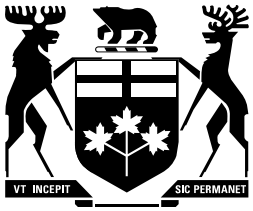

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2010 DISTRIBUTION SMART METER

RATE ADDER APPLICATION

Atikokan Hydro Inc.

EB-2010-0185

July 7, 2010

INTRODUCTION

Atikokan Hydro Inc. ("Atikokan" or the "Applicant") is a licensed electricity distributor that owns and operates an electricity distribution system in the Town of Atikokan. Atikokan serves approximately 1,662 customers, of which 1415 are residential customers and 225 are general service customers with a demand less than 50kW.

On May 6, 2010, Atikokan filed with the Ontario Energy Board (the "Board") an application (the "Application") requesting an increase to its utility-specific smart meter funding adder from $1.00 to $4.88. Certain information supporting the application was revised on May 13, 2010.

On May 21, 2010, the Board issued a Notice of Application. The Board received one intervention from the Vulnerable Energy Consumers Coalition ("VECC"). In its Decision and Procedural Order No. 1, issued June 14, 2010, the Board determined that Atikokan's current rates would be made interim effective July 1, 2010, pending its determination on the Application. Board staff and VECC posed interrogatories ("IRs") to Atikokan on June 18, 2010. On June 29, 2010, Atikokan filed with the Board its responses to the interrogatories from Board staff and VECC.

This submission reflects observations and concerns arising from Board staff's review of Atikokan's pre-filed evidence and interrogatory responses, and is intended to assist the Board in adjudicating on the Application. First, Board staff summarizes the scenarios documented in the Application and updated per additions and corrections placed on the record through discovery. Board staff then discusses issues and concerns raised by the record and documents certain options that the Board may wish to consider in its adjudication.

THE APPLICATION

Background

In its Application, Atikokan states that it had planned to address smart meter cost recovery as part of a 2011 cost-of-service filing. However, on April 20, 2010, the Board issued a letter to all electricity distributors regarding early rebasing applications. Upon consideration of the Board's letter, Atikokan instead filed an application for a utility-specific smart meter funding adder outside the cost-of-service process.

Atikokan has requested an increase to its current smart meter funding adder from $1.00 per month per metered customer to $4.88 per month per metered customer to assist with the recovery of costs of its implemented smart meter program, until such time as its distribution rates are next rebased. Atikokan is scheduled to file for rebased distribution rates for 2012.

The Applicant stated that, as of September 30, 2009, 96% of applicable residential and general service customers have had smart meters installed. In response to Board staff interrogatories ("IRs"), Atikokan stated that 100% of the estimated 1452 smart meters have been installed for residential customers as of December 31, 2009. For GS<50 kW customer class, 159 smart meters have been installed. Atikokan further stated that the remainder of 68 smart meters for certain general service customers were not installed or purchased as of December 31, 2009, but will be installed by the end of 2010.

In response to Board staff interrogatory # 1(a), Atikokan showed total capital costs of $394,061 as of December 31, 2009, with one-time operational costs of $28,970. Atikokan stated that the on-going operational cost of the system was $19,971 in 2009. For 2010 Atikokan estimated one-time costs of $4,260 and on-going costs of $38,298. For 2011 the Applicant estimated only on-going system costs of $38,298. In response to VECC IR# 1(a), Atikokan showed a unit cost of $245 per installed meter. This unit cost is an average for smart meters for both residential and GS<50 kW customers as of December 31, 2009.

The Applicant stated that two scenarios for its smart meter funding adder calculation were considered. The scenarios can be summarized as follows:

- Scenario 1 is based on a rate adder from July 1, 2010 to April 30, 2012 and recovering the revenue requirement for the period from 2009 plus forecasted ongoing costs for the period 2009 to 2011, a length of 22 months, for installed smart meters.
- Scenario 2 is based on calculating a smart meter funding adder based on a smart meter revenue requirement for a typical year over 12 months.

For each scenario, the forecasted smart meter rate adder was determined using a model based on the Board's 2007 EDR Smart Meter Rate Adder Calculation Model as highlighted in Table 1 below. Further description of each scenario is provided below.

