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BY E-MAIL

November 29, 2010

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

Dear Ms. Walli:

**Re: PowerStream Inc.
2011 Smart Meter Cost Recovery Application
Comments on Draft Rate Order
Board File No. EB-2011-0128**

In accordance with Decision and Order, please find attached Board Staff comments and accompanying models related to the draft Rate Order filed in the above proceeding. Please forward the following to PowerStream Inc. and to all other registered parties to this proceeding.

Yours truly,

Original Signed By

Stephen Vetsis
Analyst – Applications & Regulatory Audit

Encl.

**PowerStream Inc. (“PowerStream”)
2012 Smart Meter Cost Recovery Application (EB-2011-0128)**

Board Staff Comments on Draft Rate Order

On November 21, 2011, the Board issued its Decision on PowerStream’s smart meter cost recovery application. The Decision required the Applicant to submit its Rate Order within 7 days of the issuance of the Decision. PowerStream submitted its draft Rate Order and supporting documentation on November 24, 2011. Board staff submits that PowerStream has appropriately reflected the Board’s findings in all areas except for the areas noted below.

Tariff of Rates and Charges

Board staff notes that the Specific Charge for Access to the Power Poles – per pole per year of \$22.35 is missing from the Special Service Charges sheet for the North rate zone of the tariff of rates and charges filed by PowerStream in the draft Rate Order.

Calculation of Carrying Charges

In its Decision, the Board noted that PowerStream had not requested carrying charges on OM&A and amortization expense for its historical costs. The Board indicated that it was open to the company to include these carrying charges for recovery when filing its draft Rate order.

In its draft Rate Order, PowerStream clarified that it had, in fact, included carrying charges on OM&A and amortization expense for its historical costs. PowerStream explained that it calculated the difference between its annual revenue requirements and the revenues collected through the smart meter funding adder, on a monthly basis, to obtain a monthly residual principal amount. Carrying charges were then applied to the monthly residual amounts.

Board staff submits that this approach is inconsistent with the example provided in the Board’s August 2008 FAQ, attached as Appendix C of the Board’s *Guideline –Smart Meter Funding and Cost Recovery (G-2008-0002)* (“Guideline”). In that FAQ, carrying charges are applied to OM&A and amortization expenses on the opening monthly principal amounts as they were posted to account 1556.¹ By calculating interest on the monthly difference between the historical annual revenue requirement and funds collected from the smart meter funding adder, PowerStream has, effectively, applied carrying charges to the return on assets and PILs that also make up the revenue requirement.

¹ Board staff notes that the August FAQ does not address the inclusion of carrying charges on revenues collected through the smart meter funding adder but notes that it has been the Board’s practice to provide such carrying charges on funding adders, in the past.

While an argument can be made that carrying costs should be applied only to the unrecovered residual revenue requirement in any given year, as it is the only item that has not been recovered by funding adder revenues for that particular year, Board staff notes that the Board has nonetheless established a different approach that may, depending on the timing of the bulk of a distributor's deployment and other factors, lead to a materially different result in terms of the quantum of carrying charges included for recovery.

Using sheets 8 and 8a of a draft version of the Board's Smart Meter Model, Board staff has calculated carrying charges on smart meter funding adder revenue and on OM&A and amortization expenses. These calculations can be found in the models included with this submission. Board staff then used the resulting, class specific carrying charges to re-calculate the Smart Meter True Up. A comparison of the resulting Smart Meter True Ups for each class in each rate zone can be found in Appendix A to this submission.

Tables 1 and 2 below compare the monthly Smart Meter Disposition Rate Riders ("SMDR") that result from the true ups calculated using PowerStream's "net" method of applying carrying costs and the method shown in the August FAQ. The resulting SMDRs do not show a significant difference between the approach used by PowerStream and the approach shown in the FAQ.

Table 1 - Smart Meter Disposition Rate Rider - North Rate Zone

North	Residential		GS<50 kW	
	PowerStream DRO	Board staff method	PowerStream DRO	Board staff method
True-up	\$ 70,321	\$ 56,335	\$ 232,274	\$ 229,835
Number of customers	64,830	-	5,886	-
Number of months	5	-	5	-
Monthly Charge	\$ 0.22	\$ 0.17	\$ 7.89	\$ 7.81

Table 2 - Smart Meter Disposition Rate Rider - South Rate Zone

South	Residential		GS<50 kW	
	PowerStream DRO	Board staff method	PowerStream DRO	Board staff method
True-up	\$ (3,550,853)	\$ (3,556,746)	\$ 1,326,692	\$ 1,321,298
Number of customers	226,121	-	24,190	-
Number of months	5	-	5	-
Monthly Charge	\$ (3.14)	\$ (3.15)	\$ 10.97	\$ 10.92

Staff also notes that the differences in the overall quanta for both rate zones is also not significant.

