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July 16, 2010

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)
Notice of Intervention: EB-2009-0266
Hearst Power Distribution Company Limited – 2010 Electricity Distribution
Rate Application

Please find enclosed the interrogatories of VECC in the above-noted proceeding.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

**HEARST POWER DISTRIBUTION COMPANY LIMITED
2010 RATE APPLICATION**

(EB-2009-0266)

VECC'S INTERROGATORIES (ROUND #1)

GENERAL

Question #1

Reference: Exhibit 1, Tab 1, Schedule 1, pages 2 - 3

- a) Please confirm the date that the completed Application was filed with the OEB.
- b) Please confirm that Hearst is not proposing to introduce any new miscellaneous charges for 2010.
- c) If Hearst is proposing to introduce any new miscellaneous charges, what are they and where can the explanation for each be found?

Question #2

Reference: Exhibit 1, Tab 1, Schedule 4, page 2

- a) Please provide further details regarding the deferral account requested under Item #12. In particular please explain exactly why types of circumstances the account is meant to address and how they differ from the circumstances under which Hearst may be eligible for a Z-factor adjustment during the 3GIRM period.

Question #3

Reference: Exhibit 1, Tab 1, Schedule 8, pages 1-3

- a) Please confirm whether or not Hearst's service area is contiguous.

Question #4

Reference: Exhibit 1, Tab 1, Schedule 10, page 1

- a) Is Hearst fully embedded within Hydro One Networks' distribution system? If not, please explain the transmission supply arrangements.
- b) Please describe Hydro One Networks' low voltage supply delivery points to Hearst.

Question #5

Reference: Exhibit 1, Tab 1, Schedule 12

- a) Please describe more fully the activities of Hearst Power Sales and Services Company Limited ("HPSSC") in 2010.
- b) Please explain why it was necessary to "activate" HPSSC in order to comply with the requirements of the electrical inspection authority.

RATE BASE

Question #6

Reference: Exhibit 2, Tab.1, Schedule 2
Exhibit 2, Tab 2, Schedule 1

- a) The average Gross Book Values reported in E2/T1/S2 do not align with the average of the opening and closing Gross Book Values reported in E2/T2/S1. Similarly, the average Accumulated Depreciation values reported in E2/T1/S2 do not match the average of the opening and closing values reported in E2/T2/S1. Please reconcile the values reported in the two schedules and provide corrected versions as necessary.
- b) The Average Net Book Values reported in E2/T1/S2 do not match the average of the closing NBV for that year and the preceding year as set out in the same schedule. Please reconcile and provide a corrected version as necessary.

Question #7

Reference: Exhibit 2, Tab 4, Schedule 1

- a) Please indicate where LV charges from Hydro One Networks are incorporated into the determination of the working capital allowance.
 - If included, please indicate where (e.g., is it included in one of the OM&A accounts?), the amount and how it was calculated.
 - If not included, please provide the forecast amount for 2010, indicate how it was calculated and update the working capital calculation.
- b) Please provide the calculations underlying the 2010 cost of power value of \$4,906,000 (i.e., the purchased kWh and unit cost assumed). Please indicate the source of the unit cost of power forecast for 2010.
- c) What portions of Hearst's 2009 actual sales were to RPP vs. non-RPP customers?
- d) Please provide the calculations supporting the 2010 forecast costs for Network Charges, Connection Charges and WMS charges. In each case please show the volumes and rates assumed.

Question #8

Reference: Exhibit 2, Tab 2, Schedule 1
Exhibit 2, Tab 5, Schedule 1
Exhibit 2, Tab 6, Schedule 1

- a) Please provide a revised version of Table 2.5.1.1 that includes 2009 and 2010.
- b) The historical additions reported in E2/T2/S1 to not always match the historical capital spending reported in E2/T5/S1 for the comparable years. Please reconcile and provided revised schedules as necessary.
- c) The total, 2009 capital spending of \$462,867 reported in E2/T5/S1 (and the Rebasing Worksheets) does not match the total additions for the year as set out in E2/T2/S1. Please reconcile and provide revised schedules as necessary.
- d) Was any of the 2006-2009 spending required for relocation work due to agreements with governments (e.g., the town)? If yes, please indicate the associated spending in each year and what, if any, contribution was received from government.

