March 27, 2013

BY EMAIL/COURIER/RESS

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

Dear Ms. Walli,

RE: Whitby Hydro Electric Corporation
Application for 2013 Smart Meter Cost Recovery
Board File Number EB-2012-0479
Reply Submission

Please find attached Whitby Hydro Electric Corporation's Reply Submission to those submissions made by Board staff and the Vulnerable Energy Consumers Coalition ("VECC"). Two paper copies will follow via courier. A copy has also been filed electronically through the Board's RESS system.

Respectfully submitted,

Original Signed by

Susan Reffle
Vice-President

cc: Mr. Keith Ritchie (email)
Mr. Michael Janigan (email)
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Whitby Hydro Electric Corporation

EB-2012-0479

Application for Disposition and Recovery of Costs Related to Smart Meter Deployment

REPLY SUBMISSION

March *27, 2013*

INTRODUCTION

Whitby Hydro Electric Corporation ("WHEC") is a licensed electricity distributor servicing customers in the Town of Whitby. WHEC filed a stand-alone application (the "Application") on December 27, 2012, seeking Board approval for the disposition and recovery of costs related to smart meter deployment to December 31, 2012, offset by Smart Meter Funding Adder ("SMFA") revenues collected from May 1, 2006 to December 31, 2012. WHEC requested approval of proposed Smart Meter Disposition Riders ("SMDRs") and Smart Meter Incremental Revenue Requirement Rate Riders ("SMIRRs") effective May 1, 2013. The Application is based on the Board's policy and practice with respect to recovery of smart meter costs.

APPROVALS SOUGHT

WHEC is seeking the approval of

- A SMDR of ($0.55) per month for Residential customers and $12.51 per month for General Service less than 50 kW (GS<50 kW) customers, effective from May 1, 2013 until April 30, 2014; and

- A SMIRR of $2.20 per month for Residential customers and $7.11 per month for GS<50 kW customers, effective from May 1, 2013 until December 31, 2014.

These rates have been revised from the original Application based on interrogatory responses addressing the inclusion of 2012 new growth customers and related smart meter costs, updates to tax rates, and a minor revision to SMFA interest charges between Residential and GS<50 kW customer classes. Other revisions (2) addressed in the interrogatory process related to re-classification of cost categories within OM&A expenses for additional clarification (the total dollar value of OM&A remained unchanged).

On page 5 of its submission, Board Staff states:

> *The inclusion of 2012 growth-related smart meters was to ensure that WHEC be held whole with respect to the recovery of the 2012 revenue requirement of these smart meters. While the SMIRR would recover the revenue requirement from all customers*

> *with smart meters going forward until WHEC next rebases rates through a cost of service application, it would not recover the deferred revenue requirement for new 2012 growth for the period January 1 to December 31, 2012. Inclusion of these costs ensures that they are reflected in the deferred revenue requirement and recovered in the SMDR. Board staff considers this update to be appropriate.*

Vulnerable Energy Consumers Coalition ("VECC") agreed with Board staff that the update for the inclusion of 2012 growth was appropriate.

Board Staff also indicated that they had no issue with the changes WHEC proposed in its interrogatory responses to both Board Staff and VECC and the resulting revised SMDRs and SMIRRs.

WHEC agrees with Board staff's comments regarding the inclusion of 2012 new growth and other changes proposed in the interrogatory process (summarized in Board Staff's interrogatory response #14), and the resulting revised SMDRs and SMIRRs. WHEC requests that the SMDRs and SMIRRs as provided in the interrogatory responses be approved.

PRUDENCE OF SMART METER COSTS

On page 6 of Board staff's submission, it is stated:

> *…WHEC's Application complies with Guideline G-2011-0001 with regard to the expectation that at least 90% of the smart meter costs be audited actuals.*

and further,

> *WHEC documented $225,732 for materials and parts expensed for the repair and replacement of customer-owned equipment incurred during smart meter deployment. In accordance with Board's policy, these costs were separately tracked in a sub-account of Account 1556.*

On page 7 with respect to costs included for a System/Settlement Analyst and Sync Operation, Board staff states:

> *With the additional explanations provided in responses to interrogatories, Board staff takes no issue with the need for these positions and that they are incremental costs related to WHEC's smart meter program, including operationalization of TOU rates.*

In addressing WHEC's decision regarding the AMI system ownership and operation, Board staff indicates that it:

> *…takes no issue with WHEC's explanation for purchasing its AMI system but having it operated by the service vendor under contract.*

Board staff did not identify any issues with the description and explanations provided by WHEC with respect to the procurement process and authorization for smart meter deployment.

