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April 05, 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)
Innisfil Hydro Distribution Systems Ltd. EB-2011-0435
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: Innisfil Hydro Distribution Systems Ltd.
Ms. Brenda L. Pinke

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 Innisfil Hydro Distribution Systems Limited (Innisfil Hydro) 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

Innisfil Hydro is seeking recovery of costs related to the installation of 14,586 smart meters as of November 30, 2011 which represents 99.08% of the total meters for the Residential and GS<50 kW customer classes. An additional 23 residential and 112 GS< 50 kW smart meters (135 total) are forecasted to be installed in 2012 for a total of 14,721 installed smart meters.[1] Innisfil Hydro is not seeking recovery of capital costs associated with smart meters to be installed in 2012. The capital costs associated with the 2012 installations will be incorporated into Innisfil Hydro's ongoing capital budget.[2]

In response to Board Staff interrogatory # 2 (a), Innisfil Hydro updated the number of actual installed smart meters in 2011 from 371 to 564 for a revised total of 14, 914 installed smart meters by the end of 2012.

In this application, Innisfil Hydro seeks:

- 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 two years (May 1, 2012 to April 30, 2014). Innisfil Hydro is proposing that the SMDR be collected from the two customer classes that have installed smart meters. Innisfil Hydro indicates the two year disposition timeframe will assist in mitigating the overall rate impact.

- Approval of a Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) to recover the incremental revenue requirement associated with smart meter costs to be incurred from January 1, 2012 to December 31, 2012. The SMIRR will be in place from

[1] Application, 3. Status of Implementation of Smart Meters, Page 3
[2] Response to Board Staff Interrogatory # 2 (b)

May 1, 2012 until these costs can be incorporated into distribution rates in Innisfil Hydro's next Cost of Service (COS) rate application currently scheduled for 2013.[3] The SMIRR will be collected from residential and GS< 50 kW customers.

Prudence Review of Smart Meter Costs

In this application, the Board must determine whether Innisfil Hydro's smart meter costs (including costs related to beyond minimum functionality) totaling $2,658,539 to December 31, 2012 are prudent (capital of $2,194,814 and operating expenditures of $463,715).[4]

Innisfil Hydro participated with LDCs within the Cornerstone Hydro Electric Concepts Association (CHEC) to implement smart meters. CHEC includes twelve LDCs with a customer base of approximately 100,000 customers. CHEC strives to reduce LDC costs through sharing of knowledge and information and providing savings through joint purchasing of goods and services with its members.[5]

The deployment of smart meters started in September 2009 and was scheduled to be completed by March 2010. Innisfil Hydro indicates by this date, a total of 14,215 smart meters were installed and installation was ahead of schedule primarily due to good weather conditions.[6]

Innisfil Hydro provided a cost variance to show the actual costs for installed meters and projected costs for meters installed in 2011 and 2012 compared to the forecast as per Innisfil Hydro's 2010 IRM application. The comparison shows capital and OM&A costs related to minimum functionality are lower than forecasted due to a favourable U.S. dollar exchange conversion, a forecasted stand alone Regional Network Interface (RNI) versus a shared RNI and faster installations due to favourable weather conditions.[7]
VECC takes no issue with the amounts and the comparative analysis provided.

TOU billing was mandated to be in place for all of Innisfil Hydro's residential and GS<50 kW customers by June 1, 2011. Innisfil Hydro confirms that eligible customers were billed TOU pricing on June consumption in July, 2011.[8]

Innisfil Hydro calculates the capital expenditures per smart meter as $147.16 using revised 2011 actual costs and meter installations. VECC reproduced Table 1 below from VECC IR# 2 to show the costs per installed meter. VECC calculates the average total cost per installed meter (including costs beyond minimum functionality) as $178.26.

