

St. Thomas Energy Inc.
2012 Smart Meter Cost Recovery
EB-2012-0348

Board Staff Interrogatories

In the Board's Notice of Application and Hearing for an Electricity Distribution Rate Change St. Thomas Energy Inc. ("STEI"), October 10, 2012 was set as the deadline for interrogatories to STEI. Board staff submits the following interrogatories.

1. Letters of Comment

Following publication of the Notice of Application, the Board received one letter of comment. Please confirm whether a reply was sent from the applicant 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 indicate if the applicant intends to respond.

2. Audited Balances

STEI has stated that it had installed 100% of its smart meters by December 31, 2011, and that the audited balance as of December 11, 2011 for the installations is \$3,485,033.¹ Please state the percentage of the expected total actual cost for smart meters this balance represents.

3. Smart Meter Model – Tab 2 – Smart Meter Costs

STEI has shown no capital or OM&A costs for 2012. This will result in the SMIRR being understated. Please explain STEI's proposal.

4. Smart Meter Model – Tab 3 – Cost of Capital Parameters

STEI has provided the cost of capital parameters for historical years and for 2012 in the Tab 3 Cost of Capital Parameters in the Smart Meter Model V 1.17 (the "Model").

¹ Application, page 3

- a. The following table shows the costs for short term debt (“STD”), Long Term Debt (“LTD”) and Return on Equity (“EQ”) that STEI requested and what the Board allowed in STEI’s 2011 cost of service (“CoS”) application, EB-2010-0141:

2011 CoS		
<u>Exhibit 5 Tab 1 Schedule 1 [EB-2010-0141]</u>		
STD	4.00%	2.43
LTD	56.00%	5.48
EQ	40.00%	9.66
<u>Exhibit 12 Tab 1 Schedule 13 [EB-2010-0141]</u>		
STD	4.00%	2.46%
LTD	56.00%	5.60%
EQ	40.00%	9.58%

Please explain the reason STEI has proposed using the cost of capital parameters it proposed in EB-2010-0141 rather than those approved by the Board. If this was in error, please correct the costs of capital parameters.

- b. STEI has used the maximum taxes/PILs rates for the years 2006, through to and including a forecast for 2012. These are summarized in the following table:

Maximum Aggregate Federal & Provincial Corporate Tax Rates							
Year	2006	2007	2008	2009	2010	2011	2012
Rate	36.12%	36.12%	33.50%	33.00%	31.00%	28.25%	26.25%

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

Unit Cost Calculations

Board staff has developed the following table from Table 9:²

Estimated Costs for Smart Meters.				
		Costs	Meters	Unit Cost
1	Residential	\$1,605,610	14,632	\$109.73
2	GS<50 kW	\$418,751	1,655	\$253.02
3	Sub Total	\$2,024,361	16,287	\$124.29
4	Installation	\$495,174		
5	Other	\$650,098		
6	Total	\$3,169,633	16,287	\$194.61
7	OM&A	\$217,257	16,287	\$13.34
8	Total	\$3,386,890	16,287	\$207.95
9	GS>50 kW	\$98,143	172	\$570.60
10	Grand Total	\$3,485,033	16,459	\$211.74

- c. Please confirm that STEI agrees with the table. If not please explain why STEI does not agree and please provide a corrected table.

5. Costs Beyond Minimum Functionality

STEI has stated that it has incurred costs beyond minimum functionality. These are the capital costs of \$28,110 for installing 172 smart meters in the GS>50 kW class and an undisclosed amount for a 3-phase analyzer, and operating expenses of \$49,306 for Business Process Redesign and CIS System changes which were required to handle mass introduction of smart meters, TOU billings and WEB Presentment.^{3, 4}

- a. STEI has stated that the 3-phase analyzer was purchased as a revenue protection, customer complaint mitigation tool for the analyzer is installed prior to and after a meter change-out to verify meter readings and is an ideal tool for finding energy waste in commercial and factory buildings and equipment. Please provide additional reasons for this

² Application, page 24

³ Application pages 4 - 5

⁴ Application page 19

expenditure to be considered as a cost for implementing smart meters, as opposed to a cost that should probably be considered as an general investment made for revenue protection.

