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**BY E-MAIL**

October 12, 2012

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Parry Sound Power Corporation  
2013 IRM Rate Application  
Board Staff Interrogatories  
Board File No. EB-2012-0159/EB-2012-0344**

In accordance with the Notice of Application and Hearing, please find attached Board Staff Interrogatories in the above proceeding.

As a reminder, Parry Sound Power Corporation's responses to interrogatories are due by October 26, 2012.

Yours truly,

*Original Signed By*

Daniel Kim  
Analyst – Applications & Regulatory Audit

Encl.



- Rate Rider for Global Adjustment Sub-Account (2012) – applicable only to Non-RPP Customers

## **Rate Mitigation Rate Rider**

### *2. Ref: Manager's Summary*

Parry Sound Power has requested the removal of the Rate Mitigation Rate Rider (2011) for both the Residential and General Service Less Than 50 kW rate classes.

In the Board's Rate Order (EB-2010-0140) dated August 9, 2011, Appendix B, the Board directed Parry Sound Power to record the deferred revenues associated with the Rate Mitigation Rate Riders in Account 1574, Deferred Rate Impact Amounts "Sub-account 2011 Deferred Revenues". At the end of each month, the deferred revenue amount derived from the product of the respective Rate Mitigation Rate Rider times the volumes billed to customers for the month in the Residential and General Service Less Than 50 kW ("GS < 50 kW) customer rate classes shall be recorded as separate journal entries for each customer class in this sub-account.

The monthly journal entries for the Residential and GS < 50 kW customer classes shall continue to be recorded until such time that the deferred revenues are authorized for inclusion in distribution rates or as directed by the Board.

The Board also directed that the carrying charges shall be calculated using simple interest applied to the monthly opening balances in the sub-account (exclusive of accumulated interest and shall be recorded in "Sub-account 2011 Deferred Revenues Carrying Charges" of Account 1574. The rate of interest shall be the rate prescribed by the Board.

The Board further directed that the records shall be maintained to support the calculation of amounts and the entries in the sub-accounts.

- a) Please provide justification for Parry Sound Power's request to remove the Rate Mitigation Rate Rider at this time.

- b) Please provide a spreadsheet that shows in detail the monthly deferred revenue amounts (Rate Mitigation Rate Rider multiplied by the volumes billed to the Residential and GS < 50 kW rate classes) for the period of when the Rate Mitigation Rate Rider became effective until December 31, 2012. If necessary, please forecast the deferred revenue for the months of September, October, November and December. Please also include the calculation of the monthly carrying charges.
- c) How and when does Parry Sound Power propose to recover the deferred revenue amounts?
- d) Please provide a detailed calculation of the rate riders that will recover the deferred revenue amounts from the Residential and GS < 50 kW customers over a one-year, two-year, three-year, and four-year period.

### **Smart Meter Funding and Cost Recovery – Final Disposition**

#### *3. Ref: Application, Recovery of Smart Meter Funding, page 5*

On page 5 of its Application, Parry Sound Power states:

In the 2006 Decision and Order (EB-2005-0404) absent a specific plan or discrete revenue requirement, the Generic Decision provided \$0.30 per month, per residential customer, to be added to Parry Sound Power Corporation's revenue requirement. The increase in the revenue requirement amount was allocated equally to all metered customers and recovered through their monthly service charge. The \$0.30 per metered customer per month, effective May 1, 2006, was billed and the proceeds were credited in OEB Account 1555, Smart Meter Capital and Recovery Offset Variance Account.

A review of the 2006 EDR model for the decision RP-2005-0020/EB-2005-0404 indicates that the initial smart meter funding adder approved for Parry Sound Power's distribution rates effective May 1, 2006 was \$0.24 per metered customer

per month, which corresponded to a recovery of \$0.30 per month per residential customer, allocated over all of Parry Sound Power's metered customers.

- a) Please confirm that the initial SMFA approved for May 1, 2006 was \$0.24 per month per metered customer.
- b) Please confirm that this is how SMFA entries from May 1 to December 31, 2006 have been entered into the principal on sheet 8 of the revised Smart Meter Model, Version 2.17, filed on September 7, 2012. In the alternative, please explain.

*4. Ref: Decision EB-2010-0140, June 17, 2011, pages 40-41*

In Parry Sound Power's 2011 cost of service application, Parry Sound Power applied for an increased SMFA of \$1.71 per metered customer per month, which was subsequently revised to \$2.88 per metered customer per month. In the Decision dated June 17, 2011, Parry Sound Power was approved a SMFA of \$2.50 per metered customer per month effective from July 1, 2011 to April 30, 2012. The Rate Order issued on August 9, 2011 accepted the removal of the \$2.50 SMFA as one aspect of mitigating rate impacts arising out of the decision.