- e) Please provide a copy of the field survey (per E2/T6/S1) completed by the Lead Hand for the 2010 budget. Please reconcile the findings of the survey with the spending proposed for 2010 (per E2/T5/S1, page 2)?

LOAD FORECAST

Question #9

Reference: Exhibit 3, Tab 1, Schedule 2
Exhibit 3, Tab 2, Schedule 1, page 3

- a) Please provide a schedule that sets out the rates by class used to establish the revenues shown in E3/T1/S2 for 2009 and 2010.
- b) Please reconcile, for each customer class, the 2010 revenues at proposed rates shown in E3/T1/S2 with those shown in E3/T2/S1, page 3. In doing so, please confirm whether the rates used in either schedule:
- Include a Smart Meter rate adder
 - Include SSS admin charges
 - Include an LV rate adder
 - Have been reduced to exclude the transformer allowance were applicable to customers.
- c) Please provide a schedule that sets out, by customer class, the 2009 rates used to determine the 2010 revenues at approved 2009 rates as shown in E3/T2/S1, page 3. In doing so, please confirm whether the rates used in either schedule:
- Include a Smart Meter rate adder
 - Include SSS admin charges
 - Include an LV rate adder
 - Have been reduced to exclude the transformer allowance were applicable to customers.
- d) Please provide a schedule that sets out:
- The 2010 forecast fixed and variable billing determinants by class. For the GS>50 and Intermediate classes please indicate both the total forecast billing kW and the billing kW eligible for the transformer ownership allowance,
 - The approved distribution rates by class, where the fixed charge excludes both the smart meter rate adder and the SSS admin fee while the variable charge excludes the LV rate adder.
 - The 2010 revenue at approved rate by class, using the foregoing billing determinants and rates. For the GS>50 and Intermediate classes please show the revenues net of the transformer ownership allowance.

Question #10

Reference: Exhibit 3, Tab 2, Schedule 1 and 2

- a) Is the customer count shown in Table 3.2.2 based on year-end or average annual customer counts?
- b) Please provide a schedule that sets out the actual kWhs, number of customers and average use per customer for each class for the years 2004 – 2009 inclusive.
- c) Please confirm that the customer count for the GS<50 class has not been increased for 2010 to account for the reclassification of the GS>50/<1500 kW customer as discussed at E3/T2/S1, pages 1-2.
- d) Please provide a schedule that for the GS 50-2999 and GS 3000-4999 classes sets out the kWhs and billing kW for each year 2004-2008 inclusive. In the same table, please show the ratio of billing kW to total kW for each class, by year.
- e) Please confirm that there are currently no customers in the GS 50-2999 class whose average billing demand is greater than 1500 kW such that it would be reclassified as an Intermediate customer under Heart's proposed customer class definitions.
- f) Please provide the Hydro One Networks' NAC data as supplied for the Cost Allocation Informational filing.
- g) Did Hydro One Networks' data include weather normalized kW per customer for those classes billed on a kW basis? If not, please indicate how the NAC kW values were determined for the GS>50, Intermediate, Street Light and Sentinel Light classes.

Question #11

Reference: Exhibit 3, Tab 3, Schedule 1

- a) Please provide a schedule that sets for 2007-2009 inclusive the actual/forecast miscellaneous revenues by charge type.
- b) Why are there revenues but no expenses associated with Merchandising, Jobbing, etc.? Are the revenues shown net of expenses or are the expenses included in the base distribution costs?

- c) Why are the Retail Services revenues (Accounts #4082 and #4084) included as an offset as opposed to being posted to the appropriate deferral account?
- d) Please confirm that the interest income reported does not include any interests expense/income associated with Hearst's regulatory asset accounts.

OPERATING COSTS

Question #12

Reference: Exhibit 4, Tab 1, Schedule 1, pages 1-2

- a) Is the \$85,079 estimated cost for smart meter reading recorded in the Smart Meter deferral account or charged to OM&A.
- b) Please reconcile the \$85,079 in meter reading costs for 2010 reported here and in E2/T4/S1 with the \$31,120 value reported in E4/T2/S2. Please provide revised schedules as necessary.
- c) Was the new charge for support to the new billing system also incurred in 2009? If yes, how much was the 2009 charge? If not, why not?
- d) Please explain the \$90,600 incremental cost attributed to the new apprentice in 2010 when the average compensation per employee for 2010 is only \$77,768 – per E4/T4/S1, page 2.