- b. Please separately identify the 3-phase analyzer by stating the amount, and on Tab 2 "Smart Meter Costs" of the Model, reclassify its cost and select its Asset Type in the appropriate columns. If this is not possible, please explain.
- c. Please state why the expenses of \$49,306 associated with upgrading system to handle new business processes, TOU billing, and designing and implementing a web presentment are not considered as capital costs?
- d. Please provide a copy of STEI's capitalization policy.

6. Customer Repairs

The Board in the Guidelines stated:

"The actual costs for materials and parts to repair or replace any customer-owned equipment should be expensed and also tracked separately in a different sub-account of the Smart Meter OM&A Variance Account 1556 until disposition is ordered by the Board following a review for prudence of the smart meter costs. As the meter base remains the property of the customer, the Board determined that it would not be appropriate to have it form part of the distributor's rate base."

- a. Please state the costs of repair or replacement of any customer-owned equipment.
- b. Please state the total amount for meter bases.
- c. Please confirm that these costs were recorded in a different sub-account of the Smart Meter OM&A Variance Account 1556.

Budget Variances

STEI has provided Table 3: Actual to Budget Cost Summary and Table 4: Budget Variance Summary.⁵ Board staff would like some clarifications.

- a. Please review the two tables and make any changes that are necessary to represent the variance. For example, in Table 3 Item 1.6, the Budget for Capital Cost Beyond Minimum Functionality is \$496,000 with a variance of (\$467,890), while in Table 4 the Budget variance for the same Item is (\$460,000).
- b. Please explain the Scientific Research & Experimental Development Credit listed in the OM&A Variances in Table 4, by stating how this credit relates to smart meters, how much was budgeted and why there is a (\$30,000) variance.

7. Stranded Meters

STEI has stated that the stranded meters will be left in rate base until its next cost of service application, expected to be in 2015. At that time STEI has stated the estimate for the stranded meters as of December 31, 2014 would be \$590,000. Please confirm that STEI will depreciate its stranded meters as they remain in rate base.

8. Allocation of Smart Meter Funding Adder Revenues

STEI has allocated the Smart Meter Funding Adder ("SMFA") revenues for the purposes of determining the SMDA on the basis of the allocated revenue requirement. Please calculate the SMDR based on assigning the amounts collected, including interest, by class.

9. Proposed Effective and Implementation Date

On page 23 of its Application, STEI states:

"As a means of mitigating rate increases to the General Service < 50 kW and General Service > 50 kW classes and to align the sunset dates within a rate year, STEI is proposing that the SMDR Rider be collected over a 20-month period from September 1, 2012 to April 30, 2014, and that the 2012 SMIRR Rider be collected over an 8-month period from September 1, 2012 to April 30, 2013."

⁵ Application, pages 16 & 17

Since St. Thomas Energy filed its Application on August 9, 2012, an implementation date for new rates of September 1, 2012 is not achievable.

The calculation of the SMDR in Table 6 is based on 2 years. By delaying the implementation of the SMDR, STEI would be foregoing revenues from the SMDR for the period from May 1, 2012 to the Effective Date for the SMDR.

- a. Please re-calculate the SMDR assuming an implementation date of December 1, 2012; and
- b. January 1, 2013. In doing so, please include the revenue requirement up to the implementation date.

The SMIRR is the incremental revenue requirement for 2012 and should remain unchanged.

10. Smart Meter Model Update

The interrogatories have necessitated updates to the Application:

- a. Please file an updated Model incorporating the changes arising from the interrogatories: and
- b. Please provide updated calculations showing the determination of the SMDRs and SMIRRs arising from the interrogatories.