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October 1, 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)
Fort Frances Power Corporation EB-2012-0327
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: Fort Frances Power Corporation
Mr. Joerg Ruppenstein

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 Fort Frances Power Corporation (“FFPC”) 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

FFPC filed an application July 18, 2012 for smart meter recovery based on actual costs incurred from 2008 to December 31, 2011 and forecasted costs to December 31, 2012 related to ongoing incremental OM&A. There are no smart meter capital costs forecasted in 2012. Table 1 provides a summary of smart meter costs.

Table 1: Summary of Smart Meter Costs¹

| | Actual Costs to December 31, 2011 | 2012 Forecasted Costs | Total |
|--------------|--|----------------------------------|--------------------|
| Capital | \$870,111 | | \$870,111 |
| OM&A | \$121,359 | \$72,800 | \$194,159 |
| Total | \$991,470 | | \$1,064,270 |

FFPC seeks the recovery of its smart meter costs from 2008 to the end of 2011. During this period, FFPC installed 100% of its smart meters for a total of 3,777: 3,310 residential, 420 GS<50 kW smart meters and 47 GS>50 kW meters.

FFPC’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 Costs beyond minimum functionality include 47 smart meter installations for the GS>50 kW rate class.

In this application, FFPC seeks:

¹ Smart Meter Model 20120718, Sheet 2

² 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, 2011 (and associated interest costs) less the Smart Meter Funding Adder (SMFA) revenues and associated interest from May 1, 2006 to April 30, 2012 to be collected via a Smart Meter Disposition Rider (SMDR). The SMDRs would be in effect for one year from November 1, 2012 to October 31, 2013.
- A Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) for the revenue requirement for the incremental annual revenue requirement until smart meters are incorporated into FFPC's rate base. The SMIRR is proposed to be in effect from November 1, 2012 to April 30, 2014 to coincide with FFPC's next cost of service application planned for 2014 rates.
- FFPC proposes that SMDRs and SMIRRs apply to the residential, GS<50 kW and GS>50 kW customer classes.

Prudence Review of Smart Meter Costs

FFPC is part of the Northwest Group (Thunder Bay Hydro, Kenora Hydro, Atikokan Hydro, Sioux Lookout Hydro and Kenora Hydro). FFPC confirmed it participated in the Northwest Group with the intent of cost sharing all practical aspects of implementing and operating the mandated Smart Meter (AMI) system. The group was able to split all costs incurred among the five members either equally or in some instances based on customer counts. The group also shares a common customer information system (CIS) operated by Thunder Bay Hydro. FFPC indicates this cost sharing arrangement resulted in reduced charges based on pooling the group's meters.³

FFPC provided a smart meter program summary of 2011 costs compared to the original 2008 budgeted costs which showed a positive variance of \$127,570.⁴ FFPC further explained that the 2008 budget overestimated the TOU billing by \$58,581 due to the many unknown aspects of TOU deployment and that FFPC was able to realize cost savings by participating in the Northwest Group who jointly procured, deployed and operated common AMI systems as well as jointly implemented TOU rates.⁵ FFPC also provided quantitative examples of potential savings in response to Board Staff IR#2. VECC submits FFPC has adequately demonstrated that it has realized savings as a result of participating in the Northwest Group and sharing common costs.

FFPC indicates it had no incremental internal labour costs and only external incremental labour costs were included in this application.⁶ In response to VECC interrogatory #3 to provide a breakdown of "smart meter costs – other", FFPC states that "The total costs incurred is made up of FFPC's external contract labour costs (Olamater and FFPC's retired meter technician), as well as FFPC's internal labour costs." VECC is unclear how internal

³ Board Staff IR#2

⁴ Application, Page 6

⁵ VECC IR#3(e)

⁶ VECC IR#2(c)

labour costs are reflected in this application and submits FFPC should provide a more detailed explanation of this in its reply submission.

