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November 14, 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)
Parry Sound Power Corporation EB-2012-0344, EB-2012-0159
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: Parry Sound Power Corporation
Mr. Miles Thompson

EB-2012-0344
EB-2012-0159

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 Parry Sound Power Corporation ("Parry Sound Power") 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

Parry Sound Power filed an application August 3, 2012 and a revised application on September 6, 2012 for smart meter cost recovery based on actual audited costs incurred to December 31, 2011 and forecasted costs to December 31, 2012[1].

Parry Sound Power installed a total of 3,357 smart meters as at December 31, 2011, which represents 100% of total smart meter installations: 2,842 residential and 515 GS<50 kW.[2] In response to VECC IR#1, Parry Sound Power corrected the total number of meters installed to 3,384: 2,860 residential and 524 GS<50 kW. The previous total represented the number of active meters that are billing Time-of-Use (TOU).

Parry Sound Power's proposed capital costs (updated) are shown in Table 1 below.[3] The $15,000 in capital costs in 2012 represents a capital charge for web presentment.[4]

Table 1: Summary of Smart Meter Costs

	Audited Actual to end of 2011	Forecast 2012	Total
Capital	$865,445	$15,000	$880,445
OM&A	$43,986	$45,712	$89,698
Total	**$909,431**	**$60,712**	**$970,143**

[1] Manager's Summary, Page 1
[2] Application, Page 4
[3] Updated 2012 Smart Meter Recovery Model, Sheet 2, 20121026
[4] VECC IR#3(a)

Parry Sound Power'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.[5]

In this application, Parry Sound Power seeks:

- 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 two years (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 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 January 1, 2013 to December 31, 2014 until Parry Sound's next planned Cost of Service application scheduled for rates effective January 1, 2015.

- Parry Sound Power proposes that the SMDRs and SMIRRs apply to the residential and GS<50 kW customer classes.

Prudence Review of Smart Meter Costs

Parry Sound Power participated with 12 LDCs within the Cornerstone Hydro Electric Concepts Association (CHEC) to implement smart meters in a cost effective manner. Parry Sound Power indicates CHEC provides value added services to their LDC members by sharing knowledge and information as well as providing savings through joint purchasing of goods and services with its members. Specifically, Parry Sound Power states that the smart meter project demonstrates how LDCs working together achieve economies and successful implementation. Parry Sound Power noted CHEC LDCs participated in the Ontario Utilities Smart Meter (OUSM) working group and recognized the benefits of collaboration early in the process. Web presentment provided another opportunity for Parry Sound Power to work in cooperation with other LDCs for the delivery of web presentment for customers at reduced costs.[6] Overall Parry Sound Power believes it has achieved great economies of scale and has reduced costs as much as possible through collaboration with CHEC in the RFP process. In response to Board Staff IR#12, Parry Sound Power further discussed its operational efficiencies and cost savings and its expectation to achieve future savings although the nature and timing is unclear at this time. VECC agrees with Board Staff that Parry Sound Power should be prepared to address any operational efficiencies further in its next cost of service rebasing application.[7]

[5] Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011
[6] Manager's Summary, 12. Web Presentment
[7] Board Staff Submission, November 12, 2012, Page 12

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

Parry Sound Power provided a comparison of smart meter budget to actual costs which showed a favourable variance of $411,493 ($1,381,637.19-$970,143.51).[8] Parry Sound Power did not hire additional staff and thus did incur any incremental internal labour costs. Linesmen were taken off other capital projects to install smart meters with labour costs of $76,830.[9]

Table 2 below prepared by VECC using data from the updated smart meter recovery model, shows Parry Sound Power's average capital and OM&A costs per smart meter based on 3,384 installed smart meters. On a total cost basis (capital & OM&A costs), including costs beyond minimum functionality, the average cost per meter is $286.68.

