***PUBLIC INTEREST ADVOCACY CENTRE***

***LE CENTRE POUR LA DEFENSE DE L’INTERET PUBLIC***

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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)**

**London Hydro Inc. EB-2012-0187
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: London Hydro Inc.Mr. Mike Chase

**EB-2012-0187**

**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 London Hydro Inc. (London 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

In its application filed March 24, 2012 and updated on April 2, 2012, London Hydro is seeking the Board’s determination that smart meter capital of $24,403,496 and operating expenditures of $806,711 to the end of 2011 are prudent.

As of December 31, 2011, London Hydro installed 134,658 residential and 11,779 GS<50 kW smart meters for a total of 146,437 installed meters. London Hydro indicates this represents 99.96% installation completion for the residential customer class and 98.47% for the GS<50 kW class. In addition, London Hydro’s application includes forecasted smart meter installations in 2012 for 211 residential, 202 GS>50 kW and 25 GS>50 kW customers, for a total of 438 installed smart meters.

London Hydro’s smart meter costs include costs related to minimum functionality and smart meter costs beyond minimum functionality as defined in the Board’s Guideline G-2011-0001. London Hydro’s application also includes forecasted costs in 2012 related to the recovery of $511,307 in capital and $746,000 in OM&A costs.[[1]](#footnote-1)

In this application, London Hydro also 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 April 1, 2006 to April 30, 2012 via a Smart Meter Disposition Rider (SMDR) for one year (May 1, 2012 to April 30, 2013).
* 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 London Hydro’s next Cost of Service (COS) rate application currently scheduled for 2013.[[2]](#footnote-2)
* London Hydro is proposing that the SMDR and SMIRR rate riders be collected from the residential and GS< 50 kW customer classes.

**Prudence Review of Smart Meter Costs**

London Hydro was instrumental in developing a smart metering purchasing consortium representing over 60 LDCs and the RFP was primarily developed by London Hydro.[[3]](#footnote-3) London Hydro received formal recognition of its efforts and procurement process by the Minister of Energy via Ontario Regulation 427/06, *Smart Meters: Discretionary Metering Activity and Procurement Principles.*

Time of Use (TOU) billing was mandated to be in place for all of London Hydro’s residential and GS<50 kW customers in 2011. The Board granted London Hydro an extension to March 31, 2012 due to a number of technology challenges. Migration of customers to TOU billing started in February 2012 and London Hydro expects it to be substantially complete by March 31, 2012.

In its application, London Hydro listed some of the specific benefits London Hydro expects to obtain as a result of installing advanced metering infrastructure. In response to VECC interrogatory #2, London Hydro provided further explanations of the expected benefits.
London Hydro identified manual meter reading savings for 2011 and 2012 in the amount of $330,000. No savings were realized in 2010 due to complications that resulted n the delay in moving manual reads.[[4]](#footnote-4) These savings were allocated to Other AMI Expenses, 2.5.6 in the Smart Meter Model and total OM&A costs of $1,552,711 are net of these savings. VECC concurs with Board Staff in its submission (page 7) and supports the inclusion of smart meter savings in the calculation of the SMDR and SMIRR rate riders.

As shown in Table 1 below, London Hydro calculates its total capital cost per smart meter including actual and audited costs up to December 31, 2011 and projected costs in 2012) as $169.66[[5]](#footnote-5), based on 146,850 installed meters. On a total cost basis (capital & OM&A costs to 2012 including costs beyond minimum functionality), the average per meter is $180.24.[[6]](#footnote-6)

**Table 1**: Summary of Smart Meter Costs

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Costs** | **Audited Costs to December 31, 2011** | **Avg Cost per Meter to 2011** | **Unaudited Costs – Projected 2012** | **Avg Cost per Meter Projected 2012** | **Total** | **Total****Avg Cost per Meter** |
| Capital – Minimum Functionality  | $21,249,729 | $144.70 | $474,200 | $3.23 | $21,723,929 | $147.93 |
| Capital – Beyond Minimum Functionality  | $3,153,767 | $21.48 | $37,107 | $0.25 | $3,190,874 | $21.73 |
| **Total Capital Costs** | **$24,403,496** | **$166.18** | **$511,307** | **$3.48** | **$24,914,803** | **$169.66** |
| OM&A – Minimum Functionality  | $756,959 | $5.15 | $693,500 | $4.72 | $1,450,459 | $9.87 |
| OM&A – Beyond Minimum Functionality  | $49,752 | $0.34 | $52,500 | $0.36 | $102,252 | $0.70 |
| **Total OM&A Costs** | **$806,711** | **$5.49** | **$746,000** | **$5.08** | **$1,552,711** | **$10.57** |
| **TOTAL** | **$25,210,207** | **$171.67** | **$1,257,307** | **$8.56** | **$26,467,514** | **$180.24** |
| **% costs audited** | **95.25%** |  |  |  |  |  |
| # smart meters (Res & GS<50 kW) | 146,437 |  | 413 |  | 146,850 |  |