Table 1
Summary of Smart Meter Revenue Requirement
And Smart Meter Funding Adder Calculation

Scenario 1:	
Revenue Requirement for Smart Meters Installed	
2009 Rate Year Entitlement	$77,546
2010 Rate Year Entitlement	$98,337
2011 Rate Year Entitlement	$97,666
Total Revenue Requirement	$273,549
Smart Meter Funding Adder Collected in Rates	
2006 Rate Year Collected - May 1/06 to April 30/07	$3,785
2007 Rate Year Collected - May 1/07 to July 1/08	$4,636
2008 Rate Year Collected - July 1/08 to April 30/09	$4,887
2009 Rate Year Forecasted - May 1/09 to April 30/10	$18,454
Interest May 1/10 to June 30/10	$28
Total Smart Meter Funding Collected	$31,791
Revenue Requirement for Recovery	$241,758
Number of Metered Customers	1,679
Number of Months (July 1/10 to April 30/12)	22
Funding Adder per Metered Customer per Month	**$6.54**
Scenario 2:	
Typical Year - 2010 Rate Year Entitlement	$98,337
Number of Metered Customers	1,679
Number of Months	12
Funding Adder per Metered Customer per Month	**$4.88**

Scenario One

Scenario One calculates the revenue requirement from 2009 to 2011 and reduces that amount by the smart meter funding collected from May 1, 2006 to April 30, 2010, including carrying charges. The net revenue requirement is then allocated to all metered customers over a recovery period of 22 months, which reflects the period from the requested implementation date of July 1, 2010 until May 1, 2012, the expected implementation date when Atikokan expects to have rebased rates based on its next cost-of-service rate application.

This calculation would produce a smart meter adder of $6.54. In response to Board Staff IR #4, based on the same revenue requirement calculation approach, Atikokan calculated a smart meter funding adder of $4.23 over a 34 month recovery period (i.e., from July 1, 2010 to April 30, 2012) and $3.13 over a 46 month recovery period (i.e. from July 1, 2010 to April 30, 2013).

In response to Board staff IR #5(c), Atikokan stated that costs for Wide Area Network for 2011 were overstated by $4,260. This adjustment reduces the smart meter funding

adder for scenario one to $6.43 from $6.54. Based on this, the Applicant calculated an adjustment factor of 0.98 for smart meter funding adders calculated over different recovery periods. Applying the adjustment factor to the other scenarios noted above would result in adjusted rate adders of $4.15 for the 34 month recovery period and $3.07 for the 46 month recovery period, as shown in Table 2 below. The proposed smart meter funding adder for scenario two remains unchanged.

Table 2
Recovery Period for Smart Meter Funding Adder

Recovery Period	Month	Per Application/ Board Staff IRR #4	Adjustment Factor 0.98
July 1, 2010 - April 30, 2012	22	$ 6.54	$ 6.43
July 1, 2010 - April 30, 2013	34	$ 4.23	$ 4.15
July 1, 2010 - April 30, 2014	46	$ 3.13	$ 3.07

Scenario Two

Scenario two reviews the smart meter revenue requirement for a typical year and calculates a smart meter funding adder over a 12 month period. This calculation results in the requested smart meter funding adder of $4.88. The Applicant noted that this adder would be more reflective of the ongoing monthly cost to the customer once smart meters are fully deployed and included in rate base like other distribution assets, and capital-related and operating costs are factored into its revenue requirement and recovered in distribution rates.

Discussion and Summary

With the exception that Atikokan has filed for an increased smart meter funding adder rather than requesting disposition of actual and audited costs for installed smart meters, Board staff submits that Atikokan's application complies with *Guideline G-2008-0002: Smart Meter Funding and Cost Recovery* ("Guideline G-2008-0002"). Atikokan is authorized to conduct smart meter activities because it satisfies paragraph 8 of section 1(1) of O. Reg. 427/06, as evidenced by the letter from the Fairness Commissioner that is on the record. The letter demonstrates that Atikokan has followed the procedures outlined in the London Hydro RFP.

Atikokan reviewed two possible scenarios in calculating the smart meter funding adder. In proposing the second scenario, Atikokan has reduced the bill impacts relative to scenario one. Board staff observes that while both methodologies are analogous to what the Board has considered for Atikokan and for other distributors in the combined Smart Meter proceeding and in subsequent applications, most distributors have applied the methodology reviewed in scenario one.

Board staff has no concerns with the derivations of the proposed rates from the proposed costs. Nor does Board staff have concerns with the scenario proposed in terms of methodology. However, the Applicant has requested an increase in the smart meter funding adder, without a review of the prudence of the costs. The level of the costs, and the resulting proposed funding adder, are higher than the Board has ever previously approved for a utility of similar size or on a per metered customer basis.

