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March 23, 2012

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)
Midland Power Utility Corporation EB-2011-0434
Final Submissions of VECC

Please find enclosed the submissions of VECC in the above-noted proceeding. We have also directed a copy of the same to the Applicant.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

cc: Midland Power Utility Corporation
Ms. Phil Marley

EB-2011-0434

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 Midland Power Utility Corporation (Midland) for an order or orders approving or fixing just and reasonable distribution rates to reflect the recovery of costs for deployed smart meters, effective May 1, 2012.

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

Midland is seeking recovery of costs related to the installation of 6,828 smart meters as of December 31, 2011 which represents 100% of total meters.[1]

In this application, Midland seeks approval to recover the 2006 to December 31, 2011 revenue requirement related to the installation of 6,828 smart meters by December 31, 2011 (less the Smart Meter Funding Adder (SMFA) collected from 2006 to May 2012 via a Smart Meter Disposition Rider for the period May 1, 2012 to April 30, 2013.

In the event the Board is unable to issue its Decision and Order for rates effective May 1, 2012, Midland is requesting a $3.34 per month rate adder for all metered customers until the Decision is issued. The rate adder is based on the lower if the Smart Meter Incremental Revenue Requirement rate riders in the application.

Prudence Review of Smart Meter Costs

In response to Board Staff interrogatories (#2, 4, 5, 6, 9), Midland revised the total capital costs for all smart meters to $1,229,112 for costs related to minimum functionality resulting in an average capital cost per installed meter of $180.01, based on 6,828 installed smart meters. VECC produced Table 1 below to reflect these updated costs.[2] The average total cost per meter (capex + opex related to minimum functionality) is $201.81. VECC notes these cost include the more expensive and more difficult to install three phase meters. The average cost per installed meter including costs beyond minimum functionality is $221.39.

Appendix A of the Combined Proceeding Decision (EB-2007-0063, September 21, 2007) has complete data for 9 out of 13 utilities and shows the total cost per meter

[1] Application, 3. Status of Implementation of Smart Meter s, Page 5
[2] Response to Board Staff interrogatory #10

ranged from $123.59 to $189.96, with Hydro One Networks Inc. being the main exception at $479.47, due in part for the need for more communications infrastructure and increased costs to install smart meters for customers over a larger and less dense service area.[3]

Table 1: Average Cost per Installed Smart Meter[4]

	Total Costs to 2011	Average Cost to 2011	2012	Average Cost 2012	Total Cost	Average Cost
# of meters	6,828					
Installed Capital costs	$1,229,112	**$180.01**			$1,229,112	**$180.01**
Capital – Beyond Min Functionality	$44,107	**$6.46**	$18,032	**$2.64**	$62,139	$9.10
Total Capital					**$1,291,251**	**$189.11**
OM&A	$104,775	**$15.34**	$105,897	**$15.51**	$210,673	$30.85
OM&A - Beyond Min Functionality			$9,704	**$1.42**	$9,704	$1.42
Total OM&A					**$220,376**	**$32.27**
TOTAL UNIT COST	**$1,377,994**	**$201.81**	**$133,633**		**$1,511,627**	**$221.39**

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 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 is $226.92 (based on 4,382,194 meters (94% complete) with the total provincial investment in smart meter installation of $994,426,187).[5]

In considering the above, VECC submits Midland's total unit costs with and without the costs for expenses beyond minimum functionality are beyond the range established in EB-2007-0063 but consistent with most recent sector averages. VECC notes that $221.39 per meter includes costs beyond minimum functionality and almost half of the GS<50 kW meters installed are the more complex three phase meters.

[3] Board Staff Submission, Page 5
[4] Smart Meter Model march 9, 2012, Sheet 2
[5] Monitoring Report Smart Meter Investment – September 2010, March 3, 2011

Based on annual data from Sheet 2 of the updated Smart Meter Model in response to Board Staff IR #10, VECC calculates the average capital cost per meter by year in Table 2 below.

