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August 03, 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)
Orillia Power Distribution Corporation EB-2012-0261
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: Orillia Power Distribution Corporation
Mr. Pat Hurley

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 Orillia Power Distribution Corporation ("Orillia") for an order or orders approving or fixing just and reasonable distribution rates to reflect the recovery of costs for deployed smart meters, effective October 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

Orillia filed an application May 23, 2012 for smart meter recovery based on actual costs incurred to December 31, 2011 and forecasted costs to December 31, 2012. Orillia is seeking the Board's determination that smart meter capital of $2,354,835 and operating expenditures of $463,276 to December 31, 2011 are prudent.[1]

Orillia installed 11,542 residential and 1,322 GS<50 kW smart meters between 2009 and 2011 for a total of 12,864 installed meters. Orillia's application does not include any forecasted smart meter installations in 2012.

Orillia'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]

Orillia's application includes $135,318 in forecasted OM&A expenses in 2012.[3]

In this application, Orillia 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) revenues and associated interest collected from 2006 to April 30, 2012 via a Smart Meter Disposition Rider (SMDR) for two years (October 1, 2012 to September 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] Smart Meter Recovery Model, V2.17, Sheet 2, 20120523
[2] Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011
[3] Smart Meter Recovery Model, V2.17, Sheet 2, 20120523

costs to be incurred from January 1, 2012 to December 31, 2012. The SMIRR will be in place for the period October 1, 2012 to April 30, 2014 until these costs can be incorporated into distribution rates in Orillia's next Cost of Service (COS) rate application currently scheduled for 2014 rates.[4]

- Orillia 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

Early in the process, Orillia was involved with the Ontario Utilities Smart Meter (OUSM) working group. Orillia also participated with LDCs within the Cornerstone Hydro Electric Concepts Association (CHEC) as well as the Niagara Erie Power Alliance (NEPA) to implement smart meters. Orillia indicates this collaboration assisted LDCs in the development of project plans, RFPs and contract evaluations and accordingly this group of LDCs working together were able to achieve economies resulting in operational and pricing efficiencies that would not have been achievable had each LDC gone through the process individually.[5] In considering the above, VECC submits that it is reasonable to conclude that Orillia experienced some efficiencies and benefits 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 Orillia's residential and GS<50 kW customers by June 2011. Orillia requested and was granted an extension to its mandated date to November 2011 for approximately 800 GS<50 kW customers due to prolonged delays experienced in delivery of 3-phase smart meters. Orillia confirms that eligible customers have now been billed TOU pricing as of the mandated dates.[6]

In response to VECC interrogatory #1(c), Orillia indicates it incurred incremental internal labour costs of $139,719 during the smart meter deployment project related to two-temporary contract staff hired to backfill a senior billing position and the utilization of an engineering staff member on a permanent part-time basis to manage the physical deployment of meters and overall project management through the early stages of deployment.

In response to VECC interrogatory #6 to quantify any operational savings resulting from smart meter deployment, Orillia indicates that following its transition from manual meter readings over to AMI based meter reading it recognized $32,000 in manual meter reading savings in 2011. For 2012 and future years, it is anticipated that $100,000 will be recognized and these savings are reflected in the smart meter model as an offset against increased labour costs related to administrative and meter maintenance costs. Orillia also indicated it hired an additional staff member within the billing group in 2012 as a result of increased responsibilities related to smart meters and operating within an AMI environment. Beyond

[4] Application, 1. Introduction, Page 1
[5] Application, 2. Collaboration of LDCs, Page 2, 4
[6] Application, 10. Transition to Time-of-Use Pricing, Page 8

meter reading savings, Orillia does not anticipate any other operational efficiencies or cost savings.[7]

Costs Beyond Minimum Functionality

Orillia's application includes $123,862 for costs beyond minimum functionality (capital costs of $19,653 and OM&A costs of $104,209).[8] VECC observes that the total of these expenditures represents approximately 4.4% of total smart meter program spending ($123,862/$2,818,111).

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.

Orillia indicates it capital costs beyond minimum functionality include certain CIS system upgrades to facilitate TOU billing and web presentment. Orillia's OM&A costs beyond minimum functionality include customer education and ongoing support for CIS system upgrades, its ODS and web presentment for TOU billing.[9] 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]

Orillia provided a breakdown and detailed information through its response to VECC interrogatory #4 on the types of costs included under capital costs beyond minimum functionality (1.6.3) and OM&A costs beyond minimum functionality (2.6.3). In addition Orillia confirmed that all costs are incremental and were incurred as a result of implementing smart

[7] Response to VECC Interrogatory # 6(b).
[8] Smart Meter Recovery Model, V2.17, Sheet 2, 20120412
[9] Application, 15. Justification for Costs that Exceed Minimum Functionality, Page 12
[10] Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011, Pages 15-17

meters and transitioning to an AMI environment. VECC submits Orillia has appropriately demonstrated consistency with the Board's Guidelines regarding the nature of these costs.

