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November 03, 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)
St. Thomas Energy Inc. EB-2012-0348
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: St. Thomas Energy Inc.
Mr. Robert Kent

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 St. Thomas Energy Inc. (“STEI”) for an order or orders approving or fixing just and reasonable distribution rates to reflect the recovery of costs for deployed smart meters effective October 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

STEI filed an application August 9, 2012 for smart meter recovery based on actual audited costs incurred to December 31, 2011 as shown in Table 1 below.¹ STEI did not include additional smart meter capital and OM&A costs in 2012 as the smart meter installation program was completed in 2011 and any additional costs related to replacement capital and ongoing OM&A cost have been included in 2012 operations.²

Table 1: Summary of Smart Meter Costs

	Audited Actual to end of 2011	Forecast 2012	Total
Capital	\$748,306	\$0	\$748,306
OM&A	\$165,383	\$0	\$165,383
Total	\$3,485,034	\$0	\$3,485,034

STEI indicates at December 31, 2011, it had completed 100% of smart meter installations (16,287) for the residential and GS<50 kW rate classes: 14,632 residential & 1,655 GS<50 kW smart meters. In addition, STEI installed 172 smart meters for the GS>50 kW customer class (87% of total) for a total of 16,469 installed smart meters.³

STEI’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

In this application, STEI seeks:

¹ 2012 Smart Meter Recovery Model, Sheet 2, 20120809

² Board Staff IR#3

³ Application, Page 4

⁴ 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 May 1, 2006 to December 31, 2011 (plus interest on OM&A and depreciation expenses) less the Smart Meter Funding Adder (SMFA) revenues collected from May 1, 2006 to April 30, 2012 and associated interest collected via a Smart Meter Disposition Rider (SMDR). The proposed recovery period is 24 months from May 1, 2012 to April 30, 2014.
- Approval to add a Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) to recover the annual incremental revenue requirement associated with the smart meters that would have occurred if the assets and operating expenses were incorporated into rate base January 1, 2012. The SMIRR is proposed to be in place from May 1, 2012 until STEI's next planned Cost of Service application scheduled for 2015.
- STEI proposes that the SMDRs and SMIRRs apply to the residential, GS<50 kW and GS>50 kW customer classes.

Prudence Review of Smart Meter Costs

STEI indicates it recognized the benefits of collaboration early in the process through participation in the Ontario Utilities Smart Meter (OUSM) working group.⁵ In response to VECC IR# 3, STEI confirmed it achieved economies of scale by working with other LDCs. Specifically, STEI participated in the Ontario Utilities Smart Meter working group, the London Hydro Automated Meter Infrastructure RFP which provided a significant degree of cost control and STEI was a member of the Utility Collaborative Service (USC) group. STEI further indicates it achieved best possible pricing by issuing a series of RFPs to ensure best pricing and service was achieved. STEI is confident that costs savings were achieved by acting as a member of these activities. Specifically, STEI indicates it did not hire an additional resource for a savings of approximately \$90,000. STEI confirmed it outsourced the entire smart meter program.⁶

The evidence indicates STEI anticipates annual savings of approximately \$15,000 as a result of the change from manually reading meters to remote meter reading costs.⁷ If realized, STEI plans to reflect the savings in its next cost of service application.⁸ VECC agrees with Board Staff that STEI should be prepared to address any operational efficiencies due to smart meter and TOU implementation in its next cost of service rebasing application.⁹

In considering the above, VECC agrees it reasonable to conclude that STEI realized some operational efficiencies and benefits as a result of its collaboration with other utilities.

⁵ Application, Page 6

⁶ VECC IR#8

⁷ Application, Page 19

⁸ VECC IR#7

⁹ Board Staff Submission, October 30, 2012, Page 10

As shown in Table 2 below prepared by VECC using data in the application, STEI calculates its average capital cost per smart meter (excluding costs beyond minimum functionality) as \$196.83, based on 16,459 installed smart meters. On a total cost basis (capital & OM&A costs) excluding costs beyond minimum functionality, the average cost per meter is \$207.03.

