PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DEFENSE DE L'INTERET PUBLIC

ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7
Tel: (613) 562-4002. Fax: (613) 562-0007. e-mail: piac@piac.ca. http://www.piac.ca

Michael Buonaguro
Counsel for VECC
(416) 767-1666

March 17, 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)
Lakeland Power Distribution Ltd. EB-2011-0413
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: Lakeland Power Distribution Ltd.
Ms. Margaret Maw

EB-2011-0413

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 Lakeland Power Distribution Ltd. (Lakeland) 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
- Inclusion of 2012 Costs and Demand for Customer Growth

As of September 30, 2011, Lakeland has installed a total of 9,466 smart meters which represent 100% of its residential and GS<50 kW meters in service. Lakeland forecasts growth of 10 customers per month to the end of 2011 bringing the total meters installed by December 31, 2011 to 9,947. In 2012, Lakeland forecasts to install an additional 123 meters by December 31, 2012, bringing the total installed count to 9,620. Operating and capital costs beyond 2012 will be included in the 2013 rate application.[1]

In this application, Lakeland seeks approval to recover the 2006 to December 31, 2011 revenue requirement related to the installation of 9,497 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. Lakeland 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 costs forecasted for 2012 (123 additional meters) until these costs can be incorporated into distribution rates in Lakeland's next Cost of Service rate application in 2013. Lastly, Lakeland seeks to terminate its current SMFA from $2.50 to $0.00 per metered customer effective May 1, 2012 to reflect the smart meter costs approved for recovery through the rate riders above.

Board Staff notes in its submission dated March 13, 2012 that approval of the termination of Lakeland's SMFA is not required in this application as this was approved as part of Lakeland's 2011 EDR IRM3 rates application (EB-2010-0096).

[1] Application, Manager's Summary, Smart Meter Program Status

Prudence Review of Smart Meter Costs

Lakeland participated in a collaborative initiative with other local distribution companies within the Cornerstone Hydro Electric Concepts Association (CHEC) to share knowledge and information in the development of project plans, RFPs and contract evaluations related to the implementation of smart meters. CHEC is a not-for-profit member owned organization that provides value added services for its LDC members. Twelve LDCs form CHEC and represent a customer base of approximately 100,000. CHEC's goal is to reduce costs and provide savings through joint purchasing of goods and services with its members.[2] In response to VECC interrogatory # 13, Lakeland identified one source of cost savings and operational benefits that have informational value, as a result of smart meter implementation.

Table 1 (below) summarizes the average total costs per meter as $265.90 (capital + opex) and average capital costs only per meter of $237.75 as provided in Lakeland's response to Board Staff Interrogatory # 14. Using the data provided in this response, VECC provides a further breakdown (italicized) to show the average costs per meter per year based on total costs (capex and opex) and capex only.

Table 1: Lakeland's Average Smart Meter Costs by Year

	2007	2008	2009	2010	2011	2012	Total
Capital	$41,990	$64,725	$1,630,024	$452,112	$81,221	$17,107	$2,287,179
OM&A			$31,283	$53,427	$79,846	$106,250	$270,806
# of Smart Meters			8,945	421	131	123	9620
Capex + Opex			$1,661,307	$505,539	$161,067	$123,357	$2,557,985
Avg Cost/meter (capex+ opex)							**$265.90**
Capex only/meter							**$237.75**
Total costs/meter (capex+ opex)			*$185.72*	*$1,200.80*	*1,229.52*	*$1,002.90*	***$265.90***
Capex only/meter			*$182.23*	*$1,073.90*	*$620.00*	*$139.08*	***$237.75***

VECC notes as did Board Staff in their submissions regarding this application that Lakeland's average total costs per meter are higher than for most utilities. Appendix A of the Combined Proceeding Decision (EB-2007-0063, September 21, 2007) with complete data for 9 out of 13 utilities, 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.[3]

[2] Manager's Summary, Collaboration of LDCs
[3] Board Staff Submission, Pages 5-6

The Board's report, "Sector Smart Meter Audit Review Report", dated March 31, 2010, indicates a sector average capital cost of $186.76 (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).[4] In considering the above, VECC submits Lakeland's costs are higher than recent sector averages.

Lakeland indicates the average cost to install a 1 phase meter and 3 phase meter is $123.17 and $361.00, respectively for the residential and GS<50 kW customer classes.[5] Based on the mix of meter types installed and the and the number of meters installed for each customer class, this works out to an average capital cost (installed) of $139.32 for residential and $209.03 for GS<50 kW customers.

In response to Board Staff interrogatory #14 (b), Lakeland provides its geographic circumstances (rocky and heavily forested terrain in Muskoka, island and rural services) to explain its higher total costs per meter. In response to Board Staff interrogatory # 2, Lakeland provides a summary of the difficult terrain in its service area and the need for a high volume of collectors and repeaters (increased capital costs) due to its large non-contiguous geographic area servicing five separate distinct municipalities.

VECC accepts Lakeland's explanations for the increased costs. However, based on VECC's calculation of average costs by year above for 2007 to 2012, VECC notes the costs vary significantly by year. VECC asks that Lakeland include an explanation for this in its reply submission.

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), Lakeland uses the established accounts 1555 and 1556 to record smart meter related capital and operating costs, respectively. In addition, Lakeland records revenues from Smart Meter Funding Adders in a sub-account of account 1555. Lakeland 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.

