

Ontario Energy
Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'Énergie
de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



March 18, 2013

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Audit Report - Audit Review of Smart Meter Costs –
Atikokan Smart Meter Cost Rate Application Proceeding (EB-2013-0019)**

The Ontario Energy Board (the "Board" or "OEB") authorized an audit review (the "Audit") of Atikokan Hydro Inc.'s ("Atikokan") smart meter costs in the Board Decision and Order EB-2011-0293 that was issued on June 18, 2012. The Board stated that the results of the Audit would be considered by the Board with respect to the final amounts to be authorized for recovery in a future application to be filed by Atikokan.

The Audit was concluded by the Board's Regulatory Audit and Accounting Division ("Regulatory Audit"). Regulatory Audit prepared an Audit report (the "Report"). The Report outlines the Audit's objectives, scope, criteria, procedures used, findings, basis of findings, areas of non-conformity requiring actions by Atikokan. The Report also includes responses and action plans from Atikokan's management.

Atikokan filed a stand-alone smart meter application (EB-2013-0019) with the Board on March 8, 2013.

In a letter dated March 12, 2013, Regulatory Audit informed the Board that pursuant to the Board's direction, Regulatory Audit intends to file the Report in this proceeding.

In a letter dated March 15, 2013, Atikokan communicated to the Board that it is of the opinion that the Report would in fact benefit proceeding EB-2013-0019 in terms of providing clarity and validity to items submitted in its application EB-2013-0019.

Atikokan requested that the Report be placed on the record for proceeding EB-2013-0019. Therefore, the Report is attached to this letter.

As the Report indicates, Atikokan's smart meter capital cost has been reduced by an amount of \$64,660 or 13% from \$506,698 to \$442,038 after the Audit adjustments. Atikokan's smart meter OM&A cost has been reduced by an amount of \$50,742 or 23% from \$224,207 to \$173,465. Overall, Atikokan's smart meter costs have been reduced by an amount of \$115,402 or 16% from \$730,905 to \$615,503. After the Audit adjustments, Atikokan's per meter cost was decreased by \$69 per meter, from a cost of \$437 per meter to \$368 per meter.

The findings in the Report represent the views of Regulatory Audit and are not necessarily the views of the Board as a whole.

Yours truly,

A handwritten signature in black ink, appearing to read 'D. Babaie', with a stylized flourish at the end.

Daria Babaie, *P. Eng., CMA*
Manager, Regulatory Audit & Accounting
Phone: (416) 440-7614
Fax: (416) 440-7656
Daria.Babaie@ontarioenergyboard.ca

c.c. Wilf Thorburn, Atikokan

ONTARIO ENERGY BOARD



Audit Report

Smart Meter Costs

Atikokan Hydro Inc.

**Regulatory Audit and Accounting
February 2013**

Executive Summary

The Ontario Energy Board (the “Board” or the “OEB”) authorized an audit review of Atikokan Hydro Inc.’s (“Atikokan”) smart meter costs in the Board Decision EB-2011-0293, issued on June 18, 2012. This audit review (“Audit”) was conducted by the OEB’s Regulatory Audit and Accounting Division (“Regulatory Audit”) commencing in August 2012.

In its Cost of Service (“CoS”) rate application EB-2011-0293 for 2012 rates, Atikokan sought disposition and recovery of costs incurred with full deployment of smart meters to all of its Residential and GS < 50 kW customers. Atikokan claimed to have incurred \$506,698 of capital costs and \$224,207 of operation, maintenance, and administration (“OM&A”) costs as at December 31, 2011 in the smart meter model filed in the 2012 CoS rate application.

In its Decision and Order EB-2011-0293, the Board was concerned about Atikokan’s high level of capital and OM&A costs for smart meters and the significant increases in the smart meter costs identified in the 2012 CoS rate application process. As a result, the Board allowed for recovery of 50% of the requested smart meter costs and directed the Regulatory Audit to conduct an audit of Atikokan’s smart meter costs. Section 109 of the OEB Act requires an inspector to notify the Board of all matters he or she thinks relevant to Board proceedings or possible future Board proceedings. As a result, Regulatory Audit will file this audit report (“Report”) on the record with the Board for its consideration, as a part of Atikokan’s stand-alone smart meter rate application proceeding.

