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August 07, 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)
Waterloo North Hydro Inc. EB-2012-0266
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: Waterloo North Hydro Inc.
Mr. Albert Singh

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 Waterloo North Hydro Inc. (“WNH”) for an order or orders approving or fixing just and reasonable distribution rates to reflect the recovery of costs for deployed smart meters, effective November 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

WNH filed an application May 31, 2012 for smart meter recovery based on actual costs incurred to December 31, 2011 and forecasted costs to December 31, 2012 as shown in Table 1 below.¹

Table 1: Summary of Smart Meter Costs

	Audited Actual to end of 2011	Forecast 2012	Total
Capital	\$9,459,151	\$41,580	\$9,500,731
OM&A	\$190,379	\$341,470	\$531,849
Total	\$9,649,930	\$383,050	\$10,032,580

As of the end of 2011, WNH installed 46,522 residential and 5,265 GS<50 kW smart meters between 2008 and 2011 for a total of 51,787 installed meters which represents 100% of its residential and 97.2% of its GS<50 kW rate classes. To achieve 100% installation, WNH installed the remaining 153 GS<50 kW smart meters in 2012 for a total of 51,940 installed meters. The delay was a result of the vendor not being able to supply these meters until late 2011.² WNH has not included any 2012 installations of smart meters based on growth of residential and GS<50 kW customers and thus the capital and operating costs for post-2011 new smart meters are not included in this application.³

WNH’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-2011-0001.⁴

¹ Smart Meter Recovery Model, V01, V2_17, Sheet 2, 20120531

² Application, Page 11, Table 4

³ Application, Page 14

⁴ Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011

In this application, WNH seeks:

- Approval to recover the deferred revenue requirement related to smart meters costs from 2008 to December 31, 2011 less the Smart Meter Funding Adder (SMFA) revenues and associated interest collected from 2006 to October 31, 2012 via a Smart Meter Disposition Rider (SMDR) for one year (November 1, 2012 to October 31, 2013).
- Approval of a Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) to recover the incremental annual 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 the two and one-half year period from November 1, 2012 to April 30, 2015 until these costs can be incorporated into distribution rates in WNH's next Cost of Service (COS) rate application currently scheduled for 2015 rates.⁵
- WNH 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

WNH participated in the London Hydro RFP process along with a consortium of Local Distribution Companies (LDCs). WNH retained the services of KTI/Sensus for metering technology and Util-Assist to assist in the implementation of its AMI implementation. WNH indicates it took advantage of synergies working with Kitchener-Wilmot Hydro Inc. and Cambridge & North Dumfries Hydro Inc. to utilize Util-Assist's services and experience to ensure a smooth transition to AMI.⁶

In response to VECC interrogatory #1, WNH indicates it is unable to quantify all cost savings that result from participating in the London RFP process but that the main operational efficiencies and costs savings were achieved during the development of the specification and procurement documents. A joint group effort was used to develop the RFP and evaluate the vendors' responses.

WNH indicates it has experienced incremental savings resulting from the reduction of manual meter reading costs. These savings are not included in this application as the reduction is already reflected in rates through WNH's approved 2011 COS rate application.⁷

In considering the above, VECC submits that it is reasonable to conclude that WNH experienced some efficiencies and benefits through the joint group effort with other LDCs. VECC supports Board Staff's submission (page 9) that WNH should be prepared to address any operational efficiencies due to smart meter and TOU implementation in its next cost of service rebasing application.

⁵ Application, Page 26

⁶ Application, Page 9

⁷ Application, Page 15

Time of Use (TOU) billing was mandated to be in place for WNH by June 2011. Due to improper time-alignment of the consumption intervals of 2,957 GS<50 kW customers, the Board granted WNH an extension until January 31, 2012 for these customers only. WNH commenced TOU for these GS<50 kW customers in February 12012 and all customers are now on TOU rates.⁸

As shown in Table 1 below, WNH calculates its average capital cost per smart meter (excluding costs beyond minimum functionality) as \$178.46⁹, based on 51,490 installed smart meters. On a total cost basis (capital & OM&A costs) excluding costs beyond minimum functionality, the average cost per meter is \$184.43.

