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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 20, 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)
Kingston Hydro Corporation EB-2012-0310
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: Kingston Hydro Corporation
Mr. James Keech

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 Kingston Hydro Corporation (“Kingston”) for an order or orders approving or fixing just and reasonable distribution rates to reflect the recovery of costs for deployed smart meters effective January 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

Kingston filed an application August 24, 2012 for smart meter cost recovery based on actual audited costs incurred to December 31, 2011 and forecasted costs to December 31, 2013¹.

Kingston’s original application reflects a total of 26,385 installed smart meters as at December 31, 2011: 23,244 residential and 3,141 GS<50 kW.² VECC notes Kingston’s updated smart meter model shows 20 less residential smart meters installations as at December 31, 2011: 23,225 residential and 3,140 GS<50 kW, for a total of 26,365 installed smart meters.³

Kingston’s proposed costs (updated) are shown in Table 1 below.

Beginning in 2013, Kingston anticipates that approximately 600 meters per year will be required for new services and as replacements for malfunctioning meters.⁴ Kingston forecasts 300 new services per year representing a 1% growth rate. The balance reflects the meter failure rate experienced since the smart meter conversion.⁵

¹ Application, Page 1

² Application, Page 9

³ Updated Smart Meter Recovery Model, Sheet 2, 20121029

⁴ Application, Page 12

⁵ VECC IR#5(a)

Table 1: Summary of Smart Meter Costs⁶

	Audited Actual to end of 2011	Forecast 2012	Forecast 2013	Total
Capital	\$4,670,451	\$196,341	\$246,000	\$5,112,792
OM&A	\$141,035	\$95,993	\$273,522	\$509,550
Total	\$4,811,486	\$291,334	\$519,522	\$5,622,342

Kingston'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-2011-0001.⁷

In this application, Kingston seeks:

- Approval to recover the deferred revenue requirement related to smart meters costs from 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 (January 1, 2013 to December 31, 2014).
- Approval to add a Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) to recover the annual incremental revenue requirement associated with smart meter costs. The SMIRR is proposed to be in place from January 1, 2013 until Kingston's next Cost of Service application currently planned for 2015.
- Kingston proposes that the SMDRs and SMIRRs apply to the residential and GS<50 kW customer classes.

Prudence Review of Smart Meter Costs

Kingston was one of 32 LDCs that participated in the London Request for Proposal process. Kingston indicates the process ensured competitive prices for utilities and the sharing of costs ensured that the process was conducted in the most cost effective way possible.⁸ In addition, London, along with other LDCs, participated in a consortium to undertake a security audit of the current systems' risks and vulnerabilities.

Kingston notes at this stage of the implementation of smart meters and Time-of-Use billing, it has not identified any costs savings. In fact, Kingston states that audited annual meter reading costs for 2011 are 75% higher than 2008 in part due to Kingston bearing the full cost of electricity meter reading vs. reading water, natural gas and electric meters at the same time as was done previously through its service company affiliate Utilities Kingston. Kingston indicates operational efficiencies achieved are offset by the need to manage additional data. VECC agrees with Board Staff that Kingston should be prepared to further address any

⁶ Updated Smart Meter Recovery Model, Sheet 2, 20121029

⁷ Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011

⁸ Application, Page 8

operational efficiencies resulting from smart meter deployment and operationalization in its next cost of service rebasing application.⁹

Table 2 below, created by VECC using data from the smart meter recovery model (updated), shows Kingston's average capital and OM&A costs per smart meter based on 27,213 installed smart meters.¹⁰ On a total cost basis (capital & OM&A costs), including costs beyond minimum functionality, VECC calculates the average cost per meter as \$206.57, which is slightly less than the \$214.11 per meter documented in the application.¹¹