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

[3] Application, 1. Introduction, Page 1
[4] Response to Board Staff Interrogatory # 2 (a)
[5] Application, 2. Collaboration of LDCs, Page 2
[6] Application, 6. Project Specifics, Page 6
[7] Application, 16. Cost Variance, Page 14
[8] Application, 10. Transition to Time of Use Pricing

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.[9]

Table 1: Average Cost per Installed Smart Meter[10]

	Average Costs for Meters Installed by 2010 (audited)	Average Costs for Meters Installed in 2011 (actual unaudited)	Average Costs for Meters Installed in 2012 (forecast)	Total Smart Meter Costs	Total Cost per Smart Meter
Total of Smart Meter Capital Costs	$2,078,864	$115,950		$2,194,814	**$147.16**
Total of Smart Meter OM&A Costs	$143,364	$241,561	$78.800	$463,725	**$31.09**
Total Smart Meter Costs	$2,222,228	$357,511		$2,658,539	**$178.26**
% of costs	83.6%	13.4%	3%		
# of meters	14,215	564	135	14,914	

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 (capital and OM&A) 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).[11]

VECC submits Innisfil Hydro's total average costs (including costs beyond minimum functionality) for installed meters are within the range established in EB-2007-0063 and less than the most recent sector averages.

<u>Costs Beyond Minimum Functionality</u>

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

Innisfil Hydro's application includes $223,536 for costs beyond minimum functionality (capital costs of $43,554 and OM&A costs of $179,992).[12] VECC observes that the total of these expenditures represents approximately 8.4% 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]

Innisfil Hydro indicates the capital costs are the required CIS system upgrade and related support for the MDM/R integration and TOU implementation. The OM&A costs include customer education, MDM/R integration and operation consulting, CIS system maintenance costs and web presentment maintenance costs.[14] Innisfil Hydro confirms costs reported in this application do not include any costs previously approved by the Board for recovery in rates.[15]

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

Recovery of Smart Meter Costs

Innisfil Hydro indicates the cost recovery is based on costs incurred in the deferral accounts 1555 and 1556 with actuals taken from audited financial statements to December 31, 2010. The revised costs for 2011are based on actual unaudited expenditures to December 31, 2011and capital and OM&A costs for 2012 are projections.

The Board's Smart Meter Recovery Model (V 2.17) contains the following details on the Notes sheet of the model:

> When applying for the recovery of smart meter costs, a distributor should ensure that historical cost information has been audited including the smart meter related deferral account balances up to the distributor's last Audited Financial Statements. A distributor may also include historical costs that are not audited and estimated costs, corresponding to a stub period or to a forecast for the test rate year. The Board expects that the majority (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 calculates that 83.6% of the costs subject to the prudence review have been audited (Table 1). If VECC's calculation is correct, VECC submits that the unaudited costs exceed 10%. VECC notes that if 2011 audited costs are available and can be included, the unaudited

[12] Smart Meter Recovery Model, Sheet 2 (March 20, 2012)
[13] G-2011-0001, Pages 15-17
[14] 16. Cost Variance, Pages 14-15
[15] Response to Board Staff Interrogatory #7

costs become less than 10% and consistent with the Board's Guidelines. VECC submits that Innisfil Hydro should provide audited 2011 financial results in its reply submission.

Cost Allocation & Calculation of Smart Meter Rate Riders

Innisfil Hydro 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.[16]

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.[17]

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.

In response to interrogatories, Innsifil Hydro updated the Smart Meter Recovery Model to incorporate corrections in the model. Table 2 below shows the original and revised SMDRs and SMIRRs.[18]

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

	SMDR ($/month)		**SMIRR ($/month)**	
Class	**As Filed**	**Revised**	**As Filed**	**Revised**
Residential	$0.29	$0.25	$0.95	$0.95
GS<50 kW	$0.96	$0.87	$3.12	$3.12

Cost Allocation

In this application, Innisfil Hydro proposes class specific rate riders for the two customer classes that have installed meters based on the following cost allocation methodology:[19]

[16] G-2011-0001, Page 11
[17] G-2011-0001, Page 11
[18] Responses to Board Staff Interrogatories #2, 5, 9, 10 & 11
[19] Application, Page 34

