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March 26, 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)
Horizon Utilities Corporation EB-2011-0417
Final Submissions of VECC

Please find enclosed the revised submissions of VECC in the above-noted proceeding that includes minor changes. Table 1 on Page 3 contained errors which have been corrected in this version.

Paragraph 3 under Prudence Review of Smart Meters discusses Table 1 and has also been corrected. We have also directed a copy of the same to the Applicant.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

cc: Horizon Utilities Corporation
Ms. Indy Butany-DeSouza

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 Horizon Utilities Corporation (Horizon) 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
- Request for New Deferral Account

Horizon is seeking recovery of costs related to the installation of 230,713 smart meters (forecasted) as of December 31, 2011 which represents 97.4% of meter installations for the residential, GS<50 kW and GS>50 kW customer classes. By the end of 2011, Horizon will have completed 99.8% of the residential, 73.4% of the GS<50 kW and 64.2% of the GS> 50 kW smart meter installations.¹ This leaves 297 hard-to-reach (HTR) residential² and 4,425 GS<50 kW³ meters outstanding. The remaining HTR residential and GS<50 kW single phase-meters are planned in to be installed in 2012. The remaining GS<50 kW three-phase meters will be converted to smart meters as they require re-verification (between 2012 and 2015).⁴

In this application, Horizon seeks:

- The Board's determination that all smart meter capital (\$27,343,350) and operating expenditures (\$5,265,133) to December 31, 2011 are prudent;
- Approval to recover the deferred revenue requirement related to smart meters costs from 2006 to the end of 2011 less the Smart Meter Funding Adder (SMFA) collected from May 1, 2006 to April 30, 2012 via a Smart Meter Disposition Rider (SMDR) for the period May 1, 2012 to April 30, 2012. Horizon is proposing that the SMDR be collected from the three customer classes that have installed smart meters.
- Approval of a Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) for the period May 1, 2012 to April 30, 2013, to recover the revenue requirement

¹ Application, Page 18

² Response to VECC interrogatory # 2 (d)

³ Sheet 2, Smart Meter Model

⁴ Application, Page 6

associated with smart meter costs forecasted for 2012 until these costs can be incorporated into distribution rates in Horizon's next Cost of Service rate application currently scheduled for 2015. The SMIRR will be collected from residential, GS< 50 kW and GS>50 kW customers.

- A new deferral account to record the revenue requirement on new smart meter expenditures for Residential and GS< 50 kW customers classes in 2012 and future years until the next rebasing in 2015. This deferral account will record the revenue requirement associated with the new capital expenditures after December 31, 2011. These costs are not included in the above SMDR and SMIRR recoveries.

Prudence Review of Smart Meter Costs

Horizon was one of the 12 licensed distributors to conduct smart meter activities. Horizon participated in the Board's 2007 Combined Proceeding. Horizon also collaborated with the Coalition of Large Distributors (CLD) regarding procurement and shared knowledge regarding implementation challenges and successes to maximize cost efficiency through the implementation of new processes and technologies. In the combined proceeding, the Board determined that the procurement process used by the CLD was prudent. Horizon utilizes Elster Canadian Metering Company Inc. to procure its AML system and was able to receive the same new and reduced pricing arrangement received by Toronto Hydro-Electric System Limited in 2008 resulting from a new RFP proposal for metering.

TOU billing was required to be in place for all of Horizon's residential and GS<50 kW customers by June 2011.⁵ Horizon successfully migrated these customers to TOU rates by June 2011.⁶ In response to VECC interrogatory #1, Horizon provided a comparison of smart meter capital and OM&A forecasts in previous applications to the amounts in the current application and variances were explained. VECC takes no issue with Horizon's comparative analysis.

Horizon calculates the capital expenditures per smart meter as \$118.52.⁷ VECC produced Table 1 below based on Sheet 2 of the Smart Meter Model to show the total average costs per installed meter. VECC calculates the average total cost per installed meter to the end of 2011 including costs beyond minimum functionality as \$141.33. VECC notes Horizon updated the number of installations to the end of 2011 in response to VECC interrogatory #2 to reflect minor increases. The forecast for residential customers in 2012 to 2013 also increased due to higher than anticipated customer growth in 2011. VECC's table does not reflect these changes as the impact on the analysis is immaterial.

