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July 04, 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)
Oakville Hydro Electricity Distribution Inc. EB-2012-0193
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: Oakville Hydro Electricity Distribution Inc.
Mr. Jim Collins

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 Oakville Hydro Electricity Distribution Inc. (Oakville 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

In its application filed April 3, 2012, Oakville Hydro is seeking the Board's determination that smart meter capital of $10,131,152 and operating expenditures of $1,106,201 to December 31, 2011 are prudent.[1]

Oakville Hydro has completed the installation of its smart meters and has installed 58,720 residential and 5,014 GS<50 kW smart meters for a total of 63,734 installed meters. Oakville Hydro's application does not include any forecasted smart meter installations in 2012.

Oakville 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.[2]

Oakville Hydro's application includes $785,147 in forecasted costs in 2012: $200,000 in capital expenditures and $585,147 in OM&A expenses.[3]

In this application, Oakville Hydro 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) and associated interest collected from 2006 to April 30, 2012 via a Smart Meter Disposition Rider (SMDR) for two years (May 1, 2012 to April 30, 2014).

- Approval of a Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) to recover the incremental annual revenue requirement associated with forecast smart meter

[1] Application, Page 3
[2] Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011
[3] Smart Meter Recovery Model, Sheet 2, 20120412

costs to be incurred. The SMIRR will be in place for two years (May 1, 2012 to April 30, 2014) until these costs can be incorporated into distribution rates in Oakville Hydro's next Cost of Service (COS) rate application currently scheduled for 2014 rates.[4]

Oakville 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

Oakville Hydro participated in the London RFP process for the procurement of smart meters along with a consortium of Local Distribution Companies (LDCs).[5] Oakville Hydro also partnered with a consortium of thirty-one LDCs in an RFP process to select a third party security audit expert.[6] VECC submits that it is reasonable to conclude that Oakville Hydro experienced some efficiencies through the joint purchase of goods and services with other LDCs.

Time of Use (TOU) billing was mandated to be in place for all of Oakville Hydro's residential and GS<50 kW customers by July 2011. The testing and cutover to the MDM/R production environment began in September 2010 and was successfully completed by January 2011. Prior to the formal enrolment of meters in the MDM/R, extensive systems testing and software upgrades were required.[7]

In response to VECC interrogatory #9, Oakville Hydro indicates it experienced the greatest cost savings through the reduction of meter reading expenses as a direct result of the new remote meter reading capability from the smart meters. The anticipated savings were incorporated into Oakville Hydro's 2010 Cost of Service application.

Oakville Hydro indicates its actual capital costs are 6.84% lower than it previously forecasted and OM&A costs are 1.16% lower.[8]

As shown in Table 1 below, Oakville Hydro calculates its total capital cost per smart meter including actual and audited costs up to December 31, 2011 (including costs beyond minimum functionality) and projected costs in 2012 as $162.10[9], based on 63,734 installed meters. On a total cost basis (capital & OM&A costs to 2012 including costs beyond minimum functionality), the average cost per meter is $188.64.

[4] Application, Page 24
[5] Application, Page 6
[6] Response to VECC interrogatory #4
[7] Application, Page 9
[8] Response to VECC Interrogatory #1(b)
[9] Application, Page 11

Table 1: Average Cost Per Meter

	Capital Costs to 2012	OM&A Costs to 2012	Total Costs to 2012	Meters Installed	Total Avg Cost per Meter
Residential	$8,022,290	$1,558,288	$9,580,578	58,720	$163.16
GS<50 kW	$2,308,862	$133,060	$2,441,922	5,014	$487.02
	$10,331,152	**$1,691,348**	**$12,022,500**	63,734	
Total Meters Installed	63,734				
	$162.10	**$26.54**	**$188.64**		

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 Oakville Hydro's average smart meter costs (including costs beyond minimum functionality and forecasted 2012 costs) are within the range established in EB-2007-0063, and less than the more recent sector averages.

In considering the above, VECC takes no issue with the quantum or nature of Oakville Hydro's average smart meter costs.

<u>Costs Beyond Minimum Functionality</u>

Oakville Hydro's application includes $591,565 for costs beyond minimum functionality (capital costs of $227,905 and OM&A costs of $363,660).[11] VECC observes that the total of these expenditures represents approximately 4.9% of total smart meter program spending.

[10] Monitoring Report Smart Meter Investment – September 2010, March 3, 2011
[11] Smart Meter Recovery Model, Sheet 2, 20120412

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.

Oakville Hydro indicates it has incurred incremental costs associated with TOU rate implementation, CIS system upgrades, web presentation and integration with MDM/R.[12] 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.[13]

Oakville Hydro provided a breakdown and detailed information in its application and through interrogatory responses 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).[14] VECC submits Oakville has appropriately demonstrated consistency with the Board's Guidelines regarding the nature of these costs.

Recovery of Smart Meter Costs

The Board's Guideline G-2011-0001[15] states the following:

> The Board expects that the majority (90% or more) of costs for which the distributor is seeking recovery will be audited.

[12] Application, Page 20
[13] Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011, Pages 15-17
[14] Application, Pages 20-23
[15] Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011, Section 3.5, Page 18

In response to VECC interrogatory #5, Oakville Hydro confirms that 2007 to 2011 costs have been audited which represents 93% of the program costs.

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

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.

In its application, Oakville Hydro proposed class specific SMDR and SMIRR rate riders for the residential and GS<50 kW customer classes. In response to VECC interrogatory #3, Oakville Hydro confirmed it calculated the SMDR and SMIRR based on the methodology proposed by PowerStream in EB-2011-0128. In response to Board Staff interrogatory #21(a), Oakville Hydro confirmed it used 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 rate class;
- Allocation of OM&A based on number of meters installed for each rate class;
- Allocation of PILs based on the revenue requirement allocated to each class before PILs; and
- Allocation of Smart Meter Funding Adder collected (including carrying costs) based on revenue collected from each class. Revenues collected from the GS<50 kW have been allocated equally between the residential and GS<50 kW class.

The average installed cost per meter differs between customer classes. For residential and GS<50 kW customers, the average cost is $114.82 and 438.69, respectively.[16] VECC submits the only way to avoid undue cross subsidy is to calculate class specific rate riders that reflect the full costs for each customer class.

In response to VECC interrogatory #10(c) Oakville Hydro completed a separate smart meter revenue requirement model for each rate class and the SMDR and SMIRR rate riders were recalculated based on full cost causality by rate class in response to VECC interrogatory

[16] Response to VECC interrogatory #2(b)

#10(d). Oakville Hydro noted that this methodology results in the allocation of a larger portion of the SMDR credit to the residential class. Oakville Hydro suggests that this method of calculating the SMDR reflects full cost causality, and, as such, is a more reasonable approach.[17]

Table 2 below shows the original and recalculated SMDRs and SMIRRs based on the PowerStream and VECC methodologies, respectively. VECC notes that the revised rate riders account for the corrections to the smart meter model identified in Board Staff IRs #6, 18 and 19.

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

	SMDR ($/month)		**SMIRR ($/month)**	
Class	**As Filed**	**Revised as per VECC #10(d)**	**As Filed**	**Revised as per VECC #10(d)**
Residential	$(0.21)	($0.45)	$2.49	$2.49
GS<50 kW	$(0.57)	$2.61	$7.25	$7.33

VECC submits the updated SMDR and SMIRR rate riders that reflect full cost causality are consistent with the Board`s Guideline G-2011-0001 and should be approved.

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 4th day of July 2012.

[17] Response to VECC interrogatory #10(d)