

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

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

SUBMISSIONS OF THE
SCHOOL ENERGY COALITION
ON GENERIC ISSUES

The Board's Procedural Order #3 in this proceeding established the list of issues for the generic hearing. The following submissions are on behalf of the School Energy Coalition ("Schools").

Smart Meters

1. The Board's issues related to smart meters are as follows:

"1. Smart Meters

- 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?"*

2. **General.** Smart metering is one of the key elements of the provincial government's energy conservation initiatives. The introduction of Bill 21 in the legislature in November 2005 and the introduction of smart meter pilot programs by many utilities are the first steps in implementing the smart meter program in the province. Schools has advocated the implementation of this initiative with the expectation that all energy consumers, not just schools, will benefit from a well planned and cost effective smart meter installation.

3. ***Inclusion in 2006 Revenue Requirement.*** While there may still be much uncertainty around the implementation process and the costs of installing smart metering, Schools does not believe that these uncertainties should hold up the process. Accordingly, for those utilities which are “ahead of the curve” in the development of a smart meter rollout and have properly developed budgets for implementation in 2006, they should be allowed – in fact encouraged – to include those amounts in their 2006 revenue requirement. The EDR Handbook makes explicit accommodation for this by providing for a Tier 1 adjustment to both distribution and capital expenses for incremental (eg: above any smart-meter spending already encompassed within approved CDM plans) smart meter expenses. And indeed a number of utilities have. Of course, utilities filing on a forward test year basis may do so also (and have).
4. Of course, the inclusion in the 2006 revenue requirement does not imply that utilities can just include whatever amounts they wish. Scrutiny of the amounts is occurring (or should be occurring) as part of the application process.
5. ***Standardized Cost per Customer.*** While SEC sees some merit in a standardized cost of smart meters for all ratepayers across the province, if it were possible, the reality of smart meter installations is that different utilities will be implementing different technologies – guided by their own particular circumstances and those of their customers, customer mix, and geographical needs.
6. We note that in our submissions to the OEB Smart Meter review SEC encouraged utilities to share their information and smart meter plans in order to most efficiently implement their individual programs. We continue to encourage this though recognize that complete standardization is not possible, nor likely efficient.
7. ***Cost Recovery.*** Because the smart meter implementation will include costs beyond just the cost of meters and meter installation – such as the communications infrastructure and billing systems – and thus will likely require investments in a single year which will ultimately provide services to more than just the immediate beneficiaries of smart meters, it is fair that the costs included in the 2006 revenue requirement be recovered from all utility customers, not just the customers receiving smart meters in 2006.
8. SEC proposes that distribution expenses and capital costs associated with a utility’s 2006 smart meter program be allocated to ratepayers on a per-customer basis. To the extent that capital costs and/or expenses for meters can be differentiated by rate class, those costs should be allocated directly to those customer classes. Infrastructure costs, such as communication costs, should be allocated pro rata across all customer classes based on numbers of customers.
9. ***Reporting.*** SEC also noted in their submissions on Smart Meters that because of the significant cost uncertainty and implications, close monitoring of spending would be required. SEC recommends that utilities report their actual smart metering costs as part of

their quarterly RRR reporting to the Board and include detailed information on actual costs in their annual rates filing. This should afford for reasonable monitoring of costs.

10. **Variance Accounts.** The issue of whether there should be variance accounts for smart meter costs is a difficult one. As we note later, in general Schools supports only very limited use of deferral and variance accounts, because they are in effect a type of retroactive ratemaking, and because they remove from the utilities their responsibility to budget their costs and manage within those budget levels. On the other hand, smart meter costs in 2006 may be significant amounts, and there is a high degree of uncertainty surrounding them.
11. On balance, we believe that it is fair for utilities who propose a smart meters capital and/or O&M budget for 2006 to have a variance account related to those budgeted amounts. However, we urge the Board to send a clear message to the LDCs that this is a temporary measure, and that utilities will be expected to budget smart meters costs carefully in 2007 and future years, and manage within their approved budget in those years. Ratepayers should not be subjected to retroactive rates any more than is absolutely necessary.

Deferral Accounts

12. The Board's issues with respect to Deferral Accounts are as follows:

"2. Deferral Accounts

2.1 Regulatory Costs

2.1.1 Should the Board permit utilities to record their costs of consultants, legal counsel and direct incremental disbursements related to all regulatory proceedings in Account 1508, for the purpose of subsequent review and disposition?

