



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

April 19, 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)
Orangeville Hydro Distribution Systems Ltd. EB-2012-0039
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: Orangeville Hydro Limited
Jan Howard

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 Orangeville Hydro Limited (Orangeville 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
- Inclusion of 2012 Costs and Demand for Customer Growth

Orangeville Hydro is seeking recovery of smart meter capital and OM&A costs related to minimum functionality and smart meter capital and OM&A costs beyond minimum functionality. The costs are related to the installation of 11,105 as of December 31, 2011 which represents 100% of the total meters for the Residential and GS<50 kW customer classes. In 2012, Orangeville Hydro has forecasted an additional 110 residential smart meters and 5 GS<50 kW smart meters based on growth, for a total of 11,220 installed smart meters. Orangeville Hydro is seeking recovery of \$10,400 capital costs associated with smart meters to be installed in 2012.¹

In this application, Orangeville 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 one year (May 1, 2012 to April 30, 2013). Orangeville Hydro is proposing that the SMDR be collected from the two customer classes that have installed smart meters (residential and GS< 50 kW customers).
- Approval of a Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) to recover the incremental revenue requirement associated with forecast smart meter costs to be incurred from January 1, 2012 to December 31, 2012. The SMIRR will be in place for two years (May 1, 2012 to April 30, 2014) until these costs can be incorporated into distribution rates in Orangeville Hydro's next Cost of Service (COS) rate application

¹ Manager's Summary, 2 Collaboration of LDCs, Page 6

currently scheduled for 2014.² The SMIRR will be collected from residential and GS< 50 kW customers.

- Termination of Orangeville Hydro's current SMFA of \$2.00 per metered customer effective May 1, 2012 to reflect the smart meter costs approved for recovery through the SMDR and SMIRR rate riders above. Board staff noted in its submission that this request was approved by the Board in Orangeville Hydro's 2011 EDR IRM3 rates application.³

Prudence Review of Smart Meter Costs

Orangeville Hydro participated with LDCs within the Cornerstone Hydro Electric Concepts Association (CHEC) to implement smart meters. CHEC includes 12 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. The collaborative initiative assisted LDCs in the development of project plans, RFPs and contract evaluations.⁴ CHEC also participated in the Ontario Utilities Smart Meter (OUSM) working group. In response to VECC interrogatory # 11, Orangeville Hydro summarized the operational efficiencies resulting from working in collaboration with 12 other LDCs as members of CHEC.

Time of Use (TOU) billing was mandated to be in place for all of Orangeville Hydro's residential and GS<50 kW customers by June 1, 2011. Orangeville Hydro requested a new mandatory TOU date of September 2011 due to delays implementing and coordinating the roll-out and training on a new customer information system and advanced metering infrastructure network which caused Orangeville Hydro to fall behind on original wave testing dates with the IESO. Orangeville began TOU billing on consumption on August 26, 2011 and the first TOU bills were mailed to customers on October 18, 2011.⁵ In response to VECC interrogatory #6 (a), Orangeville Hydro indicates that as of October 31, 2011, 99% of eligible customers receive TOU bills.

On a total cost basis (capital & OM&A including costs beyond minimum functionality), Orangeville Hydro calculates the average cost per smart meter as \$200. On a capital cost basis only (including costs beyond minimum functionality), Orangeville Hydro calculates the average cost per meter as \$175.

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 \$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.

² Manager's Summary, 1. Introduction, Page 4, Response to Board Staff Interrogatory #

³ Board Staff Submission, Page 4

⁴ Application, 2. Collaboration of LDCs, Page 5

⁵ Manager's Summary, 9. Integration with MDM/R, Page 12

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).⁶

VECC concurs with Board Staff that an average total cost per meter of \$200 for Orangeville Hydro is slightly higher than what the Board has seen for most utilities as indicated above.⁷ However, when the costs beyond minimum functionality are removed, the average total cost per meter is approximately \$179 which is within the range established in EB-2007-0063 and less than the most recent sector averages.

Costs Beyond Minimum Functionality

Orangeville Hydro's application includes \$233,404 for costs beyond minimum functionality (capital costs of \$110,629 and OM&A costs of \$122,775).⁸ VECC observes that the total of these expenditures represents approximately 10.4% 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.⁹

Orangeville Hydro indicates these costs relate to TOU billing functionality, web presentment, integration with the MDM/R such as CIS interfaces and security audits and the ability to maintain an operational data storage system (ODS).¹⁰ In response to VECC interrogatory #10, Orangeville Hydro provided information on the types of expenses and indicated these costs would not have been incurred if the TOU rate structure guidelines had not been implemented.

⁶ Monitoring Report Smart Meter Investment – September 2010, March 3, 2011

⁷ Board Staff Submission, Page 6

⁸ Smart Meter Recovery Model, Sheet 2 (Updated April 3, 2012)

⁹ G-2011-0001, Pages 15-17

¹⁰ Manager's Summary, 15. Justification for Functionality that Exceeds Minimum Functionality, Page 15, Response to VECC interrogatory # 10

VECC submits Orangeville has appropriately demonstrated consistency with the Board's Guidelines regarding the nature of these costs.