The proposal for an SMFA would indicate that Parry Sound Power's smart meter costs were not subject to a review for prudence in the 2011 cost of service application.

- a) Please confirm that no costs for which Parry Sound Power is seeking approval in this smart meter cost recovery application have previously been reviewed in a previous application, and either approved or denied in a Board Decision.
- b) In the alternative, please identify any previous cases involved. Also, please identify the costs involved, and explain the reasons for their inclusion in this Application.

*5. Ref: Application, Incremental Revenue Requirement Rate Rider*

On page 2 of its Application, Parry Sound Power requests approval for the Smart Meter Incremental Revenue Requirement Rate Rider.

- a) Please confirm whether the proposed Smart Meter Incremental Revenue Requirement Rate Rider is requested for the period January 1, 2013 to December 31, 2014. In the alternative, please explain.
- b) Please confirm that the SMIRR, as a proxy monthly rate to recover the annualized incremental revenue requirement on a prospective basis for capital-related and operating costs of installed smart meters, should continue to be in effect until Parry Sound Power's next cost of service application.

*6. Ref: Application, AMI Selection*

On page 6 of its Application, Parry Sound Power states that, shortly after Trilliant was selected as the winning proponent, Olameter acquired Trilliant, resulting in Olameter providing the deployment services for smart meters. Parry Sound Power further states that the impact of the ownership change was evaluated and, based on the existing relationship between Olameter and the LDCs and their performance in the industry, awarding the contract to Olameter was deemed appropriate. Please provide further explanation on whether the ownership change had any impact on:

- a) pricing and total costs of Parry Sound Power's smart meter deployment and operation; and
- b) timing and scheduling of Parry Sound Power's smart meter deployment.

*7. Ref: Application, page 16 – Stranded Meter Costs*

On page 16 of its Application, Parry Sound Power states that it is not seeking disposition of stranded meter costs in this Application, but will seek recovery in its next cost of service application. Parry Sound Power states that the Net Book Value of stranded meters as of December 31, 2010 is \$137,359.98. Parry Sound

Power further states that it no longer amortizes the meters and no longer records carrying charges.

Board staff observes that the issue of smart meter cost recovery and treatment of stranded meters was dealt with in its 2011 cost of service application [EB-2010-0140] in some detail, but without resolution.

With respect to stranded meters, the Board's Decision EB-2010-0140 states:

The Board finds that the issue of stranded meter costs for Parry Sound be dealt with in a future proceeding as it appears that the evidence on this issue is not complete, particularly the audited financial data to address this issue comprehensively.

- a) Please confirm what capital costs for meters (conventional meters stranded due to replacement by smart meters, smart meters, meters for GS > 50 kW customers, wholesale meters) are in the 2011 rate base as approved by the Board in Decision EB-2011-0140.
- b) If the NBV of conventional meters is included in the 2011 rate base, then these were factored into Parry Sound Power's 2011 revenue requirement, and the capital-related costs (depreciation, return on capital and associated PILs) are being recovered in distribution rates in 2011 and subsequent years as adjusted by the IRM price cap formula). If this is the case, please explain why Parry Sound Power is not continuing to amortize the stranded conventional meters on the principal balance of this sub-account of Account 1555.
- c) If the NBV of stranded meters was removed from rate base as of December 31, 2010 and is recorded in the stranded meter sub-account of Account 1555, please explain why carrying charges at the allowed prescribed interest rate for D/V Accounts would not apply to the principal balance of the sub-account.

- d) Please provide Parry Sound Power's estimate of the NBV of the stranded meters as of December 31, 2014.

8. *Ref: Smart Meter Model, Sheet 2 – Smart Meter Installations*

On sheet 2 of the Smart Meter Model, for 2010, Parry Sound Power documents 31 residential smart meter installations and 64 GS < 50 kW smart meter installations, and documents \$28,657 for installation costs. However, no capital costs of smart meters are documented for that year.

- a) Please explain the exclusion of capital costs for smart meters for 2010.
- b) If the capital costs are included in the \$326,157 documented as smart meter capital costs in 2009, please explain the basis for including the capital costs in the rate base and calculating a deferred revenue requirement in advance of the smart meters being deployed and coming into service (i.e. becoming used and useful).

9. *Ref: Smart Meter Model, Sheet 3 – Cost of Capital*

In its 2006 EDR rates application [RP-2005-0020/EB-2005-0404], Parry Sound Power was approved rates with a cost of capital based on a debt rate of 7.25% and a return on equity ("ROE") of 9.00%. Parry Sound Power next had its rates approved through a cost of service application for 2011 [EB-2010-0140], where the following cost of capital parameters were approved:

- Deemed short-term debt rate: 2.46%
- Long-term debt rate: 7.25%
- ROE: 9.58%

The Board's policy and practice is that cost of capital parameters approved through a cost of service application continue to apply until the next rebasing of rates through a cost of service application, as these cost of capital parameters are reflected in the revenue requirement underlying the distribution rates adjusted in subsequent years by the price cap mechanism. The exception to this



was the change in the deemed capital structure, which was effected through the k-factor adjustment from 2008 to 2010.

