



PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DEFENSE DE L'INTERET PUBLIC

ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7

Tel: (613) 562-4002. Fax: (613) 562-0007. e-mail: piac@piac.ca. <http://www.piac.ca>

Michael Janigan
Counsel for VECC
(613) 562-4002 (x 26)

August 23, 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)
Veridian Connections Inc. EB-2012-0247
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: Veridian Connections Inc.
Mr. George Armstrong

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 Veridian Connections Inc. (“Veridian”) 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

Veridian filed an application May 31, 2012 for smart meter recovery based on actual costs incurred from January 1, 2009 to December 31, 2011 and forecasted costs to December 31, 2012 as shown in Table 1 below.¹ Smart meter costs for January 1, 2007 to December 31, 2008 were approved for disposition in Veridian’s 2010 cost of service application (EB-2009-0140).²

Table 1: Summary of Smart Meter Costs

	Audited Actual 2009 to end of 2011	Forecast 2012	Total
Capital	\$7,730,561		\$7,730,561
OM&A	\$2,577,008	\$727,102	\$3,304,110
Total	\$10,307,569	\$727,102	\$11,034,671

Veridian indicates at December 31, 2011, it had completed 99.7% of smart meter installations for residential customers (34,629) and 99.2% for GS<50 kW customers (6,856), for a total of 41,485 installed meters.³ VECC calculates that Veridian has 296 residential and 70 GS<50 kW smart meter installations remaining.⁴ The capital costs of the remaining meters are not included in this application as the costs will be treated as regular capital additions and included in rate base in the next cost of service application.⁵

¹ 2012 Smart Meter Recovery Model, Sheet 2, 20120531

² Application, Page 1

³ Application, Page 2

⁴ Application, Page 6, Table 3

⁵ Application, Page 3

Veridian'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-2011-0001.⁶

In this application, Veridian seeks:

- Approval to recover the deferred revenue requirement related to smart meters costs from 2009 to October 31, 2012 less the Smart Meter Funding Adder (SMFA) revenues collected to April 30, 2012 and associated interest collected via a Smart Meter Disposition Rider (SMDR) effective November 1, 2012. The proposed recovery period is 18 months, from November 1, 2012 to April 30, 2014.
- Approval to add a Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) effective November 1, 2012 to recover the annual revenue requirement associated with the smart meters installed from January 1, 2009 to November 31, 2011. The SMIRR will be in place from November 1, 2012 until Veridian's next planned Cost of Service application for rates effective May 1, 2014.⁷

Prudence Review of Smart Meter Costs

Veridian was one of the 13 named distributors included in the first group of utilities sanctioned to install smart meters pursuant to O. Reg. 427/06. The 13 distributors participated in the Board's 2007 Combined Proceeding to determine the prudence and recovery of costs associated with smart metering activities. In 2006, Veridian collaborated with the Coalition of Large Distributors (CLD) to establish vendor selection options, which led to a joint procurement process for key components of the Advanced Metering Infrastructure. In 2007, Veridian joined other CLD members to jointly negotiate smart meter supply contracts based on aggregate meter volumes, in order to achieve the most favourable pricing possible.⁸ In considering the above, VECC submits that it is reasonable to conclude that Veridian realized some operational efficiencies and benefits as a result of its collaboration with other utilities.

Veridian indicates it completed transition of its eligible customers to Time of Use (TOU) rates by November 5, 2010 in accordance with the Board's Final Determination to Mandate TOU pricing (EB-2010-0128).⁹

Veridian confirms that the avoided costs of manual meter reading were removed from total operating costs within Veridian's Board approved 2010 COS revenue requirement.¹⁰ In response to VECC interrogatory #5, Veridian indicates that it has not realized any additional operational efficiencies or cost savings but further investments may yield additional opportunities.

⁶ Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011

⁷ Application, Page 3

⁸ Application, Page 7

⁹ Application, Page

¹⁰ Application, Page 16

As shown in Table 2 below, Veridian calculates its average capital cost per smart meter (excluding costs beyond minimum functionality) as \$138.11, based on 112,354 installed smart meters. On a total cost basis (capital & OM&A costs) excluding costs beyond minimum functionality, the average cost per meter is \$165.00.