Table 2: Average Cost per Meter¹⁰

Description	Costs to Dec 31, 2011	Average Costs per Meter
Total Meters Installed	16,459	
Capital Costs – Minimum Functionality	\$3,239,666	\$196.83
OM&A – Minimum Functionality	\$167,952	\$10.20
Total Capital & OM&A – Minimum Functionality	\$3,407,617	\$207.03
Capital Costs Beyond Minimum Functionality	\$28,110	\$1.71
OM&A Beyond Minimum Functionality	\$49,306	3.00
Total Capital & OM&A – Beyond Minimum Functionality	\$77,416	\$4.71
TOTAL	\$3,485,033	\$211.74

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 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).¹¹

VECC observes that STEI's total average smart meter cost (Capital & OM&A) of \$207.03 (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 of \$211.74 are again below recent sector averages.

¹⁰ Application, Page 5, Table 2: Smart Meter Capital & OM&A

¹¹ Monitoring Report Smart Meter Investment – September 2010, March 3, 2011

In considering the above, VECC finds STEI's smart meter unit costs reasonable.

Costs Beyond Minimum Functionality

STEI's application includes \$77,416 for costs beyond minimum functionality (capital costs of \$28,110 and OM&A costs of \$49,306).¹² VECC observes that the total of these expenditures represents approximately 2.22% of STEI's total smart meter program spending (\$77,416/\$3,485,034).

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.

STEI has capital costs beyond minimum functionality of 28,110 (line 1.6.2) for deployment of smart meters to the GS>50 kW customer class related to the purchase of new 3-phase analyzers to be able to read smart meters. The previous 3-phase analyzer was unable to read smart meters. In response to Board Staff IR#5(b), STEI confirmed the asset type for 3-phase analyzers has changed from smart meter to tools and equipment, which results in a change in depreciation. VECC agrees this is an incremental cost due to the conversion to smart meters.

STEI indicates its OM&A costs beyond minimum functionality of \$49,306 for business process redesign and CIS changes includes \$5,108 of MDM/R costs¹³ and \$16,135 for web presentment costs.¹⁴ STEI confirms these costs are incremental and required to fulfill the smart meter mandate.¹⁵

¹² Application, Page 15

¹³ VECC IR#4(b)

¹⁴ VECC IR#6

¹⁵ VECC IR#5(a)

In response to VECC IR#5, STEI correctly transferred its \$49,306 in OM&A costs beyond minimum functionality in the smart meter model to line 2.6.3 (OM&A costs for TOU rate implementation, CIS system upgrades, web presentation integration, integration with the MDM/R, etc.) from line 2.6.2 (Costs for deployment of smart meters to customers other than residential and small general service).

STEI has recorded \$126,253 in capital costs associated with smart meter installations for the GS>50 kW customer class. Capital costs of \$98,143 are included in the cost of smart meters (Smart Meter Model, Sheet 2, line 1.1.1)¹⁶ and the balance \$28,110 discussed above for new 3-phase analyzers is recorded in line 1.6.2.

The Board's Guideline G-2011-0001 indicates that a distributor may apply for the recovery of costs for smart meter installations or conversions for the GS>50 kW customer class. The application should document the nature, the justification and the cost per meter separately from those for the residential and GS < 50 kW customers.¹⁷

In accordance with the Guideline, VECC submits that the capital costs of \$98,143 should be recorded in line 1.6.2 Costs for deployment of smart meters to customers other than residential and small general service rather than line 1.1.1.

VECC agrees with Board Staff¹⁸ that the Board has allowed the above types of expenses in the past for other smart meter applications. VECC takes no issue with the nature or quantum of STEI's costs beyond minimum functionality.

Recovery of Smart Meter Costs

The Board's Guideline G-2011-0001¹⁹ states the following:

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

STEI confirms that its smart meter cost recovery is based on actual audited costs incurred to December 31, 2011.²⁰ VECC confirms 100% of STEI's costs in this application are audited.

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:

¹⁶ VECC IR#5(c)

¹⁷ Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011, Page 16

¹⁸ Board Staff Submission, Page 5

¹⁹ Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011, Section 3.5, Page 18

²⁰ VECC IR#1

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.

STEI proposed class specific SMDR and SMIRR rate riders based on a similar approach approved by the Board in PowerStream's 2010 smart meter application (EB-2010-0209).

