



PUBLIC INTEREST ADVOCACY CENTRE
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August 15, 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)
Festival Hydro Inc. EB-2012-0260
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: Festival Hydro Inc.
Ms. Kelly McCann

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 Festival Hydro Inc. ("Festival") 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
- GS>50 kW Customers

Festival filed an application May 29, 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.

Table 1: Summary of Smart Meter Costs¹

	Audited Actual to end of 2011	Forecast 2012	Total
Capital	\$3,742,725	\$41,222	\$3,783,947
OM&A	\$308,684	\$207,955	\$516,640
Total	\$4,051,410	\$249,177	\$4,300,587

At the end of 2011, Festival had installed 17,651 residential and 1,999 GS<50 kW smart meters for a total of 19,650 installed smart meters, representing 100% completion.²

Festival'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, Festival seeks:

- Approval to recover the deferred revenue requirement related to smart meters costs from 2006 to December 31, 2011 (and associated interest costs) less the Smart Meter Funding

¹ 2013 Smart Meter Recovery Model, V2_21, Sheet 2, 20120531

² Application, Page 8

³ Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011

Adder (SMFA) revenues from 2006 to April 30, 2012 (and associated interest) to be collected via a Smart Meter Disposition Rider (SMDR). The SMDR would be in effect from November 1, 2012 to April 30, 2014 (1.5 years) until Festival's next cost of service application for 2014 rates.

- A Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) to recover the annual incremental revenue requirement related to smart meter costs to be incurred from January 1 to December 31, 2102. The SMIRR will be in effect from November 1, 2012 to April 30, 2014 (1.5 years) until Festival's next cost of service application for 2014 rates.

Prudence Review of Smart Meter Costs

Festival indicates it utilized the Hydro One Networks Inc. approved procurement process and confirms the price received from Trilliant is the same price paid by Hydro One.⁴ In response to VECC interrogatory # 2(a) Festival listed a few examples where it collaborated with other LDCs in the areas of sharing costs of the TOU changes to CIS software, obtaining information on the contracting of ODS and web presentment services, and making use of communication materials created by others.

Festival indicates its most significant incremental cost savings is the reduction in manual meter reading costs. Festival OM&A costs include a monthly reduction of \$6,253. In response to VECC interrogatory #6, Festival indicates that there are no additional savings reflected in this application and Festival does not anticipate any additional operational efficiencies and cost savings as a result of smart meter implementation.

Festival's date for implementation of Time of Use (TOU) rates was initially scheduled for September 2011. Due in part to technical issues, the Board granted Festival an extension to May 1, 2012.⁵ In response to VECC interrogatory # 3, Festival indicates it has moved 97% of eligible customers to TOU billing.

Costs Beyond Minimum Functionality

Bluewater Power's updated costs include \$297,821 for costs beyond minimum functionality (capital costs of \$145,147 and OM&A costs of \$152,674).⁶ VECC observes that the total of these expenditures represents approximately 7% of total smart meter program spending (\$297,821/\$4,243,256).

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,

⁴ Application, Page 9

⁵ Application, Page 8

⁶ Smart Meter Model, Sheet 2, 20120730

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.

Festival indicates its capital costs beyond minimum functionality relate to IT labour costs, CIS system upgrades and MDM/R integration. Its OM&A costs relate to web presentment & ODS, CIS system upgrades and TOU rate implementation. Festival also purchased and installed 135 smart meters for GS>50 kW customers, but is not seeking recovery through this application.⁷ VECC addresses the issue GS>50 kW customers at the end of this submission.

Table 2 below shows Festival's as filed average costs per smart meter compared to updated average costs resulting from interrogatory responses.⁸ Festival's average capital cost per meter (excluding costs beyond minimum functionality) is \$180.81, based on 19,650 installed smart meters. On a total cost basis (capital & OM&A costs), excluding costs beyond minimum functionality, Festival's average cost per meter is \$200.78.

Table 2: Average Cost per Meter

Description	Costs (As Filed)	Average Cost per Meter (As Filed)	Costs (Updated)	Average Cost per Meter (Updated)
Capital Costs – Minimum Functionality	\$3,638,800.00	\$185.18	\$3,553,081	\$180.81
OM&A – Minimum Functionality	\$379,565	\$19.32	\$392,354	\$19.96
Total Capital & OM&A – Minimum Functionality	\$4,018,365	\$204.50	\$3,945,435	\$200.78
Capital Costs Beyond Minimum Functionality	\$145,147.00	\$7.38	\$145,147	\$7.38
OM&A Beyond Minimum Functionality	\$137,074.00	\$6.98	\$152,674	\$7.76
Total Capital & OM&A – Beyond Minimum Functionality	\$282,221	\$14.36	\$297,821	\$15.15
TOTAL	\$4,300,587	\$218.86	\$4,243,256	\$215.94
Total Average Capital	\$3,783,947	\$192.57	\$3,698,228	\$188.20
Total Meters Installed	19,650			

⁷ Application, Pages 22 to 23

⁸ Smart Meter Model, 20120730

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. It is VECC's understanding that the costs in Appendix A reflect minimum functionality. VECC observes that Festival's total average costs related to minimum functionality of \$200.78 exceed the top of the range in the Combined Proceeding by approximately 5.6%.

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 It is VECC's understanding that costs in this review include some costs beyond minimum functionality.