Table 2: Average Cost per Meter

Description	Costs	Average Costs per Meter
Total Meters Installed	27,213	
Capital Costs – Minimum Functionality	\$5,065,535	\$186.14
OM&A – Minimum Functionality	\$504,514	\$18.54
Total Capital & OM&A – Minimum Functionality	\$5,570,049	\$204.68
Capital Costs Beyond Minimum Functionality	\$47,257	\$1.74
OM&A Beyond Minimum Functionality	\$5,036	\$0.18
Total Capital & OM&A – Beyond Minimum Functionality	\$52,293	\$1.92
TOTAL	\$5,622,342	\$206.60
Capital Only	\$5,111,792	
OM&A Only	\$509,550	

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).¹²

⁹ Board Staff Submission, November 13, 2012, Page 10

¹⁰ Updated Smart Meter Recovery Model, Sheet 2, 20121029

¹¹ Application, Page 5

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

VECC observes that Kingston's total average smart meter cost of \$206.60 compares favourably and is below the provincial average of \$226.92.

In considering the above, VECC submits Kingston's smart meter costs are reasonable.

VECC agrees with Board Staff's submissions that the number of meters installed should be matched to the capital costs and installation in the year the meters are installed, not purchased to ensure that the capital cost is not recognized until the meters are in-service and used and useful.¹³

Costs Beyond Minimum Functionality

Kingston's application includes \$52,293 for costs beyond minimum functionality (capital costs of \$47,257 and OM&A costs of \$5,036).¹⁴ VECC observes that the total of these expenditures represents approximately 0.93% of Kingston's total smart meter program spending (\$52,293/\$5,622,342).

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.

In response to VECC IR# 9, Kingston provided a description of Capital and OM&A costs beyond minimum functionality related to MDM/R Integration, TOU billing and web presentment. Kingston also provided an explanation of how these costs are required for its smart meter program.

¹³ Board Staff Submission, November 13, 2012, Page 8

¹⁴ Updated 2012 Smart Meter Recovery Model, Sheet 2, 201210

VECC takes no issue with the quantum or nature of Kingston's costs beyond minimum functionality.

Recovery of Smart Meter Costs

The Board's Guideline G-2011-0001¹⁵ states the following:

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

Kingston indicates it has achieved 85% audited costs.¹⁶ Based on actual audited costs incurred to December 31, 2011, VECC confirms only 85.6% of Kingston's costs for recovery are audited (\$4,811,486/\$5,622,342).¹⁷

VECC submits the level of audited costs do not conform to the Board's Guidelines.

In the Board's PowerStream Decision (EB-2011-0128) the Board noted:

"The establishment of the 10% threshold provides the ability to assess the reasonableness of a relatively small percentage of yet to be audited costs in comparison to a much larger percentage of audited costs. Though PowerStream's documented unaudited costs exceed 10% of total program costs to date by a modest amount, the Board does not believe that the level of unaudited costs in this application is high enough to warrant the additional expense and delay associated with an additional proceeding. The Board notes that no concerns were raised with the unaudited costs, nor were any issues raised with respect to the nature of the costs incurred by PowerStream."¹⁸

With respect to Kingston's application, VECC notes the nature, type and quanta of costs incurred during the unaudited period are consistent with the audited costs in this application except in the following areas:

2012:

- Smart Meter capital of \$133,103 (line 1.1.1) for 248 smart meters
 - 219 residential (88%), 29 GS<50 kW smart meters (12%)
 - average cost of \$536/meter (\$133,103/248)¹⁹

2013:

- One time capital cost of \$93,000 for AMCC hardware (Regional Network Interface)²⁰

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

¹⁶ Application, Page 13

¹⁷ Updated Smart Meter Recovery Model, Sheet 2, 20121029

¹⁸ PowerStream Decision (EB-2011-0128), Pages 7-8

¹⁹ Updated Smart Meter Recovery Model, Sheet 2, 20121029

²⁰ VECC IR#5(b)

- One time OM&A expense of \$21,000 for Phase 2 security audit
- Recurring expense: \$ 148,830 in incremental labour ²¹
(meter shop employee activities to address metering issues)
- Smart Meter capital of \$153,000 (line 1.1.1) for 600 smart meters in 2013
 - 540 residential (90%), 60 GS<50 kW (10%)
 - Average cost of \$255/meter (\$153,000/600)

VECC takes no issue with the one-time expenses in 2013. However, VECC has concerns regarding the difference in the average procurement cost per meter in 2011 compared to 2012 and 2013: \$121, \$536 and \$255, respectively. Kingston notes that the economies of scale seen in earlier installations are not available going forward.²² VECC has concerns regarding the high smart meter procurement costs in 2012 compared to 2011.

