. Woodstock Hydro noted that all other costs that would be attributable to both rate classes were allocated based on the total number of smart meters installed between 2009 and 2011. Woodstock Hydro also noted that the shared costs for software, hardware, collectors and other shared capital and costs for software maintenance, web presentment, data collection and other commonly used services are based on the number of meters, which Woodstock Hydro believes is the most reasonable approach to take for shared cost allocation. Woodstock Hydro further noted that the combination of actual, direct class costs plus a pro-rata share of indirect costs based on the number of meters best reflects full cost causality.

Board staff submits that Woodstock Hydro'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.

#### *Costs Beyond Minimum Functionality*

Woodstock Hydro included a request to recover \$12,369 in OM&A costs beyond minimum functionality, as defined in the combined proceeding related to Smart Meters (EB-2007-0063) and in Guideline G-2011-0001<sup>2</sup>. These costs include continuation of maintenance and monthly charges related to web presentment programs in 2013.

Board staff considers that the documented OM&A costs are reasonable.

#### *Stranded Meters*

Woodstock Hydro is proposing not to dispose of stranded meters at this time, but to deal with disposition in its next cost of service application. The estimated net book value of stranded meters to December 31, 2014 is \$289,563.

Board staff submits that Woodstock Hydro's Application is in accordance with Guideline G-2011-0001.

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<sup>2</sup> Smart Meter Funding and Cost Recovery – Final Disposition, December 15, 2011

### *Operational Efficiencies*

In its Application, Woodstock Hydro noted that a short term operational efficiency is the ability to remotely and accurately read electric meters. Woodstock Hydro noted that Field Representatives are no longer dispatched to verify questionable readings, unless an event that requires further investigation is flagged by Woodstock Hydro's AMI system.

Woodstock Hydro also noted that third party manual meter reading expenses of approximately \$100,000 per year are no longer incurred. However, these savings are offset by approximately \$115,000 per year for incremental monthly service fees and software maintenance associated with remote meter reading, AMI network, web presentment, and MDM/R system fees. The estimate of \$115,000 per year excludes amounts for Smart Meter Entity costs.

Woodstock Hydro further noted that it will be assessing the operations data that resides within the systems in place that support the core AMI functionality and time-of-use ("TOU") billing, and the extent to which that operations data can provide value-added analytics and information to Woodstock Hydro's operations personnel. Woodstock Hydro also anticipates building integrations between their core systems to develop "smart" customer-load profiles using customer-connection data in Woodstock Hydro's customer information system and geographic information system along with smart meter data, to provide the operations department with sufficient information to evaluate transformer loads and appropriate transformer sizes. Woodstock Hydro noted that when compared to operational efficiencies to be gained over the long term, the estimated net incremental cost of \$15,000 should ultimately result in future cost savings and increased reliability.

Board staff takes no issue with Woodstock Hydro's explanations and recognizes that it may take time for further savings to be recognized. Board staff notes that operational efficiencies have been included as part of the SMDR and SMIRR calculations. As Woodstock Hydro, 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 efficiencies to be realized over time. Board staff observes that the switch to



monthly billing should also enable better management of bad debt and reduce the cash working capital requirement.

Board staff submits that Woodstock Hydro should be prepared to further address any operational efficiencies in its next cost of service rebasing application.

- All of which is respectfully submitted –