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BY EMAIL

March 27, 2012

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Board Staff Interrogatories; Thunder Bay Hydro Electricity Distribution Inc.
Smart Meter Cost Recovery Application EB-2012-0015**

Further to the Board's Notice of Application and Hearing, dated February 16, 2012, please find attached Board staff's interrogatories on the smart meter cost recovery application filed by Thunder Bay Hydro Electricity Distribution Inc. on January 13, 2012.

Please forward the attached to Thunder Bay Hydro Electricity Distribution Inc. and all intervenors in this proceeding.

Yours truly,

Original Signed By

Christie Clark
Case Manager

Enclosure

Thunder Bay Hydro Electricity Distribution Inc. (“Thunder Bay”)
2012 Smart Meter Cost Recovery
EB-2012-0015

Board Staff Interrogatories

1. Letters of Comment

Following publication of the Notice of Application, the Board has not received any letters of comment to date.

- a. Please confirm whether Thunder Bay has received letters of comment, and if so, please file a copy of the letters of comment.
- b. Please confirm whether a reply to the letter was sent from Thunder Bay. If confirmed, please file the reply with the Board. Please ensure that the author’s contact information except for the name is **redacted**.
- c. If not confirmed, please explain why a response was not sent and confirm if Thunder Bay intends to respond.

2. Audited Balances

Thunder Bay stated on page 3 that the December 31, 2010 have been audited, and the 2011 balances are estimated. The Board in its Guideline G-2011-0001 *Smart Meter Funding and Cost Recovery – Final Disposition* December 15, 2011 said:

“When applying for the recovery of smart meter costs, a distributor should ensure that historical cost information has been audited including the smart meter related deferral account balances up to the distributor’s last Audited Financial Statements. A distributor may also include historical costs that are not audited and estimated costs, corresponding to a stub period or to a forecast for the test rate year. The Board expects that the majority (i.e. 90% or more) of the total program costs for which the distributor is seeking recovery will be audited. This threshold should be assessed against total program costs and not the costs in any individual application. In all cases, the Board expects that the distributor will document and explain any differences between unaudited or forecasted amounts and audited costs in its application.”

- a. What percentage of the total costs does the audited 2010 balance represent?
- b. If the 2011 audited balances are now available, please provide them.
- c. If the audited costs are not available, please provide an explanation of the estimated 2011 balances over the audited 2010 balances.

3. Smart Meter Cost Variances

Thunder Bay provided a variance table on page 7 which shows the differences between the budgeted and actual expenditures as of 2011, based on its expenditures for smart meters from 2008 to 2011. Listed below the table are explanations of the variances. Board staff would like additional information on this table.

- a. The line descriptions for smart meters and computer hardware/software state that the costs are unit costs. However, the table entries appear to be total costs. Please confirm that the table represents total costs for the component entries.
- b. Thunder Bay states that “the Smart Meter Other Unit Costs for ancillary collector costs are unfavourable in the amount of \$212,000.” Board staff notes that in total that the Smart Meter Other Unit Costs are an unfavourable balance of \$189,535. Please state detailed reasons for the \$212,000 unfavourable variance.
- c. Thunder Bay describes \$131,000 of internal project management costs that were originally operating costs as now being classified as smart meter capital costs. Board staff interprets this statement as saying that previously approved operating costs, which formed previously approved revenue requirements for Thunder Bay, are now included as a cost of smart meters capital expenses. If this is the case, please remove these costs from the smart meter costs for recovery. If this is not the case, and the rates at the time did not recover these costs, please explain in full.
- d. Thunder Bay also describes that \$116,000 of AMI Computer Hardware Costs is for internal labour. As above, Board staff interprets this statement as saying that previously approved operating costs, which form previously approved revenue requirements for Thunder Bay, are now included as a cost of smart meters capital expenses. If this is the case, please remove these costs from the smart meter costs for recovery. If this is not the case, and the rates at the time did not recover these costs, please explain in full.
- e. Please provide a more detailed explanation of the \$609,000 favourable variance due to MDM/R costs not being incurred.

- f. Thunder Bay also states that internal resources required for TOU modifications were less than anticipated resulting in a favourable variance of \$40,000. Were the costs of these internal resources included previously approved in Thunder Bay's 2009 revenue requirement, thereby underpinning Thunder Bay's rates, or are they incremental to the revenue requirement of 2009? If these costs are not incremental, please explain your reasons for including them in smart meter cost recovery.

4. Smart Meter Operating Costs

On page 14 of its Application, Thunder Bay lists smart meter operating costs in Table 4 Budget to Actual Cost Summary.

- a. For each of the items, 2.1 – 2.5, please state the nature of the costs.
- b. Please identify any of the costs that are Thunder Bay's staff salary and related costs.
- c. If there are Thunder Bay staffing costs included, please state if they are incremental costs, and why they are considered incremental costs.
- d. If they are not incremental costs, please provide a rationale for including them.

5. Costs Beyond Minimum Functionality

On page 13 of its Application, Thunder Bay has stated that it has not incurred costs beyond minimum functionality. However elsewhere it has stated that it has incurred costs related to costs such as MDM/R and TOU rates. The Board's G-2011-0001 Guideline Smart Meter Funding and Cost Recovery – Final Disposition December 15, 2011 (the "Guideline") at page 17 states the following:

"Costs for CIS systems, TOU rate implementation, etc. are beyond minimum functionality..."

and

"Costs for other matters such as CIS changes or TOU bill presentment may be recoverable, but the distributor will have to support these costs and will have to demonstrate how they are required for the smart meter deployment program and that they are incremental to the distributor's normal operating costs."