While Board staff requested some clarification with regards to the difference between OM&A costs above minimum functionality outlined in the original Application ($295,043) and the amount referenced in the interrogatory response to Board staff #14 ($283,977), it did not identify any concerns with respect to costs beyond minimum functionality, and on page 8 stated:

> *Board staff takes no issue with WHEC's evidence on the need for and prudence of these costs for beyond minimum functionality, and notes that the Board has considered and approved the recovery of similar costs in other applications for disposition of smart meter costs.*

VECC also stated in its submission that it had no issue with respect to WHEC's costs beyond minimum functionality (page 6).

In reviewing the capital and OM&A costs per smart meter (page 8-9), Board Staff noted that:

> *…these costs are well within the ranges that the Board has seen for most utilities serving urbanized areas and considers that these per meter costs are reasonable and supported by the documentation.*

VECC also concluded the unit costs were reasonable and provided the following observation (page 5):

> *…Whitby Hydro's total average smart meter cost (CAPEX + OM&A) of $163.24 (excluding costs beyond minimum functionality) is within the total cost per meter range in the combined proceeding and well below the recent provincial average of $226.92.*

The SMIRR proposed for Residential customers is also below the range that was originally estimated in the Board's Report on smart meters in 2005, and Board staff submitted:

> *….WHEC's proposed SMIRRs are indicative of the utility's efforts to effect the deployment and operation of smart meters to its residential and small general service customers in an efficient and cost effective manner.*

Board staff submitted that WHEC acted in accordance with the regulations in its processes for the procurement of smart meters and associated equipment and services and found that the costs were both necessary and reasonable.

Costs beyond minimum functionality were identified as $237,088 for capital and $295,043 for OM&A expenses in the original Application. The breakdown of OM&A expenses that are within minimum functionality versus those considered beyond minimum functionality was reviewed and revised as part of the interrogatory response to VECC #7(k), in order to more appropriately categorize the OM&A costs. This review resulted in a reduction of $11,066 to OM&A costs beyond minimum functionality with an offsetting increase (of the same amount) for OM&A costs that are within the minimum functionality. This was identified as a change in Board staff interrogatory response #14 and reflected in the revised smart meter model. The amount of $11,066 related to the development and distribution of customer communication materials regarding the smart meter deployment (meter change-out from conventional to smart meter). As this cost related to the actual

smart meter, it is WHEC's view that these costs should have been classified as OM&A costs within minimum functionality, and it therefore re-classified the costs to reflect this.

WHEC agrees with Board staff and VECC submissions regarding the prudency of costs. WHEC requests that the Board approve the total capital ($6,201,371) and OM&A ($951,194) costs as revised in the interrogatory responses.

COST ALLOCATION

WHEC proposed class specific SMDRs and SMIRRs for the Residential and GS<50 kW customer classes based on an allocation methodology that includes the weighted allocation of meter costs, the number of meters and the revenue requirement (before PILs) similar to the methodology approved by the Board in PowerStream's (EB-2010-0209) Decision. WHEC further clarified that this methodology was reasonable considering full cost causality was not available or practical.

VECC provided the following comments on page 7 with regards to cost allocation:

> *VECC submits that Whitby Hydro does not have the cost data by rate class and therefore accepts Whitby Hydro's cost allocation methodology as a proxy for revenue requirement with one exception. VECC submits that as a matter of principle, the SMFA revenues collected from the GS>50 kW customer class should be returned to this customer class instead of a 50:50 allocation between the residential and GS<50 kW customer classes.*

WHEC has complied with the direction provided in the Board's PowerStream Decision (EB-2011-0128). WHEC also notes that the July 26, 2012 Board Decision for London Hydro (EB-2012-0187) states

> ***The Board directed PowerStream to allocate the smart meter adder amounts collected from the GS>50 customer classes evenly to the Residential and GS<50 kW customer classes when calculating the true-up for the SMDR. The Board concluded that this approach was appropriate because the amounts involved were not significant enough to warrant a more precise allocation. The approach is also documented in section 3.5 of Guideline G-2011-0001. The Board agrees with London Hydro that the amounts collected for metered customer classes other than the Residential and GS<50 kW customer classes are immaterial…Any SMFA revenues collected from customers in the GS>50 kW and Large Use classes are to be evenly distributed between the Residential and GS<50 kW classes. (Page 8)***

WHEC has calculated the SMFA recoveries (2006-2011 actuals plus projected 2012) by the GS>50 kW class as less than 1% of the total recoveries for all classes as detailed below:

Rate Class	Total SMFA $	%
Residential	2,749,314	94.01%
GS<50 kW	146,171	5.00%
GS>50 kW	29,044	0.99%
Total by Year	**2,924,529**	**100.00%**

WHEC submits that the SMFA recoveries by the GS>50 kW customer class is immaterial and as such, WHEC's currently proposed methodology for evenly dividing these recoveries between the Residential and GS<50 kW customer classes for the purpose of the true-up for the SMDR is appropriate.