FFPC identified a savings of \$29,000 annually in reduced contracted meter reading costs that were offset by \$30,000 annually in operating costs of a Master Application Server (MAS), an Operational Data Store (ODS) and a Wide Area Network (cost associated with operating collectors). VECC notes that in other recent applications, reduced meter reading costs have not been offset by these operating costs. VECC submits that FFPC should provide a more detailed explanation of this in its reply submission.

Table 2 below shows FFPC's total average costs per installed smart meter. FFPC's average cost per meter excluding costs beyond minimum functionality is \$247.60. When costs beyond minimum functionality are included, the total average cost per meter is \$262.57.

Table 2: Average Cost per Meter⁷

| Description | Costs | TOTAL UNIT COST |
|--|-----------|--------------------|
| Capital | \$815,709 | \$216.02 |
| OM&A | \$119,240 | \$31.58 |
| Total – Minimum Functionality | | \$247.60 |
| Capital - Costs Beyond Minimum Functionality | \$54,402 | \$14.41 |
| OM&A - Costs Beyond Minimum Functionality | \$2,119 | \$0.56 |
| Total – with Costs Beyond Minimum Functionality | \$991,470 | \$262.57 |
| Total Installed Meters | 3,776 | |

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).

⁷ Smart Meter Model 20120718, Sheet 2; Board Staff IR#6

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).⁸

VECC observes that FFPC's average costs per meter (excluding costs beyond minimum functionality) are 9.11% higher than the most recent sector average of \$226.92. When costs beyond minimum functionality are included, FFPC's average costs are 15.7% higher.

In response to VECC IR#4, FFPC believes that small northern LDCs are disadvantaged when compared to either the provincial or large LDC total cost per meter as large LDCs benefit from many economies of scale. FFPC submits that a comparison within FFPC's proper cohort group, small Northern Utilities Cohort Group, is a more appropriate comparison. In response to Board Staff IR#7, FFPC submits its costs are reasonable when compared to smaller, northern LDCs rather than large LDCs with higher customer counts over which to spread capital and operating costs. FFPC further noted that it incurred lower than average costs relative to its comparable group. FFPC's peer group, Small Northern Low Undergrounding includes West Nipissing Energy Services, Renfrew Hydro, Espanola Regional Hydro Distribution, Fort Frances Power, Northern Ontario Wire, Parry Sound Power, Terrace Bay Superior Wires, Sioux Lookout Hydro, Chapleau Public Utilities, Atikokan Hydro, and Great Lakes Power.⁹

In its final submissions Board Staff referenced two recent Board decisions regarding smart meters related to Atikokan Hydro Inc. and Sioux Lookout and noted that FFPC's average per meter costs are below the range observed for Atikokan (\$420 per smart meter) and Sioux Lookout (\$338.90 per smart meter). Based on its analysis, Board Staff concluded that the documented costs, while high in comparison to many utilities, have been prudently incurred.¹⁰

On September 20, 2012, the Board issued its decision in Festival Hydro Inc.'s smart meter recovery application EB-2012-0260. In this proceeding, the Board noted VECC's submissions that, although the provincial smart meter review data 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 Decision the Board noted on Page 6 "...that while Festival's costs are higher than the top of the provincial range (excluding Hydro One), the Board accepts Festival's argument that their service territory is not contiguous and that would add costs." Further, the Board noted that Festival's costs are not significantly above the sector average. "With respect to VECC's suggestion of using peer to peer comparisons, the Board agreed with Festival that such an approach has not been tested to establish reasonableness." On this basis, VECC submits that although the approach has not been

⁸ Monitoring Report Smart Meter Investment – September 2010, March 3, 2011

⁹ PEG Report, Table 5

¹⁰ Board Staff submission dated September 28, 2012, Pages 7 - 8

tested to establish reasonableness, a comparison of FFPC to Atikokan and Sioux Lookout provides additional data and has some merit in determining if FFPC's costs are reasonable. In considering the above, VECC agrees customer count can be one factor influencing relatively higher costs. Overall VECC submits FFPC's costs are higher than the provincial average but concludes that FFPC's costs reflect the circumstances of its service territory and submits FFPC has provided adequate documentation on prudence of the costs.

