Horizon Utilities Corporation
Application for a Smart Meter Funding Adder
EB-2010-0292

Board staff Interrogatories

1. Responses to Letters of Comment

Following publication of the Notice of Application, the Board has received three letters of comment with respect to Horizon Utilities Corporation's ("Horizon's") application for a Smart Meter Funding Adder.

a) Please confirm whether Horizon sent a reply to the author of the each of the letters of comment.
b) If confirmed, please file each reply with the Board.
c) If not confirmed, please explain why a response was not sent, and confirm if Horizon intends to respond. If it does not, please explain.

2. Ref: Appendix A: Smart Meter Cost Recovery Model

If available please provide a copy of the Smart Meter Cost Recovery Model in Appendix A in working form in Microsoft Excel format.

3. Ref: Appendix A: Smart Meter Cost Recovery Model

On page 26, Horizon provides its calculations for the 2010 forecast year. Under "Return on Rate Base", Horizon has used a deemed short-term debt rate of 2.07% and an equity rate ("Return on Equity" or "ROE") of 9.85%.

These are the Cost of Capital parameters published by the Board on February 24, 2010[1] for use in Cost of Service applications for 2010 rates with dates effective May 1, 2010, in accordance with the methodologies documented in the *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities* (the "Cost of Capital Report") (EB-2009-0084), issued December 11, 2009.[2]

Section 5.1 of the Cost of Capital Report states:

> The policy set out in Chapter 4 of this report will come into effect for the setting of rates, beginning in 2010, by way of a cost of service application.

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[1] http://www.oeb.gov.on.ca/OEB/_Documents/EB-2009-0084/Brdltr_2010CostofCapitalParameters_20100224.pdf
[2] http://www.oeb.gov.on.ca/OEB/_Documents/EB-2009-0084/CostofCapital_Report_20091211.pdf

> The Board's "Minimum Filing Requirements for Natural Gas Distribution Cost of Service Applications" and the Board's "Filing Requirements for Transmission and Distribution Applications" are sufficient for the purposes of implementing the policies set out in this report. Those requirements include information to be filed in support of a utility's proposed cost of capital in a cost of service application. There is no need for additional filing requirements. The onus is on an applicant to adequately support its proposed cost of capital, including the treatment of and appropriate rates for debt instruments. The Board notes that this is being done in cost of service applications. However, the Board wishes to point out the increased emphasis that it is placing on applicants to support their existing and forecasted debt, and the treatment of these in accordance with the guidelines, or to support any proposed different treatment.[3]

Please provide Horizon's rationale for using the updated cost of capital parameters for 2010 in this application, given that Horizon is not seeking a cost of service or prudence review for such costs.

4. Ref: Appendix A: Smart Meter Cost Recovery Model

On page 27, Horizon provides its calculations for the 2011 forecast year. Under "Return on Rate Base", Horizon has used a deemed short-term debt rate of 2.07% and an equity rate ("Return on Equity" or "ROE") of 9.85%. As noted above in Board staff IR # 3, these are the updated Cost of Capital parameters for 2010 in accordance with the Cost of Capital Report.

On November 15, 2010, the Board issued a letter[4] announcing updated Cost of Capital parameters for Cost of Service applications for 2011 rates with an effective date of January 1, 2011. The applicable parameters are:

Deemed Short-term Debt Rate	2.43%
Deemed Long-term Debt Rate	5.48%
Return on Equity	9.66%

Horizon has a Cost of Service application before the Board for 2011 rates.

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[3] *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*, EB-2009-0084, December 11, 2009, page 61

[4] http://www.oeb.gov.on.ca/OEB/_Documents/2011EDR/Ltr_Jan1st_Cost_of_Capital_Parameters_20101115.pdf

Please provide a version of the Smart Meter Cost Recovery Model that reflects the updated Cost of Capital parameters, as applicable, for the 2011 forecast year.

5. Ref: Appendix A: Smart Meter Cost Recovery Model

On page 27, Horizon provides its calculations for the 2011 forecast year. Under "Smart Meter Deferral Account Balance – PILs Calculation", Horizon calculates an Ontario Capital Tax ("OCT") expense of $11,591, calculated as 0.150% of Smart Meter-Related Fixed Assets of $23,182,135.

The Ontario Capital Tax was eliminated effective July 1, 2010.

a) Please explain Horizon's rationale for including an OCT expense in the 2011 calculations.
b) Please update the Smart Meter Cost Recovery Model to reflect the elimination of the OCT in the 2011 forecast year.