Table 2: **Average Cost per Meter**[10]

Description	Costs to Dec 31, 2011	Average Costs per Meter
Total Meters Installed	3,384	
Capital Costs – Minimum Functionality	$847,552	$250.46
OM&A – Minimum Functionality	$86,602	$25.59
Total Capital & OM&A – Minimum Functionality	**$934,154**	**$276.05**
Capital Costs Beyond Minimum Functionality	$32,893	$9.72
OM&A Beyond Minimum Functionality	$3,096	$0.91
Total Capital & OM&A – Beyond Minimum Functionality	$35,989	$10.63
TOTAL	**$970,143**	**$286.68**

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

[8] VECC IR#4(a)
[9] VECC IR#1(b)
[10] Application, Page 5, Table 2: Smart Meter Capital & OM&A

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 Parry Sound's total average smart meter costs of $276.05 (excluding including costs beyond minimum functionality) are 21.6% above the most recent sector average of $226.92. When costs beyond minimum functionality are included ($286.68), Parry Sound Power's costs are 26.3% higher.

In response to VECC IR#2 asking Parry Sound Power to explain how its total average cost per meter (capital & OM&A) is higher than the recent sector average, Parry Sound indicated that some of the capital costs incurred are the same regardless of the number of smart meters. In Parry Sound's view, it should be expected to have higher capital costs per smart meter installed for LDCs with less smart meter installations. Parry Sound referred to examples of costs that are incurred that do not depend on the number of smart meters installed (web presentment, professional fees, training costs, WAN activation fees, customer education sessions, advertising, billing system upgrades).

In its submission (Page 8), Board Staff made the following point on this issue:

> "Parry Sound Power is a smaller utility with a non-contiguous service territory in the Muskoka region. The rocky and forested terrain, and buildings in built-up areas, has impacted the reliability of remote reading for smart meters, necessitating increased capital costs for more collectors, "buddy" meters, etc. to effect reliable communications. Although Parry Sound Power did not provide much detail on why it's per meter costs are higher than average, Board staff takes no issue with Parry Sound Power's increased costs."

Parry Sound Power'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.[12]

VECC notes that Parry Sound Power's average per meter costs are below the range observed for Atikokan ($420 per smart meter) and Sioux Lookout ($338.90 per smart meter) but above the range for Fort Frances ($262.57 per smart meter).

VECC submits that although the approach has not been tested to establish reasonableness, a comparison of Parry Sound Power to LDCs in its cohort with recent smart meter decisions (Atikokan, Sioux Lookout and Fort Frances) provides additional data and has some merit in determining if Parry Sound Power's costs are reasonable. In considering the above, VECC agrees customer count/number of installations can be one factor influencing relatively higher costs. Overall VECC submits Parry Sound Power's costs are higher than the provincial

[11] Monitoring Report Smart Meter Investment – September 2010, March 3, 2011
[12] PEG Report, Table 5

average but concludes that Parry Sound Power's costs reflect the circumstances of its service territory, consistent with its peer group, and Parry Sound Power has provided adequate documentation on the reasonableness of its costs.

VECC supports Board Staff's submissions (Page 9) that smart meter procurement and installations should be allocated based on when and how many smart meters are installed in each year to be in line with standard rate setting treatments for smart meters in other applications and with distribution assets generally in cost of service applications.

Costs Beyond Minimum Functionality

Parry Sound Power's application includes $35,989 for costs beyond minimum functionality (capital costs of $32,893 and OM&A costs of $3,096).[13] VECC observes that the total of these expenditures represents approximately 3.7% of Parry Sound Power's total smart meter program spending ($35,989/$970,143).

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# 3, Parry Sound Power provided an explanation by year for its Capital and OM&A costs beyond minimum functionality for advertising, training, integration with the MDM/R, TOU implementation and forecasted web presentment. Parry Sound also provided an explanation of how these costs are incremental and incurred solely for smart meter purposes.[14]

VECC takes no issue with the quantum or nature of Parry Sound Power's costs beyond minimum functionality. VECC notes, however, that the capital & OM&A costs beyond

[13] Updated 2012 Smart Meter Recovery Model, Sheet 2, 20121026
[14] VECC IR#3(c)

minimum functionality shown as actuals in response to VECC IR#4 differ from the values shown in the smart meter recovery model, sheet 2, although total costs beyond minimum functionality are constant. Parry Sound Power may wish to respond to this in its reply submission.