In order to identify any potential misstatements associated with Atikokan’s smart meter costs and understand the underlying reasons for the high costs per meter, Regulatory Audit conducted the Audit by visiting Atikokan from August 22 to August 24, 2012. During the visit, Regulatory Audit reviewed invoices, contracts and other supporting documents related to the smart meter costs. Further follow-ups with regards to the review of the Atikokan’s smart meter capital and OM&A costs were performed between September 2012 and February 2013 and information such as account balances in the Account 1555 and Account 1556 were examined. In February 2013, Regulatory Audit reviewed Atikokan’s over-collection of \$23K from its customers for the period of May 1, 2012 to August 31, 2012 through its Smart Meter Funding Adder (“SMFA”) that was ceased on April 30, 2012. Regulatory Audit does not provide any assurance for the accuracy of the information or explanations provided by Atikokan.

The Audit findings are documented in Section 7 of this Report. Atikokan had made a number of misstatements in its smart meter costs claim. The Report includes responses and action plans from Atikokan management.

Atikokan agreed with all Regulatory Audit’s findings that are outlined in this Report and made the necessary adjustments to both smart meter capital and OM&A costs.

Regulatory Audit notes that the adjustments made by Atikokan in its General Ledger ("GL") are consistent with the required Audit adjustments for the smart meter costs.

Furthermore, Atikokan made changes in the balances in Account 1555 and Account 1556 based on the required Audit adjustments. In February 2013, Regulatory Audit reviewed the required revisions that were made by Atikokan based on Audit findings to the balances of Account 1555 and Account 1556. Atikokan re-filed with the Board the revised balances in Account 1555 and Account 1556 on February 21, 2013. Regulatory Audit notes that the revised balances for the Account 1555 and Account 1556 that Atikokan re-filed with the Board on February 21, 2013 are consistent with the audit adjusted smart meter costs recorded in these two accounts.

Summary of Findings within the Audit Scope

1. Account 1555 Smart Meter Capital Costs should be reduced by approximately \$65k mainly because of (1) the duplication of approximately \$19k for items related to the installation of smart meters, (2) the incorrect inclusion of \$47k of non-incremental costs related to internal staff time for the installation of smart meters, (3) the incorrect inclusion of \$1k of removal and disposal of scrap meter cost, (4) the incorrect inclusion of \$1k of meter reading cost, and (5) incorrect exclusion of smart meter related legal cost of \$1.5k and smart meter related incremental labour cost of \$1.8k.
2. Account 1556 Smart Meter OM&A Costs should be reduced by approximately \$50k because of (1) the incorrect inclusion of \$42k of non-incremental costs related to Atikokan's old billing system for the period of 2009 to 2011, which was recovered by Atikokan in its 2008 revenue requirement and (2) the incorrect inclusion of \$8k of cost for which Atikokan could not provide without any supporting documentation.
3. There was a \$28k cost misclassification between Capital Costs and OM&A Costs. This cost misclassification did not have a material impact on Atikokan's smart meter capital or OM&A cost claims.
4. Atikokan's smart meter costs in its 2012 CoS rate application did not agree with the reported balances of Account 1555 Smart Meter Capital and Recovery Offset Variance Account and Account 1556 Smart Meter OM&A Variance Account in the RRR 2.1.7 of 2011.

Summary of Finding Noted During the Audit, but not within the Audit Scope

5. Atikokan over-collected an amount of 23K from its customers for the period of May 1, 2012 to August 31, 2012 through its SMFA that had been approved by the Board in Atikokan's 2011 IRM Decision and Order EB-2010-0064. The Board had approved a sunset date of April 30, 2012 for the Atikokan's SMFA in Atikokan's Decision and Order EB-2010-0064.

Summary of Audit Results

The required adjustments arising from the Audit findings and the overall impacts to Atikokan's smart meter costs claim are summarized in Tables 1 and 2 below, which show Atikokan's smart meter costs before and after audit adjustments on a total and per meter basis.

**Table 1 - Smart Meter Costs before and after Audit
Adjustments on a Total Basis**

Smart Meter Costs	Before Audit	After Audit	\$ Change	% Change
Capital Costs	506,698	442,038	-64,660	-13%
OM&A Costs	224,207	173,465	-50,742	-23%
Total Costs	730,905	615,503	115,402	-16%

**Table 2 - Smart Meter Costs before and after Audit
Adjustments on a per Meter Basis**

Smart Meter Costs per meter	Before Audit	After Audit	\$ Change	% Change
Capital Costs per meter	303	264	-39	-13%
OM&A Costs per meter	134	104	-30	-23%
Total Costs per meter	437	368	-69	-16%

Atikokan's per meter cost will be reduced from \$437 per meter to \$368 per meter after the Audit adjustments. This represents a 16% reduction in the combined total costs of capital and OM&A, or a 16% reduction in the costs on a per meter basis.

