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June 20, 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)
Cooperative Hydro Embrun Inc. EB-2012-0094
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: Cooperative Hydro Embrun Inc.
Mr. Benoit Lamarche

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 Cooperative Hydro Embrun Inc. (CHEI) 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

At the end of 2011, CHEI had installed 1,944 smart meters: 1,786 residential and 158 GS<50 kW smart meters, which reflects 100% completion for these customer classes. An additional 12 meters were installed for the GS>50 kW customer class in 2010. In 2012, an additional 14 meter installations (10 residential and 4 GS<50 kW) are projected for a total of 1,970 installed meters.[1]

CHEI seeks the Board's approval of $314,417 in capital expenditures to the end of 2011. CHEI has not included any capital costs in 2012.

CHEI has not included any OM&A costs for the historical period during deployment, or for 2012 as part of the ongoing expenses related to the operations of deployed smart meters. VECC notes this approach differs from that of most other smart meter recovery applications that include OM&A costs.

CHEI's application does not include any capital or OM&A costs that are beyond minimum functionality such as Time-of-Use (TOU) rate implementation, CIS system upgrades, web presentation, integration with the MDM/R etc.

In this application, CHEI seeks:

- Approval to recover the deferred revenue requirement related to smart meters costs from January 1, 2007 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 one year period (May 1, 2012 to April 30, 2013).

[1] Smart Meter Recovery Model, Sheet 2

- Approval of a Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR), over a two year period until CHEI's next cost of service application scheduled for 2014, which is calculated as a proxy for the incremental change in the distribution rates that the actual expenditures would have generated had they been incorporated into the revenue requirement calculation of a cost of service application.

- CHEI proposes that the SMDR and SMIRR rate riders be collected from residential and GS< 50 kW customer classes.

Prudence Review of Smart Meter Costs

CHEI indicates it collaborated with other utilities by joining a cost sharing contract with other electricity distributors in the region (Renfrew Hydro, Hydro 2000, Hydro Hawkesbury, Ottawa River Power) and under this arrangement is able to share many operational costs.[2] CHEI indicates this cost sharing arrangement is solely related to smart meter deployment and operation and CIS (software and hardware).[3]

In response to Board Staff interrogatory #5, CHEI provided more information on its cost sharing and how this cost-sharing arrangement has factored into costs. CHEI indicates the five LDC's are using the AMI system consisting of an AMCD, LAN, AMRC, AMCC connections between the WAN and AMCC and the AMI is located and operated at Ottawa River Power Corporation. CHEI points out that as a small LDC, it does not have the capability to operate its own AMI system and sharing the resources with five LDC's using one server and a MAS brings the cost down.

CHEI's Time of Use (TOU) billing initially scheduled for July 2011 was completed 100% by February 2012 following a six month extension granted by the Board to January 2012.[4] CHEI indicates it filed a joint application for the extension with Hydro 2000, Ottawa River Power and Renfrew Hydro.[5]

CHEI confirms that there are net operational efficiencies realized from meter reading costs of approximately $5,220 which help to offset the incremental costs incurred from smart meter implementation. CHEI states that it "has not included any OM&A costs as it is assumed to be part of regular operations. In making this decision CHEI has taken into consideration the incremental cost savings as offsets to incremental costs, i.e. meter readers.[6] CHEI has fully expensed the incremental smart meter operating costs as part of its annual financial reporting and does not intend to seek regulatory recovery of these expenditures in the future.[7]

[2] Application, Exhibit 1, Tab 1, Schedule 6, Page 2
[3] Response to Board Staff interrogatory #5(b)
[4] Application, Exhibit 1, Tab 1, Schedule 5, Page 2
[5] Application, Exhibit 1, Tab 1, Schedule 6, Page 4
[6] Application, Exhibit 1/Tab 1/Schedule 6, Page 3
[7] Response to Board Staff interrogatory #9

CHEI calculates the average capital cost per meter as $159.60, based on 1970 installed meters and capital costs of $314,417. CHEI indicates this amount compares favourably to the sector average capital cost of $186.76 derived from the Sector Smart Meter Audit Report issued by the OEB Regulatory Audit and Accounting Group on March 21, 2010 (based on 3,053,931 meters with a capital cost of $570,339,200).[8] CHEI submits that its total program costs and its cost per installed meter are reasonable and prudently incurred.[9]

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).