Table 2: Average Cost per Meter¹¹

Description	Costs Jan 1, 2007 to Dec 31, 2008	Average Cost per Meter to Dec 31, 2008	Costs Jan 1, 2009 to Dec 31, 2011	Average Cost per Meter to Dec 31, 2011	Average Cost per Meter 2007- 2011	Total Average Cost per Meter 2007- 2011
Total Meters Installed	70,689		41,485		112,354	
Capital Costs – Minimum Functionality	\$7,819,148	\$110.33	\$7,697,661	\$185.55	\$15,516,809	\$138.11
OM&A – Minimum Functionality	\$604,961	\$8.54	\$2,416,739	\$58.25	\$3,021,700	\$26.89
Total Capital & OM&A – Minimum Functionality	\$8,424,109	\$118.87	\$10,114,400	\$243.80	\$18,538,509	\$165.00
Capital Costs Beyond Minimum Functionality			\$32,900	\$0.79	\$32,900	\$0.29
OM&A Beyond Minimum Functionality			\$160,269	\$3.86	\$160,269	\$1.43
Total Capital & OM&A – Beyond Minimum Functionality			\$193,169	\$4.65	\$193,169	\$1.72
TOTAL	\$8,424,109		\$10,307,569		18,731,678	\$166.72
2012 Forecast Capital			\$0			
2012 Forecast OM&A			\$727,102			
			\$11,034,671			

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).

¹¹ Application, Tables 4, 6; Smart Meter Model, Sheet 2

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 Veridian's total average smart meter cost (Capital & OM&A) of \$165 (excluding including costs beyond minimum functionality) is within the Board's range in EB-2007-0063 and well below the recent sector averages. VECC also notes that when costs beyond minimum functionality are included, the total average costs (\$166.72) are also below the recent sector averages.

In considering the above, VECC submits Veridian's costs are reasonable, subject to the Board's consideration of Board Staff's submissions on costs related to meter base repairs and OM&A costs for Maintenance of Advanced Metering Communications.¹³

Costs Beyond Minimum Functionality

Veridian's application includes \$193,169 for costs beyond minimum functionality (capital costs of \$32,290 and OM&A costs of \$160,469).¹⁴ VECC observes that the total of these expenditures represents approximately 1.75% of total smart meter program spending (\$193,169/\$11,034,671).

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.

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

¹³ Board Staff Submission, Pages 6, 7

¹⁴ 2012 Smart Meter Model, Sheet 2, 20120531

Veridian indicates its costs beyond minimum functionality were required for CIS integration with the MDM/R, synchronization with Veridian's internal AMCC systems, web presentment, implementation of TOU rates and integration with the MDM/R. Veridian submits that these expenditures were necessary for the successful completion of its smart metering implementation and that the costs were prudently incurred.¹⁵ In response to Board Staff interrogatory #11, Veridian provided additional described the modifications that were required to its CIS. Veridian's average meter cost for costs beyond minimum functionality is approximately \$1.72 per meter which is well below the average costs in other applications before the Board to date.

VECC takes no issue with Veridian's costs beyond minimum functionality.

Recovery of Smart Meter Costs

The Board's Guideline G-2011-0001¹⁶ states the following:

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

Veridian confirms that 100% of the costs submitted for disposition are included within its audited financial statements to December 31, 2011.¹⁷ VECC calculates that 93.4% of Veridian's costs are audited (\$10,307,569/\$11,034,671).

VECC submits the audited costs conform 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.

¹⁵ Application, Page 18

¹⁶ Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011, Section 3.5, Page 18

¹⁷ Application, Page 4

Veridian provided proposed class specific SMDR and SMIRR rate riders for the residential and GS<50 kW customer classes. For the purposes of the SMDR calculation, Veridian calculated the revenue requirement up to the effective date of the SMIRR (November 1, 2012) and the revenue requirement was calculated up to October 31, 2012. To determine the revenue requirement, Veridian calculated the revenue requirement for 2012 and prorated this amount for 10 months to October 31, 2012.¹⁸

Veridian calculated the revenue requirement to each customer class based on the following cost allocation methodology:

- Allocation of the return (deemed interest plus return on equity) and amortization based on each classes share of total capital costs (76.1% residential, 23.9% GS<50 kW);
- Allocation of OM&A based on number of meters installed for each rate class (92.3% residential, 7.7% GS<50 kW); and
- Allocation of PILs based on the revenue requirement allocated to each class before PILs (82.9% residential, 17.1% GS<50 kW).

In response to Board Staff interrogatory #13(a) Veridian indicates that no allocation of the SMFA revenues and interest by rate class was done as part of calculating class-specific SMDRs.