Costs Beyond Minimum Functionality

FFPC's application includes \$68,521 for costs beyond minimum functionality (capital costs of \$54,402 and OM&A costs of \$14,119).¹¹ The OM&A costs include \$2,119 in 2011 and projected spending of \$12,000 in 2012. VECC observes that the total costs beyond minimum functionality represent approximately 6.4% of KWHI's total smart meter program spending (\$68,521/\$1,064,270).

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.

The Board's 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

FFPC proposes costs beyond minimum functionality for the following: technological capabilities to perform disconnect service for 200 smart meter customers (5% of customer base) within the residential and GS<50 kW rate class; installation of 47 GS>50 kW smart meters; and OM&A costs related to TOU implementation and web presentment.

¹¹ Smart Meter Model, 20120718

¹² Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011, Pages 15-17

VECC supports Board Staff's submissions regarding Costs Beyond Minimum Functionality and agrees FFPC has provided sufficient justification for these costs.

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."

FFPC indicates the costs up to December 31, 2011 have been audited by an independent auditor.¹⁴

VECC notes that FFPC's total audited costs for its smart meter program represents 93.16% of its total forecasted cost (\$991,470/\$1,064,270).¹⁵

VECC submits FFPC's percentage of audited costs conforms to the Board's Guideline.

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.

FFPC proposed class specific rate riders based on the methodology used in the Guelph application EB-2011-0123 by using a more direct allocation of SMFA revenues and cost recoveries by rate class.¹⁶ FFPC adjusted the 2006 EDR Weighted Meter Capital Allocation to best represent the smart meter capital expenditures. FFPC removed the return on equity of \$21,573 from the SMIRR calculation as FFPC is currently receiving a return on stranded meter assets which is currently included in rate base.

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 2

¹⁵ Smart Meter Model, Sheet 2

¹⁶ Application, page 7

In response to VECC IR#2(b) to provide the average customer costs per meter type, FFPC indicated it did not segregate costs per meter type and indicated the total average costs for the residential and GS<50 kW rate class combined is \$153 and for the GS>50 kW customer class, the total average cost per installed meter is \$547.

In response to VECC interrogatory #6 for FFPC to complete separate smart meter revenue requirement models by customer class, FFPC indicated that it does not have the data nor is it practical to complete a class specific SMDR, beyond the Guelph allocation model. FFPC further indicated it is unable to re-calculate the SMDR & SMIRR rate riders based on full cost causality by rate class as it did not collect data on a class specific data.

VECC submits that if class specific data is available, it is appropriate for the utility to calculate class specific rate riders that reflect the costs borne by each customer class consistent with the principle of cost causality, and it is appropriate that separate smart meter revenue requirement models be completed by customer class.

VECC accepts that FFPC does not have the data and is unable to complete separate smart meter models by customer class. Accordingly, VECC submits that determining class specific rate riders through the Guelph model is appropriate.

In response to Board Staff IR#14, FFPC recalculated the rate riders as shown in Table 2 below to incorporate adjustments resulting from interrogatory responses. VECC notes that the proposed rate riders may be subject to adjustments as Board Staff notes that there remain errors and concerns over costs, particularly with respect to the cost of capital parameters.¹⁷

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

| Class | SMDR (\$/month) | | SMIRR (\$/month) | |
|--------------------|-----------------|----------------------------|------------------|----------------------------|
| | As Filed | Revised as Board Staff #14 | As Filed | Revised as Board Staff #14 |
| Residential | \$1.20 | \$0.38 | \$2.99 | \$3.18 |
| GS<50 kW | \$8.05 | \$5.91 | \$6.10 | \$6.48 |
| GS>50 kW | \$13.47 | \$10.04 | \$8.43 | \$8.96 |

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 1st day of October 2012.

¹⁷ Board Staff Submission, Page 5