- Allocation of the return (deemed interest plus return on equity) and amortization based on the Weighted Average of the Residential and GS,50 kW 1860 Weighted Meter Capital (CWMC) allocators in the 2006 Cost Allocation Review;
- 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; and
- Allocation of Smart Meter Funding Adder collected (including carrying costs) based on revenue requirement allocated to each class before PILs.[20]

In accordance with the Board's Guideline that in general the cost allocation methodology should be the same for the SMDR and SMIRR[21], Innisfil Hydro used the same % allocation to calculate both rate riders. (i.e. 82.31% for the residential and 17.69% for GS<50 kW).[22]

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."[23]

In interrogatory # 11, VECC requested that Innisfil Hydro re-calculate the rate riders by customer class based on full cost causality. Innisfil Hydro did not provide the revised class specific rate riders on this basis as Innisfil Hydro Indicated it was not able to separate capital costs for installed meters for the residential and GS<50 kW classes as capital and OM&A costs were not categorized or tracked to a service location installation.[24]

Board Staff made the following submission on Innisfil Hydro's cost allocation methodology:

> Board staff accepts Innisfil's explanation of its inability to provide smart meter capital costs separately by customer class. As class-specific smart meter capital costs were unavailable, Innisfil has proposed to use the 1860 CWMC allocators from its 2006 Cost Allocation Review informational filing to allocate the overall smart meter capital costs to the residential and GS < 50 kW customer classes. Board staff notes that, with the exception of the use of the 1860 CWMC allocation, Innisfil's cost allocation methodology is consistent with the approach approved by the Board in PowerStream's 2010 smart meter cost recovery application (EB-2010-0209).
>
> Board staff notes that the informational filing from the 2006 Cost Allocation Review underpinned the cost allocation approved by the Board in the Decision and Order from Innisfil's 2009 cost of service application (EB-2008-0233). In the Decision and Order, the Board ordered Innisfil to provide an updated cost allocation in its next cost of service application. Innisfil has yet to file its cost of service application for 2013 rates. In the

[20] Application, 17. Smart Meter Disposition Rate Rider Calculations
[21] G-2011-0001, Page 21
[22] Application, 17. Smart Meter Disposition Rate Rider Calculations, Page 17-18
[23] G-2011-0001, Page 19
[24] Response to Board Staff interrogatory # 13 (a) & (c)

absence of that information, Board staff submits that Innisfil's cost allocation methodology is reasonable.[25]

VECC accepts that Innisfil Hydro does not have the required data to calculate class specific rate riders based on cost causality. However, VECC is concerned about Innisfil Hydro's proposal to use an allocation methodology that is based on a five year old cost allocation model. Board staff notes (see above), that with the exception of the use of the 1860 CWMC allocation, Innisfil's cost allocation methodology is consistent with the approach approved by the Board in PowerStream's 2010 smart meter cost recovery application (EB-2010-0209). VECC submits the use of the 1860 CWMC is a significant exception and inconsistent with PowerStream's methodology to use current capital costs as the driver for allocation.

VECC suggests that Innisfil Hydro may have a means to determine the accounts that have single phase meters and three phase meters (most likely the GS<50 kW customer class) and thus could match meters to accounts and costs should follow. Another option is to allocate single phase meters and costs to the residential class and allocate all three phase meters plus some additional single phase meters to match meters installation related to the GS<50kw customer class. VECC submits this determination of capital costs should be used as the driver to allocate revenue requirement to each class. VECC submits this approach is consistent with the methodology proposed by PowerStream in its smart meter recovery application (EB-2011-0128) and more desirable than using an outdated cost allocation model. However, VECC would like to point out that using the 1860 CWMC as an allocator or the above estimated capital cost allocators is neither full cost allocation nor the methodology used by PowerStream. In VECC's view, using the 1860 CWMC as an allocator is a poor proxy.

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 5th day of April 2012.

[25] Board Staff Submission dated March 30, 2012, Pages 8-9