



THE BOARD OF DIRECTORS

Chair, GAIL REGAN

President, Cara Holdings Ltd.

President, PATRICIA ADAMS

MAX ALLEN

Producer, IDEAS, CBC Radio

GEORGE CONNELL

President Emeritus, University of Toronto

ANDREW COYNE

Journalist

IAN GRAY

President, St. Lawrence Starch Co.

Secretary/Treasurer, ANNETTA TURNER

DAVID NOWLAN

Professor Emeritus, Economics, University of Toronto

CLIFFORD ORWIN

Professor of Political Science, University of Toronto

ANDREW ROMAN

Barrister & Solicitor, Miller Thomson

MARGARET WENTE

Columnist, Globe and Mail

January 9, 2006

BY EMAIL & BY HAND

Mr. John Zych
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2601
Toronto ON M4P 1E4

Dear Mr. Zych:

Board File No. RP-2005-0020/EB-2005-0529
Generic Issues Proceeding
Submissions of Energy Probe Research Foundation

Enclosed, please find the written submissions of Energy Probe Research Foundation (Energy Probe) in respect of Generic Issues, and 10 hard copies, as outlined in the Board's Procedural Order No. 4 issued on December 21, 2005. An electronic copy will be filed in PDF format.

Mr. Adams will be available at the Hearing on January 10, 2006 to make a short oral submission and to answer questions.

Should you have any questions or require additional information, please do not hesitate to contact me.

Yours truly,

David MacIntosh
Case Manager

cc: Tom Adams
Executive Director
Energy Probe

Energy Probe Research Foundation 225 BRUNSWICK AVE., TORONTO, ONTARIO M5S 2M6

Phone: (416) 964-9223 Fax: (416) 964-8239 E-mail: EnergyProbe@nextcity.com Internet: www.EnergyProbe.org

RP-2005-0020
EB-2005-0529

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act*,
1998, S.O. 1998, c. 15, Schedule B;

AND IN THE MATTER OF applications by electricity
distribution companies for approval of distribution rates for
2006.

SUBMISSIONS OF
ENERGY PROBE RESEARCH FOUNDATION
(“ENERGY PROBE”)
ON
GENERIC ISSUES

January 9, 2006

**RP-2005-0020
EB-2005-0529**

**GENERIC ISSUES
2006 RATES HEARINGS**

**SUBMISSIONS OF
ENERGY PROBE RESEARCH FOUNDATION**

The Board's Procedural Order #3, issued November 17, 2005, in this proceeding established the list of issues for this generic hearing. The following submissions are presented to the Board on behalf of the Energy Probe Research Foundation (Energy Probe).

Energy Probe will restrict its submissions to issues relate to smart meters and generalized stand-by rates.

Part 1: Smart Meters

Issues

- 1.1 Should the Board authorize the inclusion of capital and/or operating costs related to the general roll-out of smart meters (i.e., as distinct from any pilot programs in CDM plans) in the 2006 revenue requirements of utilities?
- 1.2 If so, should utilities recover a standard amount in rates (e.g. cost per customer) or should each utility propose a smart meter budget for inclusion in rates?
- 1.3 If a standard amount is used how should it be calculated?
- 1.4 Alternatively, should deferral accounts be established and the amounts spent on smart meters be recovered in future rate periods?
- 1.5 What accounting requirements should be established for reporting and monitoring smart meter spending?

Energy Probe's Submissions:

Smart metering has been one of the key elements of the current provincial government's energy policy since it was elected. The government policy states that 800,000 meters will be "smart" meters by 2007 and all meters in Ontario, which are estimated to number in excess of 4.3 million, will be "smart" meters by 2010.

The Ontario Energy Board supported the government's initiative by convening a large multi-party, multi-forum technical work program involving Energy Probe and many other experts and representatives of affected parties, particularly LDCs. The Board process ultimately resulted in the Board issuing a smart metering "Implementation Plan" dated January 26, 2005. One important conclusion that arises from the OEB's work in this area is that any significant metering changes will be highly technical projects that have profound business and technical implications for LDCs. Among the complex issues that must be addressed include the role of Measurement Canada regulations as well as system costs related to billing system, interfaces, and back-office systems integration. Effective facilitation of consumer involvement will be critical, if substantial benefits are to be realized by meter changes.

Since that the release of the OEB smart metering report, the OEB further facilitated smart meter programs of LDCs in the EDR Handbook. The EDR Handbook issued in May 2005 accommodates a Tier 1 adjustment to both distribution and capital expenses for smart-meter spending incremental to that already encompassed within approved C&DM plans.

However, since this beneficial progress was established by the Board, significant institutional uncertainty has arisen around provincial smart metering policy. The roles and priorities of major government agencies and ministries with respect to smart meters – particularly the Ontario Power Authority, the Ministry of Energy, and the Ministry of Municipal Affairs and Housing – are at this time unclear. The introduction of Bill 21 in the legislature in November 2005 has added little clarity to the business environment because the legislation focuses on high level generalities and facilitating new

bureaucracies. As a consequence, fundamental business issues cannot now be known.

These include:

- the roles of distributors in implementing smart metering;
- the basic layout of the IT architecture (e.g. Will there be central data repository? If so, will the EBT be used or replaced?); and
- the optimal meter and meter data communication technologies.

Given these uncertainties, Energy Probe's recommendation is that the LDCs cannot reasonably and prudently budget spending and design programs for implementation in 2006. There are no means available for utilities to properly develop budgets for implementation in 2006.

