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March 22, 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)
Welland Hydro-Electric System Corp. EB-2011-0415
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: Welland Hydro-Electric System Corp.
Mr. Wayne Armstrong

EB-2011-0415

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 Welland Hydro-Electric System Corp. (Welland) 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

Welland is seeking recovery of costs related to the installation of 21, 892 smart meters (21,520 eligible customers) installed from 2009 to 2011.[1] Welland has not forecasted the installation of additional meters in 2012. No further capital expenditures will be charged effective January 1, 2012.[2]

In this application, Welland seeks approval to recover the January 1, 2007 to December 31, 2011 revenue requirement related to the installation of 21, 892 smart meters by December 31, 2011 (less the Smart Meter Funding Adder (SMFA) collected from May 1, 2006 to April 30, 2012) via a Smart Meter Disposition Rider for the period May 1, 2012 to April 30, 2013.

Welland also seeks approval of a Smart Meter Incremental Revenue Requirement Rate Rider for the period May 1, 2012 to April 30, 2013, to recover the revenue requirement associated with smart meter operating costs forecasted for 2012 until these costs can be incorporated into distribution rates in Welland's next Cost of Service rate application currently scheduled for 2013.

Prudence Review of Smart Meter Costs

Welland's application includes total capital costs for all smart meters ($3,037,636) and an average cost per installed meter of $138.76, based on 21,892 installed smart meters, as shown in Table 1 below.[3] Based on annual data from Sheet 2 of the Smart Meter Model, VECC calculated the average capital cost per meter by year.

[1] Application, 2) Smart Meter Costs, Page 4
[2] Application, 4) Smart Meter Incremental Revenue Requirement Rate Rider Calculation, Page 8
[3] Application, 2) Smart Meter Costs, Table 1, Page 5

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

	2009	2010	2011	2012	Total
Capital costs	2,409,332	78,685	549,629		$3,307,636
# of meters installed	20,228	455	1,209		21,892
Cost per Meter	$119.11	$172.93	$454.61		**$138.76**
Incremental O&M 2012 Projected				$176,775	$8.07
Total Cost per Installed Meter					**$146.83**

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 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.[5]

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).[6]

In considering the above, VECC submits Welland's total average costs per installed meter are lower than recent sector averages and within the range established in EB-2007-0063.

Welland submits its total cost of $146.83 per installed meter includes the more difficult and more expensive three phase meters and notes installation costs for these meters would also increase compared to the initial mass deployment where there were

[4] Smart Meter Model, Sheet 2
[5] Board Staff Submission, Page 6
[6] Monitoring Report Smart Meter Investment – September 2010, March 3, 2011

economies related to volume.

In Appendix G, Welland provides a breakdown of capital costs by customer class and shows the split between standard meters and the more costly three phase meters that were not purchased until 2011. The actual number of meters in each class is known and the associated costs (meters/installation) have been split accordingly and all other costs were split between classes based on meters in each class. This results in an average capital/meter of $127.77 for residential customers and $267.88 for GS<50 kW customers. Based on interrogatory responses, these figures have been updated to $127.20 for residential customers and $263.37 for GS<50 kW customers.[7] In VECC`s view, the average capital costs per meter for each customer class are reasonable.

VECC agrees with Board Staff that Welland's smart meter costs are, if anything, understated based on the reasons noted in the submission by Board Staff.[8]

VECC notes the cost per meter varies significantly for the years 2009 to 2011, due in part to the more costly installations in 2011. VECC asks that Welland provide an explanation for the variance in costs per meter between 2009 and 2010 in its reply submission.

Recovery of Smart Meter Costs

The application contains actual costs in the 1555 and 1556 deferral accounts audited by Welland's external auditor to October 31, 2011[9] and forecasted amounts for November and December 2011. In response to Board Staff interrogatory #6, Welland updated the model to include 2011 Full Year Audited Actual results which resulted in slight decreases in both capital and OM&A costs for 2011.

Cost Allocation & Calculation of Smart Meter Rate Riders

Welland 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.[10]

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

[7] Response to Board Staff Interrogatory # 9 (a), Appendix E
[8] Board Staff Submission March 19, 2012, Pages 6-7
[9] Application, Page 11
[10] G-2011-0001, Page 11

requirement. The SMIRR is calculated as the annualized revenue requirement for the test years for the capital and operating costs for smart meters.[11]

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 uniform rate riders and does not deal with allocations between customer rate classes. In this application, Welland proposes a uniform SMDR of ($0.24) per month and a uniform SMIRR of $2.34 per month for both the residential and GS<50 kW customer classes based on the values calculated in the model.[12]

Welland also provided the Board with two alternatives for calculating the SMDR and SMIRR rate riders. The first is based on a review of actual smart meter costs and the second is based on information from the 2006 Cost Allocation Module.[13] In accordance with the Board's Guideline G-2011-0001[14], Welland proposes the same cost allocation methodology for both the SMDR and SMIRR rate riders.