6. Ref: Section 6.0 – Stranded Meters

Regarding the regulatory ratemaking treatment of stranded meter costs, some distributors have transferred the cost of stranded meters from Account 1860, Meters, to "Sub-account Stranded Meter Costs" of Account 1555, while in some cases distributors have left these costs in Account 1860. Depending on which treatment Horizon has chosen, please provide the information under the two scenarios (a) and b) below, as applicable to Horizon.

a) If the stranded meter costs were transferred to "Sub-account Stranded Meter Costs" of Account 1555, answer the following questions:
    i. Please describe the accounting treatment followed by the applicant on stranded meter costs for financial accounting and reporting purposes.
    ii. Please provide the amount of the pooled residual net book value of the removed from service stranded meters, less any sale proceeds and contributed capital, which were transferred to this sub-account as of December 31, 2009.
    iii. Since transferring the removed stranded meter costs to the sub-account, was the recording of depreciation expenses continued in order to reduce the net book value through accumulated depreciation? If so, please provide the total depreciation expense amount for the period from the time the stranded meters were transferred to the sub-account to December 31, 2009.
    iv. If no depreciation expenses were recorded to reduce the net book value of stranded meters through accumulated depreciation, please

provide the total depreciation expense amount that would have been applicable for the period from the time the stranded meters were transferred to the sub-account to December 31, 2009.

v. Were carrying charges recorded for the stranded meter cost balances in the sub-account, and if so, please provide the total carrying charges recorded to December 31, 2009.
vi. Please provide the estimated amount of the pooled residual net book value of the removed from service meters, less any sale proceeds and contributed capital, at the time when smart meters will have been fully deployed (e.g., as of December 31, 2010). If the smart meters have been fully deployed, please provide the actual amount.
vii. Please describe how the applicant intends to recover in rates stranded meter costs including the proposed accounting treatment, the proposed disposition period, and the associated bill impacts.
viii. In the outlined format of the table shown below (after part b.), Summary of Stranded Meter Cost, please provide the data to derive the total "Residual Net Book Value" amounts for each year.

b) If the stranded meter costs remained recorded in Account 1860, Meters, please answer the following questions:

i. Please describe the accounting treatment followed by the applicant on stranded meter costs for financial accounting and reporting purposes.
ii. Please provide the amount of the pooled residual net book value of removed from service stranded meters, less any sale proceeds and contributed capital as of December 31, 2009.
iii. Was the recording of depreciation expenses continued in order to reduce the net book value through accumulated depreciation? If so, provide the total depreciation expense amount for the period from the time the meters became stranded to December 31, 2009.
iv. If no depreciation expenses were recorded to reduce the net book value of stranded meters through accumulated depreciation, provide the total depreciation expense amount that would have been applicable for the period from the time the meters because stranded to December 31, 2009.
v. Please provide the estimated amount of the pooled residual net book value of the removed from service meters, less any sale proceeds and contributed capital, at the time when smart meters will have been fully deployed (e.g., as of December 31, 2010). If the smart meters have been fully deployed, please provide the actual amount.

vi. Please describe how the applicant intends to recover in rates stranded meter costs including the proposed accounting treatment, the proposed disposition period, and the associated bill impacts.
vii. In the outlined format of the table shown below, Summary of Stranded Meter Cost, please provide the data to derive the total "Residual Net Book Value" amounts for each year.

Table 1 - Summary the Residual Net Book Value of Stranded Meter Costs

Year	Gross Asset (A)	Accumulated Amortization (B)	Net Asset (C = A–B)	Proceeds on Disposition (D)	Contributed Capital (E)	Residual Net Book Value (F=C-D-E)
2006						
2007						
2008						
2009						
2010 (1)						
2011						
Total						

(1) For 2010, please indicate whether the amounts provided are on a forecast or actual basis.

7. Ref: Three-phase Smart Meters

On page 9, Horizon states:

> Horizon Utilities continues to install Smart Meters at the premises of its three-phase commercial and industrial customers. At the end of 2009, 31% of the three phase meters were converted to Smart Meters and the remaining meters will be changed by 2015 as they come due to for re-verification.

Table 4 shows capital expenditures, but aggregates costs for three-phase meters supplied to both GS < 50 kW and GS > 50 kW customers.

