

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2013 ELECTRICITY DISTRIBUTION

RATES APPLICATION

FOR SMART METER COST RECOVERY

Atikokan Hydro Inc.

EB-2013-0019

May 21, 2013

This is Ontario Energy Board (“Board”) staff’s submission on Atikokan Hydro Inc.’s (“Atikokan’s”) application for rates to recover smart meter costs effective July 1, 2013 (the “Application”). Atikokan filed the Application on March 8, 2013. The Application was filed in accordance with the Board’s direction in the Decision and Order EB-2011-0293 with respect to Atikokan’s 2013 Cost of Service rates application, and following an audit of Atikokan’s smart meter costs by staff from the Regulatory Accounting and Audit branch of the Board.

Background

In Decision and Order EB-2011-0293 regarding Atikokan’s 2012 Cost of Service application, the Board stated:

The Board agrees with the concerns raised by Board staff and VECC in their submissions. The significant increases in the smart meter costs identified in responses to interrogatories is concerning. Considering that Atikokan’s smart meter costs were reviewed, albeit not in the context of a detailed review of the prudence of all costs, in the context of an application for an increased Smart Meter Funding Adder in mid-2010 [EB-2010-0185], the Board expected more detailed evidence on smart meter costs in this [EB-2011-0293] Application.

The Board will accept VECC’s proposal and allow for recovery of 50% of the requested smart meter costs at this time. The Board will direct the Regulatory Accounting and Audit branch of the Board to conduct an audit of Atikokan’s smart meter costs. 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.¹

Staff from the Board’s Regulatory Accounting and Audit branch conducted the audit of Atikokan’s smart meter costs in the second half of 2012. While such

¹ Decision and Order EB-2011-0294, June 18, 2012, pages 30-31

audit reports are normally held in confidence, the Audit Report was filed on the record on March 18, 2013, following receipt of a letter by Atikokan on March 15, 2013 requesting that the Audit Report be placed on the public record.

The Audit Report documents that, as a result of the audit, Atikokan's documented capital and operating expenses recorded in Accounts 1555 and 1556, respectively were revised.

Smart Meter Costs Before and After Audit Adjustments and Incremental Costs of a Total Cost Basis

| | Before Audit (Original Request in EB-2011-0293) | Audit Adjustments | Final Audited Costs | Approved Costs in EB-2011-0293 | Incremental Smart Meter Costs (Applied for in EB-2013-0019) |
|-----------------------|---|----------------------|------------------------|-----------------------------------|---|
| | A | B | C = A + B | D = A x 50% | E = C - D |
| Capital Costs | \$ 506,698 | -\$ 64,660 | \$ 442,038 | \$ 253,349 | \$ 188,689 |
| OM&A Costs | \$ 224,207 | -\$ 50,742 | \$ 173,465 | \$ 112,104 | \$ 61,362 |
| Total Costs | \$ 730,905 | -\$ 115,402 | \$ 615,503 | \$ 365,453 | \$ 250,051 |

Ref: Application, EB-2013-0019, March 8, 2013, page 4/Table 1

As noted in the Board's findings in Decision and Order EB-2011-0293, the Board allowed for recovery of 50% of Atikokan's claimed smart meter costs in that proceeding. Thus, the deferred historical revenue requirement for that 50% of claimed costs is being recovered through approved Smart Meter Disposition Riders ("SMDRs"). The 50% of the going forward revenue requirement was factored into the approved 2012 distribution rates. Thus, Atikokan is being held whole with respect to the recovery of historical and ongoing costs of the 50% smart meter costs approved in the EB-2011-0293 decision.

The amount remaining to be recovered is the difference between the final audited costs and the 50% of the claimed costs from the 2012 cost of service application already approved and being recovered through rates. It is these incremental costs, beyond the 50% already approved and being recovered, which are the subject of the current Application.

The Necessity and Prudence of Smart Meter Costs

Board staff notes that it has not conducted an extensive review on the costs as documented in this Application, given this background. The need for capital investments in smart meters and related infrastructure, and the ongoing

expenses to maintain and operate smart meters and TOU billing, is mandated by regulation. The nature of the cost claims was extensively reviewed through evidence, interrogatories and submissions in Atikokan's 2012 cost of service application under EB-2011-0293. The only outstanding item was the quanta of the costs, which were found to be extraordinary and not adequately supported in the 2012 application.

These smart meter costs were subject to a smart meter audit. The nature of the audit was to confirm Atikokan's smart meter cost claims by checking the accuracy and support for these costs. The result of the smart meter audit was revised and lower capital and operating costs than Atikokan had claimed in the EB-2011-0293 application. Atikokan has agreed with the revised smart meter costs resulting from the audit.

