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April 24, 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)
Thunder Bay Hydro Electric Distribution Inc. EB-2012-0015
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: Thunder Bay Electricity Distribution Inc.
Ms. Sylvester

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 Thunder Bay Hydro Electricity Distribution Inc. (Thunder Bay) 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

In its application, Thunder Bay sought the recovery of smart meter capital and OM&A costs including costs beyond minimum functionality. The costs reflected the installation of 49,440 meters as of November 30, 2011 which represented close to 100% of the total meters for the Residential and GS<50 kW customer classes, with the exception of a small number of customer refusals and installation-related technical issues.¹ In response to VECC interrogatory #1, Thunder Bay confirmed that as of December 31, 2011, it had installed 49,485 meters and has deemed to be 100% complete in its installations including the meters that previously formed the exception. Thunder Bay has not included the costs of any smart meter installations in 2012 in this application.²

In this application, Thunder Bay 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 a 24 month period (May 1, 2012 to April 30, 2014). Thunder Bay 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 one year (May 1, 2012 to April 30, 2013) until these costs can be incorporated into distribution rates in Thunder Bay' next Cost of Service (COS) rate application currently

¹ Application, Smart Meter Program Status, Page 4

² Smart Meter Recovery Model, Sheet 2, 2012011

scheduled for 2013. The SMIRR will be collected from residential and GS< 50 kW customers.

Prudence Review of Smart Meter Costs

Thunder Bay, via the Fairness Commissioner, monitored the London Hydro Smart Metering Consortium RFP process and selected service providers in a fair (objective and competent) manner for its smart meter implementation.

Thunder Bay successfully transitioned its customers to TOU billings in November 2011. Extra time was needed to rectify some synchronization issues with Thunder Bay's CIS vendor that arose during testing. Apart from the CIS delays, Thunder Bay did not experience any significant operational challenges.³

As a result of smart meter implementation, Thunder Bay indicates it has experienced cost savings of approximately \$185,000 in 2011 related to meter readings it used to outsource.⁴

Thunder Bay seeks approval of \$10,503,014 (\$8,131,640 CAPEX + \$2,371,374 OPEX) based on a revised smart meter recovery model updated through interrogatories. Board Staff, in its reply submission (Page 6) calculates the unit cost per smart meter on a total cost basis (CAPEX & OPEX) as \$212.25 based on 49,485 installed smart meters, including costs beyond minimum functionality.

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.

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).

VECC observes that Thunder Bay's costs are higher than the range established in EB-2007-0063 and above the more recent sector averages. When the costs beyond minimum functionality are removed, the average total cost per meter is approximately \$209 (see Table 1 below) which is still above the range established in EB-2007-0063 and slightly more than the most recent sector averages.

³ Response to VECC Interrogatory #4

⁴ Response to VECC Interrogatory #8

Table 1: Summary of Average Unit Costs Based on Minimum Functionality

	Total Costs A	Costs Beyond Minimum Functionality B	Costs – Minimum Functionality A-B =C	Smart Meters Installed	Unit Costs per Smart Meter
Smart Meter CAPEX	\$8,131,640	\$21,362	\$8,110,278	49,485	\$163.89
Smart Meter OPEX	\$2,371,374	\$114,912	\$2,256,462	49,485	\$45.60
Total	\$10,503,014	\$136,274	\$10,366,740	49,485	\$209.49

VECC takes no issue with the nature of the costs. VECC relies on Board Staff's benchmarking analysis and determination that the costs are prudently incurred.⁵

Recovery of Smart Meter Costs

Thunder Bay's original application contains costs based on actual audited costs as at December 2010. Costs incurred in 2011 are captured up to December 22, 2011 and the remaining costs for the year are forecasted.⁶ In response to Board Staff interrogatory #2(a), Thunder Bay updated its costs to reflect actual expenditures to December 31, 2012. Thunder Bay indicates the 2011 balances have been reviewed by the Auditors, however, official approval from its Board of Directors is required and will be sought at their April 26, 2012 Board meeting. In accordance with the Board's Guideline G-2011-0001, Thunder Bay provided a calculation to show its audited balances to 2010 represent 90% of the total smart meter costs that have been requested for disposition.

In response to interrogatories, Thunder Bay updated the Smart Meter Recovery Model to incorporate corrections in the model. VECC provides the following table to show a comparison of the actual 2011 balances to the original filing which results in the following differences:

Original Filing	Original 2011	Actual 2011	Difference
Capital	\$8,157,370	\$8,131,640	(\$25,730)
OM&A	2,376,939	\$2,371,374	(\$5,565)
Total	\$10,534,308	\$10,503,014	(\$31,294)

VECC takes no issue with the cost variance.

