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October 6, 2010

**VIA MAIL and E-MAIL**

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

Dear Ms. Walli:

**Re: PowerStream Inc.  
Application for Recovery of Smart Meter Costs  
Board File Number EB-2010-0209  
VECC Submissions**

Please find enclosed the submissions of VECC in the above noted proceeding.

Thank you.

Yours truly,

Michael Buonaguro  
Counsel for VECC

Cc Tom Barrett Manager, Rate Applications PowerStream Inc.  
Mr. Colin A. Macdonald, PowerStream Inc.  
Mr. James C. Sidlofsky, Borden Ladner Gervais LLP

Encl.

**IN THE MATTER OF** the *Ontario Energy Board Act*,  
1998, S.O. 1998, c. 15, (Schedule B);

**AND IN THE MATTER OF** an application by PowerStream  
Inc. for an order or orders approving or fixing a just and  
reasonable distribution rates related to Smart Meter  
deployment, to be effective November 1, 2010

**PowerStream Inc.**  
**2010 Smart Meter Cost Recovery Application – Board File No. EB-2010-0209**

### **VECC Submissions**

VECC will address the following matters in its submissions:

- Framework for recovery of Electric Distributors' Smart Meter Costs
- PowerStream Smart Meter Funding Adders
- PowerStream Actual Smart Meter Cost Disposition Rider
- PowerStream Smart Meter Incremental Revenue Requirement Rate Rider;
- Prudence Review of PowerStream Smart Meters Installed in 2008 and 2009;

### **Framework for Recovery of Electric Distributors' Smart Meter Costs**

The framework for SM deployment and cost recovery has two main components:

- i) OEB Filing Requirements for Smart Meter Investment Plans, October 26, 2006,  
and
- ii) OEB Guideline G-2008-0002:

VECC notes that Guideline G-2008-0002 addresses cost recovery issues, however we are unaware that it has superseded the Filing Requirements for Smart Meter Investment Plans, dated October 26, 2006.

The latter contain the following important direction (paragraph 7) regarding Smart Meter Costs:

7. Specifically, and in as much detail as possible, please provide the following information for your planned implementation of the SMIP:
  - the number of meters installed by class and by year, both in absolute terms and as a percentage of the class;
  - the capital expenditures and amortization by class and by year;

- the operating expenses by class and by year;
- the effect of the SMIP on the level of the allowance for PILs.

Like many other Distributors, PowerStream has not kept complete records by class as required by the Filing Guidelines and accounts 1556 and 1555 are not fully segregated by rate class.

PowerStream's position (VECC IRR#1) is that it has recorded Smart Meter costs in accounts 1555 and 1556 as per the Board's guidance in the Accounting Procedures Handbook; related Frequently Asked Questions; and Guideline G-2008-0002 (Smart Meter Funding and Cost Recovery). Those guidelines do not require that costs be segregated by rate class.

PowerStream notes however, that it tracks the smart meter funding adder collected by rate class.

VECC submits that the Filing Guidelines and the Board's Decision on the 13 Distributors which requested Approval of Smart Meter Plans, dealt with smart meter Capital and Operating Costs on a class specific basis.

Smart Meter Capital (procurement and installation) and Operating costs differ materially depending on the type of smart meter deployed. VECC submits that It is neither reasonable, nor in line with the principles of cost causality to not record these costs on a class basis. Other costs, such as customer connection costs, are recorded according to customer class in order to match costs and benefits and avoid undue cross subsidization between classes.

*Accordingly VECC submits that all Distributors should be directed to record Smart Meter Capital and Operating costs on a class-specific basis and use these data to calculate revenue requirements and related funding and cost recovery rate riders.*

### **Powerstream Smart Meter Funding Adders**

Revenues received from the approved smart meter funding adder are recorded in a sub-account of Deferral/Variance Account 1555 – Smart Meter Costs – Capital. These amounts are used to offset the revenue requirement of installed smart meters when disposition of the smart meter related deferral accounts is sought. Operating costs, used for the calculation of revenue requirement are recorded in Deferral/Variance Account 1556 – Smart Meter Costs – Operating.

### **2008 and 2009 SM Funding Adder**

PowerStream currently has a uniform smart meter funding adder of \$1.81 per month per metered customer, approved by the Board in its Decision on PowerStream's 2010 distribution rates application (Board File No. EB-2009-0246).