Board staff notes that, as result of the audit, the per smart meter costs for Atikokan have reduced significantly from the applied for costs in EB-2011-0293:

| | 2012 Cost of Service EB-2011-0293 (requested, close of record) | | 2013 Stand-alone EB-2013-0019 | |
|------------------------------|---|----------------|-------------------------------|----------------|
| | Per Meter Costs | | | |
| | Capital only | Capital + OM&A | Capital only | Capital + OM&A |
| All Metered Customer Classes | \$302.87 | \$436.88 | \$264.22 | \$367.90 |

Source: Application, March 8, 2013, Table 3 and 1673 installed smart meters

While the costs overall are higher than is the industry norm, Board staff also notes that this level of costs per meter is generally in line with other similar utilities. In particular, Sioux Lookout Hydro, another electricity distributor in Northwestern Ontario which has many characteristics similar to those of Atikokan, and which is a member of that group of utilities that collaborated together and have services provided by Thunder Bay Hydro, has documented costs of \$338.90 (capital and OM&A) per meter.² Atikokan's revised per meter costs are now of similar magnitude. Smaller size, remoteness, and other

² Decision and Order EB-2012-0245, August 23, 2012, page 3

characteristics would be driving higher costs for installing and operating smart meters and related systems for these utilities.

Given this background and support for the need for, nature and the level of the claimed costs, Board staff takes no issue with Atikokan's smart meter costs revised per the smart meter audit.

Smart Meter Cost Recovery

Board staff has reviewed the costs for which recovery is being sought in this Application, and confirms that the costs in the filed smart meter model conform to the difference between the final smart meter costs per the audit report and the 50% approved for recovery in Decision and Order EB-2011-0293. This applies for all costs detailed down by entry and year on tab 2 of the filed smart meter model.

Board staff also submits that Atikokan has accurately input other parameters on the number of smart meters, number of customers by meter rate class, cost of capital parameters, tax, depreciation and CCA rates. Thus, in Board staff's submission, Atikokan has accurately used the Board-issued smart meter model to calculate the revenue requirement for the incremental or residual smart meter costs arising from the audit report, and thus the resulting rate riders.

In Decision and Order EB-2011-0293, the Board approved class-specific SMDRs to recover the deferred revenue requirement for the 50% of claimed smart meter costs approved in that decision. No Smart Meter Incremental Rate Rider ("SMIRR") was required as the approved costs were factored into rate base and revenue requirement, and thus the prospective costs were being recovered directly in approved distribution rates.

This Application is not a cost of service application. As a result, Atikokan is seeking both class-specific SMDRs and SMIRRs related to the incremental smart meter costs that are the subject of this Application. This second SMDR is to recover the deferred revenue requirement for the residual amount of the audited smart meter costs for the period leading up to the effective date of the rate order

arising from this Application, while the SMIRR will recover the ongoing capital-related and operating costs for these meters until Atikokan next rebases its rates through a cost of service application.

Atikokan's proposal conforms with Board policy and practice, as documented in Guideline G-2011-0001 and with numerous Board decisions approving recovery of smart meter costs.

Atikokan's proposed SMDRs and SMIRRs are as follows:

| | Smart Meter Disposition Rider (SMDR) | Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) |
|-----------------|--------------------------------------|---|
| Recovery Period | July 1, 2013 to August 31, 2015 | July 1, 2013 until the effective date of Atikokan's next cost of service-based rate order |
| Residential | \$2.79 | \$1.06 |
| GS < 50 kW | \$3.21 | \$1.39 |
| GS 50-4999 kW | \$6.12 | \$3.71 |

In its Application, and also by way of a letter filed separately with the Board in January 2013, Atikokan noted that it had continued to collect its Smart Meter Funding Adder ("SMFA") from its customers for the period May 1, 2012 to August 31, 2012, even though the SMFA of \$3.50 per month per metered customer had a sunset date of April 30, 2012. The SMFA was removed when Atikokan's 2012 rates approved in the 2012 cost of service application EB-2011-0293 were implemented on September 1, 2012.

Atikokan proposed to refund the over-collection from its metered customers by way of using the over-collected SMFA revenues plus carrying charges as an offset to the incremental revenue requirement being recovered through the new class-specific SMDRs. Notwithstanding the transgression of charging the SMFA past its expiration, Board staff submits that this method of refunding the over-collection to Atikokan's ratepayers is reasonable.

The recovery period for the SMDRs is proposed for 22 months, from July 1, 2013 to August 31, 2015. Atikokan has stated that this is being done to align the

sunset date for the new SMDRs with the sunset date for the SMDRs approved in Atikokan's 2012 cost of service application EB-2011-0293.

For the SMIRRs, the recovery period is until the effective date of Atikokan's next rate order for cost of service-based rates, currently anticipated for May 1, 2016. Board staff submits that Atikokan has correctly estimated the SMDRs and SMIRRs in its Application, and takes no issue with Atikokan's proposal for the levels of the SMDRs and SMIRRs or with the proposed recovery periods.

Accounting Matters

With the incremental smart meter costs to be approved by the Board in this Application, Atikokan will have had all historical costs related to 100% deployment of smart meters reviewed and disposed of. Board staff also notes that the cost recovery of stranded meters was dealt with in Atikokan's 2012 Cost of Service application EB-2011-0293. With the Board's decision on this Application, Atikokan has completed all smart meter cost accounting, and no further entries for smart meter costs should be made going forward in Accounts 1555 and 1556. The stranded meter sub-account of Account 1555 Smart Meter Capital Costs is still required to record the recovery of the Stranded Meter Rate Rider to offset the net book value of stranded meters approved in the EB-2011-0293 decision.

Going forward, Board staff submits that all capital and operating costs for smart meters should be recorded as normal distribution capital costs and operating expenses in standard USoA accounts (e.g., Account 1860 for smart meter capital costs).

– All of which is respectfully submitted –