



**PUBLIC INTEREST ADVOCACY CENTRE**  
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December 19, 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)**  
**Northern Ontario Wires EB-2012-0353**  
**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,

A handwritten signature in black ink, appearing to be 'MJ', is written over a horizontal line.

Michael Janigan  
Counsel for VECC  
Encl.

cc: Northern Ontario Wires  
Mr. Geoffrey Sutton

**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 Northern Ontario Wires Inc. (“NOW”) 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

NOW filed an application August 31, 2012 for smart meter recovery based on actual audited costs incurred to December 31, 2011 and forecasted costs for 2012 as shown in Table 1 below.<sup>1</sup>

**Table 1: Summary of Smart Meter Costs**

	<b>Audited Actual to end of 2011</b>	<b>Forecast 2012</b>	<b>Total</b>
Capital	\$1,368,608	\$31,000	\$1,399,608
OM&A	\$382,894	\$122,289	\$505,183
<b>Total</b>	<b>\$1,751,502</b>	<b>\$153,289</b>	<b>\$1,904,791</b>

NOW forecasts a total of 5,989 smart meters installations at the end of 2012: 5,239 residential & 750 GS<50 kW. In addition, NOW installed six GS>50 kW smart meters and indicates that the costs for these meters are not included in this application<sup>2</sup> but will be addressed as part of its current cost of service application.<sup>3</sup>

NOW’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.<sup>4</sup>

<sup>1</sup> 2013 Smart Meter Recovery Model, V3, Sheet 2, 20121207

<sup>2</sup> VECC IR#1

<sup>3</sup> Board Staff IR#3(a)

<sup>4</sup> Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011

In this application, NOW seeks:

- Approval to recover the deferred revenue requirement related to smart meters costs (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 16 months from January 1, 2013 to April 30, 2014.
- NOW is not requesting recovery of the Smart Meter Incremental Revenue Requirement Rate Rider as NOW's next cost of service re-basing approval (currently expected May 1, 2013) will include recoveries of the Smart Meter Incremental Revenue Requirement in this rate application.
- NOW proposes that the SMDRs apply to the residential and GS<50 kW customer classes.

### **Prudence Review of Smart Meter Costs**

NOW indicates that in seeking economies of scale for a cost effective deployment of smart meters, it and other utilities that form the District 9 Group (D9), engaged in a collaborative initiative to enter into a professional services agreement with Util-Assist, an Ontario firm specializing in metering solutions and technologies. Util-assist was hired to assist with the development of the smart meter project plan, evaluations, award of contracts, project monitoring, problem solving and reporting. Util-assist's services to NOW Inc. were expanded in 2010 to include project management assistance and training services related to internal operations and readiness for MDMR enrolment, integration and testing and transition to Time of Use (TOU).<sup>5</sup>

In response to Board Staff IR#9, NOW provided the cost per meter (capital and OM&A) for each customer class broken down between minimum functionality and beyond minimum functionality. For the residential class, the total average cost per meter (capital & OM&A) is \$297.12 compared to \$464.24 for the GS<50 kW customer class.

As shown in Table 2 below (prepared by VECC), on a total cost basis (capital & OM&A) including costs beyond minimum functionality, the average capital cost per meter is \$233.69 and the total average cost per meter is \$318.04.

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<sup>5</sup> Exhibit 1, Tab 1, Schedule 8, Page 1

**Table 2: Average Cost per Meter<sup>6</sup>**

Description	Total Costs	Total Average Costs Per Meter
Total Meters Installed	5,989	
Capital Costs – Minimum Functionality	\$1,391,823	\$232.39
OM&A – Minimum Functionality	\$417,757	\$69.75
<b>Total Capital &amp; OM&amp;A – Minimum Functionality</b>	<b>\$1,809,580</b>	<b>\$302.14</b>
Capital Costs Beyond Minimum Functionality	\$7,785	\$1.30
OM&A Beyond Minimum Functionality	\$87,426	\$14.60
<b>Total Capital &amp; OM&amp;A – Beyond Minimum Functionality</b>	<b>\$95,211</b>	<b>\$15.90</b>
<b>TOTAL</b>	<b>\$1,904,791</b>	<b>\$318.04</b>

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).<sup>7</sup>

VECC observes that NOW's total average smart meter cost (capital and OM&A) of \$318.04 exceeds the Board's range in EB-2007-0063 and is significantly above the recent sector averages.

