Sioux Lookout Hydro Inc.
P.O. Box 908, 25 Fifth Ave.
Sioux Lookout, ON P8T 1B3
Tel: (807)737-3800
Fax: (807)737-2832
Email: slhydro@tbaytel.net

July 25, 2012

Kirsten Walli, Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Re: Sioux Lookout Hydro Inc.
Reply Submission
Application for 2012 Smart Meter Cost Recovery
Board File No. EB-2012-0245

Dear Ms. Walli:

Please find attached Sioux Lookout Hydro Inc.'s reply submission to the Board Staff Submission dated July 11, 2012 and the Final Submission of VECC dated July 16, 2012.

The complete document was submitted through the Board's web portal. We have also directed a copy of the same to the Intervenor via email. Additionally, two hard copies will be sent to the Board on the next business day.

If there are any questions or concerns, please do not hesitate to contact me at (807)737-3800, or via email at dkulchyski@tbaytel.net.

Sincerely,

Original Signed By

Deanne Kulchyski, CGA, BComm(Hons)
President/CEO

Encl/

Cc: Michael Janigan, Counsel for VECC

INTRODUCTION

Sioux Lookout Hydro Inc. (SLHI) received the Board Staff Submission from the Ontario Energy Board on July 11, 2012 and Final Submissions of VECC on July 17, 2012 based on their review of the evidence submitted by SLHI.

This response addresses the following matters:

- Prudence Review of Smart Meter Costs
- Cost Allocation and Calculation of Smart Meter Rate Riders

PRUDENCE OF SMART METER COSTS

The Board invited SLHI to comment on the incremental costs of $2,000 per month to Thunder Bay Hydro (TBH) for the smart meter program. The Board observed similar costs as noted in Atikokan Hydro's proceeding EB-2011-0293, and that Atikokan submitted that these costs could be argued as being billing costs rather than smart meter costs. SLHI disagrees that these costs could be classified as normal billing costs. The $2,000 per month is 100% incremental, as TBH hired additional staff to perform smart meter functions for all of the Northwest Utilities on a full time basis.

The Board invited SLHI to comment on how it distinguished between minimum functionality and beyond minimum functionality costs due to the costs beyond minimum functionality appearing to be low in its application.

In response SLHI has the following comments relating to the three types of costs that are beyond minimum functionality.

- First, SLHI did not incur any costs for technical capabilities in the smart meters related to communications infrastructure that exceeded those specified in O.Reg 425/06. Therefore no costs were identified in this area.
- Second, any costs related to the installation of smart meters for customers other that Residential and small General Service were not included in the smart meter variance accounts but included in account 1860 as stated on page 10 of SLHI's Smart Meter Cost Recovery Application.
- Finally, costs were incurred for TOU rate implementation and MDMR integration and identified in the application. These costs were for consulting fees relating to MDMR integration and TOU implementation, customer education materials and staff training. The consulting fees were shared equally among the Northwest Group.

To clarify the allocation of costs to Util-Assist, the costs were shared equally among all of the Northwest Utilities. Util-Assist has a standard contracting fee for their services. This fee was shared equally by the whole group. Were SLHI to contract them alone, the standard fee would remain the same and have been required to be paid by SLHI alone, which would have resulted in much higher per unit costs. Given that theses costs were shared equally, the per unit costs will be higher for SLHI due to the lower customer base.

The allocation mechanism for the software maintenance costs paid to TBHI is equally shared by the other four LDCs. TBHUS charges $2,000 per month to each utility for the costs of maintaining the software, and operating the server. The costs to SLHI to operate and maintain the AMI server and associated software alone would be significantly higher as a result of requiring additional staff to perform these duties.

In its submission, VECC requested SLHI to comment on the circumstances of its operating environment to explain our higher than average costs. The following drivers contribute to these higher costs:

1. The cost sharing of professional fees between the five utilities comprising the Northwest Group were allocated equally, in most cases, and not prorated based on size. Of the five utilities, SLHI has the second lowest customer base. Therefore the costs per unit can be expected to be higher than those of Thunder Bay, Kenora and Fort Frances.

2. SLHI's service territory is low density. With approximately 2,750 customers and 536 square km. The number of customers per square km is 5.13. This leads to the challenge of the smart meters communicating over long distances, and requires more infrastructure to ensure the data can be transmitted. For example, SLHI required 19 collectors (gatekeepers) in order to be able to communicate with all of the smart meters.

VECC submitted that the Board should undertake an audit of SLHI's smart meter program and report publicly its findings. SLHI disagrees, and respectfully submits that undertaking an audit of the program would result unnecessarily in higher costs to the proceeding. SLHI believes the above circumstances sufficiently explain why the costs per meter are higher than average and that the benefits of undertaking an audit would not exceed the costs and effort involved in such a proceeding.

COST ALLOCATION AND CALCULATION OF SMART METER RATE RIDERS

The Board and VECC invited SLHI to clarify the meter cost data as filed in response to VECC IR #3 and #4, and Board staff IR #19. SLHI investigated the inconsistencies with the meter data provided in the interrogatories and as a result found that the average smart meter unit costs in the table provided for Board Staff IR #19 were incorrectly entered. SLHI has corrected the data and entered the correct average meter costs which were supplied in VECC IR #4 in the table below.

