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May 25, 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)
PUC Distribution Inc. EB-2012-0084
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 Janigan
Counsel for VECC
Encl.

cc: PUC Distribution Inc.
Ms. Jennifer Uchmanowicz

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 PUC Distribution Inc. (PUC) 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

PUC seeks the recovery of total smart meter costs (\$6,599,069 capital and \$806,859 OM&A) for costs related to minimum functionality and costs beyond minimum functionality.¹ As of October 31, 2011, PUC installed 29,385 residential and 3,239 GS<50 kW smart meters which represents the entire population of mandated smart meters and is 100% complete.

PUC's costs beyond minimum functionality reflect capital costs in 2011 and 2012 totaling \$251,318² for the deployment of smart meters for GS>50 kW customers, and OM&A costs of \$5,000 in 2012 for meter base repairs for non-mandated meters.³ PUC has 372 GS>50 kW customers of which 31 have interval meters. Another 158 GS>50 kW customers have smart meters installed to date (replaced in 2011) and PUC plans to convert the remaining 183 customers to smart meters in 2012.

In 2012, \$301,650 in capital and \$295,483 in OM&A costs are included for recovery in this application.⁴

In this application, PUC seeks:

- Approval to recover the deferred revenue requirement related to smart meters costs from 2006 to 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 (SMDR) for a 12 month

¹ Smart Meter Model – updated May 2, 2012

² Smart Meter Model, Sheet 2, 1.6.2

³ Smart Meter Model, Sheet 2, 2.6.1

⁴ Smart Meter Model, Sheet 2, 3.1.7 & 3.2.1

period (May 1, 2012 to April 30, 2013). PUC proposes that the SMDR be collected from Residential, GS< 50 kW and GS>50 kW customers. PUC requested discontinuance of the SMFA as part of its 2012 IRM application for rates effective May 1, 2012.

- 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 PUC's next Cost of Service (COS) rate application currently planned for 2013. The SMIRR will be collected from residential, GS< 50 kW and GS>50 kW customers.

Prudence Review of Smart Meter Costs

In the middle of 2007, PUC participated in a collaborative initiative with other utilities that form the District 9 group (D9) to assist with the development of project plans, RFPs, contracts, project monitoring, problem solving and reporting. PUC indicates that the utilities that form D9 engaged in this collaborative initiative seeking economies of scale in the deployment of smart meters and reduced costs. D9 represents a customer base of approximately 80,000.⁵ PUC was also an active participant in the London Phase Two AMI RFP process. VECC submits that it is reasonable to presume that PUC realized some benefits and efficiencies by sharing knowledge and information early in the process and through the joint purchase of goods and services with its members.

PUC's mandated Time of Use (TOU) billing was October 2011 and the transition to TOU billing commenced in October 2011. Due to suspect interval data delivered from certain 3 phase meters due to improper time-alignment of the consumption intervals, PUC was granted an extension by the Board to its mandated pricing date to March 2012 for 1,181 GS<50 kW RPP customers. TOU pricing for these customers commenced the first week of April 2012 and is expected to be complete and all customers will be transitioned to TOU by the end of May 2012.⁶

In response to VECC interrogatory # 10, PUC anticipates meter reading expenses to be reduced for half of the 2012 year. The estimated reduction in OM&A costs is \$55,000 in 2012. PUC indicates it reduced OM&A costs by \$55,000 on line 2.5.6 "Other AMI expenses" in the updated smart meter model dated May 2, 2012.

In response to VECC interrogatory #1, PUC calculates the unit cost per smart meter on a total cost basis (capital & OM&A) as \$226.09 based on 32,965 installed smart meters, and the average capital cost per meter as \$199.76.

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

⁵ Application, Tab 1, Schedule 2, Page 2

⁶ Response to VECC Interrogatory #6

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).

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).⁷

VECC observes that PUC's total average costs are considerably higher than the range established in EB-2007-0063, but consistent with the more recent sector averages.

In response to Board Staff interrogatory #15, PUC re-calculated the average cost per meter by rate class as a result of revisions to the smart meter model based on interrogatory responses.⁸ Table 2 below summarizes the results.

Table 1: Average Capital Costs per Meter by Rate Class

Customer Class	Average Capital Cost per Meter
Residential	\$159.39
GS<50 kW	\$500.45
GS>50 kW	\$863.24

VECC notes that the average capital cost per meter for the GS<50 kW and GS>50 kW customer classes are higher than the average costs in other recent smart meter applications. VECC relies on Board Staff's benchmarking analysis and submissions regarding the reasonableness of these costs.

Recovery of Smart Meter Costs

⁷ Monitoring Report Smart Meter Investment – September 2010, March 3, 2011

⁸ Response to Board Staff Interrogatory #5,6,10, 11 & 12

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.