2.1.2 What regulatory costs should be recorded as a credit for purposes of a regulatory cost deferral account?

2.2 Revenue Losses Attributable to Distributed Generation

2.2.1 Should utilities be permitted to record in a deferral account foregone revenue amounts attributable to unforecasted load losses arising from distributed generation?"

13. As a principle, Schools believes that the use of deferral accounts – which are in effect a form of retroactive ratemaking – should be limited. This would apply to either of the accounts contemplated in this section, or to the accounts listed in the fourth section of these submissions.

14. **Regulatory Costs.** During the development of the 2006 Electricity Distribution Handbook, explicit accommodations were made to filing requirements to adjust for material differences from the 2004 historical data, including OEB assessment costs. The discussions on

appropriate adjustments to make included many more potential items. In the end, the specific Tier 1 adjustments were agreed upon, and the Board issued an order to that effect. It is not, in our view, appropriate for utilities to re-open this issue through requests for deferral accounts in their applications. What was the point of the detailed discussion, review, and Board decision relating to Tier 1 adjustments if, when the actual applications are filed, the LDCs seek to revisit that decision?

15. We also note that utilities had the option of applying for a forward test year if they felt that the historical test year with adjustments approach did not accurately reflect their expectations for the test year. Few chose that route. It is not, in our view, appropriate for utilities to cherry-pick the historical year approach, avoiding detailed scrutiny of their proposed expenditures in the test year, but seeking asymmetrical exceptions that will increase their revenue requirement. If a utility seeks to have an increase for one area, like regulatory costs (whether directly, through a budget increase, or indirectly, through a deferral account), it should also open its other budget items up for review, so that the Board and ratepayers can identify areas in which there is the potential for cost savings to offset the increases. This is a normal part of regulatory review.
16. We also note that, while some utilities may feel that regulatory costs are significant for their utility, others do not (as demonstrated by the fact that not all utilities have requested such exceptions).
17. Schools accepts that the regulatory environment for the electric utilities is different from the environment in which they have operated in the past. However, Schools' review of the evidence and interrogatory responses of applicants does not indicate any substantial risk of harm to utilities in the 2006 rate year due to variances in regulatory costs.
18. Therefore, we urge the Board to reject in principle the request for a deferral or variance account for regulatory costs in any historical year application unless the applicant demonstrates special circumstances, different from other LDCs, that make a regulatory costs adjustment appropriate in their specific case.
19. ***Distributed Generation.*** With respect to potential losses associated with distributed generation, the development of significant distributed generation during the test year is in Schools' submission less likely than, for example, significant impacts from smart meters. In responses to interrogatories by VECC, very few LDC's indicated their knowledge of impending distributed generation projects. They also indicated that a normal "lead time" (time from notification to development of the generation) would be in the neighbourhood of 3 months to more than a year. The former would be for small projects, with little impact, while the latter would be the normal for all larger projects.
20. On this basis, Schools believes that any revenue losses from distributed generation during the 2006 rate year are likely to be non-existent or small for most if not all utilities.

21. For these reasons, Schools does not believe that the particular deferral account for losses associated with distributed generation is necessary or appropriate at this time. Again, as with regulatory costs, it should be open to a utility to demonstrate that they are subject to special circumstances which take them outside of the normal rule, but in the applications we have seen there do not appear to be any examples where that is the case.

Generalized Standby Rates for Load Displacement Generation

22. The Board's issues with respect to Generalized Standby Rates for Load Displacement Generation are as follows:

“3. Generalized Standby Rates for Load Displacement Generation

3.1 Should the Board develop a standardized methodology for standby rates?

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

3.3 If so, what should the design basis be?”

23. **General.** Schools believes that like smart meters, efficient localized generation, including load displacement generation, can and will provide benefits to the provincial electrical system, and to ratepayers. Schools also believe that standardized treatment of such generation across all utilities is preferable. Schools notes that standardized treatment does not necessarily mean standardized rates.

24. We also note that schools have a dual interest in this subject. On the one hand, as ratepayers it is in our interests to ensure that standby rates are as high as is reasonable, since the revenue requirement left for other customers is thus reduced. On the other hand, by the nature of their load and their facilities, schools represent a huge potential DG resource with the proper technologies, so schools could in the medium and long term be substantial providers of distributed generation.