Cost Allocation & Calculation of Smart Meter Rate Riders

Thunder Bay 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).

⁵ Board Staff Submission, Page 6

⁶ Application, Manager's Summary, Page 3

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.⁷

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.⁸

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

In this application, Thunder Bay proposes uniform SMDR and SMIRR rate riders to apply to all metered customer since sufficient evidence is not available to support an allocation to the applicable classes.⁹

In response to interrogatory #7(b), VECC requested that Thunder Bay re-calculate the revenue requirements and rate riders by customer class based on full cost causality.

Thunder Bay did not provide the revised class specific rate riders on this basis as Thunder Bay was unable to calculate the rate riders as its costs are not segregated by rate class. Instead, Thunder Bay provided customer specific SMDR and SMIRR rate riders based on the cost allocation methodology proposed in PowerStream's application EB-2011-0128.¹⁰

Table 2 below shows the original uniform rate riders and the revised proposed class specific rate riders based on PowerStream's methodology.¹¹

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

Class	SMDR (\$/month)		SMIRR (\$/month)	
	Original	Revised VECC IR#7d	Original	Revised VECC IR#7d
Fixed	(\$0.97)		\$2.28	
Residential		(\$0.78)		\$1.87
GS<50 kW		(\$2.85)		\$6.84

⁷ G-2011-0001, Page 11

⁸ G-2011-0001, Page 11

⁹ Application, Manager's Summary, Page 3

¹⁰ Response to VECC Interrogatory #7(d)

¹¹ Responses to VECC Interrogatory # 7(d)

VECC submits the difference between the two methodologies is significant.

The Board's Guideline G-2011-0001 states "The Board views that, where practical and where data is available, class-specific SMDRs should be calculated based on full cost causality."¹²

VECC accepts that Thunder Bay does not have the required data to complete the model to determine the revenue requirement for each rate class in order to calculate class specific rate riders based on cost causality. VECC submits PowerStream's approach to use capital costs as the driver to allocate revenue requirement to each customer class is preferable over a cost allocation methodology that allocates uniform costs to all customers. PowerStream's approach provides less of a cost subsidy than allocating uniform costs to all customers.

VECC agrees with Board Staff that both the SMDR and SMIRR should be calculated on the cost allocation method Thunder Bay provided based on the PowerStream method.¹³ In VECC's view, this approach is appropriate and produces riders that better reflect the difference in costs between the rate classes. Although this method is not full cost causality, it reflects a more fair allocation of costs.

VECC agrees with Board Staff that Thunder Bay does not set out the determination of the revenue requirement for the SMDR in VECC IR#7(d), and that the allocation of the revenue requirement for the SMDR should be determined using the same allocation approach for costs as in the SMIRR.¹⁴

In the calculation of the SMDR, revenues from the SMFA should be allocated based on class revenue and interest on the SMFA revenues should be allocated to the class assigned revenues. In response to VECC #7(c), Thunder Bay provided the SMFA revenue received from each of the rate classes (May 1, 2006 to December 31, 2011) as follows:

Class	\$	%
Residential	\$ 3,059,081.59	90%
Gs<50 kW	\$ 310,751.65	9%
Gs>50 kW	\$ 35,624.76	1%
GS>1000kW	\$ 1,367.14	0%
	\$ 3,406,825.14	100%

The Board's decision in PowerStream's 2011 Smart Meter Cost Recovery application (EB-2011-0128) addressed the treatment of smart meter adder amounts collected from customer classes for which smart meter costs were not incurred. 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 kW classes when calculating the true-up for the SMDR. The Board concluded that this approach was appropriate because the

¹² G-2011-0001, Page 19

¹³ Board Staff Submission, April 20, 2012, Page 7

¹⁴ Board Staff Submission, April 20, 2012, Page 8

amounts involved were not significant enough to warrant a more precise allocation.

Board Staff suggested a second method to allocate the revenues from the GS>50 kW and GS>1,000 kW classes to the residential and GS<50 kW classes based on the number of meters, since the SMFA was collected on a per meter basis. Board Staff notes the latter approach provides an equal allocation back to the residential and GS<50 kW customer.

In VECC's view, Board Staff's second method will produce a rider that better reflects causality.

VECC suggests a third approach – that any funds collected from the GS>50 kW and GS>1,000 kW customers be returned, with carrying charges, to those customers.

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 23rd day of April 2012.