1. Background

Atikokan is a licensed electricity distributor that services the community of Atikokan, Ontario. Atikokan's licensed service area is 370 square kilometres with most of its customers concentrated in a 25 square kilometre area. Atikokan's distribution system is made up of 92 kilometres of overhead lines, 1289 poles, and 352 distribution transformers (89 in stock). The primary voltage consists of 44 kV and the secondary voltage consists of 8320 V and 4800 V.

Atikokan is serving a number of scattered customers. Atikokan's distribution service area consists of a large, but low customer density service territory which includes rocky areas requiring more communication devices for smart metering. Please refer to the figures below for an illustration of Atikokan's distribution system.

Figure 1

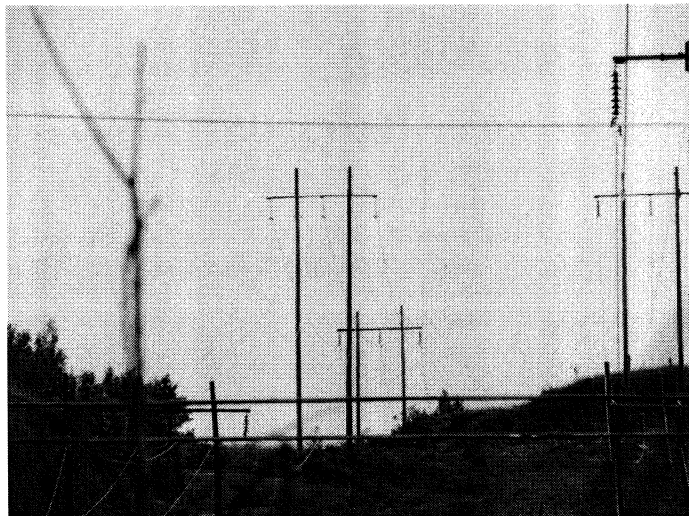


Figure 2



Figure 3

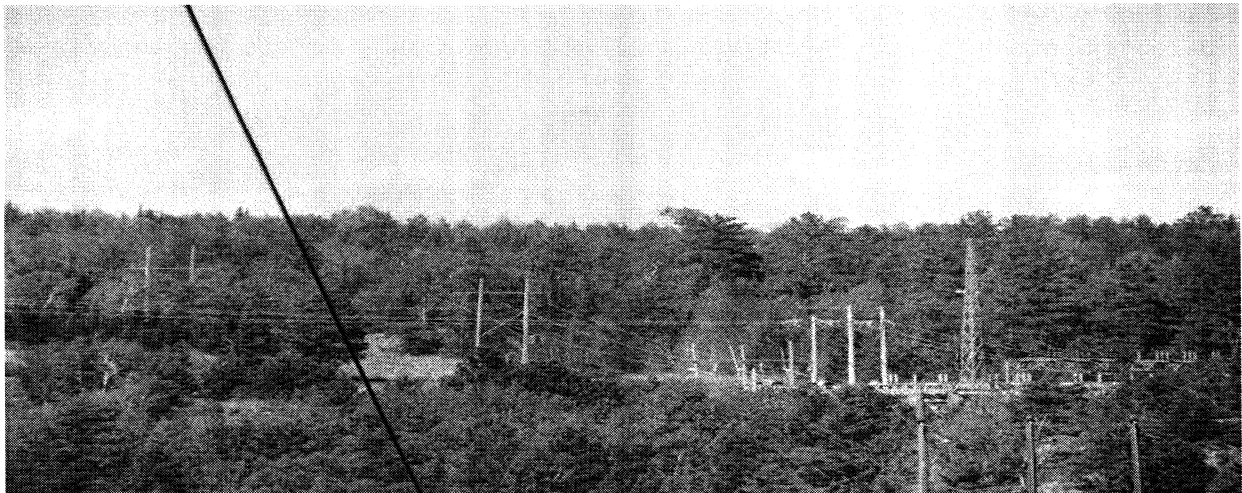
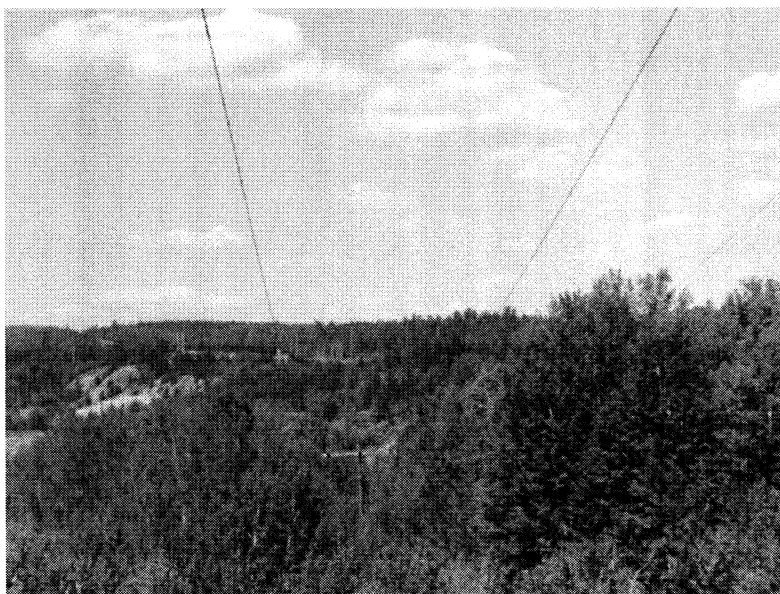