To address the question of why NOW's smart meter costs per unit appear to be high compared to that of other Ontario electricity distributors, NOW provided the following information in its application:

"Northern Ontario Wires Inc. is a small utility with a customer base of approximately 6,200 customers. We service 3 communities with a distance of 60 km between Cochrane and

<sup>6</sup> Board Staff IR#9

<sup>7</sup> Monitoring Report Smart Meter Investment – September 2010, March 3, 2011

Iroquois Falls and 110 km between Cochrane and Kapuskasing. Accordingly we required a collector in each community, with each costing approximately \$161,708. The incremental costs of having three collectors versus one is \$323,416 or \$53.11 per meter.”<sup>8</sup>

NOW further indicates its service area is significantly different than Toronto Hydro, Hydro Ottawa, etc. both in the number of customers and the density and accordingly NOW feels it is inappropriate to compare NOW Inc. to utilities such as Toronto Hydro, Hydro Ottawa, etc. NOW also notes it does not have the same customer base on which to allocate its costs.

VECC agrees NOW’s circumstances are different than urban utilities and these differences can impact smart meter installation costs.

VECC submits that a comparison within NOW’s cohort group, small Northern Utilities Cohort Group, provides additional data and has some merit in determining if NOW’s costs are reasonable.

NOW’s peer group, Small Northern Low Undergrounding includes West Nipissing Energy Services, Renfrew Hydro, Espanola Regional Hydro Distribution, Fort Frances Power, Northern Ontario Wires, Parry Sound Power, Terrace Bay Superior Wires, Sioux Lookout Hydro, Chapleau Public Utilities, Atikokan Hydro, and Great Lakes Power.<sup>9</sup>

VECC notes that NOW’s average 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) and Parry Sound Power (\$286.68 per smart meter).

Overall VECC submits NOW’s costs are higher than the provincial average but concludes that NOW’s costs reflect the circumstances of its service territory.

With respect to operational efficiencies and cost savings, NOW has seen a shift of approximately \$150,000 in costs from meter reading to capital and O&M expense accounts to reflect the reduction in meter reading costs and reallocation of these resources to infrastructure upgrades and maintenance.<sup>10</sup> These savings are not accounted for in this application as the time formerly spent by linemen reading meters is now used to perform system upgrades.<sup>11</sup>

NOW also provided a comparison of its original smart meter budget to actual costs and reasonable explanations for any variances.<sup>12</sup>

In considering the above, VECC takes no issue with NOW’s higher smart meter costs.

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<sup>8</sup> Exhibit 1, Tab 1, Schedule 9, Page 2

<sup>9</sup> PEG Report, Table 5

<sup>10</sup> Board Staff IR#6, VECC IR#7

<sup>11</sup> Board Staff IR#6(b)

<sup>12</sup> VECC IR#6

## Costs Beyond Minimum Functionality

NOW has incurred \$95,211 for costs beyond minimum functionality (capital costs of \$7,785 and OM&A costs of \$87,426).<sup>13</sup> VECC observes that the total of these expenditures represents approximately 5% of NOW's total smart meter program spending (\$95,211/\$1,904,791).

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.

Costs related to MDM/R Integration and transition to Time of Use Billing are categorized as costs beyond minimum functionality. NOW indicates its costs beyond minimum functionality include project management, travel and training, customer education, AS2 software and sync operator costs. In response to interrogatories NOW provided a breakdown and further explanation of these costs.<sup>14</sup>

VECC agrees with Board Staff<sup>15</sup> that the Board has previously approved costs related to web presentation and the integration with MDM/R for other smart meter applications. VECC takes no issue with the nature or quantum of NOW's costs beyond minimum functionality.