As shown in Table 1 below, Orillia calculates its total capital cost per smart meter including actual and audited costs up to December 31, 2011 (excluding costs beyond minimum functionality) and projected costs in 2012 as $181.53[11], based on 12,864 installed smart meters. On a total cost basis (capital & OM&A costs to 2012 including costs beyond minimum functionality), the average cost per meter is $209.44.

Table 1: **Average Cost Per Meter**

	Total Cost	Average per Meter
Capital Costs	$2,335,182	$181.53
OM&A	$359,067	$27.91
Total	**$2,694,249**	**$209.44**
Total Meters Installed	12,864	

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).[12]

VECC observes that Orillia's average smart meter costs (excluding costs beyond minimum functionality and including forecasted 2012 costs) are less than the recent sector averages.

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

[11] Response to VECC Interrogatory #1

[12] Monitoring Report Smart Meter Investment – September 2010, March 3, 2011

Recovery of Smart Meter Costs

The Board's Guideline G-2011-0001[13] states the following:

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

Orillia indicates its costs to the end of 2011 are audited.[14] VECC calculates that these costs represent 95% of total program costs ($2,682,793/$2,818,111).

VECC submits Orillia'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, Orillia proposed class specific SMDR and SMIRR rate riders for the residential and GS<50 kW customer classes. In response to Board Staff interrogatory #6(a), Orillia confirmed it calculated the SMDR and SMIRR 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 (68.6% residential, 31.4% GS<50 kW);
- Allocation of OM&A based on number of meters installed for each rate class (89.7% residential, 10.3% GS<50 kW);
- 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 actual amounts collected from each class. Orillia allocated the smart meter adder

[13] Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011, Section 3.5, Page 18
[14] Application, 3. Status of Implementation of Smart Meters, Page 2

amounts collected from the GS>50 kW and Large User customer classes evenly to the residential and GS<50 kW classes.

In response to Board Staff interrogatories[15], Orillia updated its SMDR & SMIRR rate riders.

In Board Staff's submission, Board Staff observed that, if the SMDR and SMIRR are both effective October 1, 2012, Orillia will not be recovering the ongoing (prospective) capital-related and operating expenses for installed smart meters for the period from May 1 to September 30, 2012. Board Staff took no issue with Orillia's proposal to "bump up" the deferred revenue requirement to be recovered through the SMDR to recover the foregone SMIRR revenues for the period May 1 to September 30, 2012. Orillia provided corresponding class-specific SMDRs including foregone SMIRR revenues for the period May 1 to September 20, 2012 of $1.30/month (Residential) and $6.97/month (GS < 50 kW). Board staff noted that the Board has approved the recovery of foregone SMIRR revenues back to May 1, 2012 in decisions[8] on other recent applications for smart meter cost recovery, and using the methodology suggested by Orillia. As such Board staff takes

[8] e.g. Decision and Order EB-2012-0039, regarding Orangeville Hydro, issued May 24, 2012, Decision and Order EB-2012-0086, regarding Cambridge and North Dumfries Hydro, issued July 26, 2012, Decision and Order EB-2012-0187, regarding London Hydro, issued July 26, 2012.

Table 2 below shows the original and recalculated SMDRs and SMIRRs.

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

	SMDR ($/month)			SMIRR ($/month)	
Class	**As Filed**	**Revised as per Board Staff #6**	**Revised as per Board Staff #8b**	**As Filed**	**Revised as per Board Staff #7**
Residential	$0.75	$0.76	$1.30	$2.59	$2.59
GS<50 kW	$5.36	$5.40	$6.97	$7.56	$7.56

The average installed cost per meter differs between customer classes. In response to Board Staff interrogatory #6(a), Orillia provided average capital costs as shown in Table 3 below.

Table 3: Allocation of Capital Costs per Customer Class

	Residential	GS<50 kW 1 Phase	GS<50 kW 3 Phase	Total GS<50 kW
Costs per Meter	**$104.76**	**$107.42**	**$744.11**	**$523.97**

Given the difference in costs 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

[15] Board Staff Interrogatories 5, 6a, 7, 8b

customer class.

In response to VECC interrogatory #7 to complete a separate smart meter revenue requirement model by rate class and re-calculate the SMDR and SMIRR rate riders on a full cost causality basis, Orillia indicated it did not track costs on a rate class basis and is not able to complete a smart meter model by rate class or calculate rate riders based on full cost causality by rate class.

VECC accepts that Orillia does not have the data to complete individual models to determine the revenue requirement for each rate class to calculate class specific rate riders based on full cost causality. In the Board's decision regarding PowerStream's 2010 Smart Meter Disposition application (EB-2010-0290), the Board approved an allocation between customer classes based on the capital costs of the meters installed for each class. VECC accepts Orillia's approach based on the PowerStream methodology as an appropriate cost allocation proxy with one exception. VECC submits that the SMFA revenues collected from the GS>50 kW and Large Use customer classes should be returned to those customers instead of a 50:50 allocation between the residential and GS<50 kW customer classes.

VECC agrees with Board Staff and takes no issue with Orillia's proposal for the recovery of foregone SMIRR revenues from May 1 to September 30, 2012.

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 3rd day of August 2012.