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February 07, 2014

**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)**  
**Niagara Peninsula Energy Inc. (NPEI)**  
**Board File No. EB-2013-0359**  
**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: NPEI

## 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 Niagara Peninsula Energy Inc. ("NPEI") for an order or orders approving or fixing just and reasonable distribution rates to reflect final approval of its smart meter costs effective February 1, 2014 and May 1, 2014.

### Submissions of Vulnerable Energy Consumers Coalition (VECC)

VECC will address the following matters in its submissions:

- Prudence Review of Smart Meter Costs
- Cost Allocation & Calculation of Smart Meter Rate Riders
- Stranded Meter Costs

NPEI filed an application October 10, 2013 for smart meter recovery based on actual audited costs incurred from 2006 to 2012, actuals from January to June 2013 and forecast costs for the remainder of 2013 and 2014.

NPEI is seeking recovery for 51,144 smart meters forecast to be installed in its service area by the end of 2013 (99.57%), plus an additional 222 meters to be installed in 2014 for new customers from meters purchased prior to December 31, 2013, for a total of 51,366 installed meters. NPEI indicates its smart meter installation is complete, apart from the installation of meters for new customers in 2014 and beyond. The capital cost of new smart meters to be purchased in 2014 and beyond is not included in this application however forecast operating costs for 2014 are included.

As shown in Table 1 below<sup>1</sup>, NPEI's smart meter costs for the years 2006 to 2014 total \$7,690,631.

**Table 1 – Summary of Cost Claim**

<b>Total Smart Meter Capital Costs</b>	<b>\$ 6,088,399</b>
<b>Total Smart Meter OM&amp;A Costs</b>	<b>\$ 1,602,232</b>
<b>Total Smart Meter Costs</b>	<b>\$ 7,690,631</b>

The Board's Guideline G-2011-0001<sup>2</sup> states the following:

<sup>1</sup> Application, Page 6

<sup>2</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.”

NPEI’s forecast unaudited costs for 2013 and 2014 in the amount of \$752,796 represents approximately 9.79% of the total smart meter costs.<sup>3</sup> Thus, NPEI has 90.21% of its costs audited which exceeds the 90% threshold set in the Smart Meter Guideline. VECC agrees all costs should be considered for disposition.

In this application, NPEI is specifically requesting the following:

- Smart Meter Disposition Rate Rider (per metered customer per month) of \$(0.04) effective February 1, 2014 to April 30, 2015 for Residential customers and a Smart Meter Disposition Rate Rider of \$2.32 for General Service <50kW customers. The SMDR recovers, over a specified time period, the variance between the deferred revenue requirement for the installed smart meters up to the time of disposition and the SMFA revenues collected and associated interest.
- Smart Meter Incremental Revenue Requirement Rate Rider (per metered customer per month) to commence May 1, 2014 to April 30, 2015 in the amount of \$0.90 for Residential Customers and \$1.53 for General Service <50kW customers. This Rate Rider reflects the 2014 Incremental Revenue Requirement.

NPEI’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> and shown below.

**Table 2: Average Cost per Meter**

Description	Total Costs	Average Cost per Meter
Total Meters Installed	51,366	
<b>Total Capital Costs</b>	<b>\$6,088,399</b>	<b>\$118.53</b>
Capital Costs Beyond Minimum Functionality	\$(193,248)	\$(3.76)
<i>Capital (Excluding Costs Beyond Minimum Functionality)</i>	<i>\$5,895,151</i>	<i>\$114.77</i>
Total OM&A	\$1,602,232	\$31.19
OM&A (Costs Beyond Minimum Functionality)	\$(298,470)	\$(5.81)
<i>OM&amp;A (Excluding Costs Beyond Minimum Functionality)</i>	<i>\$(298,470)</i>	<i>\$(25.38)</i>
<b>Total Capital &amp; OM&amp;A</b>	<b>\$7,690,631</b>	<b>\$149.72</b>
<i>Capital &amp; OM&amp;A (Excluding Costs Beyond Minimum Functionality)</i>	<i>\$7,198,913</i>	<i>\$140.15</i>

<sup>3</sup> Smart Meter Model, Sheet 2

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

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

NPEI is a member of Niagara Erie Power Alliance (NEPA) group, a consortium of nine like sized and geographically located distributors. NEPA retained the services of Util-Assist to consult on the management of its Smart Meter Initiative. NPEI provided information on the shared costs as a member of NEPA including NPEI's portion of the costs that for the most part represented 1/9<sup>th</sup> or 11%.<sup>5</sup> NPEI also participated as part of a group of 31 LDCs working with Util-Assist for smart meter network security audit services.