As noted above, PowerStream tracks the smart meter funding adder collected by rate class. (VECC IRR 1c)

The Smart Meter Funding Adder Collected by Rate Class is calculated in Staff IRR #9:

Residential	(\$8,437,354)
GS<50kw	(\$918,984)
GS>50kw	(\$149,114)
Large use	(\$102)
Total	(\$9,505,553)

### **2010-2011 Smart Meter Funding Adder**

In this Application, PowerStream seeks a revised uniform smart meter funding adder of \$0.50 per month per metered customer. The revised smart meter funding adder reflects the removal of costs for smart meters installed in 2008 and 2009 and for which cost recovery will occur by means of the proposed smart meter disposition rate rider and the smart meter incremental revenue requirement rate rider. The updated smart meter funding adder is based on smart meters to be installed in 2010.

In response to Board Staff supplementary IR #2 a), PowerStream has documented its costs for smart meters planned to be installed in 2010 for single-phase and three-phase commercial (GS < 50 kW) customers, showing a cost per meter for a single-phase customer of \$220.10 and that for a three-phase customer of \$543.25. The response to part c) of that same interrogatory response documents the reasons for the increased installation costs for both single-phase and three-phase serviced commercial customers.

Board Staff submits that it is appropriate that the smart meter funding adder continue to be collected from all metered customers. In support of this position it states that while over two-thirds of the smart meters to be installed are for GS < 50 kW customers, to date smart meter funding adders have been collected from commercial customers for smart meters that may have largely been installed for residential customers. Symmetry in treatment suggests that all metered customers should help to provide this “seed funding” if even it is now focused on smart meters for GS < 50 kW customers. When the smart meter installations are completed and costs are both actual and audited, and PowerStream makes application for disposition, the costs for the smart meters being installed in 2010 will be subject to a prudence review.

*VECC disagrees with Powerstream’s proposal for a uniform SM funding adder of \$0.50 per metered customer/mo and also disagrees with Boards Staff’s position that this is appropriate because of historic funding of residential meter costs by the GS< 50 kw class and also by the GS>50 kw and large use classes.*

The data filed in response to VECC IRs shows that there is no material historic cross subsidy between the SM funding adder of \$1.81 and residential and GS<50kw class costs incurred in 2008 and 2009. The only material subsidy is about \$1.1 million contributed from the GS>50 kw and large use classes (VECC IRR#3a).

In VECC's view, the most expedient way to deal with this latter over-collection from the GS>50 kw and large use class to the end of 2009, is to recuse the GS>50 kw and large use classes from the 2010-2011 SM funding adder and have PowerStream true up the costs of meters for those classes when the total SM deployment is complete in 2011

*With regard to the residential and GS<50 classes, VECC submits that it is clear that there needs to be a class- specific rate rider going forward.*

*If this is not implemented there will be a significant over-collection from the residential class in 2010 and 2011 with no certainty that there will be a true-up, given Powerstream's proposal for a uniform \$0.50/mo per metered customer rate adder as supported by Board Staff.*

Table VECC 5-1: Smart Meter Funding Adder by Rate Class

Rate Class	Actual	VECC 5c Model
Residential	\$ 0.50	\$ 0.15
GS<50 kW	\$ 0.50	\$ 3.83
GS>50 kW	\$ 0.50	\$ -
Large Use	\$ 0.50	\$ -

*Again, VECC submits that the relatively small over contribution of the SM funding adder revenue of the GS<50 kw class to 2008 and 2009 costs (see below) should be trued-up when the total deployment is complete in 2011*

### **Actual Smart Meter Cost Disposition Rider**

A distributor may seek cost recovery of installed smart meter costs by requesting the disposition of the balances in accounts 1555 and 1556, on the basis that the costs were necessary and prudent. The revenue requirement associated with smart meters consists of capital-related costs (cost of capital, depreciation and related taxes) and O&M expenses in the applicable period. Pursuant to Guideline G-2008-0002, these costs need to be audited when applying for the recovery of smart meter costs. When a distributor receives approval to dispose of the smart meter deferral account balances, a disposition rider is established to recover or refund the balance of accounts 1555 and 1556 over a specified time period (i.e. with an identified sunset date).