Figure 4



In its 2012 CoS rate application, Atikokan sought disposition and recovery of costs incurred with full deployment of smart meters to all of its Residential and GS < 50 kW customers, which included \$506,698 of capital costs and \$224,207 of OM&A for the period of 2009 to 2011 for a total of 1,673 meters.

Atikokan had originally included a cost of \$437 per meter in its smart meter rate application EB-2011-0293. During the 2012 CoS rate application review process, Board staff submitted that Atikokan's costs claim was significantly higher than what the Board has seen to date, with the exception of Hydro One Networks Inc. However, Board staff noted that per meter costs can be higher for smaller utilities, that may not be able to realize economies of scale and may face topographical and forestation factors that may increase costs for reliable smart meter communication and operation.¹

Board staff expressed more concern with Atikokan's OM&A costs for smart meters, noting that the claimed cost recovery would amount to \$45.27 per year, or about \$3.75 per month solely for recovery of deferred OM&A costs, and that this is significantly higher than what the Board has seen to date.² In Atikokan's 2012 CoS Decision and Order EB-2011-0293, the Board agreed with Board staff and stated that "Board staff stated that Atikokan's claimed costs were higher than the Board has seen to date, with the exception of Hydro One Networks Inc."³

¹ Per Page 29 of Atikokan's 2012 CoS Decision and Order EB-2011-0293

² Per Page 29 and 30 of Atikokan's 2012 CoS Decision and Order EB-2011-0293

³ Per Page 29 of Atikokan's 2012 CoS Decision and Order EB-2011-0293

To allow for more detailed information to be provided to assist in the determination of the prudence of the cost and to allow a reasonable amount for cost recovery in the interim, the Board directed Regulatory Audit to conduct an audit of Atikokan's smart meter costs and allowed for a recovery of 50% of the requested smart meter costs. The Board also stated that the results of the audit will be considered by the Board with respect to the final amounts to be authorized for recovery in a future application to be filed by Atikokan no later than 6 months from the completion of the subject audit.

2. Reason for Regulatory Audit Review

The OEB regulates Ontario's natural gas and electricity sectors. The Board's mandate and authority come from the *Ontario Energy Board Act, 1998*, the *Electricity Act, 1998*, and a number of other provincial statutes. In carrying out its responsibilities, the Board is guided by the following objectives, among others:

- To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service.
- To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity.

The Board's audit function is a regulatory tool used by the Board to monitor the conformance of regulated licensed entities to the Board's decisions, regulatory guidelines and policies.

In its Decision and Order EB-2011-0293, the Board directed the Regulatory Accounting and Audit branch of the Board to conduct an Audit of Atikokan's smart meter costs.

3. Objectives

The objectives of this Audit Review are:

- To identify if there are any misstatements associated with Atikokan's capital and OM&A costs sought for disposition in the CoS rate application EB-2011-0293.
- To advise the Board of the Audit results that can be considered by the Board with respect to the final amounts to be authorized for recovery in a future application to be filed by Atikokan.

4. Scope

This Audit covered Atikokan's smart meter costs claim from 2009 to 2011 in the CoS rate application EB-2011-0293. Regulatory Audit considered and analyzed the following information:

- Information obtained from meetings with Atikokan's management;
- Information available in Atikokan's 2012 CoS rate application;
- Responses from Atikokan's management to Regulatory Audit's inquiries; and
- Board Decisions and Guidance issued.