Question #13

Reference: Exhibit 4, Tab 2, Schedule 1
Exhibit 4, Tab 2, Schedule 2
Exhibit 2, Tab 4, Schedule 1

- a) The total OM&A costs by sub-category (e.g. Operation, Maintenance, etc.) reported in Table 4.2.1 do not match those in Table 4.2.2. Please reconcile and provide corrected tables as required.
- b) Similarly, the detailed OM&A costs by sub-account reported in E2/T4/S1 do match those reported in Table 4.2.2. Please reconcile and provide corrected tables.

Question #14

Reference: Exhibit 4, Tab 2, Schedule 3

- a) Please provide a schedule that, starting with the 2006 actual OM&A costs, shows the major cost drivers contributing to the change in OM&A costs for each year through to 2010 as required by the OEB's May 2009 Filing Guidelines, Appendix 2-H.
- b) What inflation rate has Hearst assumed for non-labour expenses in 2009 and 2010?

Question #15

Reference: Exhibit 4, Tab 2 Schedule 4

- a) Please reconcile the regulatory costs reported here with the Regulatory Expenses (#5655) of \$7,095 reported in E2/T4/S1 and E4/T2/S2.
- b) Reference is made in this schedule to recovering the cost of the Rebasing Application by means of a "rate rider". Please fully describe what the costs of the Rebasing Application are, how Hearst proposes to recover these costs, and where in the Application these costs have captured in rates.

Question #16

Reference: Exhibit 4, Tab 3, Schedule 1

- a) The OM&A costs in this schedule differ from those presented in either E2/T4/S1 or E4/T2/S2. Please reconcile and provide corrected tables.

Question #17

Reference: Exhibit 4, Tab 4, Schedule 1
Exhibit 4, Tab 5, Schedule 1

- a) Is Heart Power's Manager one of the six employees noted in E4/T4/S1?
- b) Please explain why the average annual base salary for 2010 (\$77,768) exceeds the result of dividing the Total Salary and Wages by the Total Number of Employees ($\$376,107/6 = \$62,685$). Please revise Table 4.4.1.1 are required.

- c) E4/T4/S1 shows a full FTE for both the Executive and the non-Union position. E4/T5/S1 indicates that a portion of the Manager's time is charged to the Town of Hearst. Please clarify the following:
- Is the Compensation reported in E4/T4/S1 net of the charges to the Town?
 - If not, please add a line item in Table 4.4.1.1 showing the Compensation charged to the Town.
 - If yes, please explain why the total number of employees does not exclude the portion of the Manager's time charged to the Town.

Question #18

Reference: Exhibit 4, Tab 5, Schedule 1
Attached Service Agreements

- a) With respect to Street Light Maintenance services, please indicate where the revenues received from the Town are captured under Miscellaneous Revenues in Exhibit 3 for both historical years and for 2010.
- b) Table 4.5.1.1 does not show any payments from HPSSC to Hearst Power Distribution for Accounting and Administrative Services in 2010, per the March 2010 Service Agreement. What is the estimated charge for these services, how is it determined and where is it reflected in Exhibit 3?

Question #19

Reference: Exhibit 4, Tab 6, Schedule 1
Exhibit 4, Tab 3, Schedule 1
Exhibit 2, Tab 2, Schedule 1

- a) The three references all include different depreciation charges for 2010 and prior years. Please reconcile and provide corrected schedules are required.

Question #20

Reference: Exhibit 4, Tab 7, Schedule 1

- a) Has Heart claimed the Apprenticeship and/or Training tax credits it may be eligible for as a result of hiring the new apprentice? If so, how were they calculated and incorporated in the tax calculations?

- b) The regulatory net income reported for the test year (\$377,428) does not reconcile with that reported in Exhibit 5 nor in the Revenue Requirement Work Form. Please reconcile and correct Table 4.7.1.1 as required.

