

October 15, 2012

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, Ontario
M4P 1E4

Dear Ms. Walli

**St. Thomas Energy Inc.
2012 Smart Meter Cost Recovery
Response to VECC Interrogatories
Board File No. EB-2012-0348**

Please find accompanying this letter two hard copies of St. Thomas Energy Inc.'s response to the VECC Interrogatories. Electronic version of this response will be forwarded to the Board in PDF format.

Yours truly,



Robert Kent, CGA
Director, Finance and Regulatory Affairs
Telephone (519) 631-5550 x 258
Fax (519) 631-5193
e-mail rkent@sttenergy.com

VECC Question # 1

Reference: Application, Page 1

Preamble: STEI indicates its capital and OM&A cost recovery is based on actual costs incurred to December 31, 2011.

- a) Please confirm STEI's smart meter recovery costs to the end of December 31, 2011 have been audited.

STEI Response:

- a) *STEI confirms that the December 31, 2011 smart meter costs have been audited.*

VECC Question # 2

Reference: Application, Page 3

Preamble: The evidence states STEI has installed 16,459 smart meters, 319 more meters than the planned amount of 16,140.

- a) Please explain the variance in installed smart meters (actual vs. planned), by customer class.

STEI Response:

- b) *The original smart meter installation budget developed in 2008 was based upon the following forecasted installations.*

Smart Meter Installation			
<i>Customer</i>	<i>Budget</i>	<i>Actual</i>	<i>Difference</i>
<i>Residential</i>	14,292	14,632	340
<i>GS < 50 kW</i>	1,679	1,655	(24)
<i>GS > 50 kW</i>	169	172	3
<i>Total</i>	16,140	16,459	319

The variance is due to the differences in customer counts that occurred between the preparation of the smart meter plan in 2008 and the actual meters installed at December 31, 2011.

VECC Question # 3

Reference: Application, Page 3

Preamble: The evidence indicates STEI achieved economies of scale where possible and acted prudently in obtaining best possible pricing.

- a) Please explain more fully how STEI achieved economies of scale and obtained best possible pricing.
- b) Please quantify any savings from part (a) and discuss how these savings have been reflected in this application.

STEI Response:

- a) *STEI achieved economies of scale by working with other LDC's. Specifically STEI participated in the Ontario Utilities Smart Meter working group, the London Hydro Automated Meter Infrastructure RFP which provided a significant degree of cost control and as a member of the Utility Collaborative Service ("UCS") group. The UCS group is comprised of 8 utilities that utilize Harris as their software package. Member's work co-operatively seeking efficient solutions related to smart meter deployment, operations and standardization of the Harris system.*

STEI achieved best possible pricing by issuing a series of RFP's to ensure best pricing and service was achieved

- b) *STEI is unable to quantify the total savings. However, STEI is confident that cost savings were achieved by acting as a member in the above noted activities. As well, STEI by not being an earlier adopter, leveraged lessons learned and system integration within the industry and the UCS group, thereby reducing the total costs of the smart meter program. A result of these collaborative activities was that STEI did not hire an additional labour resource that was included in the smart meter budget resulting in savings of approximately \$90,000. A direct result of these initiatives is that STEI delivered its smart meter program under budget and under the industry average as reported in the Monitoring Report on Smart Meter Investment as at September 30, 2010.*

VECC Question # 4

Reference 1: Application, Page16-17, Table 3, Table 4

Reference 2: Smart Meter Model, 20120809, Sheet 2

Preamble: STEI indicates its initial budget, as determined by Util-Assist included cost beyond minimum functionality (capital of \$496,000 & OM&A of \$510,000) and costs beyond the December 31, 2011 installation date.

- a) Please explain the purpose of remote disconnect technology and why STEI did not incur this cost. (1.6 \$496,000).
- b) Please explain why STEI is not seeking recovery of MDM/R integration costs (2.6 \$510,000) as part of the Smart Meter Recovery Application.
- c) Please confirm the costs beyond the December 31, 2011 installation date included in the initial budget but not incurred, and explain why these costs were not incurred.