[4] Monitoring Report Smart Meter Investment – September 2010, March 3, 2011
[5] Response to VECC Interrogatory 1

The application contains actual costs in the 1555 and 1556 deferral accounts taken from Lakeland's audited financial records as at December 31, 2010, and projected costs for meters installed in 2011 and 2012.[6]

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.[7]

VECC notes the forecasted 2011 costs ($161,066) and forecasted 2012 costs ($123,357) totaling $284,423 represent 11.11 % of the total costs ($2,557,984) and approximately 89% of the costs have been audited.[8] VECC submits it is reasonable to conclude the majority of the costs have been audited.

Cost Allocation & Calculation of Smart Meter Rate Riders

Lakeland 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.[9]

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.[10]

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.

[6] Application (EB-2011-0413), Smart Meter Costs
[7] Application (EB-2011-0413), Smart Meter Costs
[8] Application (EB-2011-0413), Smart Meter Costs
[9] G-2011-0001, Page 11
[10] G-2011-0001, Page 11

Cost Allocation

In accordance with the Board's Guideline G-2011-0001, Lakeland proposes the same cost allocation methodology for both the SMDR and the SMIRR.[11]

Lakeland proposes to allocate the revenue requirement between the residential and GS<50 kW customer classes (the classes which received the smart meters covered by the rate rider) 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 Weighted Average of the Residential and GS<50 kW classes 1860 Customer Weighted Meter Capital (CWMC) allocators in the 2006 Cost Allocation Review;

- 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; and

- Smart Meter Funding Adder collected, including carrying costs, has been allocated based on the revenue requirement allocated to each class before PILs.[12]

VECC disagrees with Lakeland's cost allocation proposal.

VECC asked Lakeland in interrogatory # 12 to re-calculate class specific SMDRs and SMIRRS based on the costs for each class. In its submission, Board Staff noted that Lakeland only provided Sheet 2 of the class-specific smart meter models. As such, Board staff is unable to ascertain whether the class-specific models include the corrections to the calculations in the model noted in Board Staff interrogatories #7, 8, 9, 10, 11 and 13 that were incorporated in a revised smart meter model in response to Board Staff Interrogatory # 15. Table 2 below shows the original and revised SMDRs and SMIRRS based on the responses to Board Staff and VECC interrogatories. Board Staff suggests that Lakeland confirm the rate riders it is proposing in its reply submission and in the absence of further information, Board Staff submits the revised rate riders provided in response to Board Staff interrogatory # 15 are the best documented and accurate, for consideration by the Board.[13]

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

	SMDR($/month)			SMIRR ($/month)		
Class	**As Filed**	**Board Staff IR #15**	**VECC IR #12**	**As Filed**	**Board Staff IR #15**	**VECC IR #12**
Residential	1.20	1.25	1.07	3.17	3.22	3.45
GS<50 kW	2.21	2.31	2.83	5.61	5.73	4.20

[11] G-2011-0001, Page 21
[12] Application, Smart Meter Disposition Rate Rider Calculation
[13] Board Staff Submission, Page 5

VECC submits the SMDR and SMIRR rate riders based on the costs for each class (VECC IR #12) need to incorporate the corrections noted by Board Staff. If the rate riders calculated under VECC IR #12 do not include Board Staff's corrections, VECC submits Lakeland should file revised smart meter models with its reply submission that incorporate all of the Board's corrections and provide all of the sheets in the smart meter model to support class specific rate riders based on costs for each class as proposed by VECC in IR #12**.**

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."[14]

VECC notes that based on the proposed allocation methodology in VECC IR#12 (that is subject to revision to incorporate Board Staff's corrections to the model) there is a shift in costs between the customer classes. The SMDR monthly charge for the residential class decreases in comparison to the riders calculated under Board Staff IR#15, whereas the SMIRR monthly charge for the residential class increases under this scenario.

VECC submits Lakeland's proposed cost allocation based on 1860 Customer Weighted Meter Costs (CWMC) allocators in the 2006 Cost Allocation Review reflects outdated information. In the absence of evidence based on a complete cost of service cost allocation model run, the Board cannot be certain that the revised allocations Lakeland proposes under Board Staff #15 are accurate and there is not a cross subsidy between rate classes.

As noted above, the average installed cost per meter differs between customer classes. For residential customers is $139.32 and $209.03 for GS 50 kW customers. 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.

Inclusion of 2012 Costs and Demand for Customer Growth

The evidence indicates Lakeland has included some costs for smart meters and TOU implementation in 2012. Lakeland has also included the capital costs for 123 smart meters forecasted to be installed in 2012. Board Staff notes the capital cost for 123 new meters is relatively small at $17, 107, and will not have a significant impact on the calculation of the SMIRRs. In PowerStream's 2011 smart meter application (EB-2011-0128) and in previous 2011 cost of service applications, the utility included costs to the end of 2011. Board Staff submits that including costs only to the end of 2011 and Lakeland's approach to include costs for 2012 are both legitimate so long as the costs and the demand (number of customers) are for the same period.

[14] G-2011-0001, Page 19

VECC accepts that Lakeland's capital costs for 123 new meters will not have a significant impact on the calculation of the SMIRRs, however VECC notes this may not be the case with other utilities.

Given Lakeland's specific circumstances, VECC accepts Lakeland's forecast and proposal to include 2012 costs however, in VECC's view this should not be seen as determinative of other applications that may be subject to materiality considerations.

The Board's Guideline G-2011-0001 regarding Stand-Alone Applications states "As in a cost of service, when smart meter costs are approved for 100% deployment, capital and operating costs for smart meters on a going-forward basis are no longer recorded in accounts 1555 and 1556 - instead the costs are recorded in the applicable capital or operating expense account (e.g. Account 1860 - Meters for smart meter capital assets). VECC submits that in principle Accounts 1555 and 1556 should continue for 2012, otherwise any variances in the number of new customers and meters per class in the forward test year could vary and will not be captured.

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 17th day of March 2012.