NPEI indicates it was able to complete each milestone of the smart meter implementation plan on time, in accordance with the scheduled completion dates filed with the IESO and the OEB.<sup>6</sup> NPEI's mandated date for TOU billing was October 2011. NPEI indicates it was able to implement TOU billing for RPP customers that have an eligible TOU meter, commencing with the first billing cycle that began after October 1, 2011.<sup>7</sup>

In response to VECC IR#6, NPEI provided additional information on year over year cost variances related to specific capital and operating costs.

VECC submits NPEI has provided sufficient information in VECC IR# 1 on the benefits of collaborating with other LDCs and agrees with NPEI submissions that the sharing of information and resources would have resulted in savings and a more efficient process. NPEI indicates it has not performed any analysis related to cost savings from smart meter implementation but plans to address this issue in its next Cost of Service rate application.<sup>8</sup> VECC notes that this approach is consistent with the approach taken by other distributors who have filed recent smart meter cost recovery applications.

NPEI submits that its total program costs and its cost per installed meter are reasonable and prudently incurred as is evidenced by a \$118.53 per meter Average Capital Cost and a \$149.72 Average Total Cost per Meter, both which include costs exceeding minimum functionality.

VECC notes NPEI's costs compare favourably as they are below the sector average of \$186.76 capital cost per meter and \$207.37 total cost per meter (based on September 2009 data)<sup>9</sup> and the total cost per meter of \$226.92 (based on September 2010 data).<sup>10</sup>

### **Smart Meter Costs in 2006 and 2007**

NPEI's smart meter model includes installation costs and operating expenses in 2006 and 2007 related to a smart meter pilot project. Board Staff in its submission notes that NPEI was not authorized to begin the installation of smart meters until 2008. VECC supports Board

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<sup>5</sup> VECC IR#1

<sup>6</sup> Page 20

<sup>7</sup> Page 23

<sup>8</sup> VECC IR#2

<sup>9</sup> Sector Smart Meter Audit Review Report", dated March 31, 2010

<sup>10</sup> Monitoring Report Smart Meter Investment – September 2010, March 3, 2011

Staff submissions on this issue, i.e. in the absence of a clear explanation from NPEI that the smart meter pilot project was authorized, the Board should consider not allowing the recovery of these early costs.

Aside from the comments above regarding smart meter pilot costs in 2006 and 2007, VECC submits that NPEI has provided adequate documentation on the nature and quantum of its smart meter costs. On this basis, VECC takes no issue with respect to the prudence of NPEI's incurred smart meter costs.

### Costs Beyond Minimum Functionality

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.

The Board's Guideline indicates these costs may be recoverable provided a distributor shows how these costs are required for its smart meter program and how these costs are incremental.<sup>11</sup>

NPEI incurred costs exceeding minimum functionality for TOU rate implementation, CIS system upgrades, web presentation, bill presentation and integration with MDM/R. NPEI confirms these costs were incremental costs required to implement the smart meter program and to facilitate a functioning TOU system, otherwise they would not have been incurred.

VECC notes NPEI's costs beyond minimum functionality represent approximately \$9.57 per customer (\$193,248 capital+ \$298,470 OM&A)/51,366). In Bluewater Power's smart meter recovery application EB-2012-0263, Bluewater Power noted that the average claim of 14 smart meter recovery applications filed in the last six months at that time, for costs beyond

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<sup>11</sup> Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011, Pages 15-17

minimum functionality, is approximately \$11.84 per customer. NPEI's costs beyond minimum functionality compare favourably to this average. VECC considers NPEI's costs beyond minimum functionality to be reasonable and in accordance with the Board's Guideline G-2011-0001.