## **Recovery of Smart Meter Costs**

The Board's Guideline G-2011-0001<sup>16</sup> states the following:

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<sup>13</sup> 2013 Smart Meter Recovery Model, V3, Sheet 2, 20120831

<sup>14</sup> Board Staff IR#8, VECC IR#9(d) & (e)

<sup>15</sup> Board Staff Submission, Page 7

<sup>16</sup> 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.”

NOW indicates the cost recovery is based on actual audited costs incurred until December 31, 2011 and forecasted costs to December 31, 2012.<sup>17</sup> NOW calculates that approximately 92% of NOW’s costs in this application are audited (\$1,751,502/\$1,904,791).<sup>18</sup>

VECC submits the audited costs conform to the Board’s Guidelines.

### Cost Allocation & Calculation of Smart Meter Rate Riders

In response Board Staff IR#12, NOW provided an updated model and a revised SMDR as a result of interrogatory responses. The revised rate riders compared to the original rate riders are shown in Table 3 below.

**Table 3: SMDR Rate Rider: As Filed Compared to Revised**

Class	SMDR (\$/month)	
	As Filed	Revised Board Staff #12
Period	16 months	16 months
From	Jan 1, 2013 to April 30, 2014	Jan 1, 2013 to April 30, 2014
Residential	\$6.47	\$6.92
GS<50 kW	\$13.85	\$10.87

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.

NOW proposed class specific SMDR rate riders based on a similar approach approved by the Board in PowerStream’s 2010 smart meter application (EB-2010-0209) as follows:

<sup>17</sup> Exhibit 1, Tab 1, Schedule 2, Page 2

<sup>18</sup> Exhibit 1, Tab 1, Schedule 9, Page 1

- Allocation of the return (deemed interest plus return on equity) and amortization based on capital cost of meters for each 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 revenue collected from each class (revenues collected from GS>50 kW allocated equally between the residential and GS<50 kW class).<sup>19</sup>

NOW provided data on the types and quantum of meters installed for each customer class and was able to calculate the capital and OM&A costs by meter type. VECC notes that the average smart meter capital cost per meter for the GS<50 kW class is approximately 1.8 times greater than for the residential class.<sup>20</sup> 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.

VECC IR# 8 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, NOW maintains that the calculated rate riders have been appropriately calculated using Board approved methodology and believes that the proposed results are fair and reasonable for all affected customer classes. NOW believes the data to complete smart meter recovery by rate class in the manner which VECC proposes in this interrogatory would not be materially dissimilar to the proposed results obtained with the models already submitted.

VECC notes that NOW did not indicate in its response that it could not provide the requested information. VECC also notes that VECC's request for class-specific SMDRs calculated based on full cost causality is the Board's approved methodology where the data is available as noted above. VECC submits that in the absence of the information requested by VECC in VECC IR#8, it is not possible for VECC to verify NOW's submission that the results would not be materially dissimilar.

In past Decisions<sup>21</sup>, 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.

VECC's submits NOW has the appropriate level of customer specific data and thus should provide, in its reply submissions, the information requested by VECC in IR#8, i.e. class

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<sup>19</sup> VECC IR#8

<sup>20</sup> VECC IR#6

<sup>21</sup> EB-2011-0143 Lakeland Power Distribution Ltd. Decision



specific revenue requirement models and revised SMDR rate riders based on full cost causality to allow the Board to consider a change in cost allocation.

In terms of the cost recovery period, VECC agrees with Board Staff in its submissions (Page 7) that the Board may wish to consider rate mitigation to smooth out rate impacts. A longer recovery period may be more appropriate given further rate increases are proposed in NOW's 2013 Cost of Service application.

### **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 19<sup>th</sup> day of December 2012.