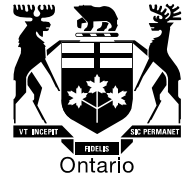


**Ontario Energy
Board**
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

**Commission de l'énergie
de l'Ontario**
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



BY E-MAIL

February 24, 2012

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

Dear Ms. Walli:

**Re: Board staff Interrogatories
Innisfil Hydro Distribution Systems Ltd.
Application for 2012 Smart Meter Cost Recovery effective May 1, 2012
Application Board File Number EB-2011-0435**

In accordance with the procedure documented in the Notice of Application and Hearing, please find attached Board staff's interrogatories in the above proceeding with respect to Innisfil Hydro Distribution Systems Ltd.'s application for rate riders to recover smart meter costs. Please forward the following to Innisfil Hydro Distribution Systems Ltd. and to all other registered parties to this proceeding.

Sincerely,

Original Signed By

Stephen Vetsis
Analyst - Applications

Attachment

**Innisfil Hydro Distribution Systems Ltd. ("Innisfil")
2012 Smart Meter Cost Disposition and Recovery
EB-2011-0435**

Board staff Interrogatories

General

1. Responses to Letters of Comment

Following publication of the Notice of Application, the Board has, to date, received no letters of comment. Please confirm whether Innisfil has received any letters of comment. If so, please file a copy of any letters of comment. For each, please confirm whether a reply was sent from Innisfil to the author of the letter. If confirmed, please file that reply with the Board. Please ensure that the author's contact information except for the name is redacted. If not confirmed, please explain why a response was not sent and confirm if Innisfil intends to respond.

Application

2. Ref: Application, Pages 3 and 4 – Status of Implementation of Smart Meters

On page 4 of the application, Innisfil provides the following table summarizing the total capital and OM&A costs for smart meters installed.

Summary of Smart Meter Capital and OM&A Costs Including MDN/R and TOU Beyond Minimum Functionality

Costs	Actual Costs for Meters Installed by 2010	Costs for Meters Installed in 2011	Projected Costs for Meters Installed in 2012	TOTAL Smart Meter Costs	TOTAL Cost per Smart Meter
Total of Smart Meter Capital Costs	\$ 2,078,864	\$ 115,950	\$ -	\$ 2,194,814	\$ 149.09
Total of Smart Meter OM&A Costs	\$ 283,733	\$ 122,981	\$ 165,200	\$ 571,914	\$ 38.85
Total of Smart Meter Costs	\$ 2,362,597	\$ 238,931	\$ -	\$ 2,766,728	\$ 187.94

Regarding the costs provided in the table above, Innisfil states:

The above costs, with the exception of the capital and OM&A projected for the remainder of 2011 and 2012, are actual costs incurred in the deferral account 1555 and 1556 taken from IHDSL's audited financial records as of December 31, 2010.

On page 3 of the application, Innisfil provided the following table summarizing the smart meter installations per year.

Summary of Smart Meter Installations by Year

Installations	Meters Installed in 2009	Meters Installed in 2010	Meters Installed in 2011	Meters Installed in 2012	TOTAL
Residential Smart Meters Installed	9,958	3,707	131	23	13,819
General Service <50kW	0	550	240	112	902
Total Smart Meters Installed	9,958	4,257	371	135	14,721
Total CUMULATIVE Smart Meters Installed	9,958	14,215	14,586	14,721	

- a) Please provide an updated version of the table on page 3 showing the actual number of meters actually installed in 2011 and actual unaudited costs for capital and operating expenses for smart meters installed in 2011.
- b) The table on page 3 of the application indicates that Innisfil is forecasting that 135 smart meters will be installed in 2012. On the table on page 4, Innisfil has provided \$165,200 in forecasted OM&A expenses for meters installed in 2012. Innisfil has not provided any forecasted capital costs for the meters to be installed in 2012. Please confirm whether or not Innisfil is seeking to recover the capital costs of meters to be installed in 2012. If not, please confirm that Innisfil plans to add the capital costs of the remaining meters to be installed as regular capital additions in the 2012 bridge year as part of its next cost of service application, scheduled for 2013 rates.

3. Ref: Application, pages 4 and 15 – Smart Meter Disposition Rate Rider Calculations

On page 4 of the application, Innisfil provides the following table summarizing the total capital and OM&A costs for smart meters installed.

Summary of Smart Meter Capital and OM&A Costs Including MDM/R and TOU Beyond Minimum Functionality

Costs	Actual Costs for Meters Installed by 2010	Costs for Meters Installed in 2011	Projected Costs for Meters Installed in 2012	TOTAL Smart Meter Costs	TOTAL Cost per Smart Meter
Total of Smart Meter Capital Costs	\$ 2,078,864	\$ 115,950	\$ -	\$ 2,194,814	\$ 149.09
Total of Smart Meter OM&A Costs	\$ 283,733	\$ 122,981	\$ 165,200	\$ 571,914	\$ 38.85
Total of Smart Meter Costs	\$ 2,362,597	\$ 238,931	\$ -	\$ 2,766,728	\$ 187.94

On page 15 of the application, Innisfil provides the following table summarizing the total capital and OM&A costs for Innisfil's smart meter project.

