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July 16, 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)
Sioux Lookout Hydro Inc. EB-2012-0245
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: Sioux Lookout Hydro Inc.
Ms. Deanne Kulchyski

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 Sioux Lookout Hydro Inc. (SLHI) for an order or orders approving or fixing just and reasonable distribution rates to reflect the recovery of costs for deployed smart meters, effective September 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 May 4, 2012, SLHI is seeking the Board's determination that smart meter capital of $728,250 and operating expenditures of $116,682 to December 31, 2011 are prudent.[1]

As at December 31, 2010, SLHI completed 100% of its smart meter installations. SLHI has installed 2,309 residential and 397 GS<50 kW smart meters for a total of 2,706 installed meters.[2] SLHI's application does not include any forecasted smart meter installations in 2012.

SLHI's smart meter costs include costs related to minimum functionality and costs beyond minimum functionality as defined in the Board's Guideline G-2011-0001.[3]

SLHI's application includes $72,125 in forecasted OM&A expenses in 2012. No capital costs are included in 2012. [4]

In this application, SLHI seeks:

- Approval to recover the deferred revenue requirement related to smart meter capital and OM&A expenses for meters installed 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) over a 24 month period beginning

[1] Smart Meter Recover Model, V 2.17, Sheet 2, 20120417
[2] Application, Page 7
[3] Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011
[4] Smart Meter Recovery Model, v 2.17, Sheet 2, 20120417

September 1, 2012.

- Approval of a Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) beginning September 1, 2011 to recover the revenue requirement for smart meters installed up to December 31, 2011 in 2012 until these smart meter costs can be incorporated into SLHI's rate base in it next Cost of Service (COS) rate application currently scheduled for May 1, 2013.[5]

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

Prudence Review of Smart Meter Costs

SLHI was part of the Northwest Group (Thunder Bay Hydro, Kenora Hydro, Fort Frances Power, Atikokan Hydro and Sioux Lookout Hydro). The Northwest Group contracted with Util-Assist Inc. to manage various smart meter related procurement processes, develop the overall project plan and to guide and monitor the project through to time-of-use (TOU) bill production. The Northwest Group also contracted with Kinetiq Canada Ltd. to integrate the AMI data with the meter data management repository (MDM/R), to reconcile the meter data and to automate business processes.[6]

SLHI was expected to implement Time of Use (TOU) billing In June 2011. SLHI indicates the actual implementation was delayed until September 2011 due to technical issues with the billing system, Sungard HTE, related to billing programming.[7]

In response to VECC interrogatory #5(a), SLHI indicates it has not yet identified any operational efficiencies other than not requiring any additional billing staff to date. SLHI suspects that any operational efficiencies will be identified over time as the processes are established.

As shown in Table 1 below, SLHI's average total cost per meter to December 31, 2011 including costs beyond minimum functionality is $304.94 based on 2,706 smart meters installed. When costs beyond minimum functionality are included, the average total cost per meter is $312.24.

Table 1: Smart Meter Capital Costs & OM&A: Average Cost Per Meter

	Total Cost to Dec 2011	Average Cost/Meter	Costs 2012	Average Cost/Meter 2012
Capital Costs (Minimum Functionality)	$715,162	$264.29		
OM&A Costs	$110,010	$40.65	$62,125	$22.95

[5] Application, Page 1
[6] Application, Page 2
[7] Response to VECC interrogatory # 1(a)

(Minimum Functionality)				
Total Costs (Minimum Functionality)	**$825,172**	**$304.94**	**$62,125**	**$22.95**
Capital Costs (Beyond Minimum Functionality)	$13,088	$4.84		
OM&A Costs (Beyond Minimum Functionality)	$6,671	$2.47	$10,000	$3.70
Total Costs (Beyond Minimum Functionality)	**$19,759**	**$7.30**	**$72,125**	**$26.65**
Total Costs	**$844,931**	**$312.24**	**$917,056**	**$26.65**

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).[8]

VECC observes as did Board Staff in its submission that SLHI's average smart meter costs (excluding costs beyond minimum functionality) are beyond the range established in EB-2007-0063, and significantly greater (34%) than the recent sector average of $226.92. When costs beyond minimum functionality are included, SLHI's costs are 38% greater than the sector average.

SLHI is classified as a "small northern low undergrounding" LDC.[9] VECC acknowledges that company size and region served can affect LDC average unit costs as smaller utilities may not achieve the same economies with respect to fixed costs relative to large urban distributors with high undergrounding.

[8] Monitoring Report Smart Meter Investment – September 2010, March 3, 2011
[9] PEG Report: Benchmarking the Costs of Ontario Power Distributors

As noted above, SLHI was part of the Northwest Group (Thunder Bay Hydro Distribution Inc, Kenora Hydro Electric Corporation Ltd, Fort Frances Power Corporation, Atikokan Hydro Inc. and Sioux Lookout Hydro Inc.)

Board staff made the following submissions regarding smart meter costs:

"Board staff observes that both Atikokan and SLHI are classified as “small northern low undergrounding” utilities, and Kenora is classified as a “small northern medium undergrounding” utility, while TBHDI is classified as a “mid size northern” utility. However, given the collaboration intended to achieve economies of scale and reduce administrative burden and its cost, the disparity in costs among these utilities is wide. Size may be one contributing factor, particularly with respect to recovery of fixed costs that may be invariant to size (number of customers), but the reasons for the apparent variability is not clear.