Recovery of Smart Meter Costs

The Board's Guideline G-2011-0001[15] states the following:

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

Parry Sound Power indicates its smart meter cost recovery is based on actual audited costs incurred to December 31, 2011. VECC confirms 93.7% of Parry Sounds Costs costs in this application are audited ($909,431/$970,143).

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.

Parry Sound Power proposed to allocate costs in a similar approach to PowerStream's 2010 smart meter application (EB-2019-0209). Specifically, Parry Sound proposed class specific SMDR and SMIRR rate riders based on the following cost allocation methodology:[16]

- Allocation of the return (deemed interest plus return on equity) and amortization based on a CWMC (i.e. Customer Weighted Meter Cost) that reflects the average actual cost of installing smart meters for the residential and GS<50 kW classes.
- 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.

[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, 17. Smart Meter Rate Rider

- Revenues generated from SMFA subtracted from the overall revenue requirement.

In response to Board Staff IR#14(a), Parry Sound Power confirms the SMFA revenues and interest was indirectly allocated to each rate class based on the revenue requirement allocation, which is the sum of return, amortization and OM&A. VECC agrees with Board Staff that Parry Sound Power's allocation of the SMFA revenues and interest in accordance with the overall cost allocation is not consistent with the methodology accepted and approved by the Board to allocate the SMFA revenues and interest collected from each customer class that receives smart meters, directly to that customer class. In Board Staff IR#14(b), Parry Sound Power was asked to recalculate class specific SMDRs using a direct allocation of SMFA revenues and interest, and a 50:50 allocation of residual SMFA and interest collected from other metered customers (i.e. GS50-4999 kW & Large Use) to the residential and GS<50 kW classes.

The revised rate riders compared to the original rate riders are shown in Table 3. The revised rate riders include adjustments to the model resulting from interrogatory responses.

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

	SMDR ($/month) (24 months)		SMIRR ($/month) (24 months to net COS)	
Class	**As Filed**	**Revised Board Staff #17(a)**	**As Filed**	**Revised Board Staff #17(b)**
Period				
Residential	$1.80	**$1.94**	$4.01	**$4.11**
GS<50 kW	$5.45	**$4.40**	$10.43	**$8.51**

VECC agrees with the SMFA cost allocation methodology proposed in Board Staff IR#14(b) with one exception. VECC submits based on the principle of cost causality, for metered customer classes that do not receive smart meters, the SMFA amounts collected from these customers should be returned to these customers.

VECC notes as did Board Staff that there appear to be differences in the SMDRs calculated in response to Board Staff IR#14(b) compared to the updated SMDRs documented in response to Board staff IR#17, which should be addressed in Parry Sound Power's reply submission.

In response to VECC IR#1, Parry Sound Power provided average meter costs by customer class. For the residential class the average meter cost was $84.89. For the GS<50 kW class, the meter costs ranged from $84.89 to $518.86 depending on the type of meter with a total average meter cost of $213.60. Parry Sound indicates it does not have installation and other capital costs on a class specific basis.[17] VECC observes smart meter capital costs differ materially depending on the customer class and the type of smart meter deployed. VECC

[17] VECC IR#1(a)

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.

VECC IR#5 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, Parry Sound Power indicated it is unable to provide separate smart meter revenue requirement models by rate class because it did not record the costs for smart meters on a class specific basis.

VECC accepts that Parry Sound Power does not have the costs by rate class to complete individual models to determine the revenue requirement for each rate class to calculate class specific rate riders based on full cost causality. Accordingly, with the exception noted above, VECC submits the PowerStream cost allocation methodology is appropriate.

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 13th day of November 2012.