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December 6, 2007

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Attention: Kirsten Walli
Board Secretary

**Re: Response to Supplementary Interrogatories – Electricity Distribution Rates
EB-2007-0713**

Attached please find Hydro Ottawa's response to the supplementary interrogatories sent by Board Staff on November 23, 2007.

If further information is required, please contact the undersigned at 613-738-5499 ext 527 or lynneanderson@hydroottawa.com.

Yours truly,

A handwritten signature in black ink, appearing to read "Lynne Anderson", written in a cursive style.

Lynne Anderson
Chief Regulatory Affairs and Government Relations Officer
Hydro Ottawa



1 **Interrogatory**

2
3 LRAM/SSM Application

4
5 75. Ref: Exhibit D3 /Tab 2/Schedule 1/Pages 1-9

6
7 The Board's "Filing Requirements for Transmission and Distribution
8 Applications" issued on November 14, 2006, outlines on page 39 the
9 information that is required when filing an application for LRAM or SSM. Please
10 provide the following:

11
12 a) Verification of participation levels.

13
14 **Response**

15
16 Hydro Ottawa plans to file an amendment to its LRAM/SSM application. This
17 amendment will incorporate a response to this interrogatory.



1 **Interrogatory**

2
3 LRAM/SSM Application

4
5 76. Ref: Exhibit D3 /Tab 2/Schedule 1/Page 2

6
7 Please explain why Hydro Ottawa finds it appropriate to use a free rider ship
8 rate of 0% for the Electric Avenue program? Please provide supporting
9 documentation for a free rider ship rate of 0%.

10
11 **Response**

12
13 Hydro Ottawa plans to file an amendment to its LRAM/SSM application. This
14 amendment will incorporate a response to this interrogatory.



1 **Interrogatory**

2
3 LRAM/SSM Application

4
5 77. Ref: Exhibit D3 /Tab 2/Schedule 1/Page 7

6
7 It appears that the volumetric rate used to calculate the LRAM amount
8 applicable to Commercial, Industrial and Institutional (>50 kW) is an average of
9 the Board approved rates for the General Service 50 - 1,499, General Service
10 1,500 - 4,999 and Large Use classes.

11
12 a) Please explain why Hydro Ottawa finds it appropriate to create a
13 combined rate for the Leveraging Energy Conservation and Load
14 Management programs for calculating the LRAM amount.

15
16 b) Please provide a revised Table 3 that calculates the 2005 and 2006 LRAM
17 amounts using the Board approved rates for the Leveraging Energy
18 Conservation and Load Management programs.

19
20 **Response**

21
22 Hydro Ottawa plans to file an amendment to its LRAM/SSM application. This
23 amendment will incorporate a response to this interrogatory.



1 **Interrogatory**

2
3 LRAM/SSM Application

4
5 78. Ref: Exhibit D3 /Tab 2/Schedule 1/Page 9

6
7 Table 5 indicates that the total LRAM amount including carrying charges is
8 \$1,117,448, which includes \$8,906 for the GS<50 rate class. On page 7 Hydro
9 Ottawa states that the rate rider for the GS<50 class is not significant and that
10 Hydro Ottawa has chosen to not apply for its approval. Please confirm the total
11 LRAM amount Hydro Ottawa is requesting approval for.

12
13 **Response**

14
15 Hydro Ottawa plans to file an amendment to its LRAM/SSM application. This
16 amendment will incorporate a response to this interrogatory.



1 **Interrogatory**

2

3 LRAM/SSM Application

4

5 79. Ref: Exhibit D3 /Tab 2/Schedule 1/Pages 9

6

7 Please provide the calculations to support the carrying charges amount of
8 \$76,121.

9

10 **Response**

11

12 Hydro Ottawa plans to file an amendment to its LRAM/SSM application. This
13 amendment will incorporate a response to this interrogatory.



1 **Interrogatory**

2
3 LRAM/SSM Application

4
5 80. Ref: Exhibit D3 /Tab 2/Schedule 1/Pages 1-9

6
7 Please identify any programs that include measures not listed in the TRC Guide
8 and/or programs where the inputs and assumptions (e.g. energy savings, free
9 rider rates, equipment life, etc.) used by Hydro Ottawa differ from those in the
10 TRC Guide. For any such programs, please provide documentation supporting
11 the inputs and assumptions used by Hydro Ottawa.