Instead, utilities should be tracking all spending associated with smart meters and related systems in deferral accounts for future disposition. This approach will provide utilities with the flexibility they need to respond to the changing policy priorities of the provincial government.

As much as possible, all electric LDCs supervised by the Board should manage, report and recover their smart metering costs in a consistent fashion. A few utilities, like Toronto Hydro, have proposed budgets for smart metering costs for inclusion in 2006 rates and also variance accounts deal with any actual vs. plan differential. Most utilities have not made assumptions about smart meter implementation that are as aggressive as Toronto Hydro. Energy Probe encourages the Board to approve one approach for dealing with smart metering rate consequences. Toronto Hydro's approach is particularly and unnecessarily risky for the utility and is not the way to go.

Normally, it would be undesirable for the regulatory rules to allow a significant passage of time between the incurrence of a cost by a utility and its recovery from consumers. However, meters and related capital goods should be designed to be long lived assets. Therefore, the deferral of recovery for a period of one year should lead to only a small change in annual cost recovery in rates for the remaining depreciation period of the related assets.

In making our recommendations, Energy Probe recognizes some utilities may be reluctant to proceed with spending that has not been presented to the Board for review. Deferral accounts can also put the Board in a difficult position with respect to prudence review. Energy Probe therefore recommends that the Board include in its decision, an indication that the deferral accounts will be disposed of in 2007. If stranded metering and meter-related assets are found to arise due to actions or inactions of the provincial government beyond the LDCs control, the OEB should consider methods of cost recovery directly from the provincial government rather than from utility shareholders.

Summary of Energy Probe's Submissions on metering:

1.1 Should the Board authorize the inclusion of capital and/or operating costs related to the general roll-out of smart meters (i.e., as distinct from any pilot programs in CDM plans) in the 2006 revenue requirements of utilities?

Energy Probe's response: No.

1.2 If so, should utilities recover a standard amount in rates (e.g. cost per customer) or should each utility propose a smart meter budget for inclusion in rates?

Energy Probe's response: No, it is likely that the most effective smart metering program for one utility may be very different from that of some other utility.

1.3 If a standard amount is used how should it be calculated?

Energy Probe's response: A standard amount cannot be accurately estimated at this time and even if an estimate was available, it is unlikely that it would be satisfactory for regulatory purposes in the future.

1.4 Alternatively, should deferral accounts be established and the amounts spent on smart meters be recovered in future rate periods?

Energy Probe's response: Subject to the need to review the prudence of amounts spent, the answer is Yes.

1.5 What accounting requirements should be established for reporting and monitoring smart meter spending?

Energy Probe's response: No submission.

Part 3: Generalized Standby Rates for Load Displacement Generation

Issues

- 3.1 Should the Board develop a standardized methodology for stand-by rates?
- 3.2 Should the Board permit utility-specific approaches to the design of stand-by rates?
- 3.3 If so, what should that design basis be?

Energy Probe's Response:

The fundamental regulatory issue underlying the question of stand-by rates is how to provide non-discriminatory access to distribution facilities for embedded generators in a manner that does not result in the transfer of fixed costs to third party consumers.

Large customers with load displacement generation – that is those who stand to benefit from low or no stand-by charges – represent a highly concentrated interest group. On the other hand, the interests of general consumers not able to install load displacement generation are highly dilute with respect to the financial impacts of regulatory rules that would transfer extra costs to non-participating customers. The benefits of rate relief related to stand-by charges are large enough to incent self-generation interests to vigorously present their case.

While Energy Probe advocates distributed generation where the overall societal costs of providing energy services can be minimized, Energy Probe also emphasizes the importance of not double counting benefits. There are a variety of processes underway in Ontario that can directly take into account societal benefits claimed by distributed generators. These include the development of Standard Offer contracts and various procurement initiatives of the OPA. Any claim that stand-by rates should be lowered or eliminated due to wider societal benefits should bear an onus to demonstrate no double counting of these benefits. Energy Probe hopes that as soon as possible locational marginal pricing for electrical energy can be implemented so that the changing real-time value of supply to consumers in particular locations can be reflected in prices paid to

generators and also prices charged to consumers. Such a system would optimize both conservation and power production decision making.

One principle that Energy Probe suggests ought to inform any decisions on stand-by charges is the principle that wires customers, whether self-generators or not, must bear their fair share of the costs associated with the wires infrastructure that provides customers with access to the power system. Access in and of itself is a valuable service. Access also happens to be a costly service due to the fact that wires costs are almost all fixed on a per customer basis.

Any costs specifically related to connection where there is only one or a small group of users of those facilities, ought properly to be billed on a “gross load” basis.

There appears to be a wide range of stand-by rates charged by LDCs in Ontario. It appears that no consistent methodology gave rise to these rates.

Summary of Energy Probe’s Submissions on Generalized Standby Rates for Load Displacement Generation:

Issues

3.1 Should the Board develop a standardized methodology for stand-by rates?

Energy Probe’s response: Energy Probe agrees that the Board ought to develop a standardized methodology for stand-by rates. The derivation of those rates should be informed by the cost allocation process currently underway at the Board.

3.2 Should the Board permit utility-specific approaches to the design of stand-by rates?

Energy Probe’s response: Utilities should be allowed to apply for a variance from the Board’s standardized methodology if cost-justified.

3.3 If so, what should that design basis be?

Energy Probe’s response: All customers, including those with self-generation capability, should pay their fair share of the facilities and services that provide customers with access to the grid.

Respectfully submitted at Toronto, Ontario this 9TH day of January 2006.

Tom Adams