COST OF CAPITAL

Question #21

Reference: Exhibit 5, Tab 1, Schedule 2

- a) The rate base shown for 2010 differs from that calculated in Exhibit 2, Tab 1, Schedule 2. Please reconcile and update as required.
- b) Please confirm that the promissory note held by the Town is payable on demand.

REVENUE DEFICIENCY/SURPLUS

Question #22

Reference: Exhibit 6, Tab 1, Schedule 1

- a) Please reconcile the distribution revenue at current approved rates shown here (\$878,705) with that reported in E3/T2/S1, page 3 (\$930,068).
- b) Please explain the difference between the two distribution revenue values reported on page 2 at line 2 (\$878,705 and \$860,083).
- c) Please reconcile the interest, net income and rate base values reported here for 2010 with those reported in Exhibit 5.
- d) Please reconcile the Operating Expense reported here with that determined in Exhibit 4.
- e) Please more fully explain Note #2. In doing so, please indicate whether i) the distribution revenues reported in Line 2 include revenue from the LV rate adder and ii) the Operating Expenses reported in Line 5 include forecast LV costs?
- f) Do Hearst's approved 2009 rates include an allowance for the recovery of LV costs? If yes, what is the implicit LV adder for each class for 2009?

COST ALLOCATION

Question #23

Reference: Exhibit 7, Tab 1, Schedule 1, pages 1-2 and Appendix A, pages 1-4

- a) With respect to Table 7.1.1.1, please provide an electronic copy of the 2007 Cost Allocation Informational filing that supports the ratios presented in the second column (i.e., 88.45% for Residential).
- b) Please explain why the overall revenue to cost ratio in the original Filing was not equal to 100%.
- c) What is the "\$75,000 LV Adjustment" that was made to the 2007 Filing and why was the adjustment made?
- d) If not provided in response to part (a), please provide a copy of the original 2007 Cost Allocation Informational filing without the \$75,000 LV adjustment.
- e) With respect to Table 7.1.1.1, please provide an electronic copy of the 2007 Cost Allocation Informational filing with the Transformer Ownership Allowance adjustment that supports the ratios presented in the last column (i.e., 96.84% for Residential).
- f) Please confirm whether for the TA adjustment – i) the TA costs of \$87,959 were removed from Work Sheet I3 and ii) the revenues reported for the GS>50 and Intermediate classes were reduced by the amount of the transformer ownership applicable to each class as directed in the May 2009 Filing Guidelines. Note: Since the revenues by class on pages 1 and 3 of Appendix A are the same – it appears that the second part of the adjustment was not made.
- g) If this is not the case, please revise the 2007 Cost Allocation filing accordingly and provide an electronic copy. Note: In preparing this response please also exclude the \$75,000 LV adjustment.
- h) With respect to Table 7.1.1.2, please indicate the amount of the total TOA (\$87.959) is attributable to each customer class.

Question #24

Reference: Exhibit 7, Tab 1, Schedule 1, page 1 and pages 3-5
Exhibit 7, Tab 1, Schedule 1, Appendix A, pages 5-8

- a) The text at the bottom of page 1 outlines a number of revisions to the cost allocation. Please confirm that the revisions described were performed for the 2010 cost allocation.
- b) Please explain why the adjustments for LV costs were required when the OEB's Cost Allocation Model does not include LV costs in the allocation.
- c) Please confirm that the projected value of the 2010 transformer allowance discount (using \$0.35/kW) and provide a break down by customer class.
- d) Please reconcile the Total Expenses reported on pages 5 and 7 of Appendix A with the total Revenue Requirement (less Net Income) reported in the 2010 Revenue Requirement Work Form ($\$1,200,209 - \$92,810 = \$1,107,399$).
- e) Please provide the electronic copies of the two 2010 Cost Allocation "runs" presented.
- f) Please reconcile and confirm whether Column #2 of Table 7.1.1.4 represents the results with the TA removed (i.e., revenue reduced to reflect the transformer discount provided and costs reduced to exclude the "cost" of the transformer allowance).
- g) Table 7.1.1.3 is labelled as representing the results with the TOA removed and shows a Residential Revenue/Cost ratio of 93.54%. Appendix A, pages 7-8 are labelled as the results with the TOA removed and show a Residential Revenue/Cost ratio of 90.84%. Please reconcile and clarify.
- h) Please provide a schedule (i.e. rates and billing parameters used) that shows the derivation of the current revenue at 2009 rates as set out in Table 7.1.1.5. Please also clarify what adders and charges were included/excluded from the 2009 rates used.
- i) Please reconcile the 2010 Revenue at 2009 Rates reported by class in Table 7.1.1.5 with the revenue at current rates reported for each class in
 - Table 8.1.1.2
 - Table 3.2.1.2
- j) What are the "Current Revenue to Cost Ratios" used for purposes of calculating the dollar value shown in column #2 of Table 7.1.1.5. Please provide the supporting calculations the show the derivation of:
 - the current Revenue to Cost Ratios, and

