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BY E-MAIL

July 6, 2012

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

Dear Ms. Walli:

**Re: Festival Hydro Inc.
Smart Meter Cost Recovery
Board Staff Interrogatories
Board File No. EB-2012-0260**

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

In addition please advise Festival Hydro Inc. that responses to interrogatories are due by July 30, 2012.

Yours truly,

Original Signed By

Suresh Advani

Encl.

**Festival Hydro Inc.
 2012 Smart Meter Cost Recovery
 EB-2012-0260
 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 Festival Hydro Inc. (“Festival”) has received any letters of comment. If so, please file copies of any letters of comment received. For each comment letter received, please confirm whether a reply was sent from Festival. 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 Festival intends to respond.

Smart Meter Model

2. Cost of Capital Parameters (Ref: Smart Meter Model, Version 2.17)

A portion of Sheet “3-Cost of Service Parameters” from each of the aggregate, Residential and GS < 50 kW Smart Meter Models is reproduced below.

	2006	2007	2008	2009	2010	2011	2012 and later
Cost of Capital Parameters							
Deemed Short-term Debt Rate			0.00%	0.00%	2.07%	2.07%	2.07%
Long-term Debt Rate (actual/embedded/deemed) ²	7.25%	7.25%	7.25%	7.25%	5.68%	5.68%	5.68%
Target Return on Equity (ROE)	9.0%	9.00%	9.00%	9.00%	9.85%	9.85%	9.85%
Return on Preferred Shares							
WACC	8.13%	8.13%	8.07%	8.01%	7.20%	7.20%	7.20%

Festival has its distribution rates rebased through a cost of service proceeding for the 2010 rate year [EB-2009-0263]¹. In the Board’s Decision and Order for that application, the Board approved a long-term debt rate of 5.87%.

¹

http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/185064/view/dec_order_Festival%20Hydro_20100401.PDF

- a) Please explain Festival's use of 5.68% for 2010 and subsequent years in the Smart Meter Model Version 2.17.
- b) If appropriate, please update the Smart Meter Models filed and the proposed SMDRs and SMIRRs to reflect the correct cost of capital parameters for each year.

3. Tax/PILs Rates (Ref: Smart Meter Model Version 2.17)

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%	30.29%	30.29%	30.29%
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 each of the years 2010, 2011 and 2012, Festival has used an Aggregate Corporate Income Tax Rate of 30.29%.

Board staff also notes that Festival's Board-approved income tax rates for 2010, 2011 and 2012, from the tax-sharing modules of its IRM applications, are as follows:

- 2010 cost-of-service rate application (EB-2009-0263)² reflects an effective tax rate of 29.51%.
- 2011 IRM application (EB-2010-0083)³ reflects an effective tax rate of 28.25%.
- 2012 IRM application (EB-2011-0167)⁴ reflects an effective tax rate of 24.58%.

²

http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/190724/view/Festival_Responses%20to%20comments_OnDRO_Revision_20100428.PDF

Appendix B

³

http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/search/rec?sm_udf10=*eb-2010-0083*&sortd1=rs_dateregistered&rows=200

Festival IRM Rate Models>Final Festival Tax.xls>Sheet F1.1

⁴

http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/332543/view/Festival_TAX_FINAL_20120322.XLS

Sheet 5

Finally, Board staff observes that the 30.29% tax rate used is above the maximum aggregate Federal and Ontario corporate income tax rate in each year of 2010, 2011, and 2012.

- a) Please provide Festival's rationale for the 30.29% tax rate shown for each of 2010, 2011 and 2012.
- b) If appropriate, please update the Smart Meter Models filed and the proposed SMDRs and SMIRRs to reflect the correct cost of capital parameters for each year.

4. Capital Costs (Ref: Smart Meter Model, Version 2.17)

- a) Please explain the entry of (\$2,343) for capital costs for smart meters for 2012 (Cell S42 of Sheet 2 of the aggregate model).
- b) Under 1.5.6 "Other AMI Capital", Festival documents \$9 for 2009, \$24,761 for 2010, \$47,831 for 2011 and \$14,057 for 2012. This is an aggregate amount of \$86,659, and is the largest fraction of the \$188,281 claimed under 1.5 "Total Other AMI Capital Costs Related to Minimum Functionality". Please provide further explanation of these "Other AMI Capital" costs.

5. Meter Troubleshooting costs (Ref: Application, page 11 and Smart Meter Model, Version 2.17)

On page 11 of its Application, Festival states:

In addition to the contracted staff, Festival has two employees in its Metering Department – a Meter Manager and one Meter Technician (both here previous to smart meter deployment). Both employees were substantially involved in the deployment of meters. After the mass deployment was completed in 2010, the Metering Department completed the installation of the "hard to reach" meters and more complex metering situations. They were involved and continue to be involved in the trouble shooting of problematic meters. Salaries and benefits for these two staff members continued to be charged

to USOA #5065 Meter Expense and were not treated as incremental costs added to the smart meter project.

