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October 14, 2011

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: Vulnerable Energy Consumers Coalition (VECC)
EB-2011-0128
PowerStream Inc. - Smart Meter Cost Recovery Application**

Please find enclosed the submisaiona of VECC in the above-noted proceeding.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

ONTARIO ENERGY BOARD

IN THE MATTER OF

the *Ontario Energy Board Act*, 1998, S.O. 1998, c. 15 (Schedule B), as amended;

AND IN THE MATTER OF an Application by PowerStream Inc. for an order or orders approving or fixing just and reasonable distribution rates related to Smart Meter deployment, to be effective November 1, 2011.

Submissions of Vulnerable Energy Consumers Coalition (VECC)

VECC will address the following matters in its submissions:

- Prudence Review of Smart Meter Costs
- Recovery of Smart Meter Costs
- Cost Allocation & Calculation of Smart Meter Rate Riders

As of April 30, 2011, PowerStream has substantially completed the mandated smart meter installations and all smart meter funding adders have ended.¹

For rate making purposes, PowerStream currently has two rate zones: North and South. In this application, PowerStream seeks to recover the revenue requirement related to smart meters installed in the North rate zone from inception (April 1, 2006) to April 30, 2011 and for smart meters installed in the South rate zone between January 1, 2010 and April 30, 2011.

Prudence Review of Smart Meter Costs

In this application, PowerStream seeks recovery of the costs for 69,393 smart meters installed in the North rate zone and 21,275 smart meters installed in the South rate zone.² The Board previously approved costs in the South rate zone to install 82,293 smart meters in 2007 and 137,356 smart meters in 2008 and 2009.³

Table 1 (below) summarizes the average capital costs per smart meter installed by customer class and rate zone in the current application.⁴

¹ Application (EB-2011-0128), Page 4

² Application (EB-2011-0128), Pages 17 & 30

³ Application (EB-2011-0128), Page 12

⁴ Application (EB-2011-0128), Page 17 & 30

Table 1: Average Smart Meter Capital Costs by Rate Zone

North Rate Zone						
Year	Res # of meters	Res \$/meter	GS<50 # of meters	GS<50 \$/meter	Total # of meters	Total \$/meter
2006 to end of 2010	63,159	\$130.35	3,301	\$535.28	66,460	\$150.46
Jan 1 to April 30, 2011	1,040	\$140.48	1,893	\$477.55	2,933	\$358.03
Total at April 30, 2011	64,199	\$130.51	5,194	\$514.24	69,393	\$159.24
South Rate Zone						
Year	Res # of meters	Res \$/meter	GS<50 # of meters	GS<50 \$/meter	Total # of meters	Total \$/meter
To Dec 31, 2010	3,202	\$326.30	7,867	\$632.82	11,069	\$544.15
Jan 1 to April 30 2011	1,268	\$272.53	9,388	\$518.05	10,656	\$488.83
Total at April 30, 2011	4,470	\$311.04	17,255	\$570.38	21,725	\$517.02

The Board's report, "Sector Smart Meter Audit Review Report", dated March 10, 2010, indicates a sector average capital cost of \$186.76 (based on 3,053,931 meters with a capital cost of \$570,339,200 as at September 30, 2009). PowerStream notes the industry average is expected to increase as many distributors had not installed the more expensive commercial meters as at September 30, 2009.⁵

In PowerStream's last Smart Meter Cost Recovery Application (EB-2010-0209) the average capital cost per meter was \$137.43 for the South rate zone for 2008 and 2009.⁶

In the current application, PowerStream's average capital cost per meter is \$159.24 in the North rate zone and \$517.02 in the South rate zone.⁷ The average cost per meter of the North rate zone is significantly less than the South rate zone.

⁵ Application (EB-2011-0128), Page 15

⁶ Application (EB-2010-0209), Page 12

⁷ Application (EB-2011-0128), Pages 17 & 30

In response to Board Staff interrogatory #8 (a), PowerStream indicates that the average cost per meter differs significantly between the North and South rate zones due to the mix of meter types installed, the variation in costs to install each meter and what part of the smart meter implementation plan is included in the application for each rate zone.

In its final submissions, Board Staff reproduced a table showing the summary of average installed costs per meter, by meter type, for smart meters installed in each rate zone and rate class. The table shows that the average cost per meter for each type of meter installation is consistent between the rate zones.

VECC finds PowerStream's explanation of the difference in average costs between the North and South rate zones reasonable and takes no issue on the costs included in this application for the deployment of smart meters.