- the dollar values presented.
- k) Please reconcile the revenue at the Proposed 2010 Revenue to Cost Ratios reported by class in Table 7.1.1.5 with the revenue at Proposed Rates reported in Table 8.1.1.2 for each class. For example, for the Residential class the values reported are \$695,354 and \$688,877 respectively.

RATE DESIGN

Question #25

Reference: Exhibit 8, Tab 1, Schedule 1

- a) Please provide a schedule that sets out the calculation of the \$15,413 in LV cost reduction for 2010. As part of the response, please provide the forecast 2010 LV costs and explain how they were determined.
- b) Does the proposed \$1,184,796 (page 1) service revenue requirement include LV costs?
- If yes, please indicate where in the Application the costs have been identified and included.
 - If no, please indicate where/how the costs for LV are recovered. While Table 8.1.2.2 sets out proposed LV rates it is not clear that they were incorporated into the proposed rates in E8/T1/S1.
- c) Do Hearst's currently approved 2009 rates (E1/T1/S2) include an LV rate adder for recovery of LV costs? If yes, please indicate what the adder for each customer class is and indicate the basis for the value. (Note: It appears that Hearst's 2006 Rate Application did not include any LV Wheeling costs – per Sheet 8-2 of the 2006 EDR Model)
- d) Does the proposed \$1,184,796 in service revenue requirement include the “cost” of providing the transformer ownership allowance?
- If yes, please indicate where in the Application the cost has been determined and incorporated in the service revenue requirement.
 - If not, please indicate where the recovery of the discount is provided for.
- e) Please explain why the SSS Admin revenues are not treated as a revenue offset. Precisely how are the SSS Admin revenues taken into account?
- f) With respect to Streetlights, please confirm the following:
- What is the billing parameter used in conjunction with the monthly customer charge (e.g., is it Number of Connections or Number of “Lamps”)?

- What is the usage parameter employed by the Cost Allocation Model to determine the unit costs for the maximum and minimum values of the monthly fixed charge?
- g) Please explain more fully the rationale for the proposed 2010 monthly service charges for each customer class.

Question #26

Reference: Exhibit 8, Tab 1, Schedule 2

- a) Please provide a schedule that sets out the 2009 monthly billing parameters for HON's LV charges to Hearst and the resulting charges if billed at HON's approved 2010 ST rates.
- b) Please provide a schedule that sets out the 2009 monthly billing parameters for charges to Hearst for Transmission Network and Connection Service and the resulting charges if billed at the 2010 approved rates for the UTR and HON's Retail Transmission charges.

Question #27

Reference: Exhibit 8, Tab 1, Schedule 3

- a) Reference is made to 24.08% overcharging based on "the new Hydro One rate structure". What is the basis for this value and does the 24.08% reflect the impact of the recently approved Hydro One distribution rates for 2010?

DEFERRAL AND VARIANCE ACCOUNTS

Question #28

Reference: Exhibit 9, Tab 1, Schedule 2

- a) Why are there no transactions recorded in Accounts #1518 and #1548 when revenues are reported in E3/T3/S1 related to electricity retailers (Accounts #4082 and #4084)?

Question #29

Reference: Exhibit 9, Tab 1, Schedule 3

- a) The rate riders presented in Table 9.1.3.1 do not match those calculated in the referenced tab of the Rebasing Worksheet file (e.g. the reported rate rider for Residential is \$0.0009/kWh while the detailed calculation shows \$0.0089/kWh). Please check and confirm the proposed rate riders.
- b) The proposed 2010 rates set out E1/T1/S2 do not include any values for Regulatory Asset Recovery. Please provide a revised version of this schedule setting out the 2010 rates Hearst is requesting the OEB to approve.

