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VIA MAIL AND EMAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
26th Floor
2300 Yonge Street
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Proceeding to Determine a Just and Reasonable Rate to Recover the Costs Associated with Embedded Generators Having a Nameplate Capacity of 10 kW or Less
Board File Number: EB-2009-0326
Vulnerable Energy Consumer Coalition's Final Submissions

As Counsel to the Vulnerable Energy Consumers Coalition (VECC), I am writing, per the Board's Notice of September 21st, to provide VECC's final submissions regarding the above proceeding. The submissions are organized in accordance with the Final Issues List issued by the Board on October 22, 2009 and prefaced by a section that provides VECC's understanding of the overall context in which the proceeding is taking place.

Context

On July 17, 2009 the Board issued a letter advising interested parties that it would be "examining its policies and regulatory instruments relating to metering, settlement and billing of generation facilities that would qualify under the micro-FIT program to ensure they support the timely and efficient implementation of that program". In the letter, the

Board indicated that it would consider whether any of the changes required to the Retail Settlement Code or other regulatory instruments should apply to larger FIT generation.

On August 5, 2009 the Board issued a number of proposed changes to the Retail Settlement Code and the Distribution System Code aimed at standardizing the settlement arrangements between electricity distributors and embedded generators that have FIT (including micro-FIT) contracts. Following a period of comment the Board approved the proposed changes on September 21, 2009. Under these changes customers would retain the ability to choose the connection configuration they considered optimal. However, gross billing would be used for all connection configurations, including generators that connect indirectly "inseries". The changes also directed that embedded retail generators (with FIT contracts) should be treated as a separate account.

One of the issues raised during the aforementioned proceeding was the service charge that should be applied to retailer generator accounts. In response the Board indicated that it intended to initiate a separate proceeding to address the matter of service charges for embedded retail generator customers[1]. On September 21, 2009 the Board issued a Notice of Proceeding to Determine a Just and Reasonable Rate to Recover the Costs Associated with Embedded Generators Having a Nameplate Capacity of 10 kW or Less. In the Notice, the Board stated that the scope was limited to embedded generators having a nameplate capacity of 10 kW or less and that met the eligibility requirements of the Ontario Power Authority's (OPA) micro-FIT program. The Board's Notice set out a proposed Issues List and requested comments as a first step in the proceeding.

On October 22, 2009 the Board established a Final Issues List for the proceeding. In doing so, the Board provided further clarification regarding the scope of the proceeding:

- The scope is limited to small embedded renewable generators who meet the eligibility requirements of the OPA's micro-FIT program[2].
- In the interest of concluding the proceeding expeditiously, issues related to the larger FIT program would be considered separately and at a later date[3].
- System design issues and related costs/benefits are out of scope for this proceeding which deals with "the establishment of a rate or rates that will recover the costs of the distributors associated with the administration of micro generator accounts" and include metering, billing and settlement costs[4].

The following sections include VECC's submissions on each of the topics set out in the Board's Final Issues List. VECC's submissions focus on the narrow scope of the proceeding, as defined by the Board. However, in order to provide the appropriate

[1] September 21, 2009 Notice of Amendment to A Code, page 6
[2] Page 3
[3] Page 4
[4] Page 6

context for its submissions, VECC also notes related matters/issues that, while out of scope, need to be considered in future Board processes.

Service Classification Issues

1. Is the description/definition for the embedded micro-generation service classification shown in Appendix D appropriate? If not, what should be the description/definition of this service classification?

Appendix D defines the Service Classification for Embedded Micro-Generation Accounts as follows:
"This classification applies to an electricity generation facility meeting the eligibility requirements of the Ontario Power Authority's microFIT program and connected to the distributor's distribution system. To be eligible for the microFIT program, the nameplate capacity of the generation facility can not be greater than 10 kW."

Given that the scope of the proceeding focuses on renewable embedded generators that qualify for the OPA's micro-FIT program, VECC submits that the proposed definition is appropriate. VECC notes that the wording is consistent with the OPA's eligibility requirements for the micro-FIT program[5].

VECC notes that some parties[6] have suggested that the Board initiate another proceeding to address the need for generator rate classifications to cover other types of generators. VECC agrees.

