

**Cooperative Hydro Embrun Inc. ("CHEI")  
2012 Smart Meter Cost Recovery  
EB-2012-0094**

**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 CHEI 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 CHEI 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 CHEI intends to respond.

***Application***

**2. Ref: Application/Exhibit 1/Tab 1/Schedule 2/page 2 – Metered Customers**

On page 2 of its application, CHEI states that it is applying for a one year Smart Meter Disposition Rate Rider of \$0.14 per metered customer per month effective May 1, 2012 to April 30, 2013, and a Smart Meter Incremental Revenue Requirement Rate Rider of \$1.69 per month effective May 1, 2012 until CHEI's next CoS rebasing application. Please confirm that the metered customers include only the Residential and GS < 50 KW rate classes. In the alternative, please explain.

**3. Ref: Application/Exhibit 1/Tab 1/Schedule 6/page 4 – Stranded Meter Costs**

On page 4 of its application, CHEI states that it is planning to file a cost of service application for 2014 rates. CHEI states that stranded meter costs will be addressed in that application.

- a) Please confirm that CHEI is continuing to record depreciation expenses related to stranded conventional meters. In the alternative, please explain.

- b) Please provide CHEI's estimate of the net book value of the stranded meters as of December 31, 2013, and its derivation based on the Gross Book Value of stranded conventional meters, accumulated depreciation as of December 31, 2013, and any net salvage proceeds upon the disposal of stranded conventional meters, as discussed on page 9 of *Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition*, (the "Guideline") issued December 15, 2011.

**4. Ref: Guideline G-2011-0001, page 19**

On page 19 of the Guideline, the Board states:

In considering the recovery of smart meter costs, the Board also expects that a distributor will provide evidence on any operational efficiencies and cost savings that result from smart meter implementation.

Board staff notes that CHEI has not provided any discussion of operational efficiencies and cost savings that have been achieved to date. In many smart meter cost recovery applications currently before the Board, the distributor has noted meter reading savings as a result of the smart meter deployment.

Please provide support for operational efficiencies that CHEI has not realized operational efficiencies so far. Please explain if CHEI expects to realize operational efficiencies and cost savings in the future. If so, please provide CHEI's estimates as to the nature and timing of these.

**5. Ref: Application, Exhibit 1/Tab 1/Schedule 6 – Collaboration with Other Utilities**

On page 2 of Exhibit 1/Tab 1/Schedule 6, CHEI states:

In 2009 CHEI joined a cost sharing contract with other electricity distributors in the region. Under this arrangement Renfrew Hydro, Hydro 2000, Cooperative Embrun, Hawkesbury Hydro and Ottawa River Power Corporation now share many operational costs.

- a) Please provide further explanation of the cost-sharing contract with other electricity distributors operating in eastern Ontario. In particular, what services and operations are shared? Are these operations outsourced to third party suppliers now?

- b) Is this cost-sharing arrangement solely related to smart meter deployment and operations, or is it more general to the electricity distribution operations of the involved utilities?
- c) Please provide further explanation and examples of how this cost-sharing arrangement has factored into the costs for which CHEI is seeking recovery in this application.

**6. Ref: Smart Meter Model, Version 2.17 – Smart Meter Costs**

On Sheet 2 of the Smart Meter Model, CHEI shows 12 Residential and GS < 50 kW smart meter installations, and a further 14 smart meter installations forecasted for 2012. However, no smart meter capital costs for procurement and installations are shown on rows 42 (1.1.1 Smart Meters) and 44 (1.1.2 Installation Costs) for 2011 and 2012 on Sheet 2.

Please explain the absence of the capital costs for procurement and installation in 2011 and 2012 for new installed smart meters.

**7. Ref: Smart Meter Model, Version 2.17 – Cost of Capital Parameters**

CHEI has input the following Cost of Capital Parameters on sheet 3 of the Smart Meter Model:

Year	2006	2007	2008	2009	2010	2011	2012 and beyond
Deemed Short-term Debt Rate			4.47%	1.33%	2.07%	2.46%	2.08%
Long-term debt rate	6.25%	6.25%	6.10%	7.62%	5.87%	5.48%	4.41%
Return on Equity (ROE)	9.00%	9.00%	8.57%	8.01%	9.85%	9.66%	9.12%
Return on Preferred Shares							

Board staff observes that these parameters appear to correspond with the deemed Cost of Capital parameters issued by the Board for rates set through cost of service applications with rates effective May 1 in each year.

The standard policy and practice is that the Board-approved cost of capital parameters from a cost of service application apply in that year and subsequently until the distributor next rebases its rates through a cost of service application.

Board staff observes:

- In its 2006 EDR application (RP-2005-0020/EB-2005-0354), CHEI was approved a deemed debt rate of 6.25% and an ROE of 9.00%; and

- CHEI rebased its rates for the 2010 rate year (EB-2009-0132), with the Board approving the following Cost of Capital parameters in its decision in that CHEI update its cost of capital in accordance with the Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, issued December 11, 2009. This meant updating for the Cost of Capital parameters issued by the Board for rates effective May 1, 2010. The Board issued a letter to all distributors on February 24, 2010 advising of the updated parameters.
- a) Please explain the cost of capital parameters chosen by CHEI for each year.
  - b) In the alternative, please update CHEI's Smart Meter Model, and the derived SMDRs and SMIRRs, to reflect the approved Cost of Capital parameters applicable to CHEI.

**8. Ref: Smart Meter Model – Taxes/PILs Rates**

CHEI has input the following rates for taxes/PILs rates 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
<b>Aggregate Federal and provincial income tax rate</b>	18.62%	18.62%	16.50%	16.50%	16.00%	15.50%	15.50%

Please confirm that these are the tax rates corresponding to the taxes or PILs actually paid by CHEI in each of the historical years, and that CHEI forecasts it will pay for 2012. In the alternative, please explain the tax rates input and their derivation.