SMART METERS

Question #30

Reference: Exhibit 9, Tab 1, Schedule 4, para 2

Preamble: As of January 1 2010, 2249 residential and 249 Commercial meters have been installed. Total installed costs was estimated to be \$280,332.

- a) Confirm/update the breakdown of Residential and Commercial meter installations in 2009 and 2010.
- b) Provide a copy of OEB SM Worksheets Sheets 1-3. Distinguish Residential meter costs and Commercial meter costs

IF DETAILS ARE NOT INCLUDED IN THE WORKSHEETS PROVIDE THE FOLLOWING:

- c) Support/details of the 2008-2010 *Residential Class* SM Unit costs (procurement and installation separately)
- d) Provide Support/details of the 2008-2010 *Residential Class* SM AMI, communications and back office costs (procurement and installation)
- e) Provide Support/details of the 2008-2010 *Commercial Class* SM Unit costs (procurement and installation separately).
- f) Provide Support/details of the 2008-2010 *Commercial Class* SM Unit costs (procurement and installation separately).
- g) Provide a schedule that gives a breakdown of the 2008 - 2010 Capital Costs between the Residential and GS<50kw classes.

- h) Provide a breakdown of the O&M costs for meters installed in 2008- 2010 between the Residential, GS<50kw classes.
- i) Are any SM to be installed in other classes? If so provide details of costs.

Question #31

References: Exhibit 9, Tab 1, Schedule 2
Exhibit 9, Tab 1, Schedule 4, Accounts 1555 and 1556

- a) Provide a Copy of OEB Worksheet 4 and Calculate the 2008-2010 Net Fixed assets and SM Rate Adder Revenue Requirement by rate class (Residential, GS<50kw).
- b) Calculate the 2008-2010 SM revenue requirement and SM Rate Adder revenue by rate class (Residential, GS<50kw). Include the Impact of HST after July 1 2010 and compare to the aggregate \$1.00 /metered customer per month.
- c) Provide a cash flow projection showing SM rate adder revenue and SM expenditures by Class per Month for the 2008, 2009, 2010 and if applicable 2011 rate years

Question #32

References: Exhibit 9, Tab 1, Schedule .2, pages 8-10
Exhibit 9, Tab 1, Schedule 4, para 2 ff
OEB Guideline G-2008-0002

- a) Confirm that in Exhibit 9, Tab.1, Schedule .4, last paragraph, the reference to January 31, 2009 should read January 2010.
- b) Based on Exhibit 9.1.2 pages 8-10 provide the details of the total balances in Accounts 1555 and 1556 and the breakdown **by class**. Include the carrying costs calculation(s)
- c) Confirm that Guideline G-2008-0002 states that

“The Board expects that a distributor will normally file for inclusion of smart meter costs into ongoing operations and rate base when it files for a cost of service rate adjustment. When applying for recovery of smart meter

costs, a distributor should ensure that all cost information has been audited, including the smart meter related deferral account balances.”

- d) Provide a copy of the Special Report referred to in the Collins Barrow Audit Letter and confirm the balances, dispositions and amounts allocated to each rate class based on the audit.
- e) Provide the balances in the following accounts and explain in more detail why the accounts are not to be cleared even though ongoing costs are charged to operations in 2010 and beyond:

1555 - Smart Meter Capital and Recovery Offset Variance Sub-Account - Recoveries
1556 - Smart Meter OM&A Variance
- f) Provide details of the incremental operating and maintenance activities: The estimated meter reading expense for 2010 is \$85,079. Include a list of material ongoing costs including the service fees for operations and maintenance to be paid to Sensus.

Question #33

References: Exhibit 9.1.4 Stranded Meters

Preamble: An initial estimate of the stranded meter cost for the Residential and General Service <50 kW customers is \$45,081. This amount will be higher once demand meters for the >50 kW customers are converted.

- a) Provide details of the current estimate of stranded meter costs in sub account 1555 and the accounting for these. Refer to ZRebasing Worksheet by Exhibit 0801(68) pages 1 and 2
- b) Provide a projection of the stranded meter final costs (NBV and Acc Deprcn) and the associated revenue requirement by class.