### ***PowerStream Disposition/Recovery rate rider for Actual 2008 and 2009 costs***

PowerStream has proposed that a rate rider be established to recover the revenue requirement over the January 1, 2008 to October 31, 2010 period of smart meters installed in 2008 and 2009. The rate rider would take into account as an offset the value of the smart meter funding adder collected over the period January 1, 2008 to April 30, 2010

Table 3: Actual Smart Meter Cost Recovery Model

#### **Rate Rider to Recover Actual Smart Meter Costs to December 31, 2009**

Revenue Requirement 2008	\$1,650,030
Revenue Requirement 2009	\$3,004,081
Revenue Requirement 2010 (to Oct 31/10)	<u>\$3,442,964</u>
<b>Revenue Requirement Total</b>	<b>\$8,097,075</b>
Smart Meter Rate Adder	(\$7,509,327)
Carrying Cost	<u>(\$38,680)</u>
<b>Smart Meter True-up</b>	<b>\$549,067</b>

Metered Customers 249,715

**Rate Rider to Recover Smart Meter Costs \$ 0.37**

Recovery period November 1, 2010 to April 30, 2011

Board staff submits that PowerStream's calculation of its smart meter disposition rate rider should only include costs incurred up to December 31, 2009, offset by revenue received during the corresponding time period (Table Staff 2-1: Rate Rider Calculation per Staff IR #2).

*VECC agrees with Board Staff since the costs as filed for 2010 have not been audited*

### **Cost Allocation**

PowerStream proposed that the "smart meter true up" amount of \$549,068 be recovered from all metered customer rate classes over the November 1, 2010 to April 30, 2011 period. This results in a uniform rate rider of \$0.37 per metered customer per month.

Board Staff notes that on the one hand, PowerStream proposes to prospectively recover the revenue requirement of the 2008 and 2009 installed meters on the basis of claimed "cost causality". On the other hand, PowerStream proposes that the "smart meter true-up" amount for these same smart meters be recovered uniformly from all metered customers.

*VECC submits that once again, the principle to be applied should be full cost causality. The Actual Cost Disposition Rate rider should be calculated on a Class basis using the appropriate Revenue Requirement, offset by the SM funding revenue collected.*

Table VECC 3-1: SM Actual Cost Recovery Rate Rider ("True-up")  
Calculated by Rate Class

	Total	Residential	GS<50 kW
Revenue Requirement 2008	\$1,650,280	\$ 1,648,353	\$ 1,927
Revenue Requirement 2009	\$3,004,305	\$ 2,846,094	\$ 158,211
Revenue Requirement 2010 (to Oct 31/10)	\$3,442,955	\$ 3,074,998	\$ 367,957
Revenue Requirement Total	\$8,097,540	\$ 7,569,445	\$ 528,095
Smart Meter Rate Adder	(\$5,379,090)	\$ (5,756,543)	\$ (622,547)
Carrying Cost	(\$34,413)	\$ (24,968)	\$ (9,445)
Smart Meter True-up	\$1,684,037	\$1,787,934	(\$103,897)
Metered Customers	243,761	219,943	23,818
Rate Rider to Recover Smart Meter Costs	\$ 1.15	\$ 1.35	\$ (0.73)
Recovery period November 1, 2010 to April 30, 2011			

VECC submits that the Actual Cost recovery true up should be done by a class-specific rate rider calculated as per VECC Table 3-1. If O&M costs from December 31 2009 forward are excluded, then the result would be as shown in BS IRRs Appendix 4 Residential \$0.69 per month November 2010 to April 2011 GS<50 kw (- \$1.73 per mo).

Table Staff 9-3: Smart Meter Actual Cost Disposition Rate Rider

Class	Per Staff IR 2b	Per Staff IR 9b
Residential	\$ 0.38	\$ 0.69
GS<50kW	\$ 0.38	\$ (1.73)
GS>50kW	\$ 0.38	\$ -
Large Use	\$ 0.38	\$ -

### Smart Meter Incremental Revenue Requirement Rate Rider

When smart meter disposition occurs as part of a cost of service application, the recovery of ongoing costs is addressed by means of including the approved smart meter capital costs and accumulated depreciation along with OM&A expenses, into the revenue requirement.

When an application for smart meter disposition is made outside of a cost of service application, a separate rate rider is established to provide a proxy for how the revenue requirement would be determined in a cost of service proceeding.