Table 2: Average Cost per Installed Smart Meter[6]

	2009	2010	2011	Total
# of meters installed	6,098	683	47	6,828
Capital Costs	842,695	269,241	80,937	$1,229,112
Avg Cost	$138.19	$394.20	$1,722.06	$180.01

VECC notes the cost per meter varies significantly for the years 2009 to 2011. VECC asks that Midland provide an explanation for the variance in costs per meter between 2009 and 2011 is in its reply submission.

In the application, Midland calculated the average cost of a smart meter for the residential class as $87 and $241 for the GS<50 kW class.[7] In response to Board Staff interrogatory #7, Midland provided the calculation that determined these costs which were factored into the calculation of the original rate riders. In Board Staff IR#7, Midland provided an updated breakdown of meter cost by customer class and the split between standard meters and the more costly three phase meters. The amounts are shown in Table 3 below produced by VECC. VECC notes that approximately 46% of the GS<50 kW meters required the installation of the more complex three phase meter. The table also includes the amounts from VECC IR#3 (b) regarding the average installed costs per meter.

Table 3: Average Cost Per Meter

Class	Meter Type	Quantity	Meter Cost	Average Cap Cost[8]	Installation	Installed Cost	Total Average Installed Cost[9]
Residential	Rex 2	6,086	$558,092	**$91.70**	$58,009	$616,101	**$101**
GS<50 kW	A3 Alpha	340	$151,531	$445.68		$151,531	$445.68
	Rex 2	402	$36,180	$90		$36,180	$90
Sub-total		742	$181,711	**$253**		$181,711	**$253**

In VECC's view, the average capital costs per meter for each customer class are reasonable.

[6] Smart Meter Model March 9, 2012, Sheet 2
[7] Application, 17. Smart Meter Rate Rider, Page 17
[8] Response to Board Staff Interrogatory #7
[9] Response to VECC interrogatory #3 (b)

Midland indicates that installation costs were reduced due to the use of internal staffing resources for the installation of GS<50 kW meters.[10] In response to VECC interrogatory #6 (b), Midland confirmed that Midland did not include any costs of installing 742 smart meters for the GS<50 kW class in this application. It is Midland's belief that rate riders should be calculated based on meter costs only and should not include installation costs. As such, the installation costs included in this application reflect incremental costs only and do not take into consideration internal staff installation costs. VECC provides comments on Midland's position under the Cost Allocation & Calculation of Rate Riders section.

Costs Beyond Minimum Functionality

Midland's application includes $ 71,843 for costs beyond minimum functionality (capital of $62,139 and OM&A of $9,704). In response to Board Staff interrogatory # 8 (d), Midland calculates the average cost as $10.53 per meter.

The Board's Guideline (G-2011-0001) indicates that a distributor may incur costs that are beyond the minimum functionality as defined in O. Reg. 425/06. Costs for CIS systems, TOU implementation, web presentment, etc. may be recoverable. A distributor must show how these costs are required for its smart meter program and how these costs are incremental.[11]

Midland indicates these costs are incurred to implement TOU rates, CIS enhancements and interfaces for web presentment and TOU maintenance fees, as well as customer education for TOU rates, all of which are required over and above Midland's normal operating costs.[12] In response to VECC interrogatory # 9, Midland confirms these costs would not have been incurred if the TOU rate structure and guidelines were not implemented.

VECC submits these costs are eligible for recovery and consistent with the Board's Guidelines.

Recovery of Smart Meter Costs

The application contains actual costs in the 1555 and 1556 deferral accounts. Midland's financial statements were last audited to year end December 2010. The 2011 balances in the original application are estimated year-end balances. The audit for year- end December 31, 2011 is on track to be finalized on March 23, 2012 and BDO Canada LLP has advised that there are no changes to the December 31, 2011 balances for accounts 1555 and 1556. Midland indicates that once the 2011 audit is finalized, 91% of total smart meter expenditures will be represented by audited amounts. Currently 79% is audited.[13]

[10] Application, 16. Cost Variance, Page 14
[11] G-2011-0001, Pages 15-17
[12] Response to Board Staff Interrogatory # 8 (a)
[13] Response to Board Staff Interrogatory # 2

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."