PUC's indicates its smart meter costs and adders in account 1555 and 1556 have been audited at December 31, 2010 which is PUC's last audited financial statements.⁹ Table 1 below shows the audited, unaudited and forecasted smart recovery costs.¹⁰

Table 2: Audited vs. Unaudited Smart Meter Costs

	Audited Actuals 2006-2010	Unaudited Actuals 2011	Forecasted 2012	Total
Total Costs	\$6,090,717	\$718,078	\$597,133	\$7,405,928
	82.24%	9.7%	8.06%	100%

VECC agrees with Board Staff's estimate that 17.76% of the costs are unaudited. If PUC is able to provide audited costs for 2011, the level of audited costs would be greater than 90% of the total costs sought for recovery. PUC's application would then conform to the Board's Guideline regarding audited costs.

Cost Allocation & Calculation of Smart Meter Rate Riders

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."¹¹

In this application, PUC calculated class specific rate riders for the residential, GS<50 kW and GS>50 kW rate classes based on the following cost allocation methodology:

- Allocation of the return (deemed interest plus return on equity) and amortization based on the number of smart meters installed by rate class;
- Allocation of OM&A expenses based on number of smart meters installed for each class;
- Allocation of PILs based on the revenue requirement allocated to each class before PILs; and

⁹ Application, Tab 1, Schedule 5, Page 1

¹⁰ Smart Meter Model, Sheet 2; Board Staff Submission Page 10

¹¹ G-2011-0001, Page 19

- Allocation of the SMFA, including carrying charges, based on the actual amounts collected from each class.¹²

Table 3 below shows the rate riders filed in the application compared to the updated rate riders resulting from interrogatory responses.

Table 3: SMDR & SMIRR Rate Riders: As Filed Compared to Revised (IR Responses)

Class	SMDR (\$/month)		SMIRR (\$/month)	
	As Filed	Revised	As Filed	Revised
Residential	\$0.59	\$0.51	\$2.77	\$2.63
GS<50 kW	\$1.04	\$0.90	\$6.65	\$6.58
GS>50 kW	\$1.24	\$1.07	\$7.83	\$7.79

In response to VECC's request for PUC to provide class specific rate riders based on full cost causality, PUC indicated that it does not have the data available to complete the smart meter revenue requirement model by rate class. PUC further stated that it did not categorize or track the capital and OM&A costs to a service location and installation, therefore, providing costs by rate class is not feasible.¹³

Board Staff noted in its submission that PUC was able to allocate amortization to each class based on the smart meter costs per rate class¹⁴; provide the number of each meter type installed per rate class, as well as, an average meter cost per meter type¹⁵; provide the smart meter funding adder revenues collected from each class¹⁶; and provide a calculation of the pro-rated shared capital costs for the GS>50 kW class.¹⁷ Board staff observed that if PUC is able to prorate shared capital costs for the GS>50 kW class, it is reasonable to expect that it should be able to do so for the residential and GS<50 kW classes, as well. Board staff took the following position:

“Board staff submits that cost causality should be the guiding principle when allocating costs to each class. Based on the information provided in response to Board staff's and VECC's interrogatories, Board staff submits that it appears that PUC has sufficient information to calculate the class specific revenue requirement. Board staff notes that such an approach would be consistent with the cost allocation methodology proposed by VECC and approved by the Board in PowerStream's 2012 smart meter cost recovery application (EB-2011-0128). Board staff submits that PUC should update its cost allocation to the class specific revenue requirement approach, proposed by VECC, and provide updated calculations of the resulting SMDRs and SMIRRs.”

¹² Response to Board Staff Interrogatory #14

¹³ Response to VECC Interrogatory #8

¹⁴ Response to Board Staff Interrogatory #14

¹⁵ Response to VECC Interrogatory #2

¹⁶ Response to VECC Interrogatory #8c

¹⁷ Response to Board Staff Interrogatory #9(d)

VECC agrees with Board Staff that cost causality should be the guiding principle when allocating costs to each class. VECC agrees with Board Staff that PUC should update its cost allocation to the class specific revenue requirement proposed by VECC and provide updated calculations SMDR and SMIRR calculations on this basis.

Inclusion of 2012 Costs

PUC has forecasted \$129,000 in smart meter capital costs in 2012 and \$50,000 in installation costs for a total of \$179,000. VECC estimates these costs represent 30% of the total forecasted 2012 costs. However, PUC has not included forecasted smart meter installations in 2012 for the residential and GS<50 kW customer classes. PUC notes that a portion of the \$50,000 for capital upgrades and \$50,000 for installation costs relate to the costs for anticipated new installations and conversions from bulk to individual meters for apartment buildings in 2012 and the number of new installations is expected to be in the range of 150 to 200 based on the last two years. The conversion of bulk to individual meters is less predictable but expected to be no more than 50.¹⁸

Board Staff notes in its submission that given PUC's challenge in estimating the number of meter installations, it may be more appropriate for PUC to delay recovery of these forecasted costs until its next rebasing application.

VECC agrees with Board staff that given the uncertainty around the number of meters to be installed, and the impact on the calculation of the SMIRRs, these costs should not be recovered in this application.

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 25th day of May 2012.

¹⁸ Response to Board Staff Interrogatory #9 (c)