VECC asks that Kingston include in its reply submission, an explanation for the higher capital cost per meter in 2012. Otherwise, only audited costs to the end of 2011 should be included in this application for recovery.

Cost Allocation & Calculation of Smart Meter Rate Riders

Table 3 below shows Kingston's smart meter rate riders originally filed in its application compared to the revised rate riders resulting from interrogatory responses (Board Staff IR#9, #10(a)&(b), #13(a), #15(b) and VECC IR#5(b).

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

Class	SMDR (\$/month) (24 months)		SMIRR (\$/month) (Jan 1, 2013 to next COS)	
	As Filed	Revised Board Staff #17(a)	As Filed	Revised Board Staff #17(b)
Residential	\$0.80	\$1.12	\$2.22	\$2.79
GS<50 kW	\$0.65	\$0.97	\$2.22	\$2.79

VECC notes Kingston has proposed an SMDR for the residential class that is greater than the SMDR for the GS<50 kW class. Given the smart meter applications reviewed to date, VECC observes as did Board Staff that a residential SMDR that is greater than the GS<50 kW SMDR is counterintuitive given that average meter costs and deferred requirement on a per meter basis is typically higher for the GS<50 kW customer class. Kingston is also proposing a uniform SMIRR rather than a class-specific SMIRR.

Kingston states it proposed an allocator based on the number of class specific smart meters installed for residential and GS<50 kW in the absence of readily available class specific smart meter cost data. In response to Board Staff #12(b) to provide a breakdown of the meter types installed by year for the residential and GS<50 kW classes, Kingston indicates a

²¹ Board Staff IR# 8(a), VECC IR#12(f)

²² Board Staff IR#3(b)

breakdown of smart meter types installed for each rate class is not available. In response to VECC IR#8(a) to provide meter cost data by customer class, Kingston states it tracked the number of meters installed by rate class however it did not track the specific cost of each type of meter installed and thus, is unable to provide any cost per type of meter. Furthermore, Kingston indicates the majority of the meters installed would have been of the single phase meter type and that should not materially differ between rate classes, thus, the average cost per meter is calculated as the same. From Kingston's response, VECC is unclear if Kingston installed polyphase meters and if so, how many. Kingston refers to the total average cost per meter in the application (Page 5) of \$214.11 as the smart meter cost per meter for both the residential and GS<50 kW customer classes. As noted above, in other smart meter applications VECC has reviewed to date, the average cost of meters differs between the residential and GS<50 kW customer class due to the higher proportion and cost for the more expensive polyphase meters for the GS<50 kW customer class.

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 IR#11 sought the calculation of class specific rate riders based on full cost causality. Specifically, VECC sought separate smart meter recovery 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, Kingston indicates it was not required to and did not specifically track smart meter capital and OM&A data by rate class and thus is not able to calculate class specific SMDRs on full cost causality. Kingston applies the same rationale to the SMIRR as the Board's Guideline requires that the cost allocation methodology should be the same for both the SMDR and the SMIRR. On this basis Kingston stated it is unable to provide separate smart meter requirement models by rate class.

VECC agrees with Board Staff shares the same concern regarding Kingston's explanations for not having information on the number and costs of meters of different types. VECC supports Board Staff's submissions on Cost Allocation and Class-specific SMDRS and SMIRRS and agrees Kingston's SMDRs and SMIRRS should not be approved as proposed and that Kingston should have to recalculate reasonable class-specific SMDRs and SMIRRS in line with the approaches approved by the Board in many recent applications for smart meter cost disposition and recovery.²³

²³ Board Staff Submission dated November 13, 2012, Page 4-7

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 November 2012.