PowerStream proposes to allocate the smart meter incremental revenue requirement to the Residential and General Service less than 50 kW customer rate classes. In response to Board staff IR #8, PowerStream provided the rationale for the allocation basis used to apportion the revenue requirement to the Residential and General Service less than 50 kW customer rate classes. In response to VECC IR #8(a), PowerStream indicated that its proposal applies the "principles of cost causality; matching of costs and benefits; and avoidance of undue cross subsidization". The following summarizes PowerStream's proposed approach:

- Return (deemed interest plus return on equity) and Amortization have been allocated between the customer classes based on the capital costs of the meters installed for each class;
- OM&A has been allocated based on the number of meters installed for each class;
- PILs have been allocated based on the revenue requirement allocated to each class before PILs.

Board Staff submits that PowerStream’s cost allocation methodology is reflective of cost causality and provides a reasonable proxy for how the revenue requirement would be determined in a cost of service application.

*VECC disagrees with Powerstream’s proposal and with Board Staff’s position. In the absence of evidence based on a complete cost of service cost allocation model run, the Board cannot be sure that there is not a material cross subsidy of the GS<50 kw class by the residential class customers.*

As noted above, in response to Board Staff supplementary IR #2 a), PowerStream has documented its costs for smart meters planned to be installed in 2010 for single-phase and three-phase commercial (GS < 50 kW) customers, showing a cost per meter for a single-phase customer of \$220.10 and that for a three-phase customer of \$543.25. The response to part c) of that same interrogatory response documents the reasons for the increased installation costs for both single-phase and three-phase serviced commercial customers.

*.VECC submits that the only way to avoid undue cross subsidy is to provide the Smart Meter Incremental Revenue Requirement Rate Rider on a class specific basis until rebasing occurs.*

Table VECC 3-5: Residential Class Rate Rider Comparison

Residential Class	Table 7 filed	VECC3a model
Customers	219,943	219,943
Revenue requirement	\$ 3,836,220	\$ 3,689,997
Monthly Charge	\$ 1.45	\$ 1.40

Table VECC 3-6: GS<50 kW Class Rate Rider Comparison

GS<50 kW Class	Table 7 filed	VECC3b model
Customers	23,818	23,818
Revenue requirement	\$ 296,337	\$ 441,548
Monthly Charge	\$ 1.03	\$ 1.54

*VECC submits that even though there should be an audit and final true up. We submit that the above ongoing Revenue Requirement rate riders of \$1.40/mo and \$1.54/mo for*



*the residential and GS< 50 kw classes are more appropriate than those proposed by Powerstream and supported by Board Staff,*

## Prudence of costs of Smart Meters Installed in 2008 and 2009

The following IR responses provide information on Historic 2008 and 2009 SM procurement and installation costs.

Table VEC C 2-1: Smart Meter Deployment by Customer Class

	Residential	GS<50 kW	Total
2008 Actual	53,262	-	53,262
2009 Actual	81,481	2,613	84,094
Sub-total	134,743	2,613	137,356
2010 Planned	9,500	21,000	30,500
Total	144,243	23,613	167,856

Table VEC C 2-2: Smart Meter Procurement Costs

\$000	Residential	GS<50 kW	Total
2008 Actual	\$ 4,622	\$ -	\$ 4,622
2009 Actual	\$ 8,303	\$ 1,642	\$ 9,945
Sub-total	\$ 12,925	\$ 1,642	\$ 14,568
2010 Planned	\$ 1,033	\$ 13,199	\$ 14,233
Total	\$ 13,959	\$ 14,842	\$ 28,801
\$ per meter	Residential	GS<50 kW	
2008 Actual	\$ 86.79	\$ -	
2009 Actual	\$ 101.90	\$ 628.56	
2010 Planned	\$ 108.76	\$ 628.54	

## Total 2008 and 2009 Capital Costs

Table VEC C 2-6: 2008 and 2009 Capital Cost by Rate Class

\$000	Residential	GS<50 kW	Total
Meter	\$ 12,925	\$ 1,642	\$ 14,568
Installation	\$ 2,643	\$ 141	\$ 2,784
Communications	\$ 388	\$ 8	\$ 396
Back office	\$ 1,107	\$ 21	\$ 1,129
Total	\$ 17,063	\$ 1,813	\$ 18,876