Recovery of Smart Meter Costs

As per the Board's Guideline for Smart Meter Funding and Cost Recovery dated October 22, 2008 (G-2008-0002), PowerStream uses the established accounts 1555 and 1556 to record Smart Meter related capital and operating costs, respectively. In addition, PowerStream records revenues from Smart Meter Funding Adders in account 1555. PowerStream is seeking 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 application contains audited costs up to December 31, 2010 and 2011 costs - actual deferred capital and incremental operating, maintenance and administrative (OM&A) costs to April 30, 2011, and projected OM&A costs for the rest of 2011.⁸

The Board's Guideline G-2008-0002 states on page 11 that "An application for smart meter recovery must be based on costs already expensed (i.e. not forecast)..."

Further on page 22, the Guideline states "When applying for recovery of smart meter costs, a distributor should ensure that all cost information has been audited, including the smart meter related deferral account."

In its submission, Board staff refers to the Notes tab of version 2.0 of the Board's Smart Meter Model which states: The Board expects that the majority (i.e. 90% or more) of costs for which the distributor is seeking recovery will be audited. In all cases, the Board expects that the distributor will document and explain any differences between unaudited or forecasted amounts and audited costs.⁹

⁸ Application (EB-2011-0128), Page 4

⁹ Board Staff Submission, October 7, 2011, Page 5

North rate zone

Board Staff indicate that the total costs claimed for the North rate zone are consistent with Board policy as the documented unaudited actual and forecasted 2011 costs shown in the application do not exceed 10% of the total costs.¹⁰

For the North rate zone, PowerStream is seeking recovery of \$11,049,857 in capital costs from inception to April 30, 2011.¹¹ PowerStream indicates that the bulk of the capital costs (90.5%) are represented by the audited balances as at December 31, 2010.¹² In addition, PowerStream is seeking recovery of OM&A costs. A summary of the smart meter capital and operating costs for the North rate zone is shown below.

Table 2: Summary of Capital & Operating Costs – North rate zone

North rate zone – Total Capital Costs ¹³			%	Unaudited Costs	% of Total Costs Unaudited
At Dec 31, 2010	Actual Audited	\$9,999,761	90.50		
Jan 1 to April 30, 2011	Actual Unaudited	\$1,050,096	9.50	\$1,050,096	
Sub-Total		\$11,049,857	100.0		
North rate zone – Total Operating Costs ¹⁴			%		
2009	Actual Audited	\$6,704	0.90		
2010	Actual Audited	\$325,849	44.05		
Jan 1 to April 30, 2011	Actual Unaudited	\$148,347	20.05	\$148,347	
May 1, 2011 to December 31, 2011	Projected	\$258,765	35.00	\$258,765	
Sub-Total		\$739,665	100.0		
TOTAL		\$11,789,522		\$1,457,208	12.36

From inception to December 31, 2011, VECC concludes that PowerStream has OM&A costs of \$739,665. In terms of total combined capital and operating costs of \$11,789,522, VECC submits that the unaudited capital and operating costs in the application represent \$1,457,208 or more than 10% of the total costs.

VECC disagrees with Board Staff's position that unaudited costs in the North rate zone do not exceed 10%. VECC's calculation of unaudited costs, if correct, shows that the unaudited costs exceed 10%. As such, VECC submits that the

¹⁰ Board Staff Submission, October 7, 2011, Page 5

¹¹ Application (EB-2011-0218) Page 17, Table 1

¹² Application (EB-2011-0218) Page 17

¹³ Application (EB-2011-0128) Page 17, Table 1

¹⁴ Application (EB-2011-0128) Page 21, Table 4

calculation of the smart meter disposition rate rider should only include the audited costs up to December 31, 2010. Forecasted costs for 2011 should not be included in the calculation.

South rate zone

For the South rate zone, PowerStream is seeking recovery of costs between January 1, 2010 and April 30, 2011. Costs since program inception to 2009 have been approved in previous applications. A summary of the smart meter capital and operating costs for the South rate zone is shown below.

Table 3: Summary of Capital & Operating Costs – South rate zone

South rate zone – Total Capital Costs ¹⁵			%	Unaudited Costs	% of Costs Unaudited
At Dec 31, 2010	Actual Audited	\$6,023,222	53.6		
Jan 1 to April 30, 2011	Actual Unaudited	\$5,209,014	46.4	\$5,209,014	
Sub-Total		\$11,232,236	100.0		
South rate zone – Total Operating Costs ¹⁶			%		
2010	Actual Audited	\$556,293	47.4		
Jan 1 to April 30, 2011	Actual Unaudited	\$166,110	14.2	\$166,110	
May 1, 2011 to December 31, 2011	Projected	\$451,157	38.4	\$451,157	
Sub-Total		\$1,173,506	100.0		
TOTAL		\$12,405,742		\$5,826,281	46.96

In the current application, approximately 47% of the costs of smart meter costs in the South rate zone between January 1, 2010 and April 30, 2011 are unaudited.

