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August 13, 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)
Bluewater Power Distribution Corporation EB-2012-0263
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: Bluewater Power Distribution Corporation
Ms. Leslie Dugas

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 Bluewater Power Distribution Corporation ("Bluewater Power") 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

Bluewater Power 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	$7,759,001	$824,986	$8,583,986
OM&A	$463,462	$192,407	$655,870
Total	**$8,222,463**	**$1,017,393**	**$9,239,856**

At the end of 2011, Bluewater Power had installed 31,897 residential and 3,500 GS<50 kW smart meters between 2010 and 2011 which represents 99.99% completion. To achieve 100% installation, Bluewater Power installed the remaining 4 GS<50 kW smart meters between January and March 2012 for a total of 34,401 installed smart meters.[2]

Bluewater Power'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.[3]

In this application, Bluewater Power seeks:

[1] 2013 Smart Meter Recovery Model, V2_21, Sheet 2, 20120531
[2] Application, Page 10, Response to Board Staff Interrogatory #2
[3] Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011

- Approval to recover the deferred revenue requirement related to smart meters costs from 2006 to December 31, 2012 less the Smart Meter Funding Adder (SMFA) revenues from 2006 to April 30, 2012 and associated interest collected via a Smart Meter Disposition Rider (SMDR) effective November 1, 2012. The proposed recovery period is 6 months for residential customers and 24 months for GS<50 kW customers.

- A Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) is not required to collect smart meter related incremental revenue requirement incurred beyond December 31, 2012. The costs for November and December 2012 are included in the SMDR. The incremental revenue requirement for the period beyond December 31, 2012 will be incorporated into Bluewater Power's overall revenue requirement when Bluewater Power files its Cost of service application for rates effective May 1, 2013.[4]

Prudence Review of Smart Meter Costs

Bluewater Power indicates it joined the Ontario Utility Smart Metering (OUSM) working group whose mandate was to collaborate on research and recommendations regarding the smart metering initiative.[5] Bluewater Power also participated in the London Hydro AMI RFP process which allowed it to realize volume discounts and reduce workload on staff to produce and evaluate a fully independent RFQ.[6] The London Hydro AMI RFQ represented 32 LDCs and over 900,000 smart meters.

Bluewater Power's original mandatory Time of Use (TOU) billing date was October 2011, however, Bluewater Power was granted an extension from the Board to January 31, 2012 in response to its request for an extension due to changes in the format of data s\exchanged through the MDM/R. Bluewater was successful in billing customers on TOU pricing for a consumption period starting March 15, 2012.[7]

As shown in Table 2 below, Bluewater Power calculates its average capital cost per smart meter (excluding costs beyond minimum functionality) as $170.99, based on 35,401installed smart meters. On a total cost basis (capital & OM&A costs) excluding costs beyond minimum functionality, the average cost per meter is $188.92.

Table 2: **Average Cost per Meter**[8]

Description	Costs	Average Cost per Meter
Capital Costs – Minimum Functionality	$6,053,314	$170.99
OM&A – Minimum Functionality	$634,751	$17.93
Total Capital & OM&A – Minimum Functionality	**$6,688,064**	**$188.92**
Capital Costs Beyond Minimum Functionality	$2,530,673	$71.49

[4] Application, Pages 2,4
[5] Application, Page 12
[6] Application, Page 14
[7] Application, Page 10
[8] Application, Executive Summary, Page 4, Table 2.1

Total Capital & OM&A Beyond Minimum Functionality	$21,120	$0.60
Total Capital & OM&A – Beyond Minimum Functionality	**$2,551,793**	**$72.09**
TOTAL	**$9,239,856**	**$261.01**
Total Meters Installed	35,401	
Average Cost/Meter	$261.01	

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. VECC believes that the data in Appendix A reflects costs related to minimum functionality and therefore in order to make an appropriate comparison, VECC submits Bluewater Power's average total cost per meter of $188.92 (for costs related to minimum functionality) should be used as the comparator. On this basis, VECC observes that Bluewater Power's total average costs related to minimum functionality are near the top of the range in the Combined Proceeding.

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).[9]

VECC observes that Bluewater Power's total average smart meter cost of $188.92 (excluding costs beyond minimum functionality) is less than the recent sector averages. However, Bluewater Power is also seeking recovery of costs beyond minimum functionality which is discussed below.

Costs Beyond Minimum Functionality

Bluewater Power's application includes $2,551,793 for costs beyond minimum functionality (capital costs of $2,530,673 and OM&A costs of $21,120).[10] VECC observes that the total of these expenditures represents approximately 27.6% of total smart meter program spending

[9] Monitoring Report Smart Meter Investment – September 2010, March 3, 2011
[10] Application, Page 4, Table 2.1

($2,551,793/$9,239,857). VECC observes as did Board Staff that to date this is the highest amount included for recovery of any LDC for costs beyond minimum functionality.

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.

Bluewater Power indicates its costs beyond minimum functionality represent CIS changes, MDM/R integration and testing, TOU preparation with business systems, web presentment and customer education.[11] The Guideline indicates "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."[12] Bluewater Power submits all of its beyond minimum functionality costs for recovery are required for smart meters and incremental to normal CIS capital and maintenance.[13]

Bluewater Power notes that the average claim of 14 smart meter recovery applications filed in the last six months, for costs beyond minimum functionality, is approximately $11.84 per customer. Bluewater Power's total beyond minimum functionality costs included for recovery is $72.09 per customer. In its evidence, Bluewater Power provides a breakdown of the beyond minimum functionality expenditures noting the majority of the costs fall under the category of MDM/R integration and relate to the integration of the MDM/R with Bluewater Power's SAP-based CIS.[14]

Board Staff provided a summary of peer group smart meter costs in table 3 on page 3 of its submissions. In Table 3 below VECC has reproduced Board Staff's total cost per meter data

[11] Application, Page 5
[12] Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011, Pages 15-17
[13] Application, Page 5
[14] Application, Page 26

and has provided a breakdown of the costs beyond minimum functionality from the original smart meter models filed.