Table 2: Average Total Cost per Meter

	Costs	Average Total Cost per Meter
Capital Costs	\$9,500,731	
Less Capital Costs Beyond Minimum Functionality	(\$231,587)	
Capital Costs	\$9,269,144	\$178.46
OM&A	\$531,849	
Less OM&A Costs Beyond Minimum Functionality	(\$221,672)	
OM&A Costs	\$310,177	\$5.97
TOTAL	\$9,579,321	\$184.43
Total Meters Installed	51,940	

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

⁸ Application, Manager's Summary, Page 12

⁹ Application, Page 5, Table 3B

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 WNH's total average smart meter costs (excluding costs beyond minimum functionality) are less than the recent sector averages.

In considering the above, VECC submits WNH's installed meter costs are reasonable and takes no issue with the quantum or nature of WNH's smart meter costs.

Costs Beyond Minimum Functionality

WNH's application includes \$453,259 for costs beyond minimum functionality (capital costs of \$231,587 and OM&A costs of \$221,672).¹¹ VECC observes that the total of these expenditures represents approximately 4.5% of total smart meter program spending (\$453,259/\$10,032,580).

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.

WNH indicates its costs exceeding minimum functionality are for OM&A TOU rate implementation, CIS system changes, web presentment, bill presentment, integration with MDM/R, etc.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

¹⁰ Monitoring Report Smart Meter Investment – September 2010, March 3, 2011

¹¹ Application, Page 16, Tables 7 & 8

¹² Application, Page 16

¹³ Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011, Pages 15-17

WNH provided a breakdown of the capital and OM&A costs that exceed minimum functionality by year for the years 2010 to 2012. WNH indicates that these costs are strictly incremental and have been incurred solely for the purpose of implementing Smart Meter and TOU programs, they otherwise would not have been incurred.¹⁴

VECC submits WNH 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-2011-0001¹⁵ states the following:

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

WNH included audited costs to December 31, 2011 and forecasted costs for 2012. WNH indicates 96.2% of its costs are audited and thus the 90% threshold has been exceeded.¹⁶

VECC agrees that WNH'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, WNH proposed class specific SMDR and SMIRR rate riders for the residential and GS<50 kW customer classes. WNH calculated the SMDR and SMIRR based on the following cost allocation methodology approved by the Board in the EB-2010-0209 PowerStream Inc. Decision:

¹⁴ Application, Page 16

¹⁵ Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011, Section 3.5, Page 18

¹⁶ Application, Page 13, Table 5

- 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 based on actual amounts collected from each class. WNH allocated the carrying charges by the percentage of the total collected and then re-allocated the smart meter adder revenue collected from the GS>50 kW and Large User customer classes evenly to the residential and GS<50 kW classes.

WNH has included six months of Foregone Revenue in the calculation of the SMDR. An implementation date of November 1, 2012 results in 2 months of collection of the SMIRR (2012 costs) in 2012 and 4 months in the year the SMIRR ceases, thus only 6 months of 2012 costs would be collected. To recover 6 months of 2012 costs (May to October), one half of the SMIRR (6/12 months) has been added to the SMDR.¹⁷ VECC agrees with Board Staff and takes no issue with WNH's proposal for the recovery of foregone SMIRR revenues from May 1 to October 31, 2012.

In response to Board Staff interrogatories¹⁸, WNH updated its SMDR & SMIRR rate riders. Table 3 below shows the original and recalculated SMDRs and SMIRRs.

Table 3: SMDR & SMIRR Rate Riders: As Filed Compared to Revised

Class	SMDR (\$/month)		SMIRR (\$/month)	
	As Filed	As per Board Staff #6a, 7a	As Filed	As per Board Staff #7b
Residential	(\$0.30)	(\$0.30)	\$2.11	\$2.11
GS<50 kW	\$7.05	\$7.06	\$5.51	\$5.51

WNH calculates that the average installed cost of single phase meters is the same for residential and GS<50 kW customers and for installed polyphase meters, WNH calculates the cost for GS<50 kW customers as being greater than residential customers.

Given the difference in meter installation 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 customer class.

In response to VECC interrogatory #6 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, WNH indicated it is unable to complete a separate smart meter revenue requirement model by rate class as it does not have all of the costs allocated by rate class.

¹⁷ Application, Page 23

¹⁸ Board Staff Interrogatories 6a, 7

VECC accepts that WNH does not have the costs by rate class 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 WNH'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.

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 7th day of August 2012.