Board Staff takes the position that when the total costs incurred in the South rate zone since program inception are included in the calculation, the unaudited costs in the current application represent less than 10% and therefore Board staff considers PowerStream's application to be consistent with the Board's policy.

VECC disagrees with Board Staff's position. VECC assumes that the Board's requirement for the majority of the costs to be audited in an application is to protect ratepayer interests and to properly assess if the costs requested for recovery are just and reasonable. Also, large variances post-audit can be avoided.

VECC believes that the Board's 10% threshold for unaudited costs applies to the current costs for which a distributor is seeking recovery and that costs approved by the Board in previous applications should not be included. Thus, VECC

¹⁵ Application (EB-2011-0128) Page 30, Table 12

¹⁶ Application (EB-2011-0128), Page 35, Table 16

submits that the current application should be treated as a stand-alone smart meter recovery application.

Since the unaudited costs exceed 10% of the total costs in the current application, VECC submits that the calculation of the smart meter disposition rate rider should only include the audited costs up to December 31, 2010. Forecasted costs for 2011 should not be included in the calculation.

PowerStream proposes to treat this application as its request for final disposition of smart meter costs. The capital costs of the remaining meters to be installed after April 30, 2011, will be treated as regular capital additions and included in rate base in the next cost of service application.¹⁷ An additional 3,141 smart meters are forecasted to be installed in 2011.¹⁸

VECC submits that if the Board only approves the cost recovery of audited costs to December 31, 2010, the final disposition of smart meter costs will take place in a future application. Accordingly, PowerStream should remove any forecasted capital expenditures and OM&A beyond December 31, 2010 and continue to track capital and OM&A in accounts 1555 and 1556, subject to final review in the next cost of service application.

Cost Allocation & Calculation of Rate Riders

For each rate zone, PowerStream is seeking approval of two proposed rate riders: a "Smart Meter Disposition Rate Rider" (SMDR) and a "Smart Meter Incremental Revenue Requirement (SMIRR) Rate Rider".

The SMDR is used when the Board approves smart meter capital and operating costs in accounts 1555 and 1556 outside of a cost of service proceeding.¹⁹

The SMIRR is a separate rate rider for the recovery of capital and ongoing operating costs and it provides a proxy for how the revenue requirement would be determined in a cost of service proceeding.²⁰

The revenue requirement calculation for each rate rider related to Smart Meters includes the standard elements of operating, maintenance and administrative (OM&A) expenses, depreciation, interest, PILs and rate of return.

For the SMDR, the revenue requirement is calculated up to the effective date of the SMIRR rate rider, which then provides the revenue requirement to fund the smart meter investment and related OM&A costs.

¹⁷ Application (EB-2011-0128), Page 13

¹⁸ VECC IR #1 (a), Table VECC 1-1

¹⁹ G-2008-0002, Page 11

²⁰ G-2008-0002, Page 13

Smart Meter Disposition Rate Raider

PowerStream proposes to establish a monthly rate rider to recover the revenue requirement associated with the smart meters less the revenue from the smart meter funding adder collected from all customers. The difference between these two amounts referred to as the “True-Up”, is the amount proposed for recovery/refund over a six month period from November 1, 2011 to April 30, 2012. A summary of smart meter costs in each rate zone is reproduced in table 4.

Table 4: Smart Meter Costs for Recovery to October 31, 2011 by Rate Zone²¹

	North rate zone	South rate zone
a) Revenue Requirement 2006	\$ 960	
b) Revenue Requirement 2007	\$ 2,225	
c) Revenue Requirement 2008	\$ 5,827	
d) Revenue Requirement 2009	\$ 169,160	
e) Revenue Requirement 2010	\$ 1,271,804	\$1,039,636
f) Revenue Requirement 2011 (to Oct 31/11)	\$ 1,663,157	\$ 1,637,891
g) Revenue Requirement Total (a+b+c+d+e+f)	\$ 3,113,133	\$2,677,527
h) Smart Meter Rate Adder collected (January 1, 2010 to December 31, 2010)	\$ (2,801,421)	(\$4, 718,561)
i) Carrying Cost	\$ (49,597)	(\$ 50,130)
j) Smart Meter True-up (g+h+i)	\$ 262,115	(\$2,091,164)

PowerStream proposes that the “Smart Meter True-Up amounts, \$262,115 recovery for the North rate zone and \$2,091,164 refund for the South rate zone, be allocated to the residential and GS<50 kW customer rate classes on the same proportion resulting from the cost allocation methodology used to calculate the SMIRR Rate Rider that is based on the capital costs of the meters installed in each class.