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).[[7]](#footnote-7)

VECC observes that London Hydro’s average smart meter costs are within the range established in EB-2007-0063, and less than the more recent sector averages. VECC takes no issue with the quantum or nature of London Hydro’s average smart meter costs, except for $12,800 in capital costs associated with the 25 smart meters forecasted for installation in 2012 for the GS>50 kW customer class discussed below under Costs Beyond Minimum Functionality.

Costs Beyond Minimum Functionality

London Hydro’s application includes $3,293,126 for costs beyond minimum functionality (capital costs of $3,190,874 and OM&A costs of $102,252).[[8]](#footnote-8) VECC observes that the total of these expenditures represents approximately 12.4% 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.

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;
* 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, London Hydro has included $12,800 in capital costs related to the planned deployment of 25 smart meters in 2012 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.[[9]](#footnote-9)

In its submissions dated June 12, 2012, Board Staff states the following (pages 8-9):

“Board staff submits that the proposed 25 meters for the GS>50 kW customer class are outside of the scope of London Hydro’s smart meter initiative as noted by London Hydro. Further, London Hydro has not provided sufficient evidence to justify the inclusion of meters for this pilot project for the GS>50 kW class, especially since London Hydro has not been able to determine a procurement date as of yet.

Board staff also notes that the cost allocation methodology approved in the recent smart meter cost recovery decisions is based on the principle of cost causality. Board staff submits that the inclusion of these costs, although nominal, for meters for the GS>50 kW customer class in the SMIRRs to be paid for by Residential and GS < 50 kW customers would constitute cross-subsidization between rate classes.

For these reasons, Board staff submits that these expenses should be removed from the revenue requirement calculation for determining the SMIRRs.”

VECC agrees with the submissions of Board Staff and its position that these expenses should be removed from the revenue requirement calculation for determining the SMIRRs.

London Hydro has also included $3,178,074 in capital costs and $102,252 in OM&A costs for TOU rate implementation, CIS system upgrades, web presentation, integration with MDM/R etc. These costs may be recoverable provided a distributor shows how these costs are required for its smart meter program and how these costs are incremental.[[10]](#footnote-10)

London Hydro provided a breakdown and detailed information in its application on the types of expenses included under capital costs beyond minimum functionality (1.6.3) and OM&A costs beyond minimum functionality (2.6.3).[[11]](#footnote-11) VECC submits London has appropriately demonstrated consistency with the Board’s Guidelines regarding the nature of these costs.

**Recovery of Smart Meter Costs**

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.

London Hydro confirms that all costs submitted for recovery have been audited and included in financial statements for the year-ended December 31, 2011. As noted in Table 1 above, London Hydro’s total audited capital and OM&A cost to the end of 2011 is $25,201,207 or 95.15% of the total program costs.[[12]](#footnote-12) VECC submits London Hydro’s application is consistent with the Board’s Guideline regarding audited costs.

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

Section 3.5 of the Board’s Guideline G-2011-0001 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.

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.

London Hydro proposes to allocate the smart meter true-up revenue requirement to the residential and GS<50 kW customer classes based on a similar approach approved by the Board in PowerStream’s 2010 Smart Meter Disposition application (EB-2010-0209).[[13]](#footnote-13)

Specifically, London Hydro proposed the following cost allocation methodology:

* Allocation of the return (deemed interest plus return on equity) and amortization based on the capital costs of the meters installed for each class;
* 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.[[14]](#footnote-14)

In response to Board Staff interrogatory # 8b, London Hydro recalculated class specific SMDRs for residential and GS<50 kW customers to which smart meters were deployed based on the Guelph updated Draft Order cost allocation spreadsheet that was provided by Board Staff. The spreadsheet allocates the SMFA revenues directly attributable to each class and SMFA revenues collected from other metered customers are allocated evenly between the two classes. VECC notes the SMFA revenue amounts were adjusted to replace forecasted SMFA amounts for January 2012 to April 2012 with actuals resulting in an increase of $39,529 including carrying charges for a total SMFA amount collected of $892,163.[[15]](#footnote-15)

Table 2 below shows the original and recalculated SMDRs and SMIRRs in response to Board Staff interrogatory #8b. VECC notes that the revised rate riders account for the corrections identified in Board Staff IRs #9 and #12.