VECC notes that Board Staff, in its recent submissions in Bluewater Power's smart meter recovery application (EB-2012-0263), compared Bluewater Power's total average smart meter costs to LDCs in its peer group (Mid-Size Southern Medium-High Undergrounding),¹⁰ which includes Festival. Table 3 below reproduces the total cost per meter data provided by Board Staff, however, VECC has separated out the costs beyond minimum functionality and updated the data for Festival.

Table 3: Peer Group Smart Meter Costs

Distributor	Total Cost per Meter (Minimum Functionality)	1.6.3 Capital Costs Beyond Minimum Functionality	2.6.3 OM&A Beyond Minimum Functionality	Total Cost per Meter (Including Costs Beyond Functionality)
Bluewater Power (in progress)	\$188.92	\$71.49	\$0.60	\$261.01
COLLUS	\$191.86	\$0	\$0	\$191.86
Festival (in progress)	\$200.78	\$7.38	\$7.76	\$215.94
Peterborough	\$161.42	\$0	\$0	\$161.42

⁹ Monitoring Report Smart Meter Investment – September 2010, March 3, 2011

¹⁰ Board Staff Submission EB-2012-0263, Page 5

Welland	\$146.83	\$0	\$0	\$146.83
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VECC notes that Festival has the highest total average cost per smart meter (excluding costs beyond minimum functionality) of its peer group. VECC observes the average of the four LDCs in Festival's peer group is \$172.26 (excluding costs beyond minimum functionality).

In the Bluewater Power proceeding, Bluewater Power provided a summary of minimum functionality costs per customer and beyond minimum functionality costs per customer for 14 smart meter applications that have been filed to date in 2012. The data showed average minimum functionality costs per customer of \$194.93 and average beyond minimum functionality costs per customer of \$11.84.¹¹ Festivals' average beyond minimum functionality costs are \$15.15 per customer.

Although the provincial smart meter review data referenced above has been used as the metric to test reasonableness of costs to date, VECC questions whether recent peer to peer data or group data may also have some merit.

In its submission, Board Staff tries to explain Festival's higher costs. Board Staff notes that Festival serves non-contiguous areas which could result in increased costs for multiple collectors, repeaters and other communications infrastructure to collect data from geographically separate territories, compared to a utility serving a similar number of customers but in one geographic service area.¹² It is VECC's understanding that LDCs in its peer group have similar circumstances to Festival.

Based on this peer group comparison, VECC questions whether Festival's costs are too high. VECC suggests the Board may wish to consider whether the peer to peer data or group data provides additional adequate insight to determine that only a portion of Festival's costs should be approved or if the data warrants a closer look at the reasons for the difference.

Recovery of Smart Meter Costs

The Board's Guideline G-2011-0001¹³ states the following:

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

Festival has included audited costs to December 31, 2011 and forecasted costs for 2012. Festival notes that the audited costs represent 94.2% of total costs.¹⁴

VECC submits the level of audited costs conforms to the Board's Guidelines.

¹¹ Response to VECC interrogatory #1

¹² Board Staff Submission EB-2012-0260, Page 5

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, Page 16

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.

Festival prepared two class-specific smart meter models detailing the costs incurred by rate class. Festival indicates this is appropriate because of the higher cost of the meter itself and higher installation costs associated with the GS<50 kW installations. In response to VECC interrogatory #4(b), Festival calculates the average capital cost per residential meter as \$168.15 and \$365.28 for the GS<50 kW meter. VECC agrees the difference in costs per customer class warrants class-specific smart meter models that reflect the costs borne by each customer class consistent with the principle of cost causality. VECC supports Festival's proposed cost allocation methodology.

In response to interrogatories, Festival provided updated SMDRs and SMIRRs for the residential and GS<50 kW customers classes as shown in Table 4 below. The revised rate riders reflect updated information provided in responses to interrogatories.

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

Class	SMDR (\$/month, 18 months)		SMIRR (\$/month, 18 months)	
	As Filed	VECC #7		
Residential	(\$0.92)	(\$0.73)	\$2.47	\$2.79
GS<50 kW	\$2.17	\$0.81	\$6.01	\$4.72

GS>50 kW Customers

Festival has excluded the capital costs for smart meters for the GS>50 kW customers from this application, however, other capital and operating costs are used to provide services to these customers as well as to Residential and GS<50 kW customers with smart meters.

In response to Board Staff interrogatory # 10, Festival provided class-specific SMDRs and SMIRRS through three separate smart meter models that reflect an allocation of costs to and recovery from the three classes: residential, GS<50 kW and GS>50 kW.

In its submission, Board Staff stated:¹⁵

“In response to Board staff interrogatory #10, Festival demonstrated that in view of the fact that it is recovering the SMDR and SMIRR only from Residential and GS < 50 kW customers, any cross-subsidization occurring towards GS > 50 kW customers for services such as automated data collection and web presentment that they also receive, is minimal.

Board staff submits that Festival’s explanation is reasonable, and expects that it will be amended through an updated cost allocation study filed as part of Festival’s next cost of service rates application.”

VECC submits that in principle, a portion of the costs should be allocated to the GS>50 kW customer class as per the models prepared in the response to Board Staff interrogatory #10(e). However, given that materiality is not an issue and given there is a minimal impact on smart meter rate riders for the residential and GS<50 kW customer classes, VECC concurs with the position of Board Staff.

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 15th day of August 2012.

¹⁵ Board Staff Submission, Page 9