STEI Response:

- a) *Remote disconnect technology allows a LDC to remotely connect or disconnect power to a customer without a visit from a technician. STEI purchased 200 remote disconnect meters at a cost of approximately \$24,000. The meters were not deployed as of December 31, 2011.*
- b) *STEI incurred minimal direct MDR/R costs. OM&A costs that exceed minimum functionality include \$5,108 of MD/R costs.*
- c) *STEI confirms that the initial budget included costs beyond the date the STEI finalized its smart meter program. STEI will incur these additional costs and they will be included in STEI operations.*

VECC Question # 5

Reference 1: Application, Page16, Table 4

Reference 2: Smart Meter Model, 20120809, Sheet 2

Preamble: Table 4 shows actual costs beyond minimum functionality: capital costs of \$28,110 (1.6) for three phase analyzers and OM&A costs of \$49,306 (2.6) for business process redesign, CIS changes. VECC notes these costs are shown on sheet 2 of the smart meter model for costs for deployment of smart meters to customers other than residential and GS<50 kW.

- a) Please explain more fully how STEI's costs beyond minimum functionality meet the Board's Guidelines G-2011-0001 (pages 14 to 17) regarding eligibility based on the types of costs beyond minimum functionality (A, B and C) described in the guideline.
- b) Please identify how STEI's proposed capital and OM&A costs beyond minimum functionality are reflected in the model.
- c) Please confirm the capital and OM&A costs to deploy smart meters to the GS>50 kW customer class and confirm how STEI has accounted for these costs in the model.

STEI Response:

- a) *STEI's previous 3-phase analyzer was unable to read smart meters and was unable to be modified to provide the required readings, as such STEI was required to purchase a new analyzer to be able to continue to provide this service to its customers.*

The OM&A costs of \$49,306 for business process redesign and CIS changes were incorrectly included on line 2.6.2 Costs for deployment of smart meters to customers other than residential and small general service on sheet 2 of the smart meter model. The costs should have been included on line 2.6.3 Costs for TOU rate implementation, CIS system upgrades, web presentation, integration with the MDM/R, etc.

These costs are considered incremental as the additional functionality required within the CIS system to handle the mass introduction of smart meters, TOU billings and Web Presentment were not a component of STEI's annual operating or capital budgets but are required to fulfill the smart metering mandate.

- b) *Capital costs beyond minimum functionality* are reflected in the smart meter model sheet 2, line 1.6.2 total cost of *\$28,110*.

OM&A cost beyond minimum functionality are reflected in the smart meter model sheet 2, line 2.6.2 total cost of *\$49,307*. These costs have been transferred to line 2.6.3 of the revised smart meter model.

- c) STEI has recorded \$126,253 of capital cost associated with the GS > 50 kW customer class. Line 1.1.1, sheet 2 of the smart meter model, total smart meter cost of \$2,122,504, includes GS > 50 kW smart meter capital cost \$98,143 and \$28,110 is recorded on line 1.6.2.

VECC Question # 6

Reference: Application, Page12

Preamble: STEI provides information on web presentment.

- a) Please confirm STEI's web presentment costs and explain how STEI has accounted for these costs in the smart meter model by year.

STEI Response:

- a) *STEI's web presentment cost were \$16,135 and are accounted for within the \$49,307 report on tab 2 line 2.6.3 of the smart meter model.*

VECC Question # 7

Reference: Application, Page 19

Preamble: The evidence indicates STEI anticipates annual savings of approximately \$15,000 as a result of the change from manually reading meters to remote meter reading costs.

- a) Please explain how the meter readings savings are reflected in the current application.

STEI Response:

- a) *The anticipated savings have not been reflected in the smart meter application as at the time STEI incurred increased cost related to manual and electronic meter reading costs. The anticipated savings associated with the reduction in manual reading costs, if realized, will be reflected in STEI's next cost of service application.*

VECC Question # 8

Reference: Application, Page 3

Preamble: STEI indicates it has installed 16,459 smart meters in the residential, GS<50 kW and GS>50 kW customer classes.

- a) Please provide a summary of STEI's incremental internal labour costs included in this application in terms of positions, contract type (permanent vs. temporary, part-time vs. full-time), length of employment and work activities.

STEI Response:

- a) *STEI outsourced the entire smart meter program. As such, no incremental internal labour has been recorded.*

VECC Question # 9

Reference 1: Smart Meter Model, 20120809

Reference 2: Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011, Page 19

Preamble: The Guideline states, "The Board views that, where practical and where data is available, class specific SMDRs should be calculated on full cost causality."

- a) Please complete a separate smart meter revenue requirement model by customer class. (This should include any adjustments resulting from interrogatory responses)

- b) Please re-calculate the SMDR & SMIRR rate riders based on full cost causality by rate class.
- c) If STEI is unable to provide separate smart meter revenue requirement models by rate class, please provide a detailed explanation.

