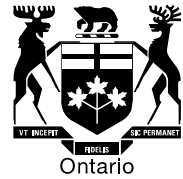


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BY E-MAIL

June 13, 2012

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Sioux Lookout Hydro Inc.
Application for 2012 Smart Meter Cost Recovery effective September 1, 2012
Board File Number EB-2012-0245**

In accordance with the process documented in the Notice of Application and Hearing, please find attached Board staff's interrogatories in the above proceeding with respect to Sioux Lookout Hydro Inc.'s application for rate riders to recover smart meter costs.

Yours truly,

Original signed by

Violet Binette
Project Advisor, Applications & Regulatory Audit

Attach

**Sioux Lookout Hydro Inc.
2012 Smart Meter Cost Recovery
EB-2012-0245**

Board Staff Interrogatories

General

1. Letters of Comment

Following publication of the Notice of Application, the Board has, to date, received no letters of comment. Please confirm whether Sioux Lookout Hydro Inc. ("SLHI") 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 SLHI 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 SLHI intends to respond.

Application

Procurement of Smart Meters and Services

2. Ref: Application p2 and p10

At p2 of the application, it states that:

SLHI was part of the Northwest Group (Thunder Bay Hydro, Kenora Hydro, Fort Frances Power, Atikokan Hydro and Sioux Lookout Hydro), who contracted with Util-Assist Inc. (Util-Assist) to manage the various smart meter related procurements, develop the overall project plan and to monitor and guide the project through to time-of-use (TOU) bill production.

The Northwest Group contracted with Kinetiq Canada Ltd. (Kinetiq) to prove that the Elster automated metering infrastructure (AMI) system was meeting the provincial standard, to integrate the AMI data with the meter data management repository (MDM/R), to reconcile the meter data sent to the MDM/R matched the data received back to the utility, and finally to automate business processes so as to avoid increasing staffing in the Billing Department.

At p10 of the application, it states that:

At the present time SLHI [is] taking part in an RFP with the Northwest group to procure a vendor to provide a web presentment solution.

Please confirm that participation in the Northwest Group – and contracts with Util-Assist, Kinetiq and the vendor for web presentment – were/are cost effective for SLHI and its ratepayers. Please provide quantitative examples that demonstrate the benefits, such as reduced costs, of SLHI's participation in the Northwest Group for SLHI and its ratepayers.

3. Ref: EB-2007-0785, Exh2/Sch3/Tab2/p10

As noted in SLHI's last cost of service application, "SLHI has a service agreement with Thunder Bay Hydro Utility Services, where they provide us with **all** [emphasis added] of our billing functions through a host computer which is maintained on their premises."

- a) Please confirm whether the arrangement with Thunder Bay Hydro Utility Services ("TBHUS") is still in place.
- b) If the arrangement with TBHUS is still in place, please explain the reference to increasing staffing in the Billing Department on p2 of the current application.
- c) Does the arrangement with TBHUS provide SLHI with incremental OM&A savings or costs with respect to its smart meter program? Please explain.

4. Ref: O. Reg. 426/06 and O. Reg. 393/07

O. Reg. 426/06 s. 2(1) states that, "No distributor shall recover any costs associated with meter data functions to be performed by the Smart Meter Entity." O. Reg. 393/07 defines the exclusive authority of the Smart Meter Entity as, among other functions, "providing all services, as specified by the Smart Meter Entity, performed on smart metering data to produce billing quantity data, including validation, estimating and editing services."

Are there any functions performed by smart meter-related contractors for the Northwest Group which are duplicative of functions performed (or to be performed) by the provincial MDM/R? If yes, please identify.

Smart Meter Costs

5. Ref: Application p3, p4 and p7

Board staff has identified, what appear to be, data entry errors in the tables on p3 and p4 of the application.

- a) In the table on p3, please confirm that the “recoverable rate adder cost” per meter should be \$307.99 and not \$315.86.
- b) Please confirm whether the SLHI term “recoverable rate adder cost” is equivalent to “total capital and OM&A cost”.
- c) In the table on p4, please confirm that the total “recoverable rate adder cost” should be \$693,135.67 and not \$823,865.22.
- d) In the table on p4, please confirm that the “recoverable rate adder cost” per meter should be \$249.96 and not \$297.10.
- e) Please confirm that correction of any of the data above has no impact on the SMDR and SMIRR, as applied for.
- f) In the table on p3, it indicates that the total meters installed as at December 31, 2011 is 2,675. In the table on p7, it indicates that the number of meters installed is 2,706. Please clarify.

6. Ref: Application p5

SLHI provided a table on p5 which shows the differences between the budgeted and actual expenditures as of 2011, based on its expenditures for smart meters from 2007 to 2011.

- a) Board staff has identified, what appear to be, calculation errors in the table on p5. The per meter cost variances do not reflect 2,773 meters or 2,675 meters.
 - i) Please verify the per meter costs and revise as necessary.
 - ii) Please confirm that correction of any of the data above has no impact on the SMDR and SMIRR, as applied for.
- b) Listed below the table are explanations of the variances. One of the explanations given for the variance is including operating costs in capital costs until April 1, 2010, and that this is related to reporting on a CGAAP basis. Has SLHI adopted IFRS? If yes, when was IFRS adopted? If not, please explain the reference to accounting standards in the variance explanation.