### **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.

In its application, NPEI proposes class specific SMDR and SMIRR rate riders for the residential and GS<50 kW customer classes based on the Board approved cost allocation methodology provided in the smart meter model.

NPEI indicates it does not record smart meter capital costs separately by rate class but it does track meter purchases by meter type, allowing NPEI to calculate total and average cost per meter by type. Using data from NPEI's CIS system for the number of meters installed by rate class, NPEI allocated costs by meter type to the Residential and General Service < 50 kW rate classes as shown in Table 15 below from the evidence.

**Table 15 – Allocation of 1.1 AMCD Capital Costs**

<b>Cost</b>	<b>Residential</b>	<b>GS &lt;50</b>	<b>Other</b>	<b>Total</b>
Single Phase Meters	3,701,675	313,494	22,225	4,037,394
Poly Phase Meters	0	696,168	14,236	710,404
Installation	517,896	141,261	5,101	664,258
Workforce Automation	27,407	7,475	270	35,152
<b>Total 1.1 AMCD Capital Costs</b>	<b>4,246,978</b>	<b>1,158,398</b>	<b>41,832</b>	<b>5,447,208</b>
<b>Number of Meters Installed by Rate Class</b>	<b>46,823</b>	<b>4,240</b>	<b>303</b>	<b>51,366</b>
<b>Total 1.1 AMCD Capital Costs per Meter</b>	<b>\$ 90.70</b>	<b>\$ 273.21</b>	<b>\$ 138.06</b>	<b>\$ 106.05</b>

NPEI then applied the methodology approved by the Board in the EB-2011-0128 PowerStream Decision, to allocate costs in order to calculate the SMDR and

SMIRR as follows:

- Return (deemed interest plus return on equity) and Amortization have been allocated between the customer classes based on the capital costs of the meters installed for each class, as per above;
- OM&A has been allocated based on the number of meters installed for each class.
- PILs has been allocated based on the revenue requirement allocated to each class before PILs.

Based on adjustments resulting from interrogatory responses, NPEI updated and corrected its smart meter model and adjusted its rate riders as shown below.<sup>12</sup>

### **SMDR & SMIRR Rate Riders: As Filed Compared to Revised**

	<b>SMDR (\$ month)</b>		<b>SMIRR (\$ month)</b>	
<b>Class</b>	<b>As Filed</b>	<b>Revised</b>	<b>As Filed</b>	
<b>From</b>	Feb 1, 2014 to April 30, 2015	March 1, 2014 to April 30, 2015	May 1, 2014 to next COS	May 1, 2014 to next COS
<b>Residential</b>	\$(0.04)	\$0.00	\$0.90	\$0.90
<b>GS&lt;50 kW</b>	\$2.32	\$2.53	\$1.53	\$1.53

VECC notes the average cost of an installed smart meter for a GS<50 kW customer is approximately three times greater than the cost to install a smart meter for a residential customer. VECC submits the only way to avoid undue cross subsidy between customer classes is to calculate class specific rate riders that reflect the full costs for each customer class. VECC accepts that NPEI does not have the cost data by rate class to complete separate smart meter models by customer class based on full cost causality. VECC accepts NPEI's cost allocation methodology as a proxy for revenue requirement with one exception. VECC submits that as a matter of principle, the \$41,548<sup>13</sup> in SMFA revenues collected from the GS 50 to 4,999 kW customer class should be returned to this customer class instead of a 50:50 allocation between the residential and GS<50 kW customer classes.

### **Stranded Meter Costs**

NPEI indicates that no costs associated with stranded meters have been included in this application.

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<sup>12</sup> Board Staff IR#6 & #7, VECC IR #5

<sup>13</sup> Updated Smart Meter Model, Sheet 10A

NPEI has recorded stranded meter costs in a sub-account of Account 1555. NPEI will address the recovery of stranded meter costs in its next cost of service application, which is scheduled for rates effective May 1, 2015. NPEI indicates that the net book value of stranded meters of \$1,189,293 that was recorded as of June 30, 2010 was removed from rate base in NPEI's 2011 cost of service application (EB-2010-0138). VECC supports Board Staff's submissions regarding the accounting treatment of NPEI's stranded meters in this 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 7<sup>th</sup> day of February 2014.