5. Criteria

Regulatory Audit relied on the following documents which were used to establish the criteria for the Audit:

1. The Accounting Procedures Handbook ("APH") Article 220
2. APH Frequent Asked Questions ("FAQ") December 2010
3. Atikokan's Board Decision and Order EB-2011-0293
4. Atikokan's Board Decision and Order EB-2010-0064
5. The Board's Guideline: "Smart Meter Funding and Cost Recovery – Final Disposition Guideline" (G-2011-0001) issued on December 15, 2011
6. The Board's "Guideline: Smart Meter Funding and Cost Recovery" (G-2008-0002) issued on October 22, 2008
7. Combined Smart Meter Proceeding EB-2007-0063

6. Procedures Used

Regulatory Audit used procedures that consisted primarily of enquiry, observation, analysis, follow-ups, and discussion related to information, records, invoices, and other supporting documents that were provided by Atikokan or were available to the Board in the Atikokan's smart meter proceeding included in its 2012 CoS rate application. Regulatory Audit also visited Atikokan in August 2012 to obtain detailed information and interviewed Atikokan's management and Board of Directors.

Regulatory Audit reviewed invoices, contracts and other supporting documents in recording both capital and OM&A costs.

7. Findings

Section A: Findings within the Audit Scope

7.1.1 Finding 1

Account 1555 Smart Meter Capital Costs should be reduced by approximately \$65k mainly because of (1) the duplication of approximately \$19k for items related to the installation of smart meters, (2) the incorrect inclusion of \$47k of non-incremental costs related to internal staff time for the installation of smart meters, (3) the incorrect inclusion of \$1k of removal and disposal of scrap meter cost, (4) the incorrect inclusion of \$1k of meter reading cost, and (5) incorrect exclusion of smart meter related legal cost of \$1.5k and smart meter related incremental labour cost of \$1.8k.

7.1.2 Basis of Finding

- (1) Atikokan contracted Olameter Inc. to install all smart meters in its service area. The smart meter installations occurred in 2009 and 2010. Atikokan included several invoices from Olameter Inc. for the installation of smart meters twice in the 2009 capital cost in its Smart Meter model filed as part of the 2012 CoS rate application, resulting in 2009 capital costs being overstated by approximately \$19k which should not have been recorded in Account 1555.
- (2) Atikokan utilized internal staff for part of its smart meter installation. The breakdown of the internal staff costs that were included in Atikokan's smart meter costs claim by year is as follows:

Table 3 - Costs for Internal Staff installation

2009	2010	2011	Total
\$ 34,511	\$ 4,933	\$ 7,385	\$46,829

Q&A #10 of the APH FAQs dated December 2010 addressed the recording of incremental costs in the smart meter accounts and stated that:

In the case where the installations are carried out with internal labour that is non-incremental (i.e., the costs which are included in the distributor's revenue requirement), these costs should not be recorded in either Account 1555 or Account 1556.

Per discussion with Atikokan's management, the utility staff involved in the implementation of the smart meters did not incur over-time costs on the installation, and were not paid over-time for the task performed. Instead, they

performed the installation during the regular business hours, the cost of which was already included in Atikokan's 2008 revenue requirement. Therefore, the costs for internal staff time related to the installation of the smart meters were not incremental, and should have been excluded from the smart meter capital costs claim and should not have been recorded in Account 1555.

- (3) Atikokan has included \$ 1,122 of removal and disposal of scrap meter costs invoiced by Green –Port Environmental Inc. in the 2009 smart meter capital cost.

Q&A #15 of the APH FAQs dated December 2010 addressed the treatment of stranded meter costs and stated that:

Regardless of the Account under which these stranded meter costs are recorded, only the net book value of the stranded meters will be allowed for recovery. Accordingly, the stranded meter costs for recovery purposes will comprise the gross costs of the stranded meters, less any capital contributions, less the accumulated depreciation **and less any proceeds from the disposition of the meters.** [Emphasis Added in bold]

As a result, it is incorrect for Atikokan to record the disposition of the scrap meters as smart meter capital costs in Account 1555.

- (4) Atikokan has included \$977 remote meter reading cost for January 2009 invoice issued by Thunder Bay Hydro in the 2009 smart meter capital cost.

The Board's August 7, 2007 Decision in the combined proceeding regarding smart meters (EB-2007-0063) (the "Combined Smart Meter Proceeding") included, at Appendix A, 14 categories of capital costs as well as a list of certain OM&A expenses identified by the Board as eligible costs.

APH FAQs Q&A #8 dated December 2010 also stated that:

These recorded costs should be directly related to the smart meter program. Costs incurred in conjunction with non-smart meter programs should not be allocated to or recorded in these accounts.