Appendix A of the Combined Proceeding Decision (EB-2007-0063, September 21, 2007) compares data for 9 out of 13 utilities and shows the total cost per meter ranged from \$123.59 to \$189.96, with Hydro One Networks Inc. being the main exception at

⁵ Board's Final Determination to Mandate Time-of-Use Pricing (EB-2010-0218)

⁶ Application, Page 19

⁷ Application, Page 15

\$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.⁸

Table 1: Average Cost per Installed Smart Meter⁹

	Total Costs to 2011	Average Cost to 2011	2012	Total Avg Cost	Comment
# of meters	230,713		4,698		
Installed Capital costs	\$26,758,443	\$115.98	\$2,729,880	\$581.07	Proposal to track costs in new Deferral Account
Capital – Beyond Min Functionality	\$584,907	\$2.53			
Total Capital	27,343,350	\$118.51		\$118.51	
OM&A	\$4,860,035	\$21.06	\$876,662	\$3.80	
OM&A - Beyond Min Functionality	\$405,098	\$1.76			
Total OM&A	\$5,265,133	\$22.82		\$22.82	
TOTAL UNIT COST	\$32,608,483	\$141.33		\$145.13	

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).¹⁰

In considering the above, VECC submits Horizon's average costs are within the range established in EB-2007-0063 and significantly less than the most recent sector averages. VECC notes that \$141.33 per meter includes costs beyond minimum functionality and approximately 40% of the GS<50 kW meters installed are the more complex three phase meters.¹¹

⁸ Board Staff Submission, Page 5

⁹ Smart Meter Model, Sheet 2

¹⁰ Monitoring Report Smart Meter Investment – September 2010, March 3, 2011

¹¹ Response to VECC Interrogatory #3

Based on annual data from Sheet 2 of the Smart Meter Model VECC calculates the average capital cost per meter by year in Table 2 below.

Table 2: Average Cost per Installed Smart Meter¹²

	2007	2008	2009	2010	2011	Total
# of meters installed	60,641	79,696	79,745	7,143	3,488	230,713
Capital Costs	\$7,679,949	\$10,547,660	\$6,043,663	\$2,239,718	\$832,359	\$27,343,349
Avg Cost	\$126.65	\$132.35	\$75.79	\$313.55	\$238.64	\$118.51

VECC notes the capital cost per meter varies significantly for the years 2008 to 2011. VECC asks that Horizon provide an explanation for the variance in costs per meter between 2008 and 2011 in its reply submission.

Costs Beyond Minimum Functionality

Horizon's application includes \$990,005 for costs beyond minimum functionality (capital costs of \$584,907 and OM&A costs of \$405,098). Horizon indicates the total of these expenditures represents 3% of total smart meter program spending.

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.¹³

Horizon indicates that as one of the first utilities in Ontario to begin billing customers on TOU rates, it was necessary to incur costs related to TOU rate implementation, CIS system upgrades, web presentment, and integration with the provincial MDM/R that were outside of normal operating costs. Horizon was also one of the first LDCs to work with the IESO toward the testing and refinement of the MDM/R. Horizon submits these investments were necessary for it to meet customer expectations and the provincial mandate of TOU implementation.¹⁴ Horizon confirms these costs were not included in its 2008 or 2011 Cost of Service applications (EB-2007-0697 and EB-2010-0131, respectively), as part of Customer Service expenses.¹⁵

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

Recovery of Smart Meter Costs

¹² Smart Meter Model, Sheet 2

¹³ G-2011-0001, Pages 15-17

¹⁴ Application, Page 28

¹⁵ Response to VECC interrogatory # 6

In the original application filed on December 13, 2011, 93% of all costs are audited. The expenditure for all years up to and including 2010 are based on audited results. The costs for 2011 are based on actual expenditures to September 30, 2011, with projections to December 31, 2011. These amounts are subject to audit in early 2012. SMFA collections and the revenue requirement calculations for January to April 2012 will continue to be forecasted values. Horizon indicates since the SMFA is billed to all customers and very little growth is expected in the first four months of 2012, these amounts can be estimated with a high degree of accuracy.¹⁶ Horizon anticipates being able to provide 2011 audited results during the course of the disposition of this Application. This will result in more than 99% of the costs subject to the prudence review having been audited.¹⁷ VECC submits Horizon should provide audited 2011 results in its reply submission if available.

Cost Allocation & Calculation of Smart Meter Rate Riders

Horizon 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.¹⁸

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.¹⁹

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.

Cost Allocation

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 accordance with the Board’s Guideline that in general the cost allocation methodology should be the same for the SMDR and SMIRR²⁰, Horizon proposes a

¹⁶ Application, Page 10

¹⁷ Application, Page 10

¹⁸ G-2011-0001, Page 11

¹⁹ G-2011-0001, Page 11

²⁰ G-2011-0001, Page 21

SMDR true-up based on the same methodology used to calculate the SMIRR rate rider.²¹

In this application, Horizon proposes class specific rate riders for the three customer classes that have installed meters based on the following SMIRR cost allocation methodology:²²

- Allocation of the return (deemed interest plus return on equity) and amortization based on the capital costs of the meters installed for each class.
- Allocation of OM&A based on number of meters installed for each class.
- Allocation of PILs based on the revenue requirement derived for each class before PILs.

Given the average cost per installed meter for a residential customer is \$98.79 and GS<50 kW and GS>50 kW meters range from \$161.05 to \$722.41²³, 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."²⁴

In response to VECC interrogatory #5, Horizon provided the calculations in the Smart Meter Model by customer class.