On page 16, Horizon states:

> … Additionally, Horizon Utilities will install three-phase smart meters for all commercial customers greater than 50 kW without interval meters at the time such are next scheduled for re-verification. Included in the total capital expenditure for 2010 is $649,200 to install 1,700 three-phase Smart Meters as identified in Table 4 and 1 above. Approximately 1,200 of these meters are for

> GS <50 kW customers and exceed the minimum functionality adopted in O. Reg. 425/06. Horizon Utilities submits this as a proactive approach consistent with the objectives the *Green Energy and Green Economy Act, Ontario, 2009* and that, in any event, such expenditures will otherwise be required to achieve the objectives of the Smart Metering program.

a) On what basis has Horizon determined that three-phase Smart Meters for GS < 50 kW customers exceed the minimum functionality adopted in O. Reg. 425/06?
b) If a customer has three-phase service, how or why would the utility provide a meter other than a three-phase meter to service that customer and measure that customer's consumption?
c) Are three-phase smart meter costs different for customers between the GS < 50 kW and GS > 50 kW classes? Please explain your response.
d) Please provide an average estimate of the capital cost of a three-phase Smart Meter for each of the GS < 50 kW and GS > 50 kW classes.

8. Ref: Section 4.0 Expenditures Beyond Minimum Functionality

On page 16, Horizon states:

> Horizon Utilities has incurred costs to deliver functionality which is under the exclusive jurisdiction of the SME, pursuant to O. Reg. 393/07. Certain Customer Information System programming costs have been incurred to allow Horizon Utilities to participate in the testing of the MDM/R with the IESO, to manage the volume of data as supplied by the AMI system, and to provide web presentment capabilities to its customers. Horizon Utilities manages the Smart Meter data in its Customer Information System ("CIS") in order to test the data received from the SME thus ensuring that the data from the MDM/R is synchronous with Horizon Utilities' meter data.

a) Please provide actuals or estimates (as appropriate) of these costs for: i) 2007 to 2009 inclusive; ii) 2010; and iii) 2011 and beyond.
b) Are these one-time costs that will cease once the SME and MDM/R are fully functional? Please explain your response.

9. Ref: Table 7 and pages 14-15 – Customer Communications

In Table 7, Horizon documents OM&A costs for 'Media Communications' of $300,000 in 2010 and $200,000 for 2011 and beyond. On pages 14 and 15,

Horizon documents its Customer Communications plan developed in 2009. In Appendices B, C, D and E, Horizon provides copies of brochures and bill inserts provided to customers. Most of the material relates to TOU pricing and electricity conservation and load shifting suggestions rather than to smart meter deployment itself.

In the Board's Decision EB-2007-0063 reviewing the initial smart meter costs of named utilities, including Horizon, the Board stated:

> As indicated, this proceeding relates only to the recovery of smart meter costs associated with minimum functionality. **Costs in addition to minimum functionality** can be recovered as part of distribution rates in an individual utility's next rate case. Those costs **may include** web presentment, the Customer Information System integration with the Meter Data Management/Meter Data Repository, **consumer education**, reengineering business practices and integration with retailers. *[Emphasis added]* [5]

a) Does Horizon consider these consumer education plans to be within or beyond minimum functionality? Please explain your response.
b) Why does Horizon consider that the consumer education brochures and bill inserts as documented in the Appendices relate specifically to Horizon's smart meter program, as opposed to other CDM programs or to Horizon's Community Relations expenses in its existing revenue requirement? Please explain your response.
c) Is any of the $500,000 for consumer education related to either OPA-funded CDM programs or to utility-specific CDM programs for which Horizon was approved by the Board? If yes, please identify the programs and the dollar amounts involved.

10. Ref: Table 7 and page 13 – OM&A Expenses

On page 13, Horizon states:

> There are significant operating costs that have and will continue to be incurred with regard to the migration of all residential and GS<50 kW customers to the new TOU rate structure, including:
> - installation of Smart Meters and the associated refinement of communication infrastructure;

[5] Decision with Reasons, EB-2007-0063, August 8, 2007, page 7

- new systems such as the AMI must be evaluated, installed, implemented, and tested;
- development or modification of existing systems, such as CIS, ODS and web presentment;
- business processes must be developed or modified;
- the interactions between Horizon Utilities' systems and the provincial MDM/R must be developed and tested;
- resourcing needs must be addressed to manage the back-office transactional work related to the increase in meter reads from 1.4 million to over 2 billion annually;
- change management and training programs must be developed and delivered to affected employees; and
- the development and implementation of a customer communication plan that includes educational materials and tools.

The Board's Decision with Reasons EB-2007-0063, quoted in Board staff IR # 9 above, identifies certain activities such as web presentment and business process reengineering as being additional to minimum functionality.

a) With respect to each of the bulleted items listed on page 13, please identify which meet and which are additional to minimum functionality.
b) With respect to each of the bulleted items, please describe how each is a component of Horizon's smart meter program. Please also identify the costs for each bulleted item from the OM&A costs shown in Table 7 on page 12.
c) Please explain why components such as "business processes must be developed or modified", "web presentment" and "change management and training programs must be developed and delivered to affected employees" are part of Horizon's smart meter costs and not part of its normal existing OM&A.