Board staff submits that while SLHI’s smart meter costs are significantly higher than TBHDI, and apparently Kenora as well, SLHI’s costs are lower than Atikokan’s. Accordingly, Board staff does not take issue with SLHI’s smart meter costs as documented in the Application, and submits that the higher level may be due to characteristics of utilities in the Northwest Group. Board staff notes that SLHI has elected to use a 2012 return on equity treatment, discussed later in this submission, that is favourable to ratepayers and is to some extent an offset of the higher per meter costs."

VECC agrees with Board Staff's analysis of smart meter costs but questions whether these circumstances fully explain costs that are significantly above the average. VECC concurs with Board Staff that the reasons for the apparent variability within the cohort is not clear. However, VECC is uncertain if the higher level is due to the characteristics of utilities in the Northwest Group.

VECC notes that ALHI's application does not provide an explanation of the circumstances of its operating environment to explain these higher than average costs. VECC suggests that SLHI comment on this matter in its reply submissions.

In order to fully explain SLHI’s higher than average costs, VECC submits that the Board should undertake an audit of SLHI’s smart meter program and report publicly its findings. Parties should then be able to make submissions on an appropriate recovery amount.

VECC notes that this would mean a delay in the recovery of costs. VECC submits that in the interim, SLHI should be allowed to recover 50% of its proposed smart meter costs.

The remaining amounts should be recovered after an audit of the smart meter program has been performed by the Board. VECC notes that this approach is consistent with the Board’s Decision regarding Atikokan’s smart meter recovery in EB-2011-0293. In its Decision the Board stated:

"The Board will accept VECC's proposal and allow for recovery of 50% of the requested smart meter costs at this time. The Board will direct the Regulatory Accounting and Audit branch of the Board to conduct an audit of Atikokan's smart meter costs. The results of the audit will be considered by the Board with respect to the final amounts to be authorized for recovery in a future application to be filed by Atikokan no later than 6 months from the completion of the subject audit."

VECC notes that if the Board accepts VECC's proposal, the results of the Board's audit of Atikokan and SLHI's smart meter costs will allow the Board to compare the costs of two "small northern low undergrounding" utilities within the Northwest Group of utilities.

Recovery of Smart Meter Costs

The Board's Guideline G-2011-0001[10] states the following:

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

SLHI indicates its smart meter costs have been audited up to December 31, 2011, by an independent auditor.[11]

VECC submits SLHI's percentage of audited costs is greater than 90% and thus conforms to the Board's Guidelines. ($844,931 (total costs to end of 2011)/($917,056 (total costs)) = 92.14%.[12]

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.

[10] Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011, Section 3.5, Page 18
[11] Application, Page 1
[12] Smart Meter Recovery Model, V 2.17, Sheet 2, 20120417

SLHI indicates it calculated the rate riders on the cost allocation methodology proposed in PowerStream's application in EB-2011-0128 except for the SMFA revenues. The SMFA revenues for the GS > 50 kW class of 2% were fully allocated to the GS < 50 kW Class.[13]

VECC notes that SLHI's average installed cost per meter differs between customer classes. 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. VECC concurs with Board Staff that SLHI should clarify in its reply submissions the appropriate meter cost data filed due to inconsistencies in the data provided.[14]

In response to VECC interrogatory #7 to complete a separate smart meter revenue requirement model by rate class in order to recalculate the SMDR and SMIRR rate riders based on full cost causality by rate class, SLHI indicates it is unable to do this since its costs are not segregated by rate class.

In response to Board Staff interrogatory #10, SLHI calculated class specific SMDRs based on 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 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 and large use customer classes are allocated equally between the residential and GS<50 kW class.

In response to Board Staff interrogatory #19, SLHI recalculated the rate riders to include forgone revenues from May 1, 2012 to August 31, 2012. VECC concurs with Board Staff that it is not apparent in the interrogatory responses how the SMIRR was allocated by SLHI to the residential and GS<50 kW customer classes.

Table 2 below shows the original and recalculated SMDRs and SMIRRs based on responses to interrogatories. VECC notes that the revised rate riders account for the corrections to the smart meter model identified in interrogatory responses.

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

	SMDR ($/month)			**SMIRR ($/month)**	
Class	**As Filed**	**Revised as per Board Staff #10 & VECC #7**	**Revised as per Board Staff #19**	**As Filed**	**Revised as per Board Staff #18 & VECC #7**
Residential	$1.85	$1.63	$2.38	$4.59	$4.10

[13] Response to Board Staff Interrogatory #10
[14] Response to VECC Interrogatory #3, 4, Response to Board Staff Interrogatory #19

GS<50 kW	$2.16	$2.37	$3.83	$5.31	$8.26

VECC accepts that SLHI 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. As a result, VECC supports the cost allocation methodology provided by SLHI in response to interrogatories but with one exception. VECC submits that in keeping with the principles of cost causality, 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.

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 16th day of July 2012.