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**ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7**

Tel: (613) 562-4002. Fax: (613) 562-0007. e-mail: [piac@piac.ca](mailto:piac@piac.ca). <http://www.piac.ca>

Michael Buonaguro  
Counsel for VECC  
(416) 767-1666

April 27, 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)**  
**Niagara-on-the-Lake Hydro Inc. EB-2012-0036**  
**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: Niagara-on-the-Lake Hydro Inc.  
Mr. Philip Wormwell

**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 Niagara-on-the-Lake Hydro Inc. (NOTL) 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

NOTL is seeking recovery of smart meter capital and OM&A costs related to minimum functionality and costs beyond minimum functionality. The costs reflect the installation of 7,913 smart meters as of December 31, 2011 which represents 99.9% of the total RPP-eligible customers. Only 4 commercial meters remain to be installed and NOTL expects to complete these installations in the first quarter of 2012.<sup>1</sup> 165 meters are forecast for installation in 2012. NOTL has included the capital costs for these meters in its application.<sup>2</sup>

In this application, NOTL 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). NOTL proposes that the SMDR be collected from the residential and GS< 50 kW customer classes.
- Approval of a Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) to reflect the incremental revenue requirement associated with forecast smart meter costs for the period May 1, 2012 to April 30, 2013. The SMIRR will be collected from residential and GS< 50 kW customers.

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<sup>1</sup> Application, 2. Status of Implementation of Smart Meters, Page 4,6

<sup>2</sup> Smart Meter Recovery Model, Sheet 2, 20120329

## Prudence Review of Smart Meter Costs

NOTL participated in the Niagara Erie Power Alliance (NEPA) to cooperate with 8 other NEPA LDCs to plan for the deployment of smart meters using a collaborative approach to planning, as well as procurement of AMI installation services. As part of this plan, the NEPA member utilities retained the services of Util-Assist Inc., an Ontario consulting firm who provided guidance and direction to the group to assist in the preparation, deployment and back office integration for smart meter implementation.<sup>3</sup> NOTL's communication towers and head end AMI system are jointly shared by all 8 partners thus reducing capital cost and ongoing system operating cost. RFPs for AMI vendor, AMI installation, disposal and security audit were jointly conducted by NEPA members and in some cases (security audit) by a majority of Ontario Sensus uses through a common consultant Util-Assist. The NEPA members also held a number of joint training sessions with Sensus.<sup>4</sup> NOTL decided to invest in "Utility Collaborative Services" (UCS) in late 2009. UCS is a partnership consisting of 9 Ontario LDCs that share a Harris Northstar CIS software system, hardware, support and its associated operating costs. NOTL was also involved with the Ontario Utilities Smart Meter (OUSM) working group.

VECC submits NOTL benefited from its collaborative efforts and would have received support as well as operational and pricing efficiencies that would not have occurred to the same extent had it gone through the process on its own.

Time of Use (TOU) billing was mandated to be in place for all of NOTL's residential and GS<50 kW customers by August 1, 2011. NOTL confirms that their first TOU invoices were issued in mid-October and as of year-end, approximately 96% of eligible customers are receiving TOU bills and NOTL is achieving read rates at contracted Service Level Agreement (SLA) rates. The delay of approximately one month was due to gaps in data.<sup>5</sup> NOTL indicates the remaining Elster polyphase meters will receive their first TOU bill before mid-April 2012 leaving approximately six challenging accounts (such as seasonal or indoor) that are targeted for completion this spring.<sup>6</sup>

NOTL indicates the automated meter reading process of the new AMI system has resulted in an operational credit of \$33,420 due to a sizeable reduction in meter reading costs.<sup>7</sup>

In response to Board Staff Interrogatory # 8(a), NOTL calculates the average cost per meter on a total cost basis (CAPEX & OPEX) as \$254.17 including costs beyond minimum functionality.

Appendix A of the Combined Proceeding Decision (EB-2007-0063, September 21, 2007) compares data for 9 out of 12 utilities and shows the total cost per meter ranged from \$123.59

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<sup>3</sup> Addendum #1, Executive Summary

<sup>4</sup> Response to Board Staff Interrogatory # 8(b)

<sup>5</sup> Application, 9. Transition to Time of Use Pricing, Pages 8-9

<sup>6</sup> Response to Board Staff Interrogatory # 6

<sup>7</sup> Application, Internal Cost Savings, Page 14

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).

When the costs beyond minimum functionality are removed, the average total cost per meter is approximately \$215. VECC submits NOTL’s costs are higher than the range established in EB-2007-0063 and greater than the more recent sector average.

**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	\$1,887,650	\$268,479	\$1,619,171	8,078	\$1200.44
Smart Meter OPEX	\$165,290	\$45,733	\$119,557	8,078	\$14.80
Total	\$2,052,940	\$314,212	\$1,738,728	8,078	\$215.24

In response to Board Staff interrogatory #8(b), NOTL provides several explanations for its higher than average costs. VECC accepts NOTL’s explanations for the increased costs.