25. **Standardized Methodology.** Schools is a firm believer in the allocation of costs to those that cause the cost, i.e. application of proper cost allocation principles in determining rates. It is on that basis that Schools believes standby rates should be developed.

26. However, cost allocation is only beginning to be addressed within the LDC's of the province, and most LDC's do not currently have the cost allocation data to be able to determine appropriate costs and therefore rates for standby generation. For the purposes of those utilities which require standby rates for customers currently, Schools believes that a common methodology of determining the appropriate fixed and variable rates is appropriate at least for the interim.

27. ***Level of Interim Standardized Rate.*** With respect to what the rates to be charged should be, Schools unfortunately does not believe it has sufficient information or expertise to be of assistance to the Board in this regard. While it appears clear that the levels proposed by Enersource and Toronto – rates equivalent to the rates that would be charged if the power were actually delivered to the customer, instead of just available on standby – are too high, and would present a barrier to distributed generation, we are not in a position to provide specific proposals for a lower level that has a reasonable evidentiary base. We anticipate reviewing the written submissions of others and, in the event that those submissions suggest sensible solutions, to comment orally on those suggestions that appear to us to make sense.

Other Deferral Accounts

28. The Board's issues with respect to Other Deferral Accounts are as follows:

“4. Other Deferral Accounts

4.1 Should the Board establish deferral accounts for the purpose of subsequent review and disposition for any of the following:

4.1.1 Rate mitigation revenue shortfalls,

4.1.2 Low Voltage Charge Variances

4.1.3 Material Bad Debt”

29. Schools has stated its general position with respect to deferral accounts in general in paragraph 13 above.

30. ***Rate Mitigation.*** In our submissions with respect to the 2006 EDR Handbook, Schools set forth a hierarchy of actions to mitigate large rate increases, as follows:

- (a) Temporary or permanent reductions in operating costs in the rate year.
- (b) Delay of operating costs to a subsequent period.
- (c) Reduction or delay of capital program to reduce long term impacts.
- (d) Changes in financial structure to make it more efficient.
- (e) Generating new sources of revenue.
- (f) Temporary or longer term reductions in shareholder returns (as some utilities have already implemented).
- (g) Shifting of economic development or social priorities out of the utility.
- (h) Spreading of rate increase over more than one year, with or without a deferral account to capture variances.

31. Schools believes that utility's properly incurred costs should be recovered in rates. Schools also believe that a utility with a potentially high rate increase has an obligation to minimize that rate increase through other means before seeking to recover it from ratepayers, either immediately or in the future. Assuming that a utility has acted responsibly to look for other ways of funding a large rate increase, as set for above, we believe that it should recover its

full revenue requirement from ratepayers. To the extent that such a utility has deferred some revenue requirement in order to manage rate impacts to customers, Schools accepts that those deferred revenues should be recorded to a deferral account for disposition to those customers in the following year.

32. We urge the Board, in its decision on this point, to emphasize to LDCs their responsibility to find other methods for dealing with shortfalls, and to rely on a deferral account only where those other methods are insufficient.
33. **Low Voltage Charges.** With respect to Low Voltage Charges, for those utilities subject to such charges, it is submitted that they are uncontrollable expenses that should be treated in a similar fashion to RSVA accounts, and therefore be recorded in an appropriate variance account. Schools notes the Veridian has assumed that these variances would be recorded as part of the RSVA Connection account (see response to VECC 4.2.1 c and d).
34. **Bad Debt.** However, on the issue of material bad debt, Schools does not agree with the establishment of a variance account.
35. As noted in the interrogatory responses to VECC's questions on bad debt variance accounts, the introduction of a deferral account to record material bad debt would have an impact on the business risk of utilities. The current return allowed the utilities is based on a business risk which includes a bad debt component. Therefore, if such deferral accounts are set up for LDC's, the allowed returns would need to be adjusted downwards.

Costs

36. Schools has participated in this generic process in a careful way, prioritizing its involvement and seeking to maximize its assistance to the Board. Schools therefore requests that the Board order payment of 100% of Schools' reasonably incurred costs.

Respectfully submitted this 8th day of January, 2006

SHIBLEY RIGHTON LLP



Jay Shepherd