Recovery of Smart Meter Costs

Orangeville Hydro's costs are based on actual costs incurred to December 31, 2011 and forecasted costs to December 31, 2012. Orangeville Hydro has taken the actual capital and OM&A costs in the deferral accounts 1555 and 1556 from audited financial records as of December 2010 and projected the remainder for 2011 and 2012. In response to Board Staff interrogatory #2, Orangeville Hydro updated the 2011 costs to reflect actual balances.

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.

In its submission, Board Staff notes that Orangeville Hydro's total capital and OM&A costs for 2011 are \$565,722 (VECC IR#2) which is approximately 25% of the total program costs.¹¹ VECC agrees with Board Staff that if Orangeville Hydro cannot confirm the 2011 costs are audited, the Board should consider ordering only disposition of audited actual costs to December 31, 2010.

Cost Allocation & Calculation of Smart Meter Rate Riders

Orangeville 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.¹²

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

¹¹ Board Staff Submission, Page 8

¹² G-2011-0001, Page 11

SMIRR is calculated as the annualized revenue requirement for the test years for the capital and operating costs for smart meters.¹³

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, Orangeville Hydro updated the Smart Meter Recovery Model to incorporate corrections in the model. Table 2 below shows the original and revised SMDRs and SMIRRs.¹⁴

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

Class	SMDR (\$/month)		SMIRR (\$/month)	
	As Filed	Revised	As Filed	Revised
Residential	\$(0.61)	(\$0.62)	\$2.76	\$2.75
GS<50 kW	\$(1.99)	(\$2.03)	\$7.82	\$7.81

Cost Allocation

In this application, Orangeville Hydro proposes class specific rate riders for the two customer classes that have installed meters based on the following cost allocation methodology:¹⁵

- 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 2010 Cost Allocation submitted in Orangeville’s 2010 Cost of Service filing (EB-2009-0272);
- 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.¹⁶

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.”¹⁷

In interrogatory # 9, VECC requested that Orangeville Hydro re-calculate the revenue requirements and rate riders by customer class based on full cost causality. Orangeville Hydro did not provide the revised class specific rate riders on this basis as Orangeville Hydro

¹³ G-2011-0001, Page 11

¹⁴ Responses to Board Staff Interrogatories #2, 5, 6, 10 & 11

¹⁵ Application, Page 34

¹⁶ Application, 17. Smart Meter Disposition Rate Rider Calculations

¹⁷ G-2011-0001, Page 19

indicated it does not have the data available to complete the smart meter revenue requirement model by rate class. Orangeville Hydro's meter change outs were determined by meter configuration and service requirement which does not correlate to a specific rate class. Orangeville Hydro indicates since it did not categorize or track the capital and OM&A costs to a service location installation, providing costs separately by rate class is not feasible.

VECC accepts that Orangeville Hydro does not have the required data to complete the model to determine the revenue requirement for each rate class to calculate class specific rate riders based on cost causality. In the Board's decision regarding PowerStream's 2010 Smart Meter Disposition application (EB-2010-0290), the Board approved an allocation between customer classes based on the capital costs of the meters installed for each class. VECC is concerned about Orangeville Hydro's proposal to use an allocation methodology that is based on old types of meters and not the new meter types. VECC submits current meter capital costs should be used as the driver to allocate revenue requirement to each customer class, when full cost causality is not feasible.

In response to VECC interrogatory #5, Orangeville Hydro provided details on the type, quantity, average meter cost and total meter cost per meter type for the residential and GS<50 kW customer classes. VECC suggests that Orangeville Hydro could use this information to approximate the total capital costs by customer class. VECC submits this approach is consistent with the methodology proposed by PowerStream in its smart meter recovery applications (EB-2010-0209 and EB-2011-0128) and is more desirable than using the 1860 CWMC allocator. In VECC's view, using the 1860 CWMC as an allocator is a poor proxy. VECC submits Orangeville should provide in its reply submission, the rate riders based on PowerStream's allocation methodology.

Inclusion of 2012 Costs and Demand for Customer Growth

The evidence indicates Orangeville has included costs for 2012 related to costs beyond minimum functionality (TOU implementation and MDM/R integration costs) and forecasted capital costs for the installation of 115 meters in 2012 due to customer growth. In its submission, Board Staff notes the capital cost for 115 new meters is relatively small at \$10,040, and will not have a significant impact on the calculation of the SMIRRs. Board Staff notes that in PowerStream's 2011 smart meter application (EB-2011-0128) and other COS applications, the utility included costs to the end of 2011. Board Staff does not oppose this approach and submits that including costs only to the end of 2011 and Orangeville'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 and the unaudited costs for both 2011 and 2012 are less than 10% of the total costs of the program. Board Staff notes that due to extensions granted for TOU implementation, it expects that other utilities will include costs for 2012, including costs for additional smart meters due to growth.

VECC accepts that Lakeland's capital costs for 115 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 Orangeville's specific circumstances, VECC accepts Orangeville'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.

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 19th day of April 2012.