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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)

November 22, 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)
Woodstock Hydro Services Inc. EB-2012-0178
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: Woodstock Hydro Services Inc.
Patricia Eitel

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 Woodstock Hydro Services Inc. (“Woodstock Hydro”) for an order or orders approving or fixing just and reasonable distribution rates to reflect the recovery of costs for deployed smart meters effective May 1, 2013.

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

Woodstock Hydro filed an application August 29, 2012 for smart meter recovery for 2010 to 2012 costs based on actual audited costs incurred to December 31, 2011 as shown in Table 1 below.¹ Woodstock Hydro previously filed a smart meter recovery application (EB-2010-0145) for recovery of 2009 costs.

Table 1: Summary of Smart Meter Costs

| | Audited Actual to end of 2011 | Forecast 2012 | Total |
|--------------|--------------------------------------|----------------------|--------------------|
| Capital | \$900,302 | \$0 | \$900,302 |
| OM&A | \$207,049 | \$86,544 | \$293,593 |
| Total | \$1,107,351 | \$86,544 | \$1,193,895 |

At December 31, 2011, Woodstock Hydro had completed 100% of its smart meter installations (15,056) for the residential and GS<50 kW customer classes: 13,859 residential & 1,197 GS<50 kW smart meters. The costs to install 3,764 smart meters in 2010 and 2011 (3,099 residential and 665 GS<50 kW) are included in this application.

Woodstock Hydro’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

In this application, Woodstock Hydro seeks:

¹ 2013 Smart Meter Recovery Model, Sheet 2, 20120829

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 in 2010 and 2011 (plus interest on OM&A and depreciation expenses) less the Smart Meter Funding Adder (SMFA) revenues collected from January 1, 2010 to April 30, 2012 and associated interest collected via a Smart Meter Disposition Rider (SMDR). The proposed recovery period is 1 year from May 1, 2013 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. The SMIRR is proposed to be in place from May 1, 2013 until Woodstock Hydro's next planned Cost of Service application scheduled for 2015.
- Woodstock Hydro proposes that the SMDRs and SMIRRs apply to the residential and GS<50 kW customer classes.

Prudence Review of Smart Meter Costs

In response to interrogatories, Woodstock Hydro filed a revised smart meter recovery model. Adjustments include a reclassification of costs between residential and GS<50 (VECC IR# 1), the removal of a \$4,033 credit regarding net proceeds from the disposition of conventional meters replaced by smart meters (Board Staff IR # 2), the inclusion of 2013 estimated costs of \$34,628 and depreciation expense of \$78,635 so that the SMIRR, intended as a proxy monthly rate to recover the annualized revenue requirement (i.e. capital-related and operating costs) will be understated (Board Staff #3), and an update in the cost of debt parameters for 2008, 2009 and 2010 (Board Staff #5b).

In its original application, WHSI had calculated the percentage of total 2010 and 2011 capital costs as 65.82% Residential, and 34.18% GS<50. After the reclassification of costs between residential and GS<50 and the removal of the \$4,033 credit the allocation of 2010 and 2011 capital costs are now 55.66% Residential and 44.34% GS<50. With respect to OM&A, Woodstock Hydro had calculated the percentage of total 2010 and 2011 OM&A as 91.56% Residential, and 8.44% GS<50. After the inclusion of 2013 expenses, the allocation of 2010 and 2011 OM&A costs are now 91.61% Residential and 8.39% GS<50.

As shown in Table 2 below, VECC calculates (based on Woodstock Hydro's updated smart meter recovery model³) the average capital cost per smart meter (excluding costs beyond minimum functionality) as \$154.70, based on 15,056 installed smart meters. On a total cost basis (capital & OM&A costs) excluding costs beyond minimum functionality, the average cost per meter is \$170.20, based. When costs beyond minimum functionality are included, the total cost per meter (capital and OM&A) is \$183.19.

³ 2013 Smart Meter Recovery Model, 20121107

Table 2: Average Cost per Meter⁴

| Description | EB-2012-0178 2010-2013 | EB-2010-0145 2009 | TOTAL | Average Costs per Meter |
|--|---------------------------|----------------------|--------------------|-------------------------------|
| Total Meters Installed | 3,764 | 11,292 | 15,056 | |
| Capital – Minimum Functionality | \$894,585 | \$1,434,631 | \$2,329,216 | \$154.70 |
| OM&A – Minimum Functionality | \$150,461 | \$82,910 | \$233,371 | \$15.50 |
| Total Capital & OM&A – Minimum Functionality | \$1,045,046 | \$1,517,541 | \$2562,587 | \$170.20 |
| Capital Beyond Minimum Functionality | \$9,750 | \$8,100 | \$17,850 | \$1.19 |
| OM&A Beyond Minimum Functionality | \$177,761 | - | \$177,761 | \$11.80 |
| Total Capital & OM&A – Beyond Minimum Functionality | \$187,511 | \$8,100 | \$195,611 | \$12.99 |
| TOTAL | \$1,232,557 | \$1,525,641 | \$2,758,198 | \$183.19 |
| Total Capital | \$904,335 | \$1,442,731 | \$2,347,066 | \$155.89 |
| Total OM&A | \$328,222 | \$82,910 | \$411,132 | \$27.30 |
| | | | | \$183.19 |