12
13 **Response**

14
15 Hydro Ottawa plans to file an amendment to its LRAM/SSM application. This
16 amendment will incorporate a response to this interrogatory.



1 **Interrogatory**

2

3 LRAM/SSM Application

4

5 81. Ref: Exhibit D3 /Tab 2/Schedule 1/Page 7

6

7 a) Please provide the calculations, inputs and assumptions that were used to
8 determine the LRAM amount.

9

10 **Response**

11

12 Hydro Ottawa plans to file an amendment to its LRAM/SSM application. This
13 amendment will incorporate a response to this interrogatory.



1 **Interrogatory**

2
3 LRAM/SSM Application

4
5 82. Ref: Exhibit D3 /Tab 2/Schedule 1/Page 8

- 6
7 a) Please provide the calculations, inputs and assumptions that were used to
8 determine the SSM amount.
9

10 **Response**

11
12 Hydro Ottawa plans to file an amendment to its LRAM/SSM application. This
13 amendment will incorporate a response to this interrogatory.



1 **Interrogatory**

2
3 LRAM/SSM Application

4
5 83. Ref: Exhibit D3 /Tab 2/Schedule 1/Pages 1-9

6
7 Please confirm if any programs were jointly sponsored with other regulated
8 distributors. If so, please identify those programs, and confirm whether the
9 apportioned savings are in accordance with the TRC Guide and the Board's
10 EB-2005-0523 Decision. If the apportioned savings are not in accordance
11 with the TRC Guide and the Board's EB-2005-0523 Decision please refile
12 accordingly.

13
14 **Response**

15
16 Hydro Ottawa plans to file an amendment to its LRAM/SSM application. This
17 amendment will incorporate a response to this interrogatory.



1 **Interrogatory**

2
3 Deferral and Variance Accounts

4
5 84. Ref: ExE1/Tab1/Sch1/Pg 6 & 7

6
7 Hydro Ottawa has stated that for account 1555 Smart Meter Capital and
8 Recovery Offset Variance Account and 1556 Smart Meter OM&A Variance
9 Account that:

10
11 “The variance account balances were completed by determining the revenue
12 requirement for each year of Smart Meter costs and netting this with the
13 amounts collected / to be collected from customers in the same period. Costs to
14 April 30, 2007 were adjusted to the costs from the Board's Decision for the
15 Smart Meter combined proceeding under EB-2007-0063. Return on capital
16 (debt and equity), stranded meter costs and amounts collected / to be collected
17 from customers were recorded in Account 1555. Operating, Maintenance and
18 Administration costs (“OM&A”), amortization, PILs and interest were recorded in
19 Account 1556.

20
21 Hydro Ottawa provided supporting calculations in Ex E1/Tab1/Sch1 page 4.

22
23 However, guidance on the use of these accounts was provided in the
24 Accounting Procedures Handbook (APH). The APH states that Account 1555 is
25 to record revenues for smart meter funding recovered by the fixed and/or
26 variable rate charge for each class of customer, capitalized direct costs related
27 to the smart meter program with carrying charge amounts to be calculated
28 using simple, prescribed interest. Stranded Meters are to be recorded in a sub-
29 account of 1555, with no carrying charges. Strand Meter costs are defined to
30 be “the pooled residual net book value cost of removed meters or meters held



1 in reserve for replacement of in-service meters, less any net sale proceeds
2 when received.”

3
4 And account 1556 is “to record incremental operating, maintenance,
5 amortization and administrative expenses directly related to smart meters.”

6
7 For further guidance, please refer to the APH.

8
9 a) Why is Hydro Ottawa not following guidance provided by the APH for
10 recording entries into accounts 1555 and 1556? In particular, why is return
11 on capital included in account 1555 and PILs in 1556?

12
13 b) What regulatory precedent or order is there to support Hydro Ottawa’s
14 current usage of account 1555 and 1556?