Table 3: Peer Group Smart Meter Costs

Distributor	Total Cost per Meter (Board Staff)	1.6.3 Capital Costs Beyond Minimum Functionality	2.6.3 OM&A Beyond Minimum Functionality
Bluewater Power (in progress)	$261.01	$2,530,673	$21,120
COLLUS	$191.86	$0	$0
Festival (in progress)	$218.86	$145,147	$137,074
Peterborough	$161.42	$0	$0
Welland	$146.83	$0	$0

In response to VECC interrogatory #1, Bluewater Power provided Table 1.1 showing minimum functionality costs per customer and Table 1.2 showing beyond minimum functionality costs per customer of the 14 smart meter applications filed in the last 6 months, based on the original smart meter models filed. Bluewater Power noted in its response that four of the 14 LDCs have claimed $0 for beyond minimum functionality costs. VECC notes that three of the LDCs claiming $0 belong to Bluewater Power's peer group. Bluewater Power further noted that the comparisons do not compare the amount actually spent by LDCs but more accurately represents a comparison of the costs claimed for recovery through this process (i.e. smart meter disposition as opposed to a rebasing application). VECC agrees with Board Staff that there are likely some inconsistencies with respect to smart meter costs beyond minimum functionality, but these are also related to the circumstances of the individual distributors. Board Staff's submission requests a 50% reduction to Bluewater Power's costs beyond minimum functionality to $36.04 to bring Bluewater Power's costs down to the range of Niagara-on-the-Lake Hydro ($38.90 per meter), with the remaining costs to be reviewed as part of Bluewater Power's 2013 cost of service application so that consideration of these costs as part of the utility's normal capital expenditures could be tested.[15]

VECC submits that Bluewater Power's $72.09 per customer for beyond minimum functionality costs is significant and extreme compared to other LDCs. VECC supports Board's Staff analysis of Bluewater Power's costs and work execution provided on pages 9 and 10 of its submission. Given that Bluewater Power's costs are six times the average, VECC requests that the Board provide direction that 100% of Bluewater Power's costs beyond minimum functionality be reviewed as part of Bluewater Power's 2013 cost of service application. VECC does not agree that the highest cost per meter to date for costs beyond minimum functionality should represent an acceptable level.

Board staff provided further comments on Bluewater Power's smart meter costs related to average meter cost, smart meter training and conferences, and smart meter procurement and

[15] Board Staff submission, Page 10

installation[16] and in the absence of a satisfactory explanation Board Staff requested that the Board may wish to consider disallowing all of these costs or a portion of these costs. VECC supports Board Staff's proposals.

Recovery of Smart Meter Costs

The Board's Guideline G-2011-0001[17] states the following:

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

Bluewater Power has audited costs to December 31, 2011 and forecasted costs for 2012. VECC notes that the audited costs represent 89% of the costs ($8,222,463/$9,239,856).[18]

VECC submits the audited costs are close to the threshold and should be seen as conforming 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.

Bluewater Power provided proposed class specific SMDR and SMIRR rate riders for the residential and GS<50 kW customer classes. Bluewater Power allocated the revenue requirement to each customer class based on the following cost allocation methodology approved by the Board in the EB-2010-0209 PowerStream Inc. Decision:

- 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; and
- Allocation of PILs based on the revenue requirement allocated to each class before PILs.

[16] Board Staff Submission, Pages 5 to 7
[17] Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011, Section 3.5, Page 18
[18] Smart Meter Model, Sheet 2, 20120531

Bluewater Power allocated the Smart Meter Funding Adder based on the number of meters installed as a proxy (90.1% to residential & 9.9% for GS<50 kW).

In response to Board Staff interrogatory # 11, Bluewater Power calculated class-specific SMDRs using a more direct allocation of SMFA revenues (i.e. reallocation of smart meter adder revenue collected from rate classes other than residential and GS<50 kW based on a 50/50 allocation.

In response to VECC interrogatory #2, Bluewater Power calculates the average installed cost per meter for the residential class as $91.15 (with a range of $70.12 to 148.93 based on meter type) and $374.66 per meter for the GS<50 kW class (with a range of $69.93 to $991.76 based on meter type). 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 #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, Bluewater Power completed two separate models, one for each customer class.

Table 4 below shows the original and recalculated SMDRs and SMIRRs. The revised SMDR rate riders include other changes identified through Board Staff's interrogatories:[19]

Table 4: SMDR Rate Riders: As Filed Compared to Revised

SMDR ($/month)			
Class	**As Filed**	**Board Staff #11 & #19**	**VECC #7**
Residential (6 month recovery)	$4.32	$4.32	$4.45
GS<50 kW (24 month recovery)	$9.02	$8.82	$8.52

VECC submits that the cost allocation methodology proposed by VECC best reflects cost causality and should be approved by the Board.

[19] Board Staff Interrogatories 20(b), 19(a)

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 13th day of August 2012.