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).⁵

VECC observes that Woodstock Hydro's total average smart meter cost (Capital & OM&A) of \$170.20 (excluding including costs beyond minimum functionality) is within the Board's range and well below the recent sector averages. VECC also notes that when costs beyond minimum functionality are included, the total average costs of \$183.19 are also well below recent sector averages.

VECC notes Woodstock Hydro provided appropriate documentation in this application on the nature of its smart meter costs, by line item to correspond with the data on Sheet 2 of its smart meter recovery workform.

⁴ 2013 Smart Meter Recovery Model, Sheet 2, 20121107, Application Page 20

⁵ Monitoring Report Smart Meter Investment – September 2010, March 3, 2011

In considering the above, VECC submits Woodstock Hydro's costs are reasonable.

Costs Beyond Minimum Functionality

Woodstock Hydro's application includes \$187,511 for costs beyond minimum functionality (capital costs of \$9,750 and OM&A costs of \$177,761).⁶

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.

Woodstock Hydro's application includes an explanation of capital costs beyond minimum functionality of \$9,750 related to MDM/R and TOU⁷, as well as OM&A costs beyond minimum functionality of \$177,761 related to MDM/R training, implementation (professional fees, software maintenance and support) and web presentment. VECC notes that these costs are the types of costs beyond minimum functionality approved by the Board in other recent smart meter applications.

VECC takes no issue with the nature or quantum of Woodstock Hydro's costs beyond minimum functionality in this application.

Recovery of Smart Meter Costs

The Board's Guideline G-2011-0001⁸ states the following:

⁶ 2013 Smart Meter Recovery Model, Sheet 2, 20121107

⁷ Application, Pages 29-30

⁸ Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011, Section 3.5, Page 18

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

Woodstock Hydro confirms that its smart meter cost recovery is based on actual audited costs incurred to December 31, 2011, and that unaudited costs of \$121,173 represent 9.8% of the total costs.⁹

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.”

VECC notes that the PowerStream methodology is based on 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 on a class specific basis using the direct allocation of SMFA plus carrying costs to the customer classes for which smart meter costs have been directly incurred.

In response to VECC IR#1(b), Woodstock Hydro provided the total average cost per meter based on 15,056 installed smart meters as \$130.41 for the residential customer class and \$450.85 for the GS<50 kW customer class. VECC notes that the procurement and installation costs vary 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.

⁹ Board Staff IR#3(a)

VECC IR#2 sought the calculation of class specific rate riders based on full cost causality. Specifically, VECC requested 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, Woodstock Hydro summarized its cost allocation approach as follows:

“WHSI recorded all capital and OM&A costs to the Residential and GS<50 rate classes where those cost were directly attributable to those rate classes. Smart meters and their installation costs were tracked by job-specific numbers, so that the smart meter and installation costs for residential customers were charged directly to a residential job number. Likewise, smart meters and installation costs for GS<50 customers were charged to a GS<50 job number. WHSI took the same approach for operation and maintenance expense incurred when WHSI field staff attend the site/meter in question.

All other costs that would be attributable to both rate classes were allocated based on the total number of smart meters installed between 2009 and 2011. As noted on page 26 of the application, residential meters accounted for 92.05% of total smart meters, and GS<50 accounted for 7.95%.

Given that the shared costs for software, hardware, collectors, and other shared capital, and costs for software maintenance, web presentment, data collection, and other commonly used services are based on the number of meters, WHSI believes this is the most reasonable approach to take for shared cost allocation.

WHSI submits that the combination of actual, direct class costs plus a pro-rata share of indirect costs based on the number of meters best reflects full cost causality.”

The original rate riders compared to the revised rate riders resulting from interrogatory adjustments are shown in Table 4.

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

| Class | SMDR (\$/month) May 1, 2013 to April 30, 2014 | | SMIRR (\$/month) May 1, 2013 to next COS | |
|--------------------|--|----------------------------|---|----------------------------|
| | As Filed | Revised Board Staff & VECC | As Filed | Revised Board Staff & VECC |
| Residential | \$0.29 | \$0.12 | \$0.52 | \$0.64 |
| GS<50 kW | \$6.47 | \$8.91 | \$3.15 | \$4.24 |

VECC accepts Woodstock Hydro’s approach and calculation of the smart meter rate riders with one exception. VECC submits that the allocation of shared capital costs between customer classes should be on the basis of meter cost by customer class rather than number of meters per customer class.

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 22nd day of November 2012.