15
16 c) Does the return on capital line in Ex E1/Tab1/Sch1 page 13 represent a
17 return on only Smart Meters? If not, what does it represent?

18
19 d) What would the balances of 1555 and 1556 be as of December 31, 2006
20 and October 31st, 2007 if Hydro Ottawa was following guidance provided
21 in the APH? Provide supporting schedule of calculations.

22
23 e) Did Hydro Ottawa remove from the revenue requirement the incremental
24 operating, maintenance, amortization and administrative expenses directly
25 related to smart meters in this application included in 1556? If not, what is
26 the amount in the revenue requirement is associated with this and the
27 total bill impact?

28
29 f) When does Hydro Ottawa plan to apply for disposition of the balances
30 associated with account 1555 and 1556?



1 **Response**

2
3 a) b) Hydro Ottawa based its forecast of the variance accounts on the amounts
4 that will ultimately have to be recovered through future distribution rates.

5
6 The Board in the non-confidential Decision with Reasons for proceeding
7 EB-2007-0063 (“Smart Meter Decision”), Page 18 stated as follows:

8
9 *“The Board will allow each utility to recover its costs as set out*
10 *Appendix “A” by including those costs in rate base for the 2006*
11 *and 2007 rate years and calculating a revenue requirement on*
12 *that investment in the manner set out in Appendix “E”. Before*
13 *calculating a rate increase from this revenue requirement,*
14 *however, the utility must first deduct the amount of money*
15 *previously collected in rate adders pursuant to the Orders of*
16 *March 21, 2006.”*

17
18 Hydro Ottawa’s forecast for the variance accounts is the difference
19 between the forecasted revenue requirement of the Smart Meter
20 investment less the forecast amount to be collected in rate adders from
21 May 1, 2006 to April 30, 2008. Hydro Ottawa’s determination of the Smart
22 Meter revenue requirement uses the approach from Appendix “E” of the
23 Smart Meter Decision. The Board’s methodology requires a calculation of
24 both return on rate base/capital and PILs. The Smart Meter costs used to
25 determine the revenue requirement are from Appendix “A” of the Smart
26 Meter Decision, which encompass Smart Meter costs to April 30, 2007,
27 plus the forecast of Smart Meter costs from May 1, 2007 to April 30, 2008.

28
29 Since this is the approach that the Board has adopted to allow distributors
30 to recover their Smart Meter costs, it is appropriate to consider the
31 variance accounts in this context. If the full capital costs (instead of the



1 return on rate base) are included in the forecast for Account 1555, it
2 results in the calculation of significant amounts of interest that Hydro
3 Ottawa would never recover using the Board's cost recovery approach.
4

5 Furthermore, the rate adders included in Hydro Ottawa's distribution rates
6 from May 1, 2006 to April 30, 2008 were based on the revenue
7 requirement impact of the forecasted Smart Meter costs (capital and
8 operating). Therefore netting the forecasted revenue requirement with
9 the expected amounts to be collected from the rate adders provides a
10 meaningful forecast of the impact to distribution rates of clearing the
11 variance accounts.
12

13 Finally, Hydro Ottawa's proposed revenue requirement for 2008, for which
14 Hydro Ottawa is seeking approval, has included Smart Meter costs. This
15 revenue requirement is determined using the proposed 2008 rate base
16 that includes all actual and forecast Smart Meter costs to December 31,
17 2008. With the Smart Meter capital costs included in rate base, it would
18 be inappropriate to record them in a variance account. Therefore, the
19 variance accounts will only be the difference between the revenue
20 requirement calculated from the actual Smart Meter spending and the
21 amounts collected from customers from rate adders that were determined
22 based on the forecasted revenue requirement. Hydro Ottawa's approach
23 of seeking the Board's approval of the 2008 revenue requirement,
24 including Smart Meter costs, and tracking the variances per Page 6 of
25 updated Exhibit E1-1-1, is appropriate.
26

27 This is consistent with Page 19 of the Smart Meter Decision that states as
28 follows:
29

30 *"A number of the applicants also requested guidance from the*
31 *Board in terms of future rate making with respect to the SMI. Six of*



1 *the applicants are part of the first tranche of cost of service rate*
2 *applications for 2008 rates. These applicants can apply to recover*
3 *their smart meter costs for the balance of 2007 and 2008 in those*
4 *proceedings.”*

5
6 c) Yes, the return on capital from Page 13 of the Attachment to updated
7 Exhibit E1-1-1 is the return on the capital for the Smart Meter program.
8 The majority of this is for the Smart Meters themselves, but some is for
9 computer hardware and software, and tools and equipment for the Smart
10 Meter program. Pages 4, 7 and 10 of the Attachment to Exhibit E1-1-1
11 show the calculation of the return on rate base/capital for 2006, 2007 and
12 2008 (to April 30th).