For the North rate zone, this cost allocation methodology results in an allocation of 77% for residential and 23% for GS<50 kW customer classes. For the South rate zone, this cost allocation methodology results in an allocation of 12.4% for residential and 87.6% for GS<50 kW customer classes.²²

VECC does not agree with this proposal.

PowerStream indicated in its last Smart Meter Cost Recovery proceeding that it tracks the revenue from the Smart Meter Funding Adder by rate class but the Board Guidelines G-2008-0002 do not require that Smart Meter costs be

²¹ Application (EB-2011-0128), Page 24 Table 5 & Page 38 Table 17

²² Application (EB-2011-0128), Pages 25& 39

segregated by rate class.²³

North Rate Zone

In response to VECC interrogatories to re-calculate the Smart Meter costs for recovery by customer class in the North rate zone, there are differences in the revenue requirement calculation for the Smart Meter Disposition Rate Rider due to the timing of capital additions by year by customer class and the exclusion of the Smart Meter funding adder collected from the GS>50 kW class.²⁴

Table 5 shows the difference in the True-Up allocation for the residential and GS< 50 kW customer classes based on the two cost allocation methodologies.²⁵ Under VECC's proposal, the costs allocated to the residential class decrease from 77% to 25% whereas the costs allocated to the GS<50 kW class increase from 22% to 75%.

VECC submits that this difference is significant.

Table 5: True-up Allocation and SMDR Calculation North Rate Zone

Per Application				VECC 3a	
Customer Class	# of Customers	True-up Allocation	Monthly Charge	True-up Allocation	Monthly Charge
Residential	64,830	\$201,871 (77%)	\$0.52	\$76,930 (25%)	\$0.20
GS<50 kW	5,886	\$60,245 (22%)	\$1.71	\$228,296 (75%)	\$6.46
Total	70,716	\$262,116		\$305,226	

South Rate Zone

Table 6 below shows that the difference in the True-Up allocation for the residential and GS< 50 kW customer classes in the South rate zone based on the two cost allocation methodologies.²⁶ Under VECC's proposal the amount to be refunded to the residential class increases by over \$3.2 million and instead of receiving a refund, over \$1.4 million is to be recovered from the GS<50 kW customer class.

VECC submits that this difference is significant.

Table 6: True-up Allocation and SMDR Calculation South Rate Zone

Per Application				VECC 4a	
Customer Class	# of Customers	True-up Allocation	Monthly Charge	True-up Allocation	Monthly Charge
Residential	226,121	\$(258,936)	\$(0.19)	\$(3,471,650)	\$(2.56)
GS<50 kW	24,190	\$(1,832,228)	\$(12.62)	\$1,486,286	\$10.24
Total	250,311	\$ 2,091,164		\$(1,985,364)	

²³ EB-2010-0290 VECC IRR # 1c

²⁴ VECC IRR # 3a, September 9, 2011

²⁵ VECC IRR # 3a, Table VECC 3-2, September 9, 2011

²⁶ VECC IRR # 4a, Table VECC 4-2, September 9, 2011

The methodology proposed by VECC results in a significant shift in costs from the residential customer class to the GS<50 kW customer class.

VECC submits that the principle to be applied should be full cost causality. The Actual Smart Meter Cost Recovery should be done by a class specific rate rider to reflect the costs for each customer class.

If the Board agrees with VECC that costs beyond December 31, 2010 should be excluded from the calculation because they have not been audited and the 10% threshold has not been met, VECC submits that the rate rider should be re-calculated as per VECC's allocation methodology based on audited costs to the end of 2010. It follows that the Actual Smart Meter Recovery model should be prepared for the GS>50 kW customer class. This class has contributed a Smart Meter Funding Adder amount and if smart meters are not being installed in this rate class, no costs would be allocated and the "True-Up" would return this amount plus carrying charges to this customer class.

VECC does not agree with Board Staff's position that since the Board has approved the approach proposed by PowerStream for previous smart meter applications, a change in cost allocation methodology should not be implemented now.²⁷ The Decision by one panel on an application does not bind the decision of another panel.