**9. Ref: Exhibit 1/Tab 1/Schedule 6 and Smart Meter Model – OM&A Costs**

Board staff observes that CHEI has input no OM&A costs related to smart meters, either for the historical period during deployment, or for 2012 as part of the ongoing expenses related to the operations of deployed smart meters. CHEI states on page 3 of Exhibit 1/Tab 1/Schedule 6:

CHEI has not included any OM&A costs as it is assumed to be part of regular operations. In making this decision CHEI has taken into consideration the incremental cost savings as offsets to incremental costs, i.e. meter readers.

- a) Please explain how CHEI has determined the incremental cost savings and how these offset incremental OM&A expenses.
- b) Please explain how CHEI has recorded operating (i.e. non-capitalized) expenses during smart meter deployment, and for ongoing operations expenses, and how these are recovered.

**10. Ref: Smart Meter Model – Interest on SMFA Revenues**

On sheet 8 of the Smart Meter Model, CHEI has input the prescribed interest rate of 1.47% for deferral and variance accounts into cell C49 for 2012 Q2. This results in interest being calculated for all months in the quarter (i.e. April, May and June 2012). Under CHEI's proposal for a May 1, 2012 effective date and with the cessation of the SMFA as of April 30, 2012, interest should only be calculated for April 2012. This is accomplished by entering 0% in cell C49 but the 1.47% in the unlocked cell L99 for April 2012.

Please explain CHEI's proposal. In the alternative, please provide an updated model.

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

In the Smart Meter Model Version 2.17 filed by CHEI, CHEI has relied on sheet 8B to calculate the interest on OM&A and depreciation/amortization expenses (although Board staff also observes that, on Sheet 9, CHEI has selected sheet 8A in the calculation of the SMDR; as a result, no interest charges are factored into the calculation of the SMDR). 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: Exhibit 1/Tab 1/Schedule 6 – Costs Beyond Minimum Functionality**

On page 3 of Exhibit 1/Tab 1/Schedule 6, CHEI states: "CHEI has not included any OM&A costs that are beyond minimum functionality." However, on page 4 of the same exhibit, CHEI states:

Cooperative Hydro Embrun, Hydro 2000, Ottawa River Power and Renfrew Hydro are working together to implementing TOU billing and filed a joint application for an extension to January 2012. CHEI confirms that it has been billing TOU effective February 2012.

As determined by the Board in its Decision and Order EB-2007-0063, and repeated in section 3.4 of the Guideline, TOU pricing is defined as an aspect of smart meter implementation that is "beyond minimum functionality".

How has CHEI recorded any costs for TOU pricing implementation or other aspects of "beyond minimum functionality" categories (e.g. web presentment) as defined in section 3.4 of the Guideline. If CHEI has included these costs elsewhere, please update the evidence and Smart Meter Model in compliance with the Guideline.

### **13. Ref: Application – Cost Allocation**

In section 3.5 of the Guideline, the Board states:

In the Board's decision with respect to PowerStream's 2011 Smart Meter Disposition Application (EB-2011-0128), the Board approved an allocation methodology based on a class-specific revenue requirement, offset by class-specific revenues. The Board noted that this approach may not be appropriate or feasible for all distributors as the necessary data may not be readily available [footnote omitted].

The Board views that, where practical and where the data is available, class-specific SMDRs should be calculated based on full cost causality. The methodology approved by the Board in EB-2011-0128 should serve as a suitable guide. A uniform SMDR would be suitable only where adequate data is not available.

Recognizing that SMFA revenues have been collected from all metered customers since May 1, 2006, the Board's decision in EB-2011-0128 also addressed the treatment of smart meter adder amounts collected from customer classes for which smart meter costs were not incurred, as it related to PowerStream's smart meter deployment program. The Board directed PowerStream to allocate

the smart meter adder amounts collected from the GS > 50 kW and Large Use customer classes evenly to the Residential and GS < 50 kW classes when calculating the true-up for the SMDR. The Board concluded that this approach was appropriate because the amounts involved were not significant enough to warrant a more precise allocation.[footnote omitted] However, for all customer classes for which smart meter costs have been directly incurred, the SMFA revenues plus carrying costs should be directly used as an offset to the incremental revenue requirement to determine the SMDR for that class.

CHEI does not appear to have addressed the allocation of smart meter costs to the applicable classes.

- a) Please provide CHEI's proposed cost allocation. If CHEI is proposing that the SMDR and SMIRR would be uniform for all applicable classes, please provide the support for this.
- b) A common approach for cost allocation is to do the following:
  - OM&A expenses have been allocated on the basis of the number of meters installed for each class.
  - The Return and Amortization have been allocated on the basis of the capital costs of the meters installed for each class.
  - PILs have been allocated based on the revenue requirement derived for each class before PILs.
  - SMFA revenues and interest on the principal first calculated directly for the Residential and GS < 50 kW classes, with then the residual SMFA revenues and interest collected from other metered customer classes (i.e., GS 50-4999 kW and Large Use) allocated 50:50 to the Residential and GS < 50 kW classes. This approach has been used and approved in some recent cost of service applications, including that for Guelph Hydro's 2012 rates application [EB-2011-0123].

Using the attached spreadsheet taken from Guelph Hydro's draft Rate Order filing, please provide calculations for class-specific SMDRs using a more direct allocation of SMFA revenues. This should also reflect any and all revisions to Smart Meter Model, Version 2.17 made as a result of CHEI's responses to interrogatories.

**14. Ref: Application, Sections 8.0 and 9.0 – Cost Allocation**

If CHEI 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.