Specifically, for the North Rate Zone, staff estimates a revised residual amount of \$286k to be recovered while PowerStream's approach results in an amount of \$303k. For the South Rate Zone, Board staff estimates that the residual amount would be a credit of approximately \$2.235M while PowerStream's approach results in a credit of \$2.224M.

Board staff submits that PowerStream may wish to verify the calculations shown and update its draft Rate Order to reflect the Board approved methodology of calculating carrying charges.

Appendix A – Comparison of Smart Meter True Up Using Both Methods of Calculating Carrying Charge

The carrying charges and resulting Smart Meter True Ups calculated for each rate class in each rate zone are shown in the tables that follow.

Table 3 - North rate zone, residential class carrying charges using PowerStream DRO and Board staff methods.

PowerStream Inc. - North Residential Smart Meter Cost Recovery Model Recovery of Costs to November 30, 2011

	PowerStream DRO	Board Staff Method
Rate Rider to Recover Smart Meter Costs		
Revenue Requirement 2006	\$887	\$887
Revenue Requirement 2007	\$2,056	\$2,056
Revenue Requirement 2008	\$5,384	\$5,384
Revenue Requirement 2009	\$167,155	\$167,155
Revenue Requirement 2010	\$1,117,265	\$1,117,265
Revenue Requirement 2011 (to Oct 31/11)	\$1,380,330	\$1,380,330
Revenue Requirement Total	\$2,673,076	\$2,673,076
Smart Meter Rate Adder	(\$2,555,220)	(\$2,555,220)
Carrying Cost (On true up between Revenue Requirement and Funding Adder Revenues)	(\$47,536)	
Carrying Cost (Revenues)		(\$83,787)
Carrying Cost (OM&A + Amortization)		\$22,266
Smart Meter True-up	\$70,321	\$56,335

Table 4 - North rate zone, GS<50kW class carrying charges using PowerStream DRO and Board staff methods.

PowerStream Inc. - North GS<50KW Smart Meter Cost Recovery Model Recovery of Costs to November 30, 2011

	PowerStream DRO	Board Staff Method
Rate Rider to Recover Smart Meter Costs		
Revenue Requirement 2006	\$73	\$73
Revenue Requirement 2007	\$169	\$169
Revenue Requirement 2008	\$443	\$443
Revenue Requirement 2009	\$9,287	\$9,287
Revenue Requirement 2010	\$159,147	\$159,147
Revenue Requirement 2011 (to Nov 30/11)	\$312,069	\$312,069
Revenue Requirement Total	\$481,188	\$481,188
Smart Meter Rate Adder	(\$246,202)	(\$246,202)
Carrying Cost (On true up between Revenue Requirement and Funding Adder Revenues)	(\$2,713)	-
Carrying Cost (Revenues)	-	(\$8,047)
Carrying Cost (OM&A + Amortization)	-	\$2,896
Smart Meter True-up	\$232,274	\$229,835

Table 5 - South rate zone, residential class carrying charges using PowerStream DRO and Board staff methods.

**PowerStream Inc. - South Residential
Smart Meter Cost Recovery Model
Recovery of Costs to November 30, 2011**

	PowerStream DRO	Board Staff Method
Rate Rider to Recover Smart Meter Costs		
Revenue Requirement 2010	\$327,883	\$327,883
Revenue Requirement 2011	\$419,911	\$419,911
Revenue Requirement Total	\$747,794	\$747,794
Smart Meter Rate Adder	(\$4,231,549)	(\$4,231,549)
Carrying Cost (On true up between Revenue Requirement and Funding Adder Revenues)	(\$67,099)	
Carrying Cost (Revenues)		(\$80,699)
Carrying Cost (OM&A + Amortization)		\$7,707
Smart Meter True-up	(\$3,550,853)	(\$3,556,746)

Table 6 - South rate zone, GS<50 kW class carrying charges using PowerStream DRO and Board staff methods.

**PowerStream Inc. - South GS<50kW
Smart Meter Cost Recovery Model
Recovery of Costs to November 30, 2011**

	PowerStream DRO	Board Staff Method
Rate Rider to Recover Smart Meter Costs		
Revenue Requirement 2010	\$727,157	\$727,157
Revenue Requirement 2011	\$1,075,661	\$1,075,661
Revenue Requirement Total	\$1,802,818	\$1,802,818
Smart Meter Rate Adder	(\$487,013)	(\$487,013)
Carrying Cost (On true up between Revenue Requirement and Funding Adder Revenues)	\$10,887	
Carrying Cost (Revenues)		(\$9,288)
Carrying Cost (OM&A + Amortization)		\$14,780
Smart Meter True-up	\$1,326,692	\$1,321,298