EDA

The Voice Of Ontario's Electricity Distributors

January 6, 2006

John Zych
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, ON M4P 1E4

via email to BoardSec@oeb.gov.on.ca and by courier

Dear Mr. Zych:

Re: Generic Issues Proceeding RP-2005-0020 / EB-2005-0529
Comments of the Electricity Distributors Association

Enclosed is the submission of the Electricity Distributors Association on the Smart Meter issues of the Generic Issues List for 2006 EDR Rate Applications.

Please direct any questions or comments to Maurice Tucci at 905.265.5336 or at mtucci@eda-on.ca.

Yours truly,

Maurice Tucci

Maurice Tucci
Senior Analyst, EDA

Encl.

Electricity Distributors Association
3700 Steeles Ave. W., Suite 1100, Vaughan, Ontario L4L 8K8 Tel 905.265.5300 1.800.668.9979 Fax 905.265.5301 email@eda-on.ca www.eda-on.ca

EDA submission on Smart Meter Issues for Generic Issues Proceeding

The following submission of the Electricity Distributors Association ("EDA") is based on consultations with EDA members including the core members of the EDA's Regulatory Compliance Council and the EDA's Smart Meter Regulatory Group. The EDA has focused its submission on the identified Smart Meter issues.

In the background to the Smart Meter issues, the Board recognizes that distributors will need to begin implementing smart meter programs early in 2006. Many distributors have anticipated this and have proposed smart meter budgets and spending to be funded through increments to their 2006 rates. Other distributors may have proposed a deferral account to track smart meter spending for later recovery due to their uncertainty on the timing of the smart meter roll out in their service territory for 2006. Some distributors may have been waiting for direction from the OEB on when to seek recovery of smart meter spending. The options available to distributors for smart meter recovery were not specifically identified prior to distributors filing for their 2006 rates.

It is now clear that the smart meter program is moving forward. The Board should establish mechanisms that maximize the ability of distributors to implement smart meters and protect the interests of distributors and their customers. A flexible approach is key to effective implementation.

In its issues list, the Board has identified two options. The first is the inclusion of an amount in 2006 rates and the second is the establishment of deferral accounts to record smart meter spending to be recovered at a later date. Although these options have been cast as alternatives by the Board, the EDA is of the view that both options should be available and that distributors should be permitted to choose the option that best suits their circumstances.

(a) inclusion of an amount in 2006 rates

The EDA submits that a budgeted amount based on a standard cost per customer, along with a variance account is the most appropriate approach for this option.

The Board's Smart Meter Report to the Minister provided an estimate for smart meter capital cost of $250 per meter for residential customers. On a monthly basis, depreciated over 15 years (and assuming gross up for PILS at 43.5% on the equity portion of 9.88% factored for a 55:45 debt equity ratio and 7% for debt), this would result in a $3 per month cost per customer. The Report also proposed an incremental operating monthly cost of $1.03 per month, for a total monthly cost of $4.03 per customer. The $4.03 could be used by a distributor as a standard amount to estimate the incremental revenue requirement by multiplying $48.36 ($4.03 X 12 months) times the number of meters to be installed for residential customers in 2006. By using this approach, distributors would only need to estimate the number of residential smart meters that they expect to install in 2006. A similar approach could be used for other customer classes. The EDA notes that some distributors have assumed that they will install 1/5 of all their meters in 2006.

The inclusion of an amount in rates will provide distributors with a revenue stream to finance the implementation of smart meters. This approach is consistent with the Board's Report where the Board proposed that "costs be included in the distribution rate as soon as a distributor starts to install smart meters." (OEB Smart Meter Implementation Summary page iv).

A variance account is a key element of this option. The smart meter program is a government initiative and implementation will be mandatory for distributors. There is still considerable uncertainty about the details of the smart meter program which is outside the control of distributors. A variance account will protect both ratepayers and distributors. Given that distributors are being required to install smart meters that will likely be procured through a process developed by the government, distributors and their customers should not be at risk if the actual costs are different from the standard amount that the Board developed in its Report. The timing of implementation is also outside the control of distributors. A variance account will address both of these issues. To the extent that a distributor is unable to use its entire 2006 smart meter budget within the 2006 rates period, the unused budget would be tracked and be identified as a credit to ratepayers. A further advantage of a variance account is that it will permit a distributor to continue to install smart meters within the 2006 rates period if the distributor has implemented the planned number of meters more quickly than expected. Disposition of the variance account would be subject to the Board's variance account review process currently under development.

(b) deferral accounts

The option of using a deferral account to track smart meter costs for later recovery should also be available to distributors. Many distributors have already asked for such deferral accounts in their 2006 rates applications, primarily due to the uncertainty about implementation.

(c) implementation

If the Board makes available the option of including an amount in rates, as described above, those distributors who have asked for a deferral account should be given the opportunity to amend their applications to request that option, if they wish. Those distributors who have not addressed the issue of smart meters at all in their 2006 rates should be provided an opportunity to amend their application to choose one of the options noted above.

The EDA recommends that the Board establish two smart meter variance accounts (for capital and OM&A) and two smart meter deferral accounts (capital and OM&A) to allow for the implementation of the two options.

For the purposes of reporting on the status and progress of smart meter implementation by distributors, the EDA recommends the Board use the existing RRR process rather than creating a new stand alone reporting requirement.

Summary of EDA Recommendations:

1. A flexible approach is key to assuring implementation proceeds effectively. (Issue 1.1)

2. The budgeted amount could be based on a per meter cost based on a capital cost for smart meters of $250 depreciated over 15 years or $3.00/month and operating costs of $1.03/month as per the OEB Smart Meter Implementation Plan Report to the Minister. (Issue 1.2, 1.3) As the program unfolds, actual costs may be different and these differences should be tracked in a variance account.

3. The components of the budgeted amount are based on known costs for meter management. However, as the program unfolds, actual costs may be different and these differences should be tracked in a variance account. (Issue 1.3)

4. Distributors who have not included an amount for the smart meter implementation in their 2006 rate filing should be given the opportunity to do so, or be provided an opportunity to apply for a rate rider at a later date, or to apply for deferral accounts. (Issue 1.1, 1.2)

5. Variance accounts should be available to those distributors who have or will seek to include an amount in 2006. The variance accounts are important in order to allow the distributor to manage the uncertainty towards 2006 with respect to the expectations of government and the potential delays created by legislative committee review or ongoing policy or protocol changes, all of which are outside the control of distributors. (Issue 1.4)

6. Capital and operating accounts should be established for both deferral accounts and variance accounts. (Issue 1.5)