Welland argues that using a five year old cost allocation model to apportion capital costs based on conventional meters is inappropriate, and that this methodology assigns 67.2% of the costs to 92.1% of the meters. Welland submits that should the Board decide against the uniform SMIRR and SMDR rate riders, the Board should use the rate riders calculated based on estimated capital split as per Appendix F, Part A for the SMIRR rate rider and Appendix H for the SMDR rate rider.

In response to Board Staff interrogatory #8 regarding why it prefers uniform rate riders, Welland indicated its main concern is the age of its existing Cost Allocation model (2006) and the unknown changes on revenue to cost ratios which will result from the new model to be filed with the 2013 COS application. Welland was taking a conservative view and recommended a uniform charge until the 2013 Cost Allocation Model is completed.

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[15], VECC disagrees with Welland's preferred cost allocation proposal based on uniform rates.

In response to Board Staff Interrogatory #8, Welland takes the position that it could not support a split based on the 2006 cost allocation model. VECC supports Welland's position and submits rate riders based on the 2006 cost allocation model should not be considered in this application as the cost allocation data is outdated.

[11] G-2011-0001, Page 11
[12] Welland_SmartMeterModel_20111205
[13] Application, 7) Cost Allocation, Page 12
[14] G-2011-0001, Page 21
[15] Application, Appendix G; Board Staff IR 9 (a), Appendix E

In response to Board Staff interrogatory #9 to update the model as a result of interrogatory responses, Welland incorporated corrections in the revised model based on responses to Board Staff interrogatories #5, 6 and 7. The model was updated to include: interest on the SMFA to only April 30, 2012; monthly OM&A and depreciation/amortization expense data from Sub-Account 1556 records; actual smart meter revenue collected as of December 31, 2011 and increased customer counts resulting in increased forecasted revenue from January to April 2012.

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."[16]

In response to VECC interrogatory # 1A, Welland calculated class-specific SMDR and SMIRR rate riders based on smart meter model results by customer class.

Table 2 below shows the original and revised SMDRs and SMIRRs based on the responses to Board Staff and VECC interrogatories

Table 2: SMDR & SMIRR Rate Riders: As Filed Compared to IR Responses

	SMDR ($/month)			**SMIRR ($/month)**		
Class	**As Filed - Uniform**	**As Filed - Estimated Capital Cost by Class**	**Board Staff IR #9 & VECC IR#1**	**As Filed - Uniform**	**As Filed - Estimated Capital Cost by Class**	**Board Staff IR #9 & VECC IR#1**
Residential	($0.24)	($0.28)	($0.24)	$2.34	$2.21	$2.18
GS<50 kW	($0.24)	$0.27	($0.30)	$2.34	$3.86	$3.95

Welland submits the rate rider alternative in the original application, based on estimated capital split, used percentage of meters installed by year which is not as accurate as performing a smart meter model by customer class as per VECC IR#1A. VECC submits the only way to avoid undue cross subsidy is to approve class specific rate riders based on VECC's proposed cost allocation methodology to reflect the costs for each customer class. VECC submits the Board should approve the cost allocation proposed by VECC.

In this application VECC does not support uniform rate riders or rate riders based on the 2006 cost allocation model, for the reasons noted above.

With respect to the SMFA, the actual smart meter revenue collected as of December 31, 2011was updated to 1,341,953, a slight decrease from the $1,352,032.71 in the original application.[17] In calculating the SMDR rate rider, Welland split the smart meter revenue collected by customer class based on the percentage of customers as these

[16] G-2011-0001, Page 19
[17] Welland_ Smart Meter Model_20111205, Sheet 9,

amounts have not been recorded by customer class.[18]

In the application, Welland indicates the SMFA and carrying costs are based on actual amounts collected from customers. Revenues collected from the GS>50 kW and Large Use customer classes have been apportioned based on revenues collected in the residential and GS<50 kW classes.[19]

In its final submissions, Board Staff indicates that Welland has apportioned the SMFA revenues from other metered customers to the residential and GS<50 kW classes in a manner which Board Staff believes is consistent with the PowerStream Decision (EB-2011-0128). In the PowerStream Decision (Page 13), the Board directed PowerStream to allocate the smart meter adder amounts collected from the GS.50 kW and Large Use customer classes evenly to the residential and GS 50 classes when calculating the true-up for the SMDR. The Board concludes this approach was reasonable because the amounts involved are not significant enough to warrant a more precise allocation. In VECC's view, Welland's approach differs from the PowerStream Decision.

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 21st day of March 2012.

[18] Response to VECC interrogatory #1 (c)
[19] Application, 7) Cost Allocation, Page 13