- a) Please confirm that the cost of capital parameters referenced above are correct. In the alternative, please provide corrections.
- b) On sheet 3 of the Smart Meter Model, Version 2.17, Parry Sound Power shows an ROE of 8.57% for 2009 and 9.85% for 2010, even though Parry Sound Power's rates were set through IRM price cap adjustments for those rate years. Please provide Parry Sound Power's explanation for using an ROE different from the 2006-approved ROE of 9.00% in each of these years.

*10. Ref: Costs beyond Minimum Functionality*

O. Reg. 426/06 s. 2(1) states that *"No distributor shall recover any costs associated with meter data functions to be performed by the Smart Meter Entity"*.

O. Reg. 393/07 defines the exclusive authority of the Smart Meter Entity to include, among other functions, conducting all services performed on smart metering data to produce billing quantity data, validation, estimating and editing services.

Parry Sound Power's application at page 6 describes the Operational Data Store ("ODS") functionality to allow staff to audit and validate meter data.

- a) What portion of the total capital and OM&A costs are specifically related to the ODS?
- b) What is the in-service date for the ODS?
- c) What further capital and operating costs does Parry Sound Power forecast for the ODS?

*11. Ref: Application, pages 10-11 – Web Presentment*

On pages 10-11 of its Application, Parry Sound Power states:

Parry Sound Power saw web presentment as another opportunity to work in co-operation with other LDC's for the delivery of web presentment for customers at reduced costs. After an extensive RFP process, Harris Northstar was chosen for this web presentment software tool. Parry Sound Power received a contract from Northstar Utilities Solutions on May 7, 2012 for a Customer/Connect – Customer Engagement Suite. The Customer/Connect Suite is a portfolio of modules organized by Platform, Application and Add-ons functionality. It will enable PSP's customers to gain access to high value consumption data, to better understand their usage patterns, to educate themselves on rates and what affects them and for the communication to be better from the utility to the customer. The implementation fee for PSP is \$15,000 for the following modules: Customer/Connect, CSR/Connect, Bill/Connect, CIS/Connect and Home/Connect. In addition to the implementation fee a monthly fee of approximately \$257.96 will be incurred on an incremental on-going basis.

The Ministry of Energy has indicated that electricity customers should ideally have web access to their hourly consumption data. This will allow customer to monitor consumption, alter consumption, make informed decision, conserve, budget, etc. To date Parry Sound Power has not signed the contract and will not unless PSP can recover the costs through this smart meter application. Parry Sound has only included the \$15,000 in the application.

- a) What is the current status of the contract with Harris Northstar related to web presentment? Is there an expiry date for the contract offer?
  
- b) Please provide further explanation of each of the modules referenced above, and how each of these is necessary for presentment of smart meter TOU data and benefits Parry Sound Power's ratepayers:
  - i. Customer/Connect;
  - ii. CSR/Connect;

- iii. Bill/Connect; and
- iv. Home/Connect.

- c) On sheet 2 of the revised Smart Meter Model filed on September 7, 2012, Parry Sound Power has shown an amount of \$15,000 for 2012 on row 172, under “2.6.3 Costs for TOU rate implementation, CIS system upgrades, web presentation, integration with the MDM/R, etc.”. Please confirm that the \$15,000 is the estimated up-front implementation costs for the planned modules for web presentment.
- d) Why is the \$15,000 for the module upgrades incurred as an expensed item rather than capitalized?
- e) Why has Parry Sound Power not included any ongoing OM&A expenses estimated at \$257.96 per month for the monthly fee for these modules?
- f) On Sheet 2, Parry Sound Power documents \$4,309 for 2011 on row 172, under “2.6.3 Costs for TOU rate implementation, CIS system upgrades, web presentation, integration with the MDM/R, etc.”. Please explain the nature of this expense.

*12. Ref: Operational Efficiencies and Cost Savings*

On page 19 of the Guideline, the Board stated:

In considering the recovery of smart meter costs, the Board also expects that a distributor will provide evidence on any operational efficiencies and cost savings that result from smart meter implementation.

- a) Please discuss operational efficiencies and cost savings achieved by Parry Sound Power.
- b) Please explain if Parry Sound Power expects to achieve operational efficiencies and cost savings in the future. If so, please provide Parry Sound Power’s estimates as to the timing and nature of these savings.