7. Ref: Application p3 and p7, Audited Financial Statements

SLHI provided Audited Financial Statements (“AFS”) for the year ended December 31, 2011 with its application.

- a) On p3 of the application, the total capital and operating costs at December 31, 2011 is listed as \$844,930.50. Please explain the difference between this total cost and the cost of smart meter deferral regulatory liability of \$843,996 as listed on p14 of the AFS.
- b) Similarly, on p7 of the application, the smart meter rate adder revenue collected from May 1, 2006 to December 31, 2011 is listed as \$217,249, which also corresponds with the opening principal balance for January 2012 on sheet 8 of the Smart Meter Model. Please explain the difference

between this revenue and the smart meter rate adder funding regulatory asset of \$198,908 as listed on p14 of the AFS.

8. Ref: Board Guideline G-2011-0001

At p19 of the *Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition*, December 15, 2011, 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.”

- a) Please provide a summary of operational efficiencies and costs savings relating to the implementation of smart meters to date.
- b) Please confirm whether the cost savings have been factored into the calculation of the SMIRR.
- c) Please explain whether SLHI expects to realize additional operational efficiencies and costs savings in the future. If yes, provide details.

SMFA Revenues

9. Ref: Application p6 and p7, Smart Meter Model Sheet 8

On sheet 8 of the smart meter model, the total funding adder revenues to April 2012 are listed as \$248,944 with carrying charges of \$5,678. On p6 of the application, the table is titled SMDR as at December 31, 2011. However, the SMFA revenues and carrying charges listed in this table are consistent with the data listed in sheet 8 of the model for April 2012.

Subsequent tables illustrating determination of class specific SMDR are provided on p7 of the application. The middle sub-table provides the SMFA revenue collected by customer class. However, the revenue provided is that collected to December 31, 2011.

Please provide SMFA revenue collected by customer class from May 1, 2006 to April 30, 2012.

10. Ref: Application p7 – Cost Allocation

It is not clear how SLHI has calculated the allocation of SMFA revenues and associated interest shown on the tables on p7 of the application.

- a) Please provide further explanation of SLHI's method for the derivation of the class-specific SMDRs, including the approach for allocating the costs in the deferred revenue requirement and the SMFA revenues and interest. If available, please provide the spreadsheets to show the calculations.
- 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. The residual SMFA revenues and interest collected from other metered customer classes (i.e., GS 50-4999 kW and Large Use) is then 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 SLHI's responses to interrogatories.

Revenue Requirement

11.Ref: Application p6, Smart Meter Model Sheet 5

The table on p6 of the application provides a summary of revenue requirement for the period 2007 to 2011. The data for the period 2007 to 2009 inclusive matches the data on line 70 of sheet 5 of the smart meter model. However, the data for 2010 and 2011 do not match, specifically between p6 of the application and sheet 5 of the Smart Meter Model. Please explain.

12.Ref: Smart Meter Model Sheet 2 – Capital Costs

In cell M86 on Sheet 2 of the Smart Meter Model, Version 2.17, SLHI documents \$82,665 for Professional Fees in 2009. This amount is over 10% of SLHI's claimed smart meter capital costs totalling \$728,250.

Please provide further description of and justification for these costs.

13.Ref: Application p3 and p8, Smart Meter Model Sheet 2

On sheet 2 of the Smart Meter Model, SLHI documents OM&A expenses of \$46,835 for 2010, \$69,846 for 2011 and a forecasted \$72,125 of incremental OM&A expenses. For each year, the OM&A expenses include an amount of about \$16,400 for communications costs, as documented in row 116 (2.1.2 Other [OM&A Expenses]).

SLHI documents that these costs are borne by 2696 Residential and GS < 50 kW metered customers. For the 2012 OM&A expenses alone, this amounts to

an OM&A increase per metered customer of \$2.23 (= \$72,125 / (2696 customers x 12 months)).

Please provide further description of and justification for the incremental OM&A expenses for which SLHI is requesting recovery over the period 2010 to 2012, beyond the documentation already provided in the Smart Meter Model and on the tables on p3 and p8 and associated discussion. In particular, please provide further description of the categories of OM&A costs and the quanta involved. Also, for each category, please address the following:

- a) Is the expense internal (i.e. done by SLHI staff) or external (i.e. provided under a service agreement with a third party or affiliated vendor);
- b) If provided by a separate service provider, identify if the service provider is affiliated or third-party;
- c) Please describe how the decision was made for the selected option. What options were considered? Were there any factors that restricted the options that SLHI could consider (e.g., did the selection of a billing/CIS service provider restrict the communications provider, etc.);
- d) Please describe how SLHI has determined that each category of costs is fully incremental. For example, if SLHI has about \$16,400 incremental costs for communication of customer usage data now, were there any such costs previously incurred and which were factored into SLHI's revenue requirement and recoverable through approved distribution rates? Alternatively, are there costs that SLHI no longer incurs as a result of now transmitting customer usage data from smart meters over communications lines?