Cost Elements to be Recovered

2. Are the same cost elements applicable to all micro-generation customers?
If so, what cost elements should be used to establish the rate? Based on the Uniform System of Accounts (USoA), which specific accounts or components ought to be included in the development of the rate?
If not, what cost elements should be used to establish the rate? Based on the USoA, which specific accounts or components ought to be included in the development of the rate for microFIT projects that are:
a. Directly connected
b. Indirectly connected
c. Owned by the load customer entity at that location vs. owned by different entity

In VECC's view there are three sub-issues that need to be addressed in responding to this issue:

i) What approach should be used in identifying the cost elements?

[5] microFIT PROGRAM, PROGRAM OVERVIEW, Ontario Power Authority, September 30, 2009, page 8.
[6] ENWIN November 5, 2009 Proposal, page 1

ii) What identifiable cost elements are within the scope of the current proceeding?
iii) Do the cost elements vary depending upon connection configuration or ownership?

What Approach Should Be Used In Identifying the Cost Elements

In VECC's view, there are two approaches that could be used to "identify" the cost elements applicable to micro-generation customers for inclusion in rates. The first would be to consider those USOA areas where incremental costs will be directly incurred to service micro-generation customers and where the costs are not covered through either contributions from the generator or through the Global Adjustment in accordance with Ontario Regulation 330/09. The second approach is to identify those USOA accounts were it would be reasonable for micro-generators to share the costs based on their usage of the system, while also recognizing the generator has made capital contributions to cover certain costs and that, under Ontario Regulation 330/09, other costs incurred by the electricity distributor will be recovered through the Global Adjustment. This would be accomplished by focusing on the USOA accounts that should be allocated to such customers in accordance with the Board's Cost Allocation Methodology.

In VECC's view the second approach is the appropriate one to use. Currently, there are distributors in the province with embedded generators which have separate accounts, but where a separate rate has not been applied. To date the number of such accounts has likely been small and the cost of administering such accounts has been minimal on an individual basis as suggested by CanSIA[7]. However, with the passage of the GEGEA this situation is likely to change such that the number of embedded generators is likely to increase significantly and resulting overall costs imposed in individual distributors could also be significant. Evidence of this can be seen in some of the 2010 cost of service rate applications filed to date[8]. Given this change in circumstances it is only fair that embedded generators bear a share of those costs not addressed through capital contributions or Ontario Regulation 330/09. Since the Board's Cost Allocation methodology is used to determine how costs should be shared among a distributor's other customer classes it is an appropriate approach to use for micro-generators.

Identifiable Cost Elements Within the Scope of the Current Proceeding

Three of five parties that submitted proposals provided views as to the specific cost elements that could/should be attributed to embedded micro-generation – the EDA,

[7] CanSIA Response to LPMA #1
[8] Orangeville, EB-2009-0272, Green Energy Plan, page 21 and Hydro One Networks, EB-2009-0096, Exhibit H/Tab 1/Schedule 54

Hydro One Networks and CanSIA. The following table summarizes their views[9] as well as VECC's position as to the cost elements that to included.

Cost Element	EDA (1)	HON (2)	CanSIA (5)	VECC
Operation, Supervision and Engineering	Yes	No	No	No (6)
Load Dispatching	Yes	No	No	No (6)
Customer Premises – Operational Labour	Yes	Yes	Yes	Yes
Customer Premises – Materials and Expenses	Yes	Yes	Yes	Yes
Maintenance Meters	Yes	Yes	No	Yes
Meter Reading Expense	Yes	Yes	No	Yes
Customer Billing	Yes	No	Yes	Yes
Admin and General	Yes	Yes (3)	Yes	Yes (7)
Meters – Depreciation	? (8)	Yes	No	Yes
Meters – Return	No	Yes	No	No
Meters – PILS	No	Yes	No	No
General Plant – Depr.	Yes	Yes (4)	No	Yes
General Plant – Return	Yes	Yes	No	Yes
General Plant – PILS	Yes	Yes	No	Yes

Notes:
1) EDA Proposal, page 2
2) HON Response to VECC #2 a)
3) A&G assigned to Metering
4) Depreciation on General Plant assigned to Metering
5) CanSIA Response to SEC #3
6) Excluded based on Scope of Current Proceeding
7) A&G assignment should be based on all OM&A costs not just those related to Metering
10) Treatment is not clear. Responses to ALASI #3 a) & #8 a) suggest – Yes. However, page 2 and the Chart included with the original proposal and response to OEB Staff # 3 suggest - No.

The EDA has proposed to include in the micro-Fit charges expenses associated with Operation, Supervision and Engineering as well as expenses associated with Load Dispatching. The scope of the current proceeding is limited to the recovery of distributors' costs associated with the administration of micro-generator accounts, including metering, billing and settlement. As result, these activities would appear to be out of scope for the current proceeding.