Smart Meter Incremental Revenue Requirement (SMIRR) Rate Rider

The SMIRR proposed in the application is derived from the 2011 revenue requirement associated with smart meters installed in each rate zone, and it will be in effect from November 1, 2011 until the implementation date for new rates as determined in PowerStream's next cost of service application.

PowerStream proposes to allocate the smart meter incremental revenue requirement for the North rate zone and the South rate zone to the residential and GS<50kW customer rate classes as follows:

- 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 PILs²⁸

²⁷ Board Staff Submission, October 7, 2011, Page 12

²⁸ Application (EB-2011-0128), Page 27

This cost allocation methodology results in an allocation of 77% for residential and 23% for GS<50 kW for the North rate zone, and 12.4% for residential and 87.6% for GS<50 kW customer classes for the South rate zone.²⁹

VECC disagrees with PowerStream's cost allocation proposal.

The response to VECC IRs # 3 and 4 asking PowerStream to re-calculate the SMIRR rate riders by customer rate class and rate zone shows that there are differences in the revenue requirement calculation for the SMIRR Rate Rider due to the timing of fixed asset additions. The timing differences increased the true-up revenue requirement and decreased the SMIRR rate rider. In its response, PowerStream indicated that it does not propose to amend its application to reflect this.³⁰ A comparison of the SMIRR calculations in the application and the recalculated SMIRRs for the North and South rate zones based on VECC's proposed allocation methodology are reproduced in Tables 7 and 8.

Table 7: SMIRR Allocation and SMIRR Calculation - North Rate Zone³¹

Per Application				VECC 5 (a)	
Customer Class	# of Customers	True-up Allocation	Monthly Charge	True-up Allocation	Monthly Charge
Residential	64,830	\$1,328,314	\$1.71	\$1,387,659	\$1.78
GS<50 kW	5,886	\$396,412	\$5.61	\$334,387	\$4.73
Total	70,716	\$1,724,726		\$1,722,046	

Table 8: SMIRR Allocation and SMIRR Calculation - South Rate Zone³²

Per Application				VECC 5 (a)	
Customer Class	# of Customers	True-up Allocation	Monthly Charge	True-up Allocation	Monthly Charge
Residential	226,121	\$166,212	\$0.06	\$390,031	\$0.14
GS<50 kW	24,190	\$1,176,116	\$4.05	\$977,917	\$3.37
Total	250,311	\$1,342,328		\$1,367,948	

Even though the Monthly Charge for the residential customer class increases under this scenario, VECC recommends the approach of full cost causality in order to calculate and allocate costs.

The average installed cost per meter for a single phase and 3-phase meter for the GS<50 kW class is under \$220 and \$566, respectively. The average installed cost for a standard residential meter is approximately \$101.³³

VECC submits that the only way to avoid undue cross subsidy is to provide the SMIRR rate rider on a class specific basis until rebasing occurs. VECC submits that the Board should direct PowerStream to amend its application and recalculate the SMIRR based on VECC's allocation methodology.

²⁹ Application (EB-2011-0128), Pages 25& 39

³⁰ VECC IRR# 4(c), Page 9

³¹ VECC IRR #5(a) Table 5-1

³² VECC IRR #5(a) Table 5-2

³³ Board Staff Submission, October 7, 2011, Page 3 Table 2

Summary

With respect to cost allocation, VECC's position continues to be that the principle of full cost causality should be applied, and the SMDR and SMIRR rate riders should be calculated by customer rate class using VECC's method to reflect the costs for each customer class.

In the alternative, if the Board finds as it did in PowerStream's last smart meter cost recovery application (EB-2010-0209), that a class specific calculation of the rate riders is impractical and not warranted, VECC submits that PowerStream's approach to use capital costs as the driver to allocate revenue requirement to each customer class is preferable over a cost allocation methodology that allocates uniform costs to all customers. PowerStream's approach provides less of a cost subsidy than allocating uniform costs to all customers.

As noted by PowerStream, many distributors had not installed the more expensive commercial meters as at September 30, 2009. The fact that many distributors still have to install the more expensive meters only exacerbates the cross subsidy problem.

Board approval of PowerStream's proposed cost allocation methodology for recovery of smart meter costs in this application has precedent value and if approved will reduce the harm to the residential customer class compared to the alternative method used by many distributors to allocate costs uniformly across customer classes.

VECC submits that if the Board approves PowerStream's approach to use capital costs as the driver to allocate revenue requirement to each customer class, the Board should direct all distribution companies to implement this approach on the basis that it provides a more fair allocation of costs.

All of which is respectfully submitted this 14th Day of October, 2011.