Table VEC C 2-7: 2008 and 2009 OM&A by Rate Class

	Residential	GS<50 kW	Total
Maintenance	\$ 71,638	\$ 2,297	\$ 73,935
Wide Area Network	\$ 530,804	\$ 5,976	\$ 536,780
Business Process Redesign	\$ 50,742	\$ 984	\$ 51,726
Customer Communication	\$ 345,623	\$ 7,665	\$ 353,278
Change Management	\$ -	\$ -	\$ -
Administrative Cost	\$ 142,806	\$ 2,670	\$ 145,476
Other AMI Expenses	\$1,057,353	\$ 7,389	\$1,064,742
Total	\$ 2,198,966	\$ 26,971	\$ 2,225,937

VECC has no submissions on the prudence of PowerStream's historic residential meter costs and although we have reviewed the confidential information on these costs, we will rely on Board Staff and its benchmarking analysis in this regard.

## Summary

VECC commends to the Board the approach of full cost causality in order to calculate and allocate Smart meter costs on a class-specific basis

The three rate rider components that Powerstream has proposed, if calculated on a class-specific basis, would result in revised rate riders that would be in force until all meters are installed in 2011 and the audit of SM costs has been done as part of the next cost of service rebasing application

Depending on whether the Board accepts Board Staff's position that OM&A costs are to be included only to the end of 2009 or up to April 2010 as proposed by Powerstream, the appropriate rate riders are as summarized below.

Table VECC 6-2: Comparison Smart Meter Rate Riders

Monthly BM Rate Riders	Acfiled	VECC 6a	Difference
SM Funding Adder - Residential	\$ 0.50	\$ 0.15	\$ (0.35)
SM Funding Adder - GS<=50kW	\$ 0.50	\$ 3.83	\$ 3.33
SM Funding Adder - GS>50kW	\$ 0.50	\$ -	\$ (0.50)
SM Funding Adder - Large Use	\$ 0.50	\$ -	\$ (0.50)
SM Actual Cost Recovery-Residential	\$ 0.37	\$ 1.35	\$ 0.98
SM Actual Cost Recovery- GS<=50 kW	\$ 0.37	\$ (0.73)	\$ (1.10)
SM Actual Cost Recovery- GS>50 kW	\$ 0.37	\$ -	\$ (0.37)
SM Actual Cost Recovery- Large Use	\$ 0.37	\$ -	\$ (0.37)
Smart Meter Disposition - Residential	\$ 1.45	\$ 1.40	\$ (0.05)
Smart Meter Disposition - GS<=50kW	\$ 1.03	\$ 1.54	\$ 0.51
<b>Total of Monthly BM Rate Riders</b>			
Residential	\$ 2.32	\$ 2.90	\$ 0.58
GS<=50kW	\$ 1.50	\$ 4.56	\$ 3.06
Other metered customers	\$ 0.87	\$ -	\$ (0.87)
<b>Total Change from Current BM Rate Riders</b>			
Total Change - Residential	\$ 0.51	\$ 1.09	\$ 0.58
Total Change - GS<=50kW	\$ 0.09	\$ 2.83	\$ 2.74
Total Change - Other metered customers	\$ (0.54)	\$ (1.81)	\$ (1.27)

Even though the rate riders are higher than calculated by PowerStream for the residential class, VECC submits that the approach and methodology outlined herein is based on sound principles of full cost causality.

## Bill impacts

The following table compares the bill impacts as per the Application with the bill impacts using the rate riders from Table VECC 6-2, column "VECC 6a" resulting from the calculation by rate class of each rate rider.

Table VECC 6-3: Bill Impact Comparison

Monthly Bill Impact	As filed	VECC 6-2
Residential \$ Increase (decrease)	\$ 0.58	\$ 1.23
Residential % Increase (decrease)	0.50%	1.15%
GS-50kW \$ Increase (decrease)	\$ 0.10	\$ 3.20
GS-50kW % Increase (decrease)	0.04%	1.18%

The primary cause of the higher Residential bill impacts is the Actual Cost Recovery rate rider which is to run from November 2010 to April 2011. VECC submits that this collection period should be increased to maintain residential bill impacts in line with those with the Application as filed.

**All of which is respectfully Submitted this 6<sup>th</sup> Day of October, 2010**