Summary of Smart Meter Capital and OM&A Costs Including MDM/R and TOU Beyond Minimum Functionality

Costs	Actual Costs for Meters Installed by 2010	Costs for Meters Installed in 2011	Costs for Meters Installed in 2012	TOTAL Smart Meter Costs	TOTAL Cost per Smart Meter
Total of Smart Meter Capital Costs	\$ 2,078,864	\$ 115,950	\$ -	\$ 2,194,814	\$ 149.09
Total of Smart Meter OM&A Costs	\$ 143,364	\$ 241,561	\$ 78,800	\$ 463,725	\$ 31.50
Total of Smart Meter Costs	\$ 2,222,228	\$ 357,511	\$ -	\$ 2,658,539	\$ 180.60

- a) Please clarify which of the two tables represents the costs for which Innisfil is seeking recovery.
- b) Please provide a description that accounts for the differences in the OM&A costs reported in the two tables provided by Innisfil.
- c) Please update the correct table summarizing Smart Meter Capital and OM&A Costs, including MDM/R and TOU Beyond Minimum Functionality, to reflect actual, unaudited costs for 2011.

4. Ref: Application, pages 1 and 15 – Stranded Meter Costs

On page 1 of its application, Innisfil states that it is not currently seeking to recover stranded meter costs and that it expects the issue of stranded meter costs will be addressed in Innisfil's 2013 Cost of Service rebasing application. On page 15 of its application, Innisfil states that the net book value ("NBV") of stranded meters as of December 31, 2010 is \$382,294 and that it continues to amortize the stranded meters. Please provide Innisfil's estimate of the NBV of the stranded meters as of December 31, 2012.

5. Ref: Application, page 7 – Operational Data Store (ODS) Functionality

On page 7 of the application, Innisfil states:

With the implementation of the AMI system a need was recognized for an application that supported full integration with the MDM/R and enabled staff to audit, validate, interact with and gain valuable business information from the wealth of meter data that was being collected. The AMI system, while fully capable of collecting meter read data and forwarding that raw data to the MDM/R, does not provide all of the functionality necessary to interpret and/or leverage the information it is providing in an educated and meaningful fashion.

- a) Are there any features of Innisfil's ODS which are duplicative of functions performed (or to be performed) by the provincial MDM/R.

- b) If the answer to a) is in the affirmative, please identify what features of the ODS are duplicative of functions performed by the MDM/R, the associated costs and the reasons for having this functionality.

6. Ref: Application, pages 11 and 12 – Annual Security Audit

On pages 11 and 12 of the application, Innisfil provides a description of its annual security audit as well as the procurement process used to select an audit partner. Innisfil states:

Going forward, annual security audit has been budgeted, as this is a prudent approach to satisfying the due diligence requirements for protection not only of the customer information, but also to ensure that access to the infrastructure is properly protected, thereby securing against unwanted modifications to data collection and/or load control functionality.

Please provide the budgeted amount for the annual security audit.

7. Ref: Application, page 15 – Cost Variance

On page 15 of the application, Innisfil states:

[Innisfil] has included the OM&A costs beyond minimum functionality (MDM/R & TOU) in section 2.6. These OM&A costs include customer education, MDM/R integration and operation consulting, CIS system maintenance costs and web presentment costs. In determination of the costs beyond minimum functionality, [Innisfil] only included calculations that were beyond costs identified in our 2009 COS application EB-2008-0233.

- a) Please clarify Innisfil's stated approach of only including "calculations that were beyond costs identified" in its previous COS application.
- b) Please identify if any costs beyond minimum functionality have been omitted from the application as result of the approach described in a) above.
- c) Please confirm that the costs reported in this application do not include any costs previously approved by the Board for recovery in rates.

Smart Meter Model, Version 2.17

8. Ref: Excel Smart Meter Model, Version 2.17, Sheet 2 – Smart Meter Costs

On sheet 2 of the Smart Meter Model, Innisfil has provided the costs incurred in the installation of smart meters, per year, for their smart meter deployment.

- a) Column S of sheet 2 forms the basis for the calculation of the Smart Meter Incremental Revenue Requirement ("SMIRR"). In column S, Innisfil has only shown \$78,000 in expected OM&A expenses in 2012 for TOU implementation, CIS upgrades and Web Presentment. This is a forecasted, one-time expenditure. Please provide a breakdown of the expected ongoing annual OM&A expenses for the smart meters installed, as of December 31, 2011, using column S of sheet 2 of the Smart Meter Model.
- b) In row 170 of sheet 2 of the Smart Meter Model, Innisfil has provided \$101,192 and \$78,800 in OM&A costs beyond minimum functionality for 2011 and 2012, respectively. Please provide a breakdown, of OM&A costs beyond minimum functionality shown, per year.