Table 4 below shows the original and revised SMDRs and SMIRRs based on the responses to VECC IR#5.

Table 4: SMDR & SMIRR Rate Riders: As Filed Compared to VECC IR#5

Class	SMDR (\$/month)		SMIRR (\$/month)	
	As Filed	VECC IR#5	As Filed	VECC IR#5
Residential	\$0.11	(\$0.61)	\$1.48	\$1.47
GS<50 kW	\$0.26	\$7.61	\$3.59	\$3.62
GS>50 kW	\$0.38	\$10.63	\$5.13	\$5.40

Horizon submits that the methodology used in its application is appropriate and is not proposing to amend its application to reflect this purpose.

In its submission, Board staff submits that the class-specific SMDRs and SMIRRs as provided in the Application have been calculated appropriately and in accordance with the methodology approved by the Board for PowerStream's 2011 application in EB-2011-0128. Board staff acknowledges that the approach documented in VECC IR # 5 is reasonable, but is also dependent on assumptions about the quality of the data recorded at a customer class level.

²¹ Application, Page 33

²² Application, Page 34

²³ Response to VECC interrogatory #3 (b)

²⁴ G-2011-0001, Page 19

VECC does not support Horizon's cost allocation proposal.

VECC notes that there are differences in the Smart Meter True-Up allocation between customer classes under VECC's proposed cost allocation compared to Horizon's methodology. VECC submits this difference is significant.

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.

VECC submits the only way to avoid undue cross subsidy is to provide the rate riders on a class specific basis. VECC submits the Board should approve VECC's proposed cost allocation methodology and direct Horizon to amend its rate riders.

Request for New Deferral Account

Horizon has not included costs for smart meters forecasted to be deployed in 2012 due to customer growth. Board Staff notes that this approach is consistent with what the Board has approved for final smart meter disposition in recent applications, where costs to the end of 2011 were included in the determination of the SMDR. Board Staff also notes that in other applications currently before the Board, other distributors have included both the capital costs and forecasted number of new smart meters installed due the customer growth in the determination of the SMIRR. Board staff submits both approaches are acceptable as long as costs and demand (number of customers) are for the same period and the unaudited costs for both 2011 and 2012 are less than 10% of the total costs of the program.²⁵

In this application, Horizon requests the approval of a new deferral and variance account (or continuation of the existing deferral and variance accounts) to record the revenue requirement associated with the estimated capital cost of \$2,729,880 to install the remaining residential and GS<50 kW smart meters in 2012, 2013 and 2014. The account is to remain in effect from 2012 until its next cost of service application planned for 2015 at which time these costs would be considered for disposition. The capital cost of future GS>50 kW meters will not be included in this account.

Horizon indicates approximately 300 remaining hard-to-reach residential and GS<50 kW single-phase meters are planned to be installed in 2012 and the remaining GS<50 kW three-phase meters will be converted to smart meters as they require re-verification (between 2012 and 2015).²⁶ Sheet 2 of the Smart Meter Model indicates the total of planned installations (residential and GS<50 kW meters) over the period 2012 to 2014 is 4,698 and the majority of the remaining installations (4,425) are in the GS<50 kW class and require complex poly phase meters compatible with three phase services which are more expensive.²⁷

²⁵ Board Staff Submission, Pages 6-7

²⁶ Application, Page 6

²⁷ Response to Board Staff Interrogatory # 3

Board Staff submits that Horizon's proposal is inconsistent with the Board's Smart Meter Guidelines, and even with the Board's general policy and practice for rate setting generally. Board Staff indicates that once smart meter deployment was completed, it was envisioned that any smart meters installed would become part of regular rate base and the capital-related and operating expenses would be recovered through existing rates, just as is the case for traditional distribution assets.

Board Staff submits that Horizon's proposal for a new deferral and variance account is contrary to both Guideline G-2011-0001 and the Board's practice and policy of rate regulation and should be denied.

The Board suggests that one option is for the estimated costs to be factored into the 2012 capital and operating expenses and the class-specific SMIRRs re-calculated on this basis.

The Board's Guideline (EB-2011-0001) says "If a distributor seeks approval for costs related to 100% smart meter deployment, any capital and operating costs for smart meters that are installed beyond 2012 test year (i.e. for new customers) should not be recorded in accounts 1555 and 1556.

Horizon takes the position that while the number of outstanding meters is relatively small (2.6% remaining), 100% deployment has not taken place. Horizon submits this approach is consistent with other smart meter recovery applications where distributors have exceeded 50% deployment but less than 100% deployment and continued to track costs in subsequent years in accounts 1555 and 1556.

VECC agrees this application does not reflect 100% deployment. VECC supports Horizon's request to track the costs for 2012 to 2014 in a deferral account (continuation of existing accounts) for disposition in its next COS application in 2015. In VECC's view this is fair to both the utility and ratepayers.

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 26th day of March 2012.