STEI Response:

- a) *STEI's smart meter application and associated rate riders are based upon full cost causality and the smart meter funding adders have been allocated as collected by rate class.*
- b) *STEI's SMDR and SMIRR rate riders for the Residential, GS < 50 kW and GS > 50 kW customer classes are based upon cost causality.*
- c) *STEI's SMDR and SMIRR rate riders for the Residential, GS < 50 kW and GS > 50 kW customer classes are based upon cost causality.*

VECC Question # 10

Reference: 2012 Smart Meter Model, 20120809, Sheet 2

- a) Please explain the increase in line 1.3.1 Computer Hardware in 2011 compared to 2010.
- b) Please explain the increase in line 2.5.4 Change Management in 2011 compared to 2010
- c) STEI has included no incremental OM&A costs for 2012 related to the operation of smart meters and related infrastructure and systems. Please explain why STEI has not included other incremental OM&A expenses for maintenance and operation of these assets and systems.

STEI Response:

- a) *The increase in 2011 as compared to 2010 is due to timing of invoicing and requirements based upon the status of the smart meter project. The capital implementation was substantially completed in 2010 whereas the operating requirements were substantially undertaken in 2011.*
- b) *The increase in 2011 as compared to 2010 is due to timing of invoicing and requirements based upon the status of the smart meter project. The capital implementation was substantially completed in 2010 whereas the operating requirements were substantially undertaken in 2011.*
- c) *STEI did not include additional smart meter OM&A costs in 2012 as the smart meter installation program was completed in 2011. Any additional costs related to OM&A costs have been included in 2012 operations.*

VECC Question # 11

Reference 1: Application, Page 9

Reference 2: 2012 Smart Meter Model, 20120809, Sheet 2

Preamble: STEI indicates actual Business Process Redesign is an ongoing process leading up to and after cutover.

a) Please confirm there are no ongoing costs in 2012 related to Business Process Redesign.

STEI Response:

a) *STEI confirms that there are no ongoing costs in 2012 related to Business Process Redesign directly related to the smart meter program.*

VECC Question # 12

Reference 1: Application, Page 1

Reference 3: Application, Page 23

Preamble: At reference 1, STEI indicates it is requesting a 24 month SMDR for the residential, GS<50 kW and GS>50 kW customer classes and a 12 month SMIRR for the period May 1, 2012 to April 30, 2015. At reference 3, STEI is proposing a start date of September 1, 2012 for the SMDR and SMIRR.

VECC notes the following:

- STEI's SMFA revenue (Sheet 8 of model) is collected to June 2012 and the interest is calculated until December 31, 2012. STEI filed its application on August 9, 2012 and the Board's Notice of Application indicates an effective date of October 1, 2012 which is no longer feasible. For a November 1, 2012 implementation date for example it is appropriate that interest be calculated to the end of October 2012 and taken into account in the determination of the net deferred revenue requirement to be recovered via the SMDR.

- The Board has, in recent decisions established mechanisms for distributors to recover the foregone revenues from the SMIRR where the SMDR and SMIRR could not be implemented on the May 1, 2012.

- The SMIRR is intended to recover the incremental revenue requirement (i.e. capital related costs for installed smart meters and the OM&A expenses) until these costs can be directly reflected in rate base and revenue requirement in the utility's next cost of service rates application.

a) Assuming an implementation date of December 1, 2012, please update the smart meter model to include any adjustments required in interest calculations and update the SMDR

calculation including foregone revenues from the SMIRR.

Please calculate the SMIRR assuming it is in place until STEI's next COS application scheduled for 2015 rates.

STEI Response:

- a. *STEI has provided a revised SMDR based upon a December 1, 2012 implementation date, foregone SMIRR revenues, interest charges to November 30, 2012, changes to the cost of capital and the reclassification of the 3-phase analyzer.*

STEI has provided a table to track the changes from the original August 9, 2012 filing.

STEI has also revised the SMIRR to include the cost of capital revisions and reclassification of the 3-phase analyzer from smart meter to tools and equipment.

STEI has provided a table to track the changes from the original August 9, 2012 filing.