Board staff submits three options that the Board may wish to consider in adjudicating this Application:

1. Approval of a funding adder of $4.88 as applied for;
2. Rejection of a funding adder application in favour of a cost recovery application; or
3. Approval of a funding adder of $3.25 to assist with partial cost recovery.

Board staff discusses each of these options in more detail below.

Option 1 – Approval of a funding adder of $4.88 as per application

Board staff notes that a funding adder of $4.88, which is calculated using a typical year revenue requirement over 12 months based on available data, would be reflective of the ongoing monthly cost to customers once smart meters are fully deployed. Board staff submits that collecting a funding adder of $4.88 over 22 months would mitigate the anticipated rate impact of smart meter costs when Atikokan applies for cost recovery, as part of its cost of service rebasing application expected for 2012 rates. Nevertheless, Board staff notes that a smart meter funding adder of $4.88 is unprecedented. The highest smart meter funding adder approved by the Board for a compatible distributor was $2.91 for Sioux Lookout (in *Decision and Order EB-2009-0249.*)

Board staff notes that the Applicant originally submitted that total installed capital costs are estimated to be approximately $394,000, or $235 per installed meter. However, in response to VECC's IR # 1(a), Atikokan showed a unit cost of $245. In the original Application, Atikokan has estimated a 100% deployment in 2009, but the Applicant stated that 68 smart meters for commercial customers are still outstanding in its response to Board staff IR #1(c). In response to Board Staff IR #1(b), the Applicant stated that the model as submitted was current to December 31, 2009.

Given these inconsistencies between the model and IR responses, Board staff submits that it is difficult to ascertain whether this level of funding is justified without a full prudence review.

Board staff also notes that Atikokan has included one-time and on-going costs for contracting with Thunder Bay Hydro's CIS and billing system as a result of acquiring the same smart meter technology to take advantages of economies of scale as part of the Northwestern Group. In response to Board staff IR # 8(b), Atikokan affirmed that the CIS and billing conversion was implemented in early 2009, in advance of its smart meter deployment. It is not clear if all such costs are smart-meter related. In addition, Atikokan's existing Board-approved distribution rates include recovery of capital-related and operating costs for its previous CIS and billing system, even though the older systems are no longer in service. Board staff submits that a more detailed review of the operating costs is required, to ensure that there is not a double-recovery of CIS and billing costs, particularly for ongoing operating expenses for both the previous and the new systems.

In light of the above comments, Board staff submits that allowing the proposed rate of $4.88 per month per metered customer, under scenario two, could raise issues if such costs are subsequently not found to be legitimate and prudently incurred smart meter-related costs, in which case over-collection would have to be credited back to customers. For a small utility like Atikokan, this could have an impact on its financial situation at that time.

Option 2 - Rejection of a funding adder application in favour of a cost recovery application

Staff notes that a smart meter funding adder is an "implementation" funding mechanism that, as originally contemplated, provides some "seed funding" for smart meter

investments. The rate adder is a tool designed to provide advance funding and thus mitigate the anticipated rate impact of smart meter costs when recovery of those costs is approved by the Board[1]. The Board has allowed for increases in the smart meter funding adder to either $1.00 per month per metered customer or to some other utility-specific amount to allow for further advance funding and to mitigate rate impacts as distributors have started to deploy smart meters and incur costs that are tracked in deferral and variance accounts and are not in rate base and the revenue requirement recovered in rates.

However, the smart meter funding adder was not contemplated as a tool to facilitate full recovery of smart meter costs.

In response to Board Staff IRs #2(a) and (b), the Applicant stated that it had considered filing a smart meter cost recovery application, but decided not to pursue this option at this time for the following reasons. Firstly, Atikokan stated that current cost and related deferral account balances have not been audited. Secondly, Atikokan would prefer to have one application to seek full smart meter cost recovery once 100% of smart meters are deployed. Thirdly, Atikokan believed that the time needed by the Board to review and approve a smart meter funding adder application would be shorter than a smart meter cost recovery application. Lastly, the Applicant stated that Atikokan would prefer to seek recovery as part of a cost of service application.