14. Ref: Smart Meter Model Sheet 3 – Working Capital Allowance

SLHI has used a working capital allowance factor of 13% in cell S36, "2012 and later", rather than the 15% factor approved in SLHI's previous cost of service application and used for all other years. Please explain the changed value for 2012.

15. Ref: Application p9, Smart Meter Model Sheet 3

On sheet 3 of the Smart Meter Model, in cell S31, SLHI has entered a Return on Equity of 0%. On p9 of its application, SLHI states:

The Return on Equity was excluded from the SMIRR calculation since we are currently collecting a return on stranded meter assets which are still included in our rate base.

Entering a 0% return on equity also has the impact of reducing the PILs expense for 2012 that is recovered in the SMIRR. This is seen on sheet 7 –

Taxes/PILs, where the 2011 grossed-up PILs is \$2670.82 while the 2012 grossed-up PILs reduces to \$1033.33.

What would be the return on equity for installed smart meters in 2012 compared to the return on equity for the stranded conventional meters that are still reflected in the rate base underlying SLHI's current approved distribution rates?

Justification for Functionality that Exceeds Minimum Functionality

16.Ref: Application p2 and p10, Smart Meter Model Sheet 2

On p10, SLHI lists costs incurred for functionality that exceeds minimum functionality, as defined in the combined proceeding on smart meters (EB-2007-0063). The list includes TOU customer education materials, staff training for TOU implementation and projected costs for web presentment.

On p2 of the application, it states that the actual implementation of TOU billing was in September 2011. Are there costs related to TOU implementation budgeted in 2012? If yes, please explain the purpose of those costs.

Stranded Meters

17.Ref: Application p11

In the application, SLHI proposes that the recovery of stranded conventional meters be dealt with in its next cost of service application, currently scheduled for 2013 rates. Until then, the NBV of the stranded meters remains in rate base and the annualized costs are recovered in its normal distribution rates.

SLHI documents that the NBV of stranded conventional meters as of December 31, 2011 was \$193,371.

Please provide the estimated NBV of stranded conventional meters as of December 31, 2012, disaggregated by Residential and GS<50 kW customer classes.

Proposed SMDR and Proposed SMIRR

18.Ref: Application p7 and p10

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

Foregone Revenues

19.Ref: Application p7 and p9 – SMIRR Effective Date

In its application, SLHI proposed an effective date of September 1, 2012 for the SMDR, with a recovery period of 24 months. With respect to the SMIRR, SLHI states at p7 of its application:

SLHI is seeking a rate rider to recover the SMIRR associated with the smart meters installed up to December 31, 2011 to cover the incremental costs in 2012. Upon the Board's approval the proposed rate rider would be in place until this revenue requirement is incorporated into the distribution rates in SLHI's next COS Application which is scheduled for the May 1, 2013 rates.

On p9 of the application, SLHI states:

Based on the forecasted costs above, SLHI has calculated the SMIRR assuming a 12 month recovery period. SLHI plans to file its next cost of service application for its rate effective May 1, 2013.

Board staff observes that, if the SMDR and SMIRR are both effective September 1, 2012, the SMIRR will only be in effect for 8 months (from September 1, 2012 to April 30, 2012). SLHI's proposal with respect to the foregone revenue recovery for the period from May 1 to August 31, 2012 is not clear in the application.

In Orangeville Hydro Limited's current smart meter application (EB-2012-0039), the Board, in its decision, stated:

In developing its draft Rate Order, Orangeville is directed to establish the SMDRs based on an 11-month recovery period to April 30, 2013 and to accommodate within the SMDR the applicable revenue requirement amounts related to the month of May.¹

In its draft Rate Order filing, Orangeville has used the approach documented above to adjust the SMDR to account for the foregone revenues for the SMIRR for one month. The Board's final Rate Order is pending at the time of these interrogatories.

In another recently filed application for smart meter cost recovery, Waterloo North Hydro Inc. has proposed an effective date of November 1, 2012, and

¹ Decision and Order, EB-2012-0039, May 24, 2012, page 8

has adjusted the SMDR similarly to account for six months of foregone SMIRR revenues from May 1, 2012 to October 31, 2012.²

Board staff observes that this approach can be applied at a customer class level to calculate revised class-specific SMDRs.

- a) Please clarify the period for which SLHI is seeking recovery for the incremental revenue requirement for 2012 through the SMIRR in this application.
- b) Subject to Board approval, please provide SLHI's views on the appropriateness of "bumping up" the deferred revenue requirement to be recovered through the SMDR to recover the foregone SMIRR revenues for the period May 1 to August 31, 2012.
- c) If SLHI proposes to avail itself of this approach, please provide re-estimated class-specific SMDRs including estimated foregone SMIRR revenues for the period May 1 to August 31, 2012. Please show the calculations, and file any applicable spreadsheets.

² Waterloo North Hydro Inc. filed its application on May 31, 2012. The application has been given file number EB-2012-0266.