13
14 d) Attached please find the calculation for the balances in Accounts 1555
15 and 1556 if the full capital program is recorded in Account 1555, with
16 interest. The table below compares Hydro Ottawa’s approach to
17 forecasting the variance accounts based on the impact to future
18 distribution rates, versus the approach that records the full capital
19 program in the variance accounts as at April 30, 2008.

20
21 **Variance Account Comparison at April 30, 2008**

Total of Accounts 1555 and 1556 Combined	Hydro Ottawa’s Forecasted Variance Accounts using return on capital \$000	Variance Accounts with the full capital program recorded \$000
Variance without stranded meters	\$737	\$31,271
Stranded Meter costs	\$12,375	\$12,375
Interest	\$17	\$1,394
Total	\$13,129	\$45,041

22
23 As can be seen, with Hydro Ottawa’s approach, the combined balance in
24 the variance accounts is only \$737k with \$17k interest, not including



1 stranded meters. If the variance accounts include the whole capital
2 program, the balance without stranded meters would be \$31,271k with
3 \$1,394k of interest. Hydro Ottawa did not consider it to be appropriate to
4 use an approach that would result in accruing well over a million dollars in
5 interest that would never be recovered using the methodology approved
6 by the Board in proceeding EB-2007-0063.

7
8 e) As stated in Exhibit D3-1-1, Page 3, Hydro Ottawa's total forecasted
9 Smart Meter OM&A costs for 2008 is \$1,723,018. Of this total, \$983,000
10 related to the OM&A costs from January 1, 2008 to April 30, 2008 with the
11 remaining \$740,018 being from May 1, 2008 to December 31, 2008. Only
12 the \$740,018 was included in Hydro Ottawa's proposed 2008 revenue
13 requirement. The \$983,000 was removed from the 2008 revenue
14 requirement because it was included in the forecasted Smart Meter
15 variance accounts.

16
17 f) Hydro Ottawa generally prefers to clear variance accounts when the
18 balances are based on actual rather than forecasted amounts, unless
19 there is a high degree of certainty on the forecast. As discussed in the
20 response to e), Hydro Ottawa forecasted which portion of its 2008 OM&A
21 costs would occur by April 30, 2008 and which would occur in the
22 remaining part of the year. With evolving schedules for the
23 implementation of time-of-use billing, it is possible that costs forecast for
24 the first four months could be deferred. Hydro Ottawa did not want to
25 claim this portion of the variance accounts until the costs had been
26 incurred.

27
28 Hydro Ottawa has included the total Smart Meter capital costs to
29 December 31, 2008 (actual and forecast) in its 2008 rate base. Board
30 approval is being sought for the 2008 revenue requirement using this rate
31 base.



- 1 Hydro Ottawa expects that once its April 30, 2008 financials are finalized,
- 2 it will assess the balances in Accounts 1555 and 1556 to determine if it is
- 3 appropriate to seek recovery.

Smart Meter Costs

2006 EDR Data Information

Deemed Debt	60%
Deemed Equity	40%
Weighted Debt Rate	5.25%
Proposed ROE	9.00%
Weighted Average Cost of Capital	6.75%

2006 EDR Tax Rate

Corporate Income Tax Rate	36.12%
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Capital Data:

	31-Dec-06	1-Jan-07 to 30-Apr-07	Subtotal 30-Apr-07	1-May-07 to 31-Dec-07	1-Jan-07 to 31-Dec-07	Total to 31-Dec-07	1-Jan-08 to 30-Apr-08
Smart meter including installation	\$ 12,694,621	\$ 2,017,264	\$ 14,711,885	\$ 17,799,598	\$ 19,816,862	\$ 32,511,483	\$ 3,228,000
Tools and Equipment (Work force management)	\$ 838,597	\$ 9,112	\$ 847,709		\$ 9,112	\$ 847,709	
Computer Hardware Costs	\$ -	\$ 53,131	\$ 53,131		\$ 53,131	\$ 53,131	
Computer Software	\$ -	\$ 111,744	\$ 111,744		\$ 111,744	\$ 111,744	
Total Computer Costs	\$ 13,533,218	\$ 2,191,251	\$ 15,724,469	\$ 17,799,598	\$ 19,990,849	\$ 33,524,067	\$ 3,228,000

LDC Amortization Policy:

Smart Meter Amortization Rate	\$ 15	Years
Tools and Equipment (Work force management)	\$ 10	Years
Computer Hardware Amortization Rate	\$ 5	Years
Computer Software Amortization Rate	\$ 5	Years

Operating Expense Data:

	2006	to April 30, 2007	Subtotal to 30-Apr-07	1-May-07 to 31-Dec-07	Total 2007 to 31-Dec-07	1-Jan-08 to 30-Apr-08
Incremental OM&A Expenses	\$ -	\$ 221,124	\$ 221,124	\$ 813,711	\$ 1,034,835	\$ 983,000
Total Incremental Operating Expense	\$ -	\$ 221,124	\$ 221,124	\$ 813,711	\$ 1,034,835	\$ 983,000

Reconciliation to Board Decision EB-2007-0747, EB-2007-0748

Capital Approved by the Board Appendix "A" revised September 18, 2007 (\$ millions)	15.480
Capital costs for demand customers page 4 of September 18, 2007 Decision for 328 commercial r	0.188
Contractor labour on customer equipment	<u>0.056</u>
Total Approved capital to April 30, 2007	15.724

Operating Costs approved by Board Appendix "A" 0.221

Total Approved OM&A costs to April 30, 2007 0.221

Smart Meter Variance Account Balances (Forecast) including Total Capital

	Opening Balance	Principle Additions	Interest	Closing Balance
	2006	2006	2006	2006
Account 1555				
capital	\$0	\$ 13,533,218		\$13,533,218
amounts collected from customers		(\$1,010,867)		(\$1,010,867)
stranded meters		\$4,777,296		\$4,777,296
Total 1555	\$0	\$17,299,647	\$0	\$17,299,647
Account 1556				
OM&A	\$0	\$ -		\$0
Interest			\$93,494	\$93,494
Total 1556	\$0	\$0	\$93,494	\$93,494
Total	\$0	\$17,299,647	\$93,494	\$17,393,141
	2007	2007	2007	2007
Account 1555				
capital	\$13,533,218	\$ 19,990,849		\$33,524,067
amounts collected from customers	(\$1,010,867)	(\$4,479,507)		(\$5,490,374)
stranded meters	\$4,777,296	\$6,253,972		\$11,031,268
Total 1555	\$17,299,647	\$21,765,314	\$0	\$39,064,961
Account 1556				
OM&A	\$0	\$ 1,034,835		\$1,034,835
Interest	\$93,494		\$954,511	\$1,048,005
Total 1556	\$93,494	\$1,034,835	\$954,511	\$2,082,840
Total	\$17,393,141	\$22,800,149	\$954,511	\$41,147,801
	2008	to Apr-30-08	to Apr-30-08	to Apr-30-08
Account 1555				
capital	\$33,524,067	\$3,228,000		\$36,752,067
amounts collected from customers	(\$5,490,374)	(\$2,008,523)		(\$7,498,897)
stranded meters	\$11,031,268	\$1,344,192		\$12,375,460
Total 1555	\$39,064,961	\$2,563,668	\$0	\$41,628,629
Account 1556				
OM&A	\$1,034,835	\$983,000		\$2,017,835
Interest	\$1,048,005		\$346,198	\$1,394,203
Total 1556	\$2,082,840	\$983,000	\$346,198	\$3,412,038
Total	\$41,147,801	\$3,546,668	\$346,198	\$45,040,667