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).[10]

VECC observes that CHEI's average costs are within the range established in EB-2007-0063, and less than the more recent sector averages. VECC takes no issue with CHEI's treatment of OM&A costs and agrees with Board Staff that the historical costs and forecasted costs are reasonable, with one exception. CHEI's application includes the installation of 12 smart meters in 2011 and 14 smart meters in 2012 but no capital costs for smart meters and installation are shown in these years. In response to Board Staff interrogatory #6, CHEI indicates it included in its 2010 capital costs the cost of meters purchased for installation of the meters in 2011 and 2012.

VECC agrees with Board Staff that CHEI should revise the smart meter model to align the capital costs with the years in which the smart meters were installed. Otherwise the rate base in 2010 is overstated and the return on capital and depreciation expense is overstated in 2010 and beyond.

Recovery of Smart Meter Costs

[8] Application, Exhibit 1, Tab 1, Schedule 7, Page 1
[9] Application, Exhibit 1, Tab 1, Schedule 7, Page 1
[10] Monitoring Report Smart Meter Investment – September 2010, March 3, 2011

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.

CHEI indicates it completed approximately 98% of its smart meter installations in 2010 for which audited financial statements have been completed.[11]

Table 1: Percentage of Audited Costs vs. Unaudited Costs

Audited Costs to December 31, 2010	Unaudited Costs To December 31, 2011	Total Costs
$312,533	$1,883	$314,417
99.4%	**0.6%**	**100%**

VECC submits CHEI's percentage of audited costs conforms to the Board's Guidelines.

Costs Beyond Minimum Functionality

CHEI's application does not include any capital or OM&A costs beyond minimum functionality.

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.

Specifically the Guideline states,

3.4 Costs Beyond Minimum Functionality

While authorized smart meter deployment must meet the requirements for minimum functionality, a distributor may incur costs that are beyond the minimum functionality as defined in O.Reg. 425/06. To date, the Board has reviewed three types of costs that are beyond minimum functionality:

- Costs for technical capabilities in the smart meters or related communications infrastructure that exceed those specified in O.Reg 425/06;

[11] Application, Exhibit 1, Tab 1, Schedule 6, Page 4

- Costs for deployment of smart meters to customers other than residential and small general service (i.e. Residential and GS < 50 kW customers); and
- Costs for TOU rate implementation, CIS system upgrades, web presentation, integration with the MDM/R, etc.

With respect to costs for the deployment of smart meters to customers other than residential and GS<50 kW, CHEI's application shows the installation of 12 smart meters in 2010 for the GS>50 kW customer class. The Board's Guideline indicates the application should document the nature, justification and cost per meter separately from those for the residential and GS<50 kW customers.[12]

In its submissions dated June 12, 2012, Board Staff states the following (page 7):

> "Board staff submits that CHEI has provided the cost per meter but that the record on the nature and justification of these costs is insufficient. Noting that some of this information only came to light in responses to interrogatories, Board staff suggests that CHEI provide additional information in its reply submission to provide clarity, specifically on the increased costs of the smart meters for the GS > 50 kW class (over three times that of GS < 50 kW smart meters as shown in the above table) and on how the smart meter deployment to GS < 50 kW relates to CHEI's overall smart meter implementation plan."

VECC agrees with the submissions of Board Staff and submits that in order to comply with the Board's Guidelines, CHEI should provide in its reply submissions, information on the nature, justification and cost per meter of the smart meters for the GS>50 kW customer class.

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."[13]

In its application filed March 16, 2012, CHEI calculated uniform SMDR and SMIRR rate riders per metered customer per month based on 1,958 customers (average for 2012 test year). CHEI did not address the allocation of smart meter costs to the applicable classes as per the Board's Guideline.

Specifically, section 3.5 of the Board's Guideline states:

In the Board's decision with respect to PowerStream's 2011 Smart Meter Disposition Application (EB-2011-0128), the Board approved an allocation methodology based on a class-specific revenue requirement, offset by class-specific revenues. The Board noted that this approach may not be appropriate or feasible for all distributors as the necessary data may not be readily available.