The Notes tab of version 2.17 of the Board's Smart Meter Model 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.

VECC submits that Midland should confirm in its reply submission that the 2011 revenues are actual revenues.

Cost Allocation & Calculation of Smart Meter Rate Riders

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

The SMDR recovers, over a specified time period, the variance between the deferred revenue requirement for the installed meters up to the time of disposition and the SMFA revenues collected and associated interest.[14]

The SMIRR is a separate rate rider when smart meter disposition occurs in a stand-alone application (outside of cost of service application) and is calculated as the proxy for the incremental change in the distribution rates that would have occurred if the assets and operating expenses were incorporated into the rate base and the revenue requirement. The SMIRR is calculated as the annualized revenue requirement for the test years for the capital and operating costs for smart meters.[15]

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.

<u>Cost Allocation</u>

The Smart Meter Recovery Model calculates SMDR and SMIRR rate riders based on all metered customers and does not deal with allocations between customer rate classes.

In this application, Midland proposes class specific rate riders based on an approach similar to the approach approved by the Board in PowerStream's 2010 smart meter application (EB-2010-0209). Specifically Midland proposes the following cost allocation

[14] G-2011-0001, Page 11
[15] G-2011-0001, Page 11

methodology:[16]

- Allocation of the return (deemed interest plus return on equity) and amortization based on CWMC (i.e. Customer Weighted Meter Cost) that reflects the average actual cost of installing smart meters for residential and GS<50 kW classes.
- Allocation of OM&A based on number of meters installed for each class
- Allocation of PILs based on the revenue requirement allocated to each class before PILs

Given the average installed meter cost for a GS<50 kW customer is more than double the average installed meter cost for a residential customer[17], VECC submits class specific rate riders that reflect the costs for each customer class is appropriate.

The Board's Guideline G-20111-0001 states "The Board views that, where practical and where data is available, class-specific SMDRs should be calculated based on full cost causality."[18]

In VECC interrogatory #8, VECC requested that Midland provide the calculations in the Smart Meter Model by customer class. Midland indicated in its response that it does not have the data available to provide the calculations in the model by customer class. In VECC IR#8, Midland re-calculated the rate riders to include installation costs with the cost of meters using average smart meter unit costs of $101 for the residential class and $253 for the GS<50 kW class. Midland submits it does not believe installation costs should form part of the allocation methodology.

In Board Staff interrogatory #11, Midland re-calculated the rate riders to reflect the change to $92 per residential meter and $253 per GS<50 kW meter class calculated in Board Staff IR#7 (noted above).

Table 4 below shows the original and revised SMDRs and SMIRRs based on the responses to Board Staff and VECC interrogatories

Table 4: SMDR & SMIRR Rate Riders: As Filed Compared to IR Responses

	SMDR ($/month)			**SMIRR ($/month)**		
Class	**As Filed**	**Board Staff #11**	**VECC IR#8**	**As Filed**	**Board Staff IR #11**	**VECC IR#8**
Residential	$0.36	($0.24)	($0.25)	$3.34	$3.18	$3.22
GS<50 kW	$0.84	($0.55)	($0.52)	$6.52	$6.17	$5.84

In its submission, Board Staff submits that the meter costs without installation costs is the more appropriate allocator. Midland did not include any costs of installing smart meters for the GS<50 kW class in this application as all installations were completed by Midland staff. Board staff submits this introduces a bias in costs and therefore a bias in

[16] Application, 17. Smart Meter Rate Rider, Page 17
[17] Response to VECC interrogatory #3 (b)
[18] G-2011-0001, Page 19

the allocation.[19]

VECC agrees with Board Staff and submits the meter costs without installation costs is the more appropriate allocator in this application. However, VECC notes this approach is neither full cost allocation nor the methodology used by PowerStream in its smart meter recovery application (EB-2010-0209).

Recovery of Reasonably Incurred Costs

VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an order of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

All of which is respectfully submitted this 23rd day of March 2012.

[19] Board Staff Submission, Page 7