Staff submits that, given that Atikokan had largely deployed nearly all of its smart meters by the end of 2009 and that such costs should have been audited by the time of the instant application, it would have been preferable if Atikokan had filed for a final cost recovery review. This would have involved a prudence review of the costs for the installed meters and established smart meter rate riders on smart meter costs determined by the Board to be necessary and prudent. It would have also allowed Atikokan to establish an updated funding adder. An application for disposition of actual and audited smart meter costs would have been in alignment with the Board's intention as documented in the Guideline.

The Board could deny the Application and request that the Applicant refile an application for smart meter disposition. Atikokan has documented on the record the

[1] *Guideline G-2008-0002: Smart Meter Funding and Cost Recovery*, pg. 8

costs that it has incurred for smart meter deployment. The Applicant has also incurred costs in the preparation of this Application and during the proceeding, for publication and for responding to interrogatories. These costs are significant for a small utility. Board staff submits that denial of the Application, in whole, would not be in the public interest. Board staff submits that the utility has incurred significant costs to date and that the current smart meter funding adder of $1.00 per month per metered customer does not recover, by a large margin, the revenue requirement for installed smart meters. Also, denying an increase to the smart meter recovery at this time will increase the amounts to be recovered from Atikokan's ratepayers eventually and thus would increase rate impacts in a subsequent application.

Board staff submits that some increase in smart meter funding and cost recovery at this time would be in the public interest, to maintain the financial viability of the utility which has incurred significant costs, and also to mitigate the rate impact on customers.

Option 3 - Approval of a funding adder of $3.50 to assist with partial cost recovery

Staff recognizes that the Applicant has incurred significant smart meter related costs during 2008 and 2009. During the 2009 IRM process a number of distributors were granted a range of utility-specific smart meter funding adders, as documented in the table below.

Table 4
Utility-specific Smart Meter Funding Adder per Distributor

Distributor	Utility-specific smart meter adder
Enersource Hydro Missiauga Inc.	$2.17
COLLUS Power Corporation	$2.00
Lakefront Utilities Inc.	$2.00
Lakeland Power Distribution Corp.	$2.00
Midland Power Utility Corp.	$2.00
Welland Hydro-Electric System Corp.	$1.81
Barrie Hydro Distribution Inc.	$1.61
Bradford Power Inc.	$2.07
Innisfil Hydro Distribution Systems Limited	$2.00
Oshawa PUC Networks Inc.	$1.28
PowerStream Inc.	$1.81
Sioux Lookout Hydro Inc.	$2.91
Tillsonburg Hydro Inc.	$2.17
St. Thomas Energy Inc.	$0.52
Horizon Utilities Corporation	$1.56

Staff acknowledges that there is a wide spectrum of utilities in Ontario and that Atikokan's requirements might differ from larger urban distributors. However, Atikokan

is comparable to other northwestern utilities, namely Sioux Lookout Hydro, which is similar in size and location. Sioux Lookout Hydro requested, and was approved by the Board, a utility-specific smart meter funding adder of $2.91 per month per metered customer.

In its *Decision with Reasons* of March 21, 2006[2], the Board found that utilities that had installed meters and requested rate relief should be allowed $3.50 per meter per month during the rate year that the meter was installed, based on what was known about smart meter technology at that time. There has been significant passage of time since then and better information on the technology and the manufacturing requirements and costs; in addition, costs have been subject to inflationary pressures. However, while the $3.50 then calculated was based on limited information and is subject to a wide margin of error, and does not take into account each distributor's unique circumstances, it has proven to be a useful benchmark to date. This is the first smart meter application that has requested a funding adder in excess of the $3.50.

Although Atikokan has not requested disposition of incurred smart meter costs, but rather further funding through a funding adder, Board staff submits that a reduced funding adder may be appropriate, particularly in light of comments above about the legitimacy and prudence of ongoing costs for the CIS and billing system with Thunder Bay Hydro. Board staff submits a smart meter funding adder of $3.50 per month per metered customer may be reasonable. It would help to maintain the financial viability of the firm for recovery of capital-related costs for the largely completed smart meter recovery. However, it may not result in an over-recovery, particularly of ongoing CIS and billing system costs that Board staff submits should be subject to a more detailed review and, hopefully in the context of Atikokan's next cost of service rebasing application. A smart meter funding adder of $3.50 per month would reduce the risk of over-recovery, while providing some cost recovery during the remainder of the IRM period to ensure financial viability of the utility and reduce the magnitude of rate impacts when costs are disposed of upon full review.

- All of which is respectfully submitted -

[2] *Decision with Reason,* EB-2005-0529, March 21, 2006