SMDR

As provided in Table 1: SMDR Cost Recovery, the cost of capital changes have increased the SMDR by \$787, SMIRR forgone revenue which represents 7 months from the period May 1, 2012 to November 30, 2012 has increased the SMDR by \$274,102 and interest charges have increased by \$8,585 resulting in a recovery of \$205,580 to be collected over 17 months from the period December 1, 2012 to April 30, 2014.

Table 2: SMDR Rate Rider provides an updated rate rider by customer class.

Table 1: SMDR Cost Recovery:

SMDR Cost Recovery			
December 1, 2012 Implementation to April 30, 2014			
	Aug 9, 2012 Application	Oct 19, 2012 Per IR's	Revised
Total return	288,451	1,048	289,499
Amortization	300,445	1,405	301,850
OM&A	222,678	15	222,693
PILS	24,836	(1,681)	23,155
SMFA	(883,733)	-	(883,733)
Carrying charges	(30,571)	-	(30,571)
SMDR recovery/(refund)	(77,894)	787	(77,107)
SMIRR foregone revenue	-	-	274,102
Interest true-up 11/12's, tab 8b \$9,365			8,585
Adjusted Recovery			205,580

Table 2: SMDR Rate Rider

Smart Meter Actual Cost Recovery Rate Rider - SMDR Calculated by Rate Class, as at December 1, 2012				
	Total	Residential	GS < 50	GS > 50
Allocators				
Direct Meter Cost - \$'s	2,122,504	1,605,609	418,751	98,143
Direct Meter Cost - %	100.00%	75.65%	19.73%	4.62%
Number of meters installed	16,459	14,632	1,655	172
Number of meters installed	100.00%	88.90%	10.06%	1.05%
Total Return (deemed interest plus return on equi	289,499	218,997	57,116	13,386
Amortization	301,850	228,340	59,552	13,957
OM&A	231,278	205,605	23,256	2,417
Total Before PILs	822,627	652,943	139,924	29,761
PILs	23,155	18,379	3,939	838
Revenue Requirement, August 9, 2012 application	845,782	671,322	143,862	30,598
SMIRR foregone revenues 7/12	274,102	207,350	54,078	12,674
Total Revenue Requirement	1,119,884	878,671	197,940	43,273
	100.00%	78.47%	17.68%	3.86%
Smart Meter Rate Adder Revenues	(883,733)	(783,001)	(90,219)	(10,513)
Carrying Charge	(30,571)	(27,086)	(3,121)	(364)
Smart Meter True-up	205,580	68,585	104,600	32,395
Metered Customers - December 2011	16,488	14,632	1,658	198
Rate Rider to Recover Smart Meter Costs - 17 months		0.28	3.71	9.62

SMIRR

As provided in Table 3: SMIRR Cost Recovery, the cost of capital changes and the reclassification of the 3-phase analyzer have increased the SMIRR by 1,239 resulting in an annual recovery of \$478,096 until April 30, 2015.

Table 3: SMIRR Cost Recovery

SMIRR Cost Recovery December 1, 2012 Implementation to April 30, 2015			
	Aug 9, 2012 Application	Oct 19, 2012 Per IR's	Revised
Total return	200,061	1,052	201,113
Amortization	238,809	937	239,746
OM&A	-	-	-
PILS	29,780	(750)	29,030
Adjusted Recovery	468,650	1,239	469,889

Table 4: SMIRR Rate Rider

Smart Meter Actual Cost Recovery Rate Rider - SMIRR				
Calculated by Rate Class				
	Total	Residential	GS < 50	GS > 50
Allocators				
Direct Meter Cost - \$'s	2,122,504	1,605,609	418,751	98,143
Direct Meter Cost - %	100.00%	75.65%	19.73%	4.62%
Number of meters installed	16,459	14,632	1,655	172
Number of meters installed	100.00%	88.90%	10.06%	1.05%
Total Return (deemed interest plus return on equity)	201,113	152,136	39,678	9,299
Amortization	239,746	181,361	47,300	11,086
OM&A	-	-	-	-
Total Before PILs	440,859	333,496	86,978	20,385
PILs	29,030	21,960	5,727	1,342
Total Revenue Requirement	469,889	355,457	92,705	21,727
	100.00%	75.65%	19.73%	4.62%
Smart Meter Rate Adder Revenues	-			
Carrying Charge	-			
Smart Meter True-up	469,889	355,457	92,705	21,727
Metered Customers - December 2011	16,488	14,632	1,658	198
Rate Rider to Recover Smart Meter Costs		2.02	4.66	9.14