*13. Ref: Smart Meter Model, Sheet 8 – OM&A and Depreciation Expenses*

On Sheet 8A of the Smart Meter Model, Parry Sound Power has not entered any OM&A and depreciation expenses for any month in 2012. Sheet 8A calculates the carrying charges on OM&A and depreciation expense for the purposes of calculating the SMDRs and the SMIRRs.

- a) Please input actual or forecasted monthly OM&A and depreciation expenses for the months in the year 2012. These amounts, particularly OM&A, should correspond with OM&A expenses shown on sheets 2 and 5 of the Smart Meter Model.
- b) In the alternative, please explain.

*14. Ref: Smart Meter Model, sheet “Rider per Class” – Class-specific SMDRs*

The main difference in the calculation of the SMIRR and the SMDR is the applicability of SMFA revenues and associated interest as an offset to the deferred revenue for the SMDR. There is no SMFA revenue offset for the SMIRR.

Guideline G-2011-0001 states at pages 19-20:

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.

Recognizing that SMFA revenues have been collected from all metered customers since May 1, 2006, the Board’s decision in EB-2011-0128 also addressed the treatment of smart meter adder amounts collected from customer classes for which smart meter costs were not incurred, as it related to PowerStream’s smart meter deployment program. The Board directed PowerStream to allocate the smart meter adder amounts collected from the GS > 50 kW and

Large Use customer classes evenly to the Residential and GS < 50 kW classes when calculating the true-up for the SMDR. The Board concluded that this approach was appropriate because the amounts involved were not significant enough to warrant a more precise allocation.<sup>12</sup> However, for all customer classes for which smart meter costs have been directly incurred, the SMFA revenues plus carrying costs should be directly used as an offset to the incremental revenue requirement to determine the SMDR for that class.

- a) Please explain how Parry Sound Power has allocated the SMFA revenues and associated interest for the purposes of calculating class-specific SMDRs.
  
- b) A common approach for cost allocation is to do the following:
  - OM&A expenses have been allocated on the basis of the number of meters installed for each class.
  - The Return and Amortization have been allocated on the basis of the capital costs of the meters installed for each class.
  - PILs have been allocated based on the revenue requirement derived for each class before PILs.
  - SMFA revenues and interest on the principal first calculated directly for the Residential and GS < 50 kW classes, with then the residual SMFA revenues and interest collected from other metered customer classes (i.e., GS 50-4999 kW and Large Use) allocated 50:50 to the Residential and GS < 50 kW classes. This approach has been used and approved in some recent cost of service applications, including that for Guelph Hydro's 2012 rates application [EB-2011-0123].

Using the attached spreadsheet taken from Guelph Hydro's draft Rate Order filing, please provide calculations for class-specific SMDRs using a more direct allocation of SMFA revenues.

*15. Ref: Smart Meter Model – Cost per Smart Meter Installed*

Using the below table as a guide, please provide the following:

- a) A table showing the cost per meter, in total and for each of Residential and GS < 50 kW customer classes, and broken out as.
- Minimum functionality: capital
  - Minimum functionality: capital and OM&A
  - Minimum functionality and beyond minimum functionality: capital
  - Minimum functionality and beyond minimum functionality: capital and OM&A.

	2006	2007	2008	2009	2010	2011	2012	Total
Capital related to minimum functionality								
Capital beyond minimum functionality								
OM&A related to minimum functionality								
OM&A beyond minimum functionality								
Number of Smart Meters Deployed								

  

	Total	Average per meter
<b>Total (capex + opex)</b>		
<b>Capex only</b>		
<b>OM&amp;A only</b>		
<b>Beyond minimum functionality only</b>		

- b) Please provide a breakdown of the meter types installed, by year, for the Residential and GS < 50 kW classes.

*16. Ref: Smart Meter Model*

If Parry Sound Power has changed its inputs to the Smart Meter Model as a result of any of the above interrogatory responses, please update and re-file the

Smart Meter Model in working Microsoft Excel format, using version 2.17 of the model.

*17. Ref: Cost Allocation*

- a) If Parry Sound Power has made revisions to its Smart Meter Model as a result of its responses to interrogatories, please update the proposed class-specific SMDRs accordingly.
- b) Similarly, please update the calculation of class-specific SMIRRs.

**Bill Impacts**

*18. Ref: Manager's summary*

- a) Please provide an updated bill impact analysis for the Residential and GS < 50 kW rate classes that combines Parry Sound Power's requests as filed in both its 2013 IRM application (EB-2012-0159) and Smart Meter Cost Recovery application (EB-2012-0344).
- b) Please provide an updated bill impact analysis for the Residential and GS < 50 kW rate classes that takes into account the removal of the Rate Mitigation Rate Rider and the addition of the rate rider to recover the deferred revenues. Please provide this bill impact analysis for each of the rate rider scenarios asked in Board staff interrogatory #2c.