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

|  |  |  |
| --- | --- | --- |
|  | **SMDR ($/month)** | **SMIRR ($/month)** |
| **Class** | **As Filed**  | **Revised as per Board Staff #8b/ IR#14** | **As Filed**  | **Revised as per Board Staff #8b/ IR#14** |
| **Residential** | $(0.81) | ($0.82) | $2.30 | $2.30 |
| **GS<50 kW** | $(1.82) | ($1.85) | $5.10 | $5.10 |

London Hydro directly attributed meter capital costs to each specific customer class and calculated the average smart meter unit cost of $100.84 per meter for the residential class and $250.86 per meter for the GS < 50 kW class.[[16]](#footnote-16) The GS < 50 kW class average meter unit costs are approximately 2.5 times more than that of the residential class average meter unit cost. On this basis, VECC requested in interrogatory #8, that London Hydro re-calculate the revenue requirements and rate riders by customer class based on full cost causality that would include the utilization of class specific SMFA revenues. London Hydro did not provide the class specific rate riders based on full cost causality but provided the following response:

“London Hydro has complied with the Guidelines G-2008-0002 in which accounts 1555 and 1556 were established to track the capital and the OM&A costs associated with smart meter investments. Expenditures accumulating from 2006 through to this Submission have not been recorded to their respective customer classes. Although London Hydro cannot reasonably accommodate the segmentation of expenditures into specific customer classes, and therefore class specific revenue requirements, London Hydro has provided on page 80 and page 81 of the Application London’s basis for determining appropriate revenue requirements (and resulting SMDR and SMIRR Rate Riders) by customer class.”

VECC accepts that London Hydro does not have the required data to complete individual models to determine the revenue requirement for each rate class in order to calculate class specific rate riders based on full cost causality.  In principle, VECC supports the methodology used by London Hydro in Board Staff IR#8b (& IR#14) with one exception. VECC takes no issue with London Hydro’s recalculation of class specific rate riders based on capital costs as the driver, which is consistent with the approved PowerStream methodology, or the direct allocation of SMFA revenues by customer class to better reflect cost causality. However, VECC submits that the SMFA revenues collected from the GS>50 kW customer classes should be returned to those customers instead of a 50:50 allocation between the residential and GS<50 kW customer classes.

**Inclusion of 2012 Costs and Demand for Customer Growth**

London Hydro has included costs in 2012 in the amount of $1,257,307 related to the installation of 413 smart meters (211 residential and 202 GS<50 kW) plus activation fees, costs for TOU rate implementation etc. maintenance, business process redesign, customer communication, program management and other costs.

In its submission, Board Staff indicates that this approach is different than what the Board approved in recent smart meter cost recovery applications. Board Staff notes 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 since London Hydro has been consistent in matching costs with demand. Board Staff submits that both the approach approved in PowerStream and other cost of service applications, including costs only to the end of 2011 and London Hydro’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.

Furthermore, Board Staff notes that the capital cost for the 413 new meters is $28,900 which is relatively small and does not have a significant impact on the calculation of the SMIRRs.

VECC accepts that London Hydro’s capital costs for 413 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 London Hydro’s specific circumstances, VECC accepts London Hydro’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 20th day of June 2012.

1. Smart Meter Model, Sheet 2 [↑](#footnote-ref-1)
2. Manager’s Summary, Page (A) [↑](#footnote-ref-2)
3. Application, Pages 8-9 [↑](#footnote-ref-3)
4. Application, Page 78 [↑](#footnote-ref-4)
5. Application, Page 63 [↑](#footnote-ref-5)
6. Application, Page 65 [↑](#footnote-ref-6)
7. Monitoring Report Smart Meter Investment – September 2010, March 3, 2011 [↑](#footnote-ref-7)
8. Smart Meter Recovery Model, Sheet 2 [↑](#footnote-ref-8)
9. G-2011-0001, Page 16 [↑](#footnote-ref-9)
10. G-2011-0001, Pages 15-17 [↑](#footnote-ref-10)
11. Application, Pages 59-62 [↑](#footnote-ref-11)
12. Board Staff Submission, Page 8 [↑](#footnote-ref-12)
13. Application, Page 79 [↑](#footnote-ref-13)
14. Application, Page 80, Table 9-9 [↑](#footnote-ref-14)
15. Response to VECC interrogatory #8(b) [↑](#footnote-ref-15)
16. Application, Page 80 [↑](#footnote-ref-16)