Meter reading cost is not listed as one of 14 categories of capital costs, nor is it listed as one of the OM&A expenses. As a result, Atikokan's inclusion of meter reading cost in the smart meter costs claim was not correct and should have been excluded from the smart meter capital cost and should not be recorded in Account 1555.

- (5) There were two items that were not properly classified as smart meter costs or included in the cost of the smart meters. Atikokan had not included in its original costs claim approximately an amount of \$1.5k smart meter that was related to the legal cost that was incurred in 2009 and an amount of \$1.8k for the

incremental labor cost that was related to installing the smart meters that were incurred in 2011.

Atikokan's management overlooked \$1,472 in legal fees paid to the Thunder Bay Hydro in 2009 and did not include this amount into its original smart meter costs claim in its 2012 CoS application.

In early 2011, Atikokan requested one additional staff's assistance from Thunder Bay Hydro for the smart meter installation. The incremental labour cost of \$1,800 was not included in the original capital costs claim due to Atikokan management's oversight.

7.1.3 Area of Non Conformity Requiring Action

Atikokan should remove the \$19k duplicated recording of costs, the \$1k of removal and disposal of scrap meter cost and \$1k of remote meter reading cost from 2009 capital costs. Atikokan should also remove the costs of the internal staff installation from 2009 to 2011 based on the schedule above. Atikokan should include the \$1.5k legal costs and the \$1.8k incremental labor cost in its smart meter costs. The total Audit adjustment would be approximately a \$65k decrease of capital costs.

7.1.4 Management Responses

Atikokan agrees with the finding.

7.1.5 Management Action Plan

Atikokan proposed the following adjustments based on the audit finding. Atikokan made the following adjustments in the GL for Account 1555:

1. Capital 2009
 - a. Account 1555 as noted in the audited smart meter report decreased by \$54,408 compared to the smart meter application that was audited.
2. Capital 2010
 - a. Account 1555 as noted in the audited smart meter report decreased by \$4,933 as compared to the smart meter application.
3. Capital 2011
 - a. Account 1555 as noted in the audited smart meter report decreased by \$ \$5,585 compared to the smart meter application that was audited
4. The above items had the effect of reducing Account 1555 by \$64,926. However, the total impact to account 1555 with all audit findings show a

reduction of \$64,660 as there is a further impact of a \$266 increase to the account which is noted below in Finding 3.

7.2.1 Finding 2

Account 1556 Smart Meter OM&A Costs should be reduced by approximately \$50k because of (1) the incorrect inclusion of \$42k of non-incremental costs related to Atikokan's old billing system for the period of 2009 to 2011, which was recovered by Atikokan in its 2008 revenue requirement and (2) the incorrect inclusion of \$8k of cost for which Atikokan could not provide without any supporting documentation.

7.2.2 Basis of Finding

- (1) Thunder Bay Hydro charges Atikokan \$2,100 per month for customer information system ("CIS") services, which was required to allow Atikokan to participate in the North West Group smart meter processes. Atikokan included the monthly charge of \$2,100 in its 2009, 2010 and 2011 OM&A costs claim. Atikokan included 35 months of this charge into its original smart meter costs claim for a total of \$73,500. However, not the entire \$2,100 per month was incremental for smart meter deployment as Atikokan had included \$14,000 per year of the CIS charge in its 2008 revenue requirement and recovered the cost through its distribution rates. Therefore, the OM&A costs claim should be reduced by \$14,000 per year over the three year period for a total of \$42,000 which should not have been recorded in Account 1556.
- (2) Atikokan included \$3,241 and \$5,235 in 2010 and 2011 OM&A costs claim for smart meters. However, Atikokan could not provide any supporting documents for these costs. Therefore, these costs should not be considered as legitimate costs and should not have been recorded in Account 1556.

7.2.3 Area of Non Conformity Requiring Action

Atikokan should remove \$14,000 each year from its 2009 to 2011 OM&A costs claim to exclude the non-incremental CIS charges and remove \$3,241 and \$5,235 from 2010 and 2011 OM&A costs claim, respectively.

7.2.4 Management Responses

Atikokan agrees with the finding.

7.2.5 Management Action Plan

Atikokan proposed the following adjustments based on the audit finding. Atikokan made the following adjustments in the GL for both Account 1555 and 1556:

1. Account 1556 for 2009, 2010, and 2011 reduced by a total of \$42,000 [\$14,000 per year] to reflect the non-incremental amounts in the CIS billing system.
2. Account 1556 reduced by \$8,476 [\$3,241 for 2010 and \$5,235.00 for 2011 for material not supported by invoices]. These adjustments reduced account 1556 by \$50,476. However, the overall total impact to account 1556 had a reduction of \$50,742 as a result of the final audited report. The \$50,742 included the above findings impact of \$50,476 plus a further impact of \$266 listed below in Finding 3.