- a. Please state the level of costs and describe the costs incurred for beyond minimum functionality making specific reference to MDM/R, web presentment,

CIS changes, TOU rates, business process changes, training and customer education costs.

- b. Please state the reasons that these costs are required for Thunder Bay's smart meter programme, and how they are incremental to Thunder Bay's normal course of business.
- c. Please restate Tab 2, Smart Meter Costs of the Smart Meter Model Version 2.17 (the "Model"), separating any costs beyond minimum functionality into items 2.6.1, 2.6.2, and 2.6.3. If the costs found in Tab 2 of the Model are not final 2011 costs, please provide an update, and state whether the update is final or not.
- d. State the total costs for beyond minimum functionality, and then state the costs again as an average unit costs per smart meter.
- e. What is the annual impact on OM&A for beyond minimum functionality?

6. Customer Repairs

The Board in the Guidelines stated:

"The actual costs for materials and parts to repair or replace any customer-owned equipment should be expensed and also tracked separately in a different sub-account of the Smart Meter OM&A Variance Account 1556 until disposition is ordered by the Board following a review for prudence of the smart meter costs. As the meter base remains the property of the customer, the Board determined that it would not be appropriate to have it form part of the distributor's rate base."

- a. Please state the total costs of any repairs or replacements of customer-owned equipment.
- b. Are there any meter bases included in these costs? If so, please state the total amount.
- c. Please confirm that these costs were recorded in a different sub-account of the Smart Meter OM&A Variance Account 1556.

7. Smart Meter Model – Taxes/PILs

Thunder Bay has used the maximum taxes/PILs rates input on Tab 3 Cost of Service Parameters, 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 underpinning Thunder Bay's rates for each of the respective years. This should be readily available from taxes/PILs calculations or spreadsheets used in annual cost of service or Incentive Regulation Mechanism ("IRM") rates applications. In the alternative, please correct if needed.

8. Smart Meter Model – Tab 7; Taxes PILs

Thunder Bay Hydro has documented on page 2 that the smart meter project was funded by debt. As a result, there is no equity in its capitalization for this smart meter project. While this reflects the actual funding for the smart meter project, it does not reflect the Board's Decision on Thunder Bay's costs of capital in it's 2009 COS application, EB-2008-0248.

Thunder Bay Hydro has used a customized Smart Meter Model to account for its method of financing for its smart meter project. The customization reflects the fact that no equity was used, and allows for the inclusion of actual interest paid. In calculating PILs, the Smart Meter Model uses the return on equity capital as the starting point for net income before taxes, to which depreciation expense is added back and Capital Cost Allowance ("CCA") is deducted. Due to half-year rule treatment and differences between depreciation and CCA rates, the CCA allowance in some early years is much greater than the depreciation rate. As a result, with no return on equity, the model calculates a negative income before taxes and hence a negative taxes/PILs.

The PILs implication of Thunder Bay's use of 100% debt financing is seen in the table below, which was created from the PILs line on Tab 7; Taxes PILs:

Calculated PILs

2009	(\$ 28,899.45)
2010	(\$ 56,495.65)
2011	(\$ 18,811.04)
2012	\$ 12,168.00

The calculation of negatives taxes/PILs may be a proxy for favourable tax treatment that the utility might have realized in each year, where the adjustments would have been used to lower the taxable income and hence the actual taxes/PILs paid by the utility for its entire rate base and revenues.

- a. Does Thunder Bay consider that the tax/PILs treatment as factored in the Smart Meter model is a reasonable proxy of the tax treatment it received from 2009 to 2011? In the alternative, please provide a proposal that would be more representative of how smart meter capital costs were treated for tax purposes in each year. Please provide adequate support for your proposal.
- b. Please file a copy of the smart meter model, version 2.17, that incorporates the capital structure and related interest and return on equity as approved in Thunder Bay's 2009 COS application.

9. Smart Meter Model – Tab 5; Smart Meter Revenue Requirement

Thunder Bay on page 2 of its evidence pointed out that in EB-2008-0248, it had stated that the smart meter project would be financed entirely by debt in its response to Board staff's Supplemental Interrogatory 15b. To reflect this, Thunder Bay has a modified Smart Meter Model, in which it could input its actual debt costs for the smart meter project.

- a. Please confirm that the interest for 2008 through to and including 2011 on Tab 5: Smart Meter Revenue Requirement Line Debt Financing Expenses (Thunder Bay Hydro-specific) are the actual interest paid.
- b. Please show the calculation for the forecast 2012 Debt Financing Expense.

10. Smart Meter Model – Update

Board staff has addressed a number of concerns in the above set of interrogatories which may require revising the Model. If any of these questions results in changes to the inputs to the Model please update and re-file its Model in working Microsoft Excel format.

11. Rate Riders – Update

Similarly, if Thunder Bay has made revisions to its Smart Meter Model as a result of the above question 9, please update its proposed class-specific SMDRs, and class-specific SMIRRs.

12. Stranded Meters

On page 13 Thunder Bay states that it is not seeking disposition of its stranded meter costs in this Application. Thunder Bay continues to recover these costs by including the net book value of stranded meters in its rate base. Please provide Thunder Bay's estimate of the NBV of stranded meters as of December 31, 2012.