Specifically, STEI utilized the following cost allocation methodology:

- Allocation of the return (deemed interest plus return on equity) and amortization based on total direct meter cost by 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 revenues and smart meter true-up allocated on a class specific basis based on the PowerStream Decision (EB-2011-0128) using the direct allocation of SMFA plus carrying costs to the customer classes for which smart meter costs have been directly incurred.²¹

In response to Board Staff IR#9(a) and VECC IR#12, STEI provided a revised SMDR based upon a December 1, 2012 implementation date, foregone SMIRR revenues, interest charges to November 30, 2012, changes to the cost of capital and reclassification of the 3-phase analyzer. STEI also provided a revised SMIRR to include cost of capital revisions and the reclassification of the 3-phase analyzer. In response to Board Staff #9(b), STEI also provided a revised SMDR based upon a January 1, 2013 implementation date. The revised rate riders compared to the original rate riders are shown in Table 3.

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

	SMDR (\$/month)			SMIRR (\$/month)		
Class	As Filed (24 months)	Revised Board Staff #9(a), VECC #12	Board Staff #9(b)	As Filed	Revised Board Staff #9(a), VECC #12	
Period	24 months	17 months	16 months	24 months	17 months	16 months
From	May 1, 2012	Dec 1, 2012 to	Jan 1, 2013	May 1, 2012	Dec 1, 2012	Dec 1, 2012 to

²¹ Application, Page 20

	to April 30, 2014	April 30, 2014	to April 30, 2014	to April 30, 2015	to April 30, 2015	April 30, 2015
Residential	\$(0.42)	\$0.28	\$0.42	\$2.02	\$2.02	\$2.02
GS<50 kW	\$1.24	\$3.71	\$4.24	\$2.65	\$4.66	\$4.66
GS>50 kW	\$4.12	\$9.62	\$10.80	\$9.12	\$9.14	\$9.14

VECC IR#9 sought the calculation of class specific rate riders based on full cost causality. Specifically, VECC sought separate smart meter models for each customer class in order to recalculate the rate riders using class specific revenue requirements based on data at the customer class level. In its response, STEI claimed its smart meter application and associated rate riders are based upon full cost causality and the smart meter funding adders have been allocated as collected by rate class.

VECC disagrees with STEI that its proposed rate riders are based on full cost causality. VECC submits the PowerStream methodology provides a proxy for revenue requirement but it does not reflect full cost causality.

STEI provided the total capital cost per customer class²², reproduced below in Table 4. Using this data, VECC has calculated the average capital cost per meter by customer class (minimum functionality) as follows:

Table 4: Average Capital Cost by Customer Class

Class	Quantity	Total Cost \$	Total Average Cost \$
Residential	14,632	\$1,605,610	\$109.73
GS<50 kW	1,655	\$418,751	\$253.02
GS>50 kW	172	\$98,143	\$570.59

VECC notes that single phase meters are typically installed for the residential class whereas polyphase meters are typically installed for the GS<50 kW and GS>50 kW customer classes. VECC observes smart meter capital and OM&A costs differ materially depending on the customer class and the type of smart meter deployed. VECC submits that the only way to avoid undue cross subsidy between customer classes is to calculate rate riders on a class specific basis based on full cost causality.

In past Decisions²³, the Board has found the cost causality approach of class specific models to be more exacting and principled and has accepted VECC's methodology where the utility has calculated it and has the underlying data at the customer level. VECC notes that in the PowerStream Decision EB-2011-0128 (Page 12), the Board noted the differences between the rate riders (PowerStream methodology compared to VECC methodology) was significant and the Board approved a change in cost allocation.

²² Application, Page 3, Table 1: Average Meter Cost

²³ EB-2011-0143 Lakeland Power Distribution Ltd. Decision

VECC's submits if STEI has the appropriate level of customer specific data, STEI should provide, in its reply submissions, the information requested by VECC in IR#9, i.e. class specific revenue requirement models and revised SMDR and SMIRR rate riders based on full cost causality. Accordingly the Board should adopt the cost allocation methodology proposed by VECC to better reflect the costs for each customer class.

In terms of the appropriate implementation date, VECC agrees with Board staff that STEI should address this matter in its reply submissions.

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 2nd day of November 2012.