7.3.1 Finding 3

There was a \$28k cost misclassification between Capital Costs and OM&A Costs. This cost misclassification did not have a material impact on Atikokan's smart meter capital or OM&A cost claims.

7.3.2 Basis of Finding

The Board's "Guideline: Smart Meter Funding and Cost Recovery" (G-2008-0002) issued on October 22, 2008 stated that:

Investments in smart meters should be recorded in the 1555 capital variance account. Distributors should use sub-accounts to segregate costs by type for future fixed asset accounting required under GAAP. The distributor's normal capitalization policies should be followed.

Atikokan included \$14,442 cost of consulting services from Util-Assist, an Ontario consulting firm specializing in metering solutions and technologies in its 2010 OM&A costs claim. Per discussion with Atikokan's management and review of the contract between Util-Assist and Atikokan, the consulting services provided by Util-Assist in 2010 were mainly for the implementation and rollout phases of the mass deployment contract, Wide Area Network ("WAN") implementation and for an advice that was offered by Util-Assist on the integration of the Time-of-Use (ToU) billing. As a result, the \$14,442 costs due to Util-Assist services that were recorded in Account 1556 in 2010 should be capitalized in smart meter Account 1555 because these costs were directly attributable to bringing the smart meters to the condition necessary for them to be capable of operating in the manner intended by Atikokan's management. This treatment would then be consistent with Atikokan's capitalization policy.

Atikokan also has included \$14,176 of consulting services from Util-Assist in its 2011 capital cost claim recorded in Account 1555. The nature of the cost incurred is to administer the N-Dimension contract for the security audit. N-Dimension is the audit firm selected for the annual security audit. With the mass deployment of Advanced Metering Infrastructure (“AMI”) systems, security of the AMI network is critical to prevent utilities from becoming susceptible to new levels of potential security breaches and to ensure customer privacy and acceptance of the network. Since the cost from Util-Assist incurred in 2011 was administrative in nature and the majority of the smart meters were put into use by the end of 2010, the \$14,176 incurred in 2011 should have been expensed in smart meter OM&A costs rather than capitalized in smart meter capital costs. Accordingly, this amount should have been recorded in Account 1556 and not Account 1555.

7.3.3 Area of Non Conformity Requiring Action

The \$14,442 Util-Assist consulting service cost, which was recorded as 2010 OM&A cost should be reclassified as 2010 capital cost and the \$14,176 Util-Assist consulting service cost, which was recorded as 2011 capital cost should be reclassified as OM&A cost. The net impact of the reclassification is immaterial.

7.3.4 Management Responses

Atikokan agrees with the finding.

7.3.5 Management Action Plan

1. Atikokan adjusted Account 1555 and Account 1556 as follows:
 - a. Account 1556 decreased by \$14,442 to move an item for project management from operations to capital [Account 1555] increasing 1555.
 - b. Account 1556 increased by \$14,176 to move contract administration for a maintenance item and Account 1555 reduced by the same amount.
2. The above item adjustments had the effect of reducing account 1556 by \$266. However, as noted above in finding 2 management action plan response 7.2.5, 1556 showed an overall total impact of being reduced by \$50,742 which considered both the \$266 in finding 3 and \$50,476 impact of finding 2.
3. Account 1555 increased by 266 as a result of the increase of 14,442 and decrease of 14,176. It is noted the actual overall impact to account 1555 with consideration of this finding 3 and impacts of finding 1 above (\$64,926), showed a decrease of \$64,660 to the account.

7.4.1 Finding 4

Atikokan's smart meter costs in its 2012 CoS rate application did not agree with the reported balances of Account 1555 Smart Meter Capital and Recovery Offset Variance Account and Account 1556 Smart Meter OM&A Variance Account in the RRR 2.1.7 of 2011.

7.4.2 Basis of Finding

In its letter issued on June 13, 2006, the Board approved two separate variance accounts, Account 1555 for smart meter capital costs and Account 1556 for smart meter OM&A costs, for the utilities to track differences between the amount funded in rates and actual costs. Appendix A to the letter also provided guidance on the accounting entries for the two variance accounts.