2012 AND 2013 COSTS

WHEC originally included 2012 costs for delayed smart meters installations for existing customers but not those for new growth in 2012. In the interrogatories, WHEC updated 2012 capital to include costs for new growth customers. OM&A was not anticipated to change materially as a result of the inclusion of new growth customers. On page 11, Board staff states:

> *Board staff submits that the inclusion of all costs (non-growth-related and growth-related) for 2012 is analogous to the treatment in PowerStream and other smart meter cost recovery applications, and is appropriate to ensure full recovery[sic] of all deferred costs.*

Board staff also submitted that WHEC's approach to exclude forecasted growth for 2013 is reasonable. The SMIRR will be recovered from new customers which serves to recover the annualized revenue requirement of capital related and operating expenses.

Board staff on page 11 notes that in the majority of recent decisions related to smart meter dispositions, the Board has determined:

> *…that no future smart meter costs should be recorded in either Account 1555 (capital) or Account 1556 (operating expenses) going forward. Only the sub-account of Account 1555 for recording the stranded meters, including accumulated depreciation recovered until the utility next rebases rates, should continue to be used. Board staff submits that this accounting treatment is also appropriate for WHEC's Application which relates to 100% smart meter deployment.*

WHEC agrees with Board staff's submissions related to 2012 and 2013 costs and that no future smart meter costs (2013 and forward) should be recorded in Account 1555 or 1556 with the exception of those entries related to the 1555 sub-account for stranded meters and related depreciation until the next time WHEC re-bases.

OTHER MATTERS

Stranded Meters

WHEC did not include the disposition for stranded meter costs in this Application consistent with Guideline G-2011-0001.

Board staff raised some concern with regards to the inability of WHEC to provide the estimated net book value ("NBV") of stranded meters separately for Residential and GS<50 kW customer classes as of December 31, 2014. Subject to this concern, Board staff submitted (page 12) that:

> *In WHEC's next cost of service application (possibly for 2015 rates) the utility should make a proposal for the recovery of stranded meter costs through class-specific Stranded Meter Rate Riders, as envisaged in Section 3.7 of Guideline G-2011-0001.*

In WHEC's response to Board staff's interrogatory #5, it was noted that the analysis of the stranded meter depreciation was in progress as part of the regular year-end review and audit. WHEC indicated that it would provide an update to the estimated net book value of stranded meters as of December 31, 2014 once the year–end analysis was completed. As a request for disposition of stranded meter costs was not included in this Application, WHEC felt that providing a more accurate estimate at a later date would not cause a delay nor impede the process or information required for Board staff and intervenor submissions, and further, would not impact the Board's decision in this Application with respect to the appropriateness and prudency of smart meter costs and the request for approval of the proposed SMDRs and SMIRRs.

Based on information available, the estimated net book value of stranded meters for Residential and GS<50 kW customer classes as of December 31, 2014 is $1.1M. WHEC has not recorded or estimated the allocation of NBV between the Residential and GS<50 kW customer classes at this time, but will address an allocation methodology when submitting a request for the recovery of stranded meter costs.

WHEC concurs with Board staff's submission that a proposal for the recovery of stranded meter costs should be included in WHEC's next cost of service re-basing application on a class specific basis as envisaged in Section 3.7 of the Guideline (G-2011-0001).

Operational Efficiencies Realized due to Smart Meter Deployment

WHEC indicated that it did not include operational efficiencies in this Application but would be in a better position to address cost savings or operational efficiencies during its next cost of service application. Board staff did not raise any concerns but submitted (page 13):

> *…WHEC should be prepared to address any operational efficiencies due to smart meter and TOU implementation in its next cost of service application.*

WHEC concurs that it will address operational efficiencies due to the smart meter and TOU implementation in its next cost of service re-basing application.

CONCLUSION

On page 13 of Board staff's submission, it states:

> *Subject to the above comments, Board staff submits that WHEC's Application is consistent 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 deployment and operation.*

WHEC concurs with Board staff's submission above with respect to the prudency of the smart meter costs and the consistency with Board Guideline G-2011-0001 and Board policy and practice with respect to the disposition and recovery of costs related to smart meter deployment and operation.