On sheet 2 of its Smart Meter Model, Festival shows \$19,849 for 2011 and \$20,917 for 2012 under 2.1.2 under Operating Expenses related to the Advanced Metering Communication Device (“AMCD”), and are labeled as relating to “meter troubleshooting”.

- a) Please provide further explanation of these meter troubleshooting costs for 2011 and 2012.
- b) Are these costs one-time or recurring?
- c) Please confirm that these OM&A costs do not include any salaries and benefits for Festival Hydro’s employees documented on page 11 of the Application.

6. Additional Employees (Ref: Application, page 14)

On page 14 of its Application, Festival states:

A subset of the smart meter team was responsible for the end to end testing with the MDM/R and internal CIS testing for time of use pricing. One IT resource was added early in the project to meet the demands of the detailed testing and related development. This individual was also directly involved in the business process redesign, because of his in-depth knowledge of how the new systems would impact day to day business activities.

At the beginning of April 2012, a second employee was hired as an AMCC operator to manage the day to day processing. It is expected that both of these resources will be largely committed to the smart meter project for the next six months, with a reduction in time as the systems becomes more stable and staff become more familiar with their roles within the smart meter environment. Post November 1, 2012, Festival expects the time required for AMCC administration and related smart meter tasks will net out to one full-time equivalent incremental position within the Company.

- a) Please provide further description of the functions that will be carried out by the AMCC operator.
- b) Does Festival expect that there will be any reductions in other areas of its operations due to the functions performed by the AMCC operator? For example, might corrections and adjustments to bills be reduced, resulting in time and cost savings by Festival's billing staff and customer representatives to deal with billing issues?

7. Ref: Smart Meter Model, Version 2.17 – Wide Area Network

Board staff observes that Festival has documented no capital costs related to the Wide Area Network ("WAN") in section 1.4 of Sheet 2 of the Smart Meter Model. However, Festival documents OM&A expenses under section 2.4 of sheet 2. Specifically, Festival documents \$15,813 for "WAN Maintenance" for 2010. It also documents \$67,060 for 2010, \$106,028 for 2011 and \$8,468 for 2012 with a label of "Communication services".

- a) On pages 12 and 13 of its Application, Festival documents that it selected its affiliate, Rhyzome Networks, "to providing connectivity or backhaul services for the meters and collectors." Please confirm that the WAN costs documented on sheet 2 are the costs paid to Rhyzome Networks. In the alternative, please explain.
- b) Please explain the costs for 2010 and 2011, and the reason for the cost reduction in 2012.
- c) Is the cost forecasted for 2012 a recurring cost?
- d) Why has Festival expensed all costs related to the WAN?

8. Other OM&A Expenses (Ref: Smart Meter Model, Version 2.17)

Under 2.5.6 "Other OM&A Expenses", Festival documents an aggregate of \$13,617 under OM&A Expenses Related to Minimum Functionality.

- a) Please provide further explanation of these expenses.
- b) Is the forecasted expense of \$9,255 for 2012 a one-time or recurring expense?

9. OM&A Expenses Beyond Minimum Functionality (Ref: Smart Meter Model, Version 2.17)

Under 2.6.3, Festival documents \$37,443 for 2011 and \$99,631 for 2012 as OM&A expenses related to TOU rate implementation, CIS system upgrades, web presentation, integration with the MDM/R, etc.

On page 21 of its Application, Festival states that minimum functionality is exceeded in ODS, web presentment and upgrade costs. Additionally, Festival states that OM&A costs beyond minimum functionality amount to \$137,074. Board staff notes that this represents 26.5% of the total smart meter OM&A costs of \$516,640.

- a) Please provide a further breakout and explanation of the OM&A expenses beyond minimum functionality for each of 2011 and 2012. Also identify which costs are one-time and which are recurring.
- b) For recurring costs, please confirm and explain how these costs are incremental to Festival's existing OM&A expenses factored into its approved revenue requirement and recovered through distribution rates.

10. GS > 50 kW customers (Ref: Application, pages 22 to 23)

On pages 22 and 23, Festival states the following:

Festival recognized that the installation of smart meters for GS > 50 kW customers was beyond the definition of minimum functionality. However, Festival decided it was prudent to change out the 135 GS > 50 kW meters (i.e. GS > 50 kW to 200 kW) at the same time for the following reasons:

- To leave these 135 meters scattered throughout our service territory requiring manual meter reads would have resulted in an inefficient meter reading operation.
- Annually, Festival reviews classification of accounts in accordance with Section 2.5 of the Distribution System

Code. There are generally a number of accounts which switch annually from G.S. < 50 kW to G.S. > 50 kW (non-interval) and vice versa. Having smart meters in place for all these accounts will make it much easier and less costly at the time of re-classification.

- G.S. > 50 kW customers will now have access to Web presentment for their usage to be able to take action on peak reduction and energy savings thorough conservation programs.

The costs for these meters and related installation costs have been charged to USOA # 1860 Meter Capital and are not included in this application.

While Festival has excluded the capital costs for the smart meters for these GS > 50 kW customers from this Application, it would appear that other capital and operating costs, related to WAN installation and operation, CIS and billing upgrades, AMCC operation, and web presentment documented in the Application are used to provide services to these customers as well as to Residential and GS < 50 kW customers with smart meters.

- a) Please explain Festival's rationale for not including the costs for smart meter installations for GS > 50 kW customers, given that Festival has documented there are periodic reclassification of customers between the GS < 50 kW and GS > 50 kW classes, and that these customers also are serviced through the installed infrastructure.
- b) Please provide Festival's estimates of the per meter cost for a GS > 50 kW customer in contrast to the per meter cost for a GS < 50 kW customer. Please provide an explanation of any variation.
- c) Does Festival consider that recovering the SMDR and SMIRR only from Residential and GS < 50 kW customers implies that GS > 50 kW customers are being cross-subsidized for services such as automated data collection and web presentment that they also receive.
- d) Under its proposal, how is Festival recovering the costs for smart meters installed for GS > 50 kW customers?

- e) Please provide class-specific SMDRs and SMIRRs that would reflect an allocation of costs to and recovery from the three classes of Residential, GS < 50 kW and GS > 50 kW.
- f) How is Festival treating the remaining net book value of conventional meters of GS > 50 kW customers replaced by smart meters?

11. Revenues Collected

A portion of Sheet "9. SMFA_SMDR_SMIRR" from each of the Residential, GS < 50 kW and Total Smart Meter Models is reproduced below.

Residential

Calculation of Smart Meter Disposition Rider (per metered customer per month)

Years for collection or refunding		1.5
Deferred Incremental Revenue Requirement from 2006 to December 31, 2011 plus Interest on OM&A and Amortization	\$	663,021.91
SMFA Revenues collected from 2006 to 2012 test year (inclusive) Plus Simple Interest on SMFA Revenues	\$	956,270.13
Net Deferred Revenue Requirement	-\$	293,248.22

GS < 50 kW

Calculation of Smart Meter Disposition Rider (per metered customer per month)

Years for collection or refunding		1.5
Deferred Incremental Revenue Requirement from 2006 to December 31, 2011 plus Interest on OM&A and Amortization	\$	186,433.54
SMFA Revenues collected from 2006 to 2012 test year (inclusive) Plus Simple Interest on SMFA Revenues	\$	108,785.01
Net Deferred Revenue Requirement	\$	77,648.53

Total

Calculation of Smart Meter Disposition Rider (per metered customer per month)

Years for collection or refunding		1.5
Deferred Incremental Revenue Requirement from 2006 to December 31, 2011 plus Interest on OM&A and Amortization	\$	849,452.01
SMFA Revenues collected from 2006 to 2012 test year (inclusive) Plus Simple Interest on SMFA Revenues	\$	1,064,660.32
Net Deferred Revenue Requirement	-\$	215,208.31

With respect to the "SMFA Revenues collected from 2006 to 2012...", Board staff notes that the amount of \$1,064,660 under Total reconciles with the amount

provided in the table on page 20 of the Application. Board staff also notes that this amount does not reconcile with the amounts of \$956,270 under Residential and \$108,785 under GS<50, which add to \$1,065,055.

Please confirm the correct amounts for Residential and GS<50 kW customers. If they are different from the amounts provided in the models, please update the Smart Meter Models after applying the correction.

12. Number of Metered Customers

A portion of Sheet "9. SMFA_SMDR_SMIRR" from each of the Residential, GS < 50 kW and Total Smart Meter Models is reproduced below.

Number of Metered Customers (average for 2012 test year) _____

Residential	17794
GS<50	1986
Total	19780

Board staff notes that the total number of metered customers for the Residential and GS < 50 kW rate classes provided in the Smart Meter Models adds to 19,780. Board staff also notes that this number does not reconcile with the total number of metered customers provided on page 18 of the Application, being 19,650.

Please confirm the correct number of metered customers for the Residential and GS < 50 kW rate classes. If they are different from the amounts provided in the models, please update the Smart Meter Models after applying the correction.

13. Net Deferred Revenue Requirement

A portion of Sheet "9. SMFA_SMDR_SMIRR" from each of the Residential, GS<50 and Total Smart Meter Models is reproduced below.

Residential

Calculation of Smart Meter Disposition Rider (per metered customer per month)

Years for collection or refunding		1.5
Deferred Incremental Revenue Requirement from 2006 to December 31, 2011 plus Interest on OM&A and Amortization	\$	663,021.91
SMFA Revenues collected from 2006 to 2012 test year (inclusive) Plus Simple Interest on SMFA Revenues	\$	956,270.13
Net Deferred Revenue Requirement	-\$	293,248.22

GS<50

Calculation of Smart Meter Disposition Rider (per metered customer per month)

Years for collection or refunding		1.5
Deferred Incremental Revenue Requirement from 2006 to December 31, 2011 plus Interest on OM&A and Amortization	\$	186,433.54
SMFA Revenues collected from 2006 to 2012 test year (inclusive) Plus Simple Interest on SMFA Revenues	\$	108,785.01
Net Deferred Revenue Requirement	\$	77,648.53

Total

Calculation of Smart Meter Disposition Rider (per metered customer per month)

Years for collection or refunding		1.5
Deferred Incremental Revenue Requirement from 2006 to December 31, 2011 plus Interest on OM&A and Amortization	\$	849,452.01
SMFA Revenues collected from 2006 to 2012 test year (inclusive) Plus Simple Interest on SMFA Revenues	\$	1,064,660.32
Net Deferred Revenue Requirement	-\$	215,208.31

With respect to the “Net Deferred Revenue Requirement”, Board staff notes that the amounts under Residential and GS < 50 kW add to (\$215,600), an amount which does not reconcile with the amount under Total.

- a) Please confirm the correct amounts for the Residential and GS<50 kW rate classes. If they are different from the amounts provided in the models, please update the Smart Meter Models after applying the correction.
- b) Please provide calculation details for the correct amounts for the Residential and GS < 50 kW rate classes by completing the table provided below.

Revenue Requirement	Total Amount	Allocation Factor - Residential	Residential	Allocation Factor - GS<50	GS<50
Return on Smart Meter Rate Base					
OM&A Expenses					
Amortization Expenses					
Revenue Requirement before PILs					
Grossed-up PILs					
Interest Expense on deferred OM&A and depreciation/amortization expenses					
Deferred Incremental Revenue Requirement					
Revenues Collected from 2006 to 2012					
SMFA Revenues allocated from other metered customer classes					
Carrying charges on allocated SMFA revenues					
Net Deferred Revenue Requirement					

14. Incremental Revenue Requirement for 2012

A portion of Sheet “9. SMFA_SMDR_SMIRR” from each of the Residential, GS<50 and Total Smart Meter Models is reproduced below.

Residential

Calculation of Smart Meter Incremental Revenue Requirement Rate Rider (per metered customer per month)

Incremental Revenue Requirement for 2012 \$ 528,034.43

GS<50

Calculation of Smart Meter Incremental Revenue Requirement Rate Rider (per metered customer per month)

Incremental Revenue Requirement for 2012 \$ 143,195.62

Total

Calculation of Smart Meter Incremental Revenue Requirement Rate Rider (per metered customer per month)

Incremental Revenue Requirement for 2012 \$ 671,312.68

With respect to the “Incremental Revenue Requirement for 2012”, Board staff notes that the amounts under Residential and GS<50 add to \$671,230, an amount which does not reconcile with the amount under Total.

- a) Please confirm the correct amounts for the Residential and GS<50 rate classes. If they are different from the amounts provided in the models, please update the Smart Meter Models after applying the correction.
- b) Please provide calculation details for the correct amounts for the Residential and GS<50 rate classes by completing the table provided below.

Revenue Requirement	Total Amount	Allocation Factor - Residential	Residential	Allocation Factor – GS<50	GS<50
Return on Smart Meter Rate Base					
OM&A Expenses					
Amortization Expenses					
Revenue Requirement before PILs					
Grossed-up PILs					
Incremental Revenue Requirement for 2012					

15. OM&A and Depreciation Expenses (Ref: Smart Meter Model, Version 2.17, Sheet 8A)

Why has Festival not included any forecasted OM&A and Depreciation/Amortization expenses for November and December 2012, as this will result in an underestimate of the SMIRR?

Stranded Meters

16. Stranded Meter Costs

On page 23 of its Application, Festival states that it will seek disposition of stranded meter costs as part of its next cost of service application in 2014. Festival states that stranded meter costs continue to be amortized.

Please provide Festival’s estimate of the Gross Book Value, Accumulated Depreciation and Net Book Value of the stranded meters as of December 31, 2013.