However, as can be seen from Hydro One Networks' most recent Rate Application[10], distributors are likely to incur significant costs in these areas as a result of an increase

[9] Note: The table reflects VECC's understanding based on its review of the Proposals and IR responses. VECC understands that the parties have an opportunity to comment on the interpretation offered.
[10] EB-2009-0096, Exhibit H/Tab 1/Schedule 28

in embedded micro-generation in their service areas. Furthermore, it is VECC's understanding that such costs are not included in the connection costs recoverable from generators or in the expansion costs potentially recoverable from the Global Adjustment or the generators. As a result, it is VECC's view that possible recovery of such costs needs to be addressed in a future proceeding.

In VECC's view Customer Premises expenses as well as Meter Maintenance and Meter Reading are all associated with the administration of the customer's account and should form part of the basis for the micro-FIT charge. VECC notes that there appears to be general agreement on this issue from all three parties.

VECC also agrees with the EDA and Hydro One Networks' that Meter Maintenance and Meter Reading should be included in the micro-FIT charge. While the generator pays for the meter[11], the ongoing maintenance of the meter and metering reading are the responsibility of the electricity distributor[12]. Furthermore, the capital contribution from the generator does not cover these costs. CanSIA has suggested that the micro-generators will not increase meter reading cost as they will be done by telemetry[13]. However, VECC notes that the meters used (and therefore meter reading methods) for such customers will be the same as for load customers[14]. As result, there is no reason for a different treatment when it comes to establishing rates.

In terms of Customer Billing, VECC submits that this cost element should also be included in the determination of the rate. VECC notes that while Hydro One Networks' proposal does not include billing costs, this is because it is based on the fixed charge credit it currently gives USL customers. This proposal appears to be predicated on the fact that it is a simplified approach that can be applied in a timely manner[15]. However, in response to various interrogatories[16], Hydro One Networks acknowledges that billing costs will be incurred for micro-generation accounts.

In the Board's Cost Allocation methodology Administration and General (A&G) Expenses are allocated in proportion to the O&M expenses already allocated to each customer class. As result, VECC submits it would be appropriate to assign the new micro-generation service class a portion of total A&G costs based on the portion of O&M attributed to it. VECC notes that a similar approach appears to be proposed by Hydro One Networks. However, it is not clear if Hydro One Networks is only including Meter-related O&M in the allocation base[17] or all O&M attributed to this service class. In VECC's view all O&M costs should be used.

[11] HON Response to LPMA #4 b)
[12] HON Response to LMPA #3 b) and
[13] CanSIA Response to SEC #3.
[14] HON Response to LPMA #6
[15] HON Response to OEB Staff #1 a)
[16] See HON Responses to LPMA # 3 b) and VECC #2 d)
[17] HON Response to VECC #2 a)

In the case of Meters, the EDA excludes any associated costs on the basis that the generator pays for the meter[18]. In contrast, Hydro One Networks includes such costs on the basis that, while the generator pays for initial meter, the distributor will be responsible for replacing it[19]. In VECC's view, the appropriate approach is one that acknowledges both perspectives. If the capital contribution from the generator does not include any provision for meter replacement, then it is appropriate to include the depreciation in the charge as this recognizes the need to eventually replace the meter. However, since the distributor does not have to finance the initial meter installation, there should be no costs included for Debt Return, Equity Return or PILS.

VECC notes that question regarding the treatment of the capital-related costs associated with meters gives rise to a question as to how other assets[20] financed initially by customer contributions (or through the Global Adjustment) should be treated. In these cases, if the "contribution" only covers the initial capital cost and the distributor is responsible for any replacement costs arguments could be made for a similar rate recovery of these costs from embedded generators. While not in scope for this proceeding, this is an issue that Board needs to address in the future.

In the case of General Plant, the OEB's Cost Allocation Methodology assigns the associated capital based on the allocation the distributor's other assets to the various customer rate classifications. Furthermore, this allocation base includes the value of assets prior to the exclusion of capital contributions[21]. As a result, VECC submits that it would be appropriate to allocate a portion of General Plant to the micro-generation service classification using the same approach and recover the associated depreciation, return and PILS through the micro-FIT charge. Since the scope of the current proceeding is limited to the recovery of distributors' costs associated with the administration of micro generator accounts, including metering, billing and settlement, this allocation should only consider metering costs in the allocation base.

However, VECC notes that if this scope was expanded then it would be reasonable to include other capital costs related to micro-generators in