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BY E-MAIL

June 27, 2012

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

Dear Ms. Walli:

**Re: Orillia Power Distribution Corporation
Smart Meter Cost Recovery
Board Staff Interrogatories
Board File No. EB-2012-0261**

In accordance with the Notice of Application and Hearing, please find attached Board Staff interrogatories in the above proceeding. Please forward the following to Orillia Power Distribution Corporation and to all other registered parties to this proceeding.

In addition please advise Orillia Power Distribution Corporation that responses to interrogatories are due by July 17, 2012.

Yours truly,

Original Signed By

Suresh Advani

Encl.

**Orillia Power Distribution Corporation (“Orillia”)
 2012 Smart Meter Cost Recovery
 EB-2012-0261
 Board Staff Interrogatories**

1. Letters of Comment

Following publication of the Notice of Application, the Board has, to date, received no letters of comment. Please confirm whether Orillia has received any letters of comment. If so, please file a copy of the letters of comment. For each, please confirm whether a reply was sent from Orillia. 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 Orillia intends to respond.

2. Tax Rates

A portion of sheet “3. Cost_of_Service_Parameters” from the Smart Meter Model is reproduced below

	2006	2007	2008	2009	2010	2011	2012 and
Taxes/PILs							
Aggregate Corporate Income Tax Rate	36.12%	36.12%	33.50%	33.00%	31.00%	28.25%	26.25%
Capital Tax (until July 1st, 2010)	0.30%	0.225%	0.225%	0.225%	0.075%	0.00%	0.00%

Board staff notes that for the years 2010, 2011 and 2012, Orillia has used maximum tax rates (Aggregate Corporate Income Tax Rate) of 31%, 28.25% and 26.25% respectively. Board staff also notes that the Settlement Proposal related to Orillia’s 2010 cost-of-service rate application (EB-2009-0273)¹ reflects an effective tax rate of 28.8% for 2010.

Please confirm that the tax rates shown on sheet 3 correspond to the taxes or PILs actually paid by Orillia in each of the historical years, and that Orillia

¹

http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/175062/view/Orillia_Settlement_Proposal_20100208.PDF

Page 25 and Appendix D

forecasts it will pay for 2012. In the alternative, please explain the tax rates input and their derivation.

3. Stranded Meter Costs

On page 13 of its Application, Orillia states that it will seek disposition of stranded meter costs through a rate rider in its next cost of service application in 2014.

Orillia states that the NBV of stranded meters as of December 31, 2011 is \$458,308 and that it will amortize the cost of the stranded meters over the period remaining until its next cost of service application. Please provide Orillia's estimate of the NBV of the stranded meters as of December 31, 2013.

4. Annual Security Audit

On pages 10-11 of its Application, Orillia documents the requirement for and the conducting of an annual security audit. On page 11, Orillia concludes:

The selected audit firm first completed an in-depth security review at one participating LDC in the consortium that has the Sensus solution. Once completed the audit firm then reviewed an infrastructure questionnaire completed by all the participating LDC's to confirm that their Sensus AMI systems are configured in the same manner as the lead LDC. The security audits included end to end AMI infrastructure from the meter to utility systems and home area network. The final security audit report was issued in February, 2012.

- a) What were Orillia's costs for participation in this completed audit?
Were these costs incurred in 2011 or 2012?
- b) What, if any costs for 2012, has Orillia included in its forecasted 2012 capital and OM&A costs to deal with the findings of the 2012 security audit report?

5. Interest on OM&A and Depreciation Expense

In filling out sheet "8A. Opex_Interest_monthly" of the Smart Meter Model to calculate the interest on the opening monthly principal balance of OM&A and depreciation expenses, Board staff observes that Orillia has not shown any

monthly entries for depreciation expense. This data should be available from sub-account entries of Account 1556 – Smart Meter Operating Expenses.

Omission of the depreciation expense results in a lower principal balance for OM&A and depreciation expense and, as a result, will understate the interest at the prescribed interest rate for deferral and variance accounts as issued quarterly by the Board.

- a) Please re-file the smart meter model using the monthly OM&A and depreciation/amortization expense data from Account 1556 records. Orillia 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.

6. Cost Allocation (Ref: Application p.15)

- a) Please provide further explanation of Orillia'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 spreadsheet that shows 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 the methodology described above. This should also reflect any and all revisions to Smart Meter Model, Version 2.17 made as a result of Orillia's responses to interrogatories.

7. Class-specific SMIRRs (Ref: Application p.17 and 18)

If Orillia 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 SMIRRs.

8. Foregone Revenues

In its Application, Orillia is seeking an effective date of October 1, 2012 for the SMDR and the SMIRR. In its application, Orillia proposed an effective date of October 1, 2012 for the SMDR, with a recovery period of 24 months. With respect to the SMIRR, Orillia states that it is requesting class-specific SMIRRs as follows:

A forecasted cost recovery rate rider of \$2.59 per Residential customer per month and \$7.56 per General Service Less Than 50kW customer per month for the period **October 1, 2012 to April 30, 2014**. This rate rider represents the incremental revenue requirement related to smart meter costs to be incurred from January 1, 2012 to December 31, 2012. *[Emphasis added]*

Board staff observes that, if the SMDR and SMIRR are both effective October 1, 2012, the SMIRR will only be in effect for 19 months (from October 1, 2012 to April 30, 2014). The SMIRR is a rate adjustment to recover the ongoing (prospective) capital-related and operating expenses for installed smart meters. In effect, Orillia would not be recovering these costs for the period from May 1 to September 30, 2012.

In Orangeville Hydro Limited's recent 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.²

In another recently filed application for smart meter cost recovery, Waterloo North Hydro Inc. has proposed an effective date of November 1, 2012, and has adjusted the SMDR similarly to account for six months of foregone SMIRR revenues from May 1, 2012 to October 31, 2012.³

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

- a) Please provide Orillia'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 September 30, 2012.
- b) If Orillia 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 September 30, 2012. Please show the calculations, and file any applicable spreadsheets.

² Decision and Order, EB-2012-0039, May 24, 2012, page 8

³ Waterloo North Hydro Inc. filed its application on May 31, 2012. The application has been given file number EB-2012-0266.