### Recovery of Smart Meter Costs

NOTL’s costs are based on audited actual costs incurred to December 31, 2010, unaudited actual costs in 2011 and forecasted costs for 2012.

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 notes that the unaudited costs in 2011 (\$322,916) represents approximately 16% of the total costs. Forecasted costs in 2012 (\$100,547) represent another 5% of the total costs.

In its submission, Board Staff submits the unaudited costs are significantly above 10%, and the costs appear to be significantly higher on a per meter basis than costs in prior years, and on this basis it believes it would be more appropriate for the Board to approve the disposition of the costs to the end of December 31, 2010. Disposition of NOTL’s cost for 2011 and 2012 could be deferred to its scheduled cost of service application for 2014 rates, by which time the costs would be audited and the reasons for the increased costs could be more fully tested.<sup>8</sup>

VECC also notes that NOTL has not met the Board’s expectation that 90% or more of the costs will be audited. VECC supports Board Staff’s proposal and submits that the disposition of 2011 and 2012 costs should be deferred to NOTL’s next COS application.

**Cost Allocation & Calculation of Smart Meter Rate Riders**

NOTL 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.<sup>9</sup>

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.<sup>10</sup>

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, NOTL updated the Smart Meter Recovery Model to incorporate corrections in the model. Table 2 below shows the original and revised SMDRs and SMIRRs.<sup>11</sup>

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

Class	SMDR (\$/month)		SMIRR (\$/month)	
	As Filed	Revised	As Filed	Revised
<b>Residential</b>	\$1.07	1.07	\$3.07	\$3.06
<b>GS&lt;50 kW</b>	\$1.20	1.21	\$3.66	\$3.63

<sup>8</sup> Board Staff Submission, Page 11

<sup>9</sup> G-2011-0001, Page 11

<sup>10</sup> G-2011-0001, Page 11

<sup>11</sup> Responses to Board Staff Interrogatories #10 & 11(a)

## Cost Allocation

In this application, NOTL proposes class specific rate riders for the residential and GS<50 kW customer classes based on the following cost allocation methodology. NOTL indicates that the calculations are based on the approach approved by the Board in PowerStream's 2010 smart meter application (EB-2010-0209).<sup>12</sup>

- Allocation of the return (deemed interest plus return on equity) and amortization based on the allocation of Account 1860 in the cost allocation model (CWMC in the cost allocation model);
- Allocation of OM&A based on number of meters installed for each class; and
- Allocation of PILs based on the revenue requirement derived for each class before PILs.<sup>13</sup>

VECC submits that NOTL's cost allocation methodology is similar to PowerStream's approach with the exception of the allocation of return and amortization. VECC submits this exception is significant.

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."<sup>14</sup>

In interrogatory #12, VECC requested that NOTL re-calculate the revenue requirements and rate riders by customer class based on full cost causality. NOTL did not provide the revised class specific rate riders on this basis. NOTL submits "there has been no clear requirement to track costs or rate adder revenue by class and NOTL has therefore not done so. Thus, the required data is not available and separate revenue requirement models by rate class are not practical."

VECC accepts that NOTL does not have the required data to complete the model to determine the revenue requirement for each rate class and calculate class specific rate riders based on full cost causality. However, 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 smart meters installed for each class.

In response to VECC interrogatory #11, NOTL indicates the cost allocation model used was for the year 2006. VECC is concerned about NOTL's proposal to use an allocation methodology that is based on a 2006 cost allocation model and an allocator based on old types of meters and not the new types of smart meters. 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.

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<sup>12</sup> Application, 16. Smart Meter Rate Rider, Page 15

<sup>13</sup> Application, 16. Smart Meter Rate Rider, Page 15

<sup>14</sup> G-2011-0001, Page 19

VECC supports Board Staff's proposal that NOTL could attempt to allocate capital costs to each class based on meter configurations and should address this in its reply submissions.<sup>15</sup>

VECC submits the determination of capital costs as the driver to allocate revenue requirement to each class is consistent with the methodology proposed by PowerStream in its smart meter recovery application (EB-2010-0209) 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.

### SMFA

In NOTL's cost allocation methodology, it allocates the SMFA to the residential and GS<50 kW customer classes based on the overall percentage resulting from its cost allocation methodology.

VECC submits an SMDR that better reflects cost causality is achieved by assigning the actual revenue to each class based on the SMFA revenue collected from each customer class over time, and allocating the carrying charges on the revenue based on the assigned revenues.

VECC submits NOTL could attempt to calculate the SMFA revenues collected by customer class based on the number of accounts and allocate it on this basis in the SMDR calculation. VECC submits NOTL should address this as well in its reply submissions.

### **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 26<sup>th</sup> day of April 2012.

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<sup>15</sup> Board Staff Submission, Page 9