Per the reconciliation of the smart meter costs claim with the RRR account balances reported to the Board, Regulatory Audit noted that Atikokan's smart meter costs claim did not agree to the RRR 2.1.7 balances of Account 1555 and Account 1556 that were reported to the Board as at December 31, 2011. Per review of Atikokan's financial records, Regulatory Audit observed that a number of smart meter related costs were recorded in Atikokan's income statements rather than in Account 1556 Smart Meter OM&A Variance Account. Per confirmation with Atikokan's management, Regulatory Audit noted that Atikokan's smart meter costs claim in its 2012 CoS rate application was not based on the accounting records of Account 1555 and Account 1556. Instead, Atikokan's management compiled the costs claim directly from the invoices and supporting documents that were believed to be related to the smart meters.

As a result, there was a mismatch between the account balances for Account 1555 and Account 1556 and the smart meter costs claim submitted in the 2012 CoS rate application.

7.4.3 Area of Non Conformity Requiring Action

Atikokan's smart meter capital costs and OM&A costs should match with its account balances for Account 1555 and Account 1556. Atikokan's management should make the necessary adjustments to Account 1555 and Account 1556 to correct its prior accounting errors and to include the results of this audit to ensure the alignment of account balances from accounting records with the balances reported to the Board and the balances submitted in the rate application. Regulatory Audit noted that Atikokan re-filed the RRR 2.1.7 balances for Account 1555 and Account 1556 with the Board after the Audit adjustments on February 21, 2013.

7.4.4 Management Responses

Atikokan agrees with the finding.

7.4.5 Management Action Plan

Atikokan re-filed with the Board on February 21, 2013, accounts 1555 and 1556 balances as at December 31, 2011 to reflect the results of this audit. The re-filed account balances are included in this report.

Atikokan will update its smart meter model in its stand-alone application EB-2011-0293 as per the Board decision

Section B: Finding noted during the Audit, but not within the Audit Scope

7.5.1 Finding 5

Atikokan over-collected an amount of 23K from its customers for the period of May 1, 2012 to August 31, 2012 through its SMFA that had been approved by the Board in Atikokan's 2011 IRM Decision and Order EB-2010-0064. The Board had approved a sunset date of April 30, 2012 for the Atikokan's SMFA in Atikokan's Decision and Order EB-2010-0064.

7.5.2 Basis of the Finding

This Audit covered the examination of Atikokan's smart meter costs claim from 2009 to 2011 in the CoS rate application EB-2011-0293. However, on January 18, 2013, Atikokan informed Regulatory Audit that it over-collected an amount of \$23,192 for the SMFA from its customers for the period of May 1, 2012 to August 31, 2012. The Board had approved a sunset date of April 30, 2012 for the Atikokan's SMFA in Atikokan's Decision and Order EB-2010-0064. On January 21, 2013, Atikokan filed a letter with the Board informing this matter and proposed to refund the over-collected amount to its customers as part of the stand-alone smart meter rate application EB-2013-0019. In the letter, Atikokan also stated that it would work with Regulatory Audit to confirm the amount and the period of the over-collection.

Based on the information provided and procedures performed, Regulatory Audit reviewed the amount and the period of the over-collection by Atikokan and determined that Atikokan had indeed over-collected from its customers an amount of \$23,192 related to the SMFA for the period of May 1, 2012 to August 31, 2012.

7.5.3 Area of Non Conformity Requiring Action

Atikokan should have ceased the collection of the SMFA on April 30, 2012 per Atikokan's 2011 IRM Decision and Order EB-2010-0064. Atikokan needs to address the over-collection issue in its stand-alone smart meter rate application EB-2013-0019.

In addition, Atikokan needs to establish necessary processes to ensure that customers are not charged rates beyond the Board approved sunset dates for the respective rate riders.

7.5.4 Management Responses

Atikokan agrees with the finding.

7.5.5 Management Action Plan

Atikokan Hydro plans to address the over-collection of the SMFA in its upcoming rate application EB-2013-0019.

Atikokan Hydro has implemented a method of tracking rate changes by making a check list when the rates are approved. The rate changes are then completed by one person and verified by a second person to ensure a sunset date is never missed in the future.

8. Conclusion

After the Audit adjustments, Atikokan's smart meter capital cost has been reduced by an amount of \$64,660 or 13% from \$506,698 to \$442,038. Atikokan's smart meter OM&A cost has been reduced by an amount of \$50,742 or 23% from \$224,207 to \$173,465. Overall, Atikokan's smart meter costs have been reduced by an amount of \$115,402 or 16% from \$730,905 to \$615,503. After the Audit adjustments, Atikokan's per meter cost was decreased by \$69 per meter, from a cost of \$437 per meter to \$368 per meter.