[12] G-2011-0001, Page 16
[13] G-2011-0001, Page 19

The Board views that, where practical and where the data is available, class-specific SMDRs should be calculated based on full cost causality. The methodology approved by the Board in EB-2011-0128 should serve as a suitable guide. A uniform SMDR would be suitable only where adequate data is not available.

In interrogatory #13, Board Staff provided a cost allocation methodology based on PowerStream's approach in its 2011 Smart Meter Disposition Application (EB-2011-0128), and attached spreadsheets taken from Guelph Hydro's draft Rate Order filing to be utilized by CHEI to provide calculations for class-specific SMDR and SMIRR rate riders. Board Staff noted that the cost allocation methodology has been used and approved in some recent cost of service applications, including that for Guelph Hydro's 2012 rates application [EB-2011-0123] as follows:

- OM&A expenses have been allocated on the basis of the number of meters installed for each class.
- The Return and Amortization have been allocated on the basis of the capital costs of the meters installed for each class.
- PILs have been allocated based on the revenue requirement derived for each class before PILs.
- SMFA revenues and interest on the principal first calculated directly for the Residential and GS < 50 kW classes, with then the residual SMFA revenues and interest collected from other metered customer classes (i.e., GS 50-4999 kW and Large Use) allocated 50:50 to the Residential and GS < 50 kW classes.

Table 2 below shows the uniform rate riders filed in the application compared to the updated class-specific rate riders resulting from CHEI's response to Board Staff IR#13. VECC notes that the figures below reflect revisions CHEI made to the Smart Meter Model as a result of responses to all interrogatories.

Table 2: SMDR & SMIRR Rate Riders: As Filed Compared to Revised (Board Staff IR#13)

	SMIRR ($/month, for 22 months)		**SMIRR** ($/month, for 22 months)	
Class	**As Filed**	**Board Staff IR #13**	**As Filed**	**Board Staff IR #13**
Residential	($0.14)	($0.58)	$1.69	$1.45
GS<50 kW	($0.14)	$6.63	$1.69	$4.21
GS>50 kW	($0.14)	$33.08	$1.69	$14.33

CHEI now proposes the rate riders calculated in response to Board Staff IR#13. Board staff submits that the class-specific SMDRs and SMIRRs as provided in the Application have been calculated appropriately through class specific models.[14] VECC disagrees.

VECC interrogatory #3 sought the calculation of class specific rate riders based on full cost causality, not the PowerStream methodology. VECC sought separate smart meter revenue

[14] Board Staff Submission dated June 18, 2012, Page 4

requirement models for each customer class to recalculate the rate riders using the class specific revenue requirements. In its response to VECC interrogatory #3, CHEI referred to its response to Board interrogatory #13. VECC submits the difference between the two cost allocation methodologies is significant and CHEI's response to Board Staff IR#13 does not adequately address the information VECC sought in VECC IR#3, i.e. for CHEI to provide class specific rate riders based on full cost causality.

In response to VECC interrogatory #2b, CHEI provided total average installed smart meter costs summarized by VECC as follows:

Table 3: Total Average Cost by Customer Class

Customer Class	Average Meter Cost	Average Installation Cost	Total Average Cost
Residential	$93.34	$11.79	$105.13
GS<50 kW	$271.19	$34.25	$305.44
GS>50 kW	$924.01	$116.69	$1,040.69

Given the average installed meter cost for a GS<50 kW customer is almost 3 times the average installed meter cost for a residential customer, VECC submits the better way to avoid undue cross subsidy is to calculate class specific rate riders based on VECC's proposed cost allocation methodology to reflect the full costs for each customer class. VECC notes that in the Board's decision with respect to PowerStream's 2011 Smart Meter Disposition Application (EB-2011-0128), the Board found that PowerStream should adopt the cost allocation methodology proposed by VECC.[15] The Board has made the same finding in other recent decisions regarding smart meter disposition applications.

VECC submits CHEI should be directed to provide the information as requested in VECC Interrogatory #3 as part of its Reply submissions (i.e., class specific revenue requirement models and revised SMDR and SMIRR rate riders based on the proposed VECC cost allocation methodology) and that the Board should adopt these values.

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 20th day of June 2012.

[15] EB-2011-0128 Decision and Order, Page 12