Revised - Smart Meter Actual Cost Recovery Rate Rider - SDMR
Calculated by Rate Class

	Total	Residential	GS < 50
Allocators			
LDC Average Smart meter Unit Cost		$136.69	$154.51
Smart Meter Unit Cost	$376,953	$315,614	$61,339
Allocation of Smart Meter Costs		83.73%	16.27%
Number of Meters installed	2706	2309	397
Allocation of Number of meters installed		84.96%	15.04%
Total Return (deemed interest plus return on equity)	$113,025	$93,811	$19,214
Amortization	$143,691	$119,264	$24,427
OM&A	$116,681	$99,563	$17,118
Total Before PILs	$373,397	$312,637	$60,760
PILs	$3,556	$2,977	$579
Total Revenue Requirement 2006 to 2011	$376,953	$315,614	$61,339
	100.00%	84.96%	15.04%
Smart Meter Rate Adder Revenues			
Residential	-$217,591	-$184,865.55	-$32,725.73
GS < 50	-$36,634	-$31,124.42	-$5,509.79
GS > 50	-$4,505	-$2,253	-$2,253
Carrying Charge	-$6,298	-$5,351.08	-$947.27
Total Revenues and Carrying Charges	-$265,029	-$223,593.55	-$41,435.29
Smart Meter True-up	$111,924	$92,021	$19,903
SMIRR Lost Revenue May to Aug 2012	$50,577	$42,485	$8,092
Total	$162,501	$134,505	$27,996
Metered Customers (2012)	2696	2318	378
Rate Rider to Recover Smart Meter Costs - 2 yrs	$2.51	$2.42	$3.09

As a result of the revision, the allocation of the smart meter costs changed from 66.07% to 83.73% for Residential, and from 33.93% to 16.27% for GS < 50. The figures in the revenue requirement portion of the table are taken directly from the table provided by SLHI in Appendix B of its IRR to Board Staff Interrogatories, and did not change.

SLHI also discovered an error in the allocation of the Smart Meter Rate Adder Revenues in the table. The original table did not allocate 100% of the revenues to the Residential and GS < 50 class due to excluding the revenues collected from the GS > 50 class. The revised table includes these revenues by allocating them equally among the two rate classes as per Appendix B of the IRR to Board Staff Interrogatories.

The Board also invited SLHI to provide details of the allocation of the SMIRR in its reply submission, as it was not apparent how the SMIRR was allocated in the interrogatory responses.

SLHI has allocated the SMIRR using the same methodology as the SMDR above. As a result of the input error for the average meter costs, SLHI has revised the table for the cost recovery of the SMIRR and is shown below.

Revised - Smart Meter Actual Cost Recovery Rate Rider - SMIRR
Calculated by Rate Class

		Residential	GS < 50 kw
Return	$20,411	$17,090	$3,321
Amortization	$58,060	$48,612	$9,448
OM&A	$72,125	$61,543	$10,582
Subtotal	$150,596	$127,245	$23,351
PILs	$1,033	$873	$160
Incremental Revenue Requirement for 2012	$151,629	$128,118	$23,511
Metered Customers	2696	2318	378
Rate Rider to Recover Smart Meter Costs - 1 yr	$4.69	$4.61	$5.18

Calculation of SMIRR Four months of Lost Revenue included in SMDR rate rider

Allocation of Smart Meter Costs		84.00%	16.00%
Metered Customers (2012)	2696		
Rate Rider to Recover Smart Meter Costs	$4.69		
SMIRR Four Months lost Revenue	$ 50,577	$ 42,485	$ 8,092

The allocation of the foregone SMIRR to each class is based on the allocation of smart meter costs shown in the Revised – Smart Meter Actual Costs Recovery Rate Rider - SMDR Table of 83.73% and 16.27% rounded to the nearest percentage.

VECC submitted that they support the cost allocation methodology provide by SLHI in response to interrogatories with one exception. They stated the exception was they thought that the SMFA revenues collected from the GS > 50 kW customer class should be returned to those customers instead of the proposed 50:50 allocation between the Residential and GS < 50 kW customer classes.

SLHI disagrees, and refers to the decision by the Board for TBHDI's Smart Meter Application, EB-2012-0015. The Board stated that there are two approaches to allocate the revenues collected by GS > 50 kW customer classes. The first is to allocate the amounts on a 50:50 basis between the residential and GS < 50 kW classes. The second approach is to allocate the costs to the residential and GS < 50 kW classes based on the number of meters, since the SMFA was collected on a per meter basis. Since the method proposed by VECC above of returning the SMFA collected by GS > 50 kW

customers to these customers does not seem to be an approach recognized by the Board, SLHI proposes to keep the methodology of allocating the amounts on a 50:50 basis between the residential and GS < 50 kW classes.

CONCLUSION

In light of the changes made to the average smart meter unit costs and resulting allocation of smart meter costs, SLHI submits the following revised class specific rate riders for both the SMDR and the SMIRR to be approved by the Board.

	Forecasted Customers (2012)	SMDR $	SMDR	SMIRR $	SMIRR
Residential	2318	$134,505	**$2.42**	$128,118	**$4.61**
GS < 50 kW	378	$27,996	**$3.09**	$23,511	**$5.18**
			24 months		12 months

All of which is respectfully submitted this 25th day of July 2012.

SIOUX LOOKOUT HYDRO INC.

Original Signed By

Deanne Kulchyski, CGA, BComm(Hons)
President/CEO