In response to Board Staff # 13(b) Veridian re-calculated class-specific SMDRs based on the PowerStream methodology using the direct allocation of SMFA plus carrying costs to the customer classes for which smart meter costs have been directly incurred. SMFA amounts for the GS>50 kW and Large Use customer classes were allocated evenly to the residential and GS<50 kW classes when calculating the true-up for the SMDR.

Table 3 below shows the original rate riders and recalculated SMDRs.

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

Class	SMDR (\$/month for 18 months)		SMIRR (\$/month for 18 months)	
	As Filed	Board Staff #13	As Filed	
Residential	\$0.97	\$0.83	\$0.98	No Change
GS<50 kW	\$2.45	\$4.15	\$2.46	No Change

VECC interrogatory #9 sought the calculation of class specific rate riders based on full cost causality, not the PowerStream methodology. VECC sought separate smart meter revenue requirement models for each customer class to recalculate the rate riders using the class

¹⁸ Application, Page 20

specific revenue requirements. In its response to VECC interrogatory #9, Veridian referred to its response to Board interrogatory #13 part (b) without an explanation. VECC submits the difference between the two cost allocation methodologies can be significant and Veridian's response to Board Staff IR#13(b) does not adequately address the information VECC sought in VECC IR#9, i.e. for Veridian to provide class specific rate riders based on full cost causality.

Veridian indicates installed smart meter costs were tracked separately by rate class and hence were directly identifiable. Given the average meter cost for a GS<50 kW customer is greater than the average meter cost for a residential customer, VECC submits the only way to avoid undue cross subsidy is to calculate class specific rate riders based on VECC's proposed cost allocation methodology to reflect the full costs for each customer class. VECC notes that in the Board's decision with respect to PowerStream's 2011 Smart Meter Disposition Application (EB-2011-0128), the Board found that PowerStream should adopt the cost allocation methodology proposed by VECC.¹⁹ The Board has made the same finding in other recent decisions regarding smart meter disposition applications.

In VECC's view, Veridian has the appropriate level of data and should provide in its reply submissions, the information requested in VECC IR#9, i.e. class specific revenue requirement models and revised SMDR and SMIRR rate riders based on the proposed VECC cost allocation methodology, and that the Board should adopt these values.

With respect to Veridian's proposal to calculate the SMDR up to the effective date of the SMIRR, include Board Staff made the following submissions:

"Veridian's approach seems reasonable in principle, but Board staff notes that Veridian's methodology deviates from that which the Board approved with respect to the foregone SMIRR revenues from May 1, 2012 until the effective date of rates in other stand-alone smart meter applications.

The methodology employed in all other smart meter applications to date have the foregone SMIRR revenues, in this case from May 1, 2012 to October 31, 2012, calculated and added onto the net deferred revenue requirement to be recovered from an "adjusted" SMDR. The SMIRR as calculated via the Smart Meter Model and allocated to applicable customer classes, is unchanged.

Board staff submits that the methodology approved by the Board in other smart meter applications to date is preferable, insofar that the SMIRR remains as a proxy for the monthly change in the base monthly fixed charge for each applicable metered customer to recover the annualized revenue requirement. The stub period SMIRR revenues are recovered through the adjusted SMDR.

Board staff submits that this approach, while conceptually equivalent to Veridian's approach, is flexible in the event that Veridian has a sunset date other than April 30,

¹⁹ EB-2011-0128 Decision and Order, Page 12

2014. Veridian's approach assumes the revenue requirement to December 31, 2013 and the corresponding recovery to April 30, 2014. If Veridian's effective date for rebased rates is other than May 1, 2014, the utility will over- or under-recover via the SMIRR.

Board staff submits that Veridian should calculate adjusted SMDRs, taking into account the stub period SMIRR revenues for the period May 1, 2012 to October 31, 2012, and also calculate the SMIRRs per the model and any class cost allocation, in accordance with the approach approved in other applications.¹

¹ e.g. Decision and Order, EB-2012-0086 regarding Cambridge and North Dumfries Hydro Inc., Decision and Order, EB-2012-0094, Cooperative Hydro Embrun Inc., Decision and Order, EB-2012-0187, London Hydro Inc., all issued July 26, 2012.

VECC agrees with Board Staff that the methodology approved by the Board in other smart meter applications is preferable.

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 23rd day of August 2012.