9. Ref: Excel Smart Meter Model, Version 2.17, Sheet 3 – Cost of Service Parameters

Sheet 3 of the Smart Meter Model filed by Innisfil contains the cost of capital, working capital allowance, tax rate, depreciation rate and CCA rate parameters provided by Innisfil in support of its application.

- a) On sheet 2 of the Smart Meter Model, Innisfil has documented \$274,310 in capital costs for collectors installed in 2009 and 2010, and has classified these as an asset type of "Other Equipment". However, on sheet 3, Innisfil has not input the corresponding CCA class and CCA rate for this asset class for the purposes of calculating taxes/PILs. Please provide the appropriate CCA class and CCA rate for rows 63 and 64 of sheet 3 of the Smart Meter Model for the capital costs corresponding to the "Other Equipment" asset class.
- b) In cell G30 of sheet 3, Innisfil has used the default debt rate of 6.25% applicable to a utility with a rate base less than \$25 million. The debt rate carries forward to 2007, when Innisfil had its rates adjusted according to the IRM2 price cap formula. In its 2006 EDR rate application (RP-2005-0020/EB-2005-0382), Innisfil had an approved debt rate of 9.19%. Please explain why Innisfil has used the default debt rate, or provide a corrected rate.
- c) Cell M33 of sheet 3 of the Smart Meter Model shows a weighted average cost of capital ("WACC") of 7.36% for 2009. The Board's decision in Innisfil's prior cost of service application (EB-2008-0233) approved a WACC of 7.64%. The difference appears to be due to the long-term debt rate. Innisfil has input a long-term debt rate of 7.28% into the smart meter model, while its approved debt rate in its 2009 cost of service application is 7.81%. Please confirm Innisfil's cost of capital parameters as approved by the Board for Innisfil's 2008 cost of service

rebasing application. Alternatively, please explain the basis for the 7.28% debt rate that Innisfil is using in this application.

10. Ref: Excel Smart Meter Model, Version 2.17, Sheet 3 – Taxes/PILs Rates

Innisfil has used the maximum taxes/PILs rates input on sheet 3, row 40, for the years 2006, 2007, 2008, 2009, 2010, 2011 and 2012 and beyond. These are summarized in the following table:

Year	2006	2007	2008	2009	2010	2011	2012 and beyond
Aggregate Federal and provincial income tax rate	36.12%	36.12%	33.50%	33.00%	31.00%	28.25%	26.25%

Please confirm that these are the tax rates corresponding to the taxes or PILs actually paid by Innisfil in each of the historical years, and that Innisfil forecasts it will pay for 2012. For historical years to 2011, these would be the aggregate rate derive for calculating the taxes/PILs included in the revenue requirement in cost of service applications, or as calculated in taxes/PILs calculations as part of IRM applications. In the alternative, please explain the tax rates input and their derivation.

11. Ref: Smart Meter Model – Interest on OM&A and Depreciation Expenses

In the Smart Meter Model Version 2.17 filed by Innisfil, the utility has relied upon sheet 8B to calculate the interest on OM&A and depreciation/amortization expenses. Sheet 8B calculates the interest based on the average annual balance of deferred OM&A and depreciation/amortization expenses based on the annual amounts input elsewhere in the model.

The more accurate and preferred method for calculating the interest on OM&A and depreciation/amortization expense is to input the monthly amounts from the sub-account details of Account 1556, using sheet 8A of the model. This approach is analogous to the calculation of interest on SMFA revenues on sheet 8 of the model.

- a) Please re-file the smart meter model using the monthly OM&A and depreciation/amortization expense data from Account 1556 records. Innisfil should also take into account any revisions necessary as a result of its responses to any preceding interrogatories.
- b) If this is not possible, please explain.

12. Ref: Smart Meter Model

If Innisfil has changed its data inputs to the Smart Meter Model, Version 2.17 as a result of interrogatories by Board staff and/or the Vulnerable Energy Consumers Coalition, please update and re-file the smart meter model in working Microsoft Excel format.

Cost Allocation

13. Ref: Application, page 16 – Cost Allocation

On page 16 of its application, Innisfil states:

Return (deemed interest plus return on equity) and Amortization have been allocated based on the Weighted Average of the Residential and General Service less than 50 kW 1860 Weighted Meter Capital (CWMC) allocators in the 2006 Cost Allocation Review.

- a) Please state if Innisfil is able to provide separate capital costs for installed smart meters for the residential and GS < 50 kW classes.
- b) If so, please provide those capital costs. Additionally, please provide updated calculations of the class specific SMDR and SMIRR using the cost allocation approach approved in the Decision and Order from PowerStream's 2011 smart meter cost recovery application (EB-2010-0209).
- c) If not, please explain why Innisfil is unable to provide capital costs for installed smart meters separately for the residential and GS < 50 kW classes.

15. Ref: Application, Sections 17.0 – Cost Allocation

- a) If Innisfil has made revisions to its Smart Meter Model, Version 2.17 as a result of its responses to interrogatories, please update its proposed class-specific SMDRs.
- b) Similarly, please update the calculation of class-specific SMIRRs.