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Ontario

BY E-MAIL

July 20, 2012

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

Dear Ms. Walli:

Re: Veridian Connections Inc.
Board Staff Interrogatories
Application for 2012 Smart Meter Cost Recovery effective November 1, 2012
Board File No. EB-2012-0247

In accordance with the procedure documented in the Notice of Application and Hearing, please find attached Board staff's Interrogatories in the above proceeding.

As a reminder, Veridian Connections Inc.'s responses to interrogatories are due by August 3, 2012.

Yours truly,

Original Signed By

Daniel Kim
Analyst – Applications & Regulatory Audit

Encl.

Veridian Connections Inc.
2012 Smart Meter Cost Recovery
Board Staff Interrogatories
EB-2012-0247

General

1. Letters of Comment

Following publication of the Notice of Application, the Board has, to date, received three letters of comment. For each, please confirm whether a reply was sent from Veridian Connections Inc. ("Veridian") 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 Veridian intends to respond.

Smart Meter Model

2. Ref: Sheet 2 "Smart_Meter_Costs" (Other OM&A Costs)

On sheet 2 of the Smart Meter Model, under 2.1.2 Other, Veridian lists costs labelled as "Meter Base Repairs" for the years 2009 to 2012 inclusive. These costs total about $122,000 for the period 2009 to 2011, and Veridian forecasts $35,000 for 2012.

a) Given that Veridian has applied for final disposition of its smart meter costs and completed smart meter deployment except for some hard-to-reach customers by December 31, 2012, please explain the $35,000 forecasted for 2012.
b) Is the $35,000 forecasted for 2012 a one-time expense or a recurring expense?

3. Ref: Sheet 2 "Smart_Meter_Costs" (OM&A Costs)

On sheet 2 of the Smart Meter Model, Veridian documents OM&A costs for Maintenance of the Advanced Metering Communications Device ("AMCD") in 2.1.2 (row 114). The costs increase from 2009 to 2012, with OM&A expenses for 2012 estimated at $99,426.

a) Please explain the increasing costs for AMCD maintenance over time.
b) Is the 2012 estimate of $99,426 a one-time or recurring expense?

4. Ref: Sheet 3 "Cost_of_Service_Parameters" (Taxes/PILs Rates)

Veridian has used the maximum taxes/PILs rates input 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**
Aggregate Federal and provincial income tax rate	36.12%	36.12%	33.50%	33.00%	31.00%	28.25%	26.50%

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

Stranded Meter Costs

5. Ref: Manager's Summary, page 5

Veridian noted that it is not seeking recovery of stranded meter costs at this time and continues to include these costs in its rate base for rate-making purposes.

a) Please confirm whether Veridian continues to amortize the stranded meter assets currently included in rate base for rate-setting purposes.
b) As Veridian is next expected to rebase its rates through a cost of service application for 2014, please provide the estimated Net Book Value of stranded meters as of December 31, 2013.

Other Capital Costs

6. Ref: Manager's Summary, Table 5, page 11

Veridian has provided 'Other AMI Capital Costs' of $12,050 in 2009. Please provide a description of these capital costs.

Smart Meter Costs

7. Ref: Manager's Summary, page 12

Veridian noted that for its collector installations, Veridian evaluated between a plain, old telephone services ("POTS") solution versus a Wide Area Network ("WAN") solution. Through a comprehensive REF and evaluation process and detailed cost/benefit review, Veridian went with the WAN solution. Veridian indicated that the solution required a small capital investment of approximately $40,000 for modems to be deployed with the collector meters.

a) Please provide a summary of the cost/benefit analysis and the reasons that Veridian selected the WAN versus the POTS system.
b) How much are the annual operating costs of the WAN solution? Have these costs been included in the OM&A, and if so, where?

8. Ref: Manager’s Summary, page 13

Under the Advanced Metering Control Computer (AMCC), Veridian has noted hardware costs totaled $80,340 and software licensing and configuration costs totaled approximately $281,000. Please provide a reconciliation of these costs with Table 5 on page 11 of the Manager’s Summary.

9. Ref: Manager’s Summary, page 14

Veridian has noted that problems regularly occur that neither the Advanced Metering Infrastructure (“AMI”) nor the Meter Data Management/Repository (“MDM/R”) nor the Customer Information System (“CIS”) is designed to handle exclusively on their own. These issues are caused by meter exchanges, meter removals, new services, disconnections/reconnects, and data estimations. Veridian’s Operational Data Store (“ODS”) facilitates these processes. Veridian indicated that the total capital costs for the ODS were approximately $266,000, which includes hardware, software licensing and costs for configuration.

a) How frequent do these problems occur on a monthly basis?
b) Please reconcile the $266,000 with Table 5 on page 11 of the Manager’s Summary.

Smart Meter OM&A Costs

10. Ref: Manager’s Summary, page 16

Veridian has indicated smart meter and collector maintenance costs include approximately $192,000 for meter base repairs where retrofit or repair work was required on customers’ equipment to enable smart meter installation. Please reconcile this amount with Table 6 on page 15 of the Manager’s Summary.

Costs Beyond Minimum Functionality

11. Ref: Manager’s Summary, page 18

Veridian has indicated that it has incurred capital costs of $32,290 and OM&A expenses of $160,469 that meet the Board's criteria for being identified as expenditures beyond minimum functionality.

a) Please describe the modifications that were required to Veridian's CIS.
b) Please reconcile the costs of the minor modifications of $23,300 and the costs of the web presentment of $7,600 to total incurred capital costs of $32,290.
c) Does Veridian anticipate any further capital costs that go beyond minimum functionality with respect to Veridian's CIS and web presentment software?

SMDR and SMIRR Calculations

12. Ref: Application, page 4 – Foregone Revenues

On page 4 of its Application, Veridian states:

> For purposes of the SMDR calculation, it is necessary to calculate the revenue requirement up to the effective date of the SMIRR which then provides the prospective revenue requirement associated with the approved smart meter investment and related incremental OM&A costs.
>
> The Application proposes an effective date of November 1st, 2012 for the SMIRR rate rider. For purposes of the SMDR calculation, it is then necessary to calculate revenue requirement up to October 31st, 2012.
>
> To determine the 2012 revenue requirement to October 31st, 2012, Veridian has calculated the revenue requirement for the 2012 fiscal year ended December 31st, 2012 and prorated this amount for the ten months to October 31st, 2012.
>
> OM&A costs included in the SMDR are actual audited costs from January 1st, 2009 to December 31st, 2011 and the prorated costs for the ten months in 2012 until the proposed date of the SMIRR.

Veridian's rate year is May 1 to April 30 of the successive year, offsetting the fiscal calendar year by four months. Veridian has also proposed that the SMIRR remain in effect until April 30, 2014, the day before the expected effective date for its next rebased rates resulting from a cost of service rates application.

a) With Veridian's proposal of adjusting the SMDR for the revenue requirement up to October 31, 2012 and the SMIRR commencing November 1, 2012 and continuing until April 30, 2014, please confirm that Veridian will be recovering four additional months of SMIRR revenues (i.e., with the four month lag in the rates year, the SMIRR going into effect on November 1, 2012 would be recovering the revenue requirement from mid-year). If not, please explain.

b) The revenue requirement is composed of capital-related costs (i.e. depreciation expense to recover the initial capital principal invested, return on capital and associated taxes/PILs) and OM&A expenses. Veridian states that it prorated the revenue requirement and that the OM&A costs include the prorated costs for 10 months of 2012. Please confirm how Veridian has done the calculations so that it is not double-counting 10 months of revenue requirement and the OM&A pro-ration.

c) Please provide the calculations/derivation of the adjusted revenue requirement on which the SMDR is based.

Cost Allocation

13. Ref: Application, Sections 7.0 and 8.0 – Cost Allocation

With respect to the cost allocation methodology for the SMDR, Veridian references the cost allocation methodology for the SMIRR in Table 10.

The main difference in the calculation of the SMIRR and the SMDR is the applicability of SMFA revenues and associated interest as an offset to the deferred revenue for the SMDR. There is no SMFA revenue offset for the SMIRR.

Guideline G-2011-0001 states at pages 19-20;

> 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.12 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.

a) Please explain how Veridian has allocated the SMFA revenues and associated interest for the purposes of calculating class-specific SMDRs.

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.

14. Ref: Application, Sections 7.0 and 8.0 – Cost Allocation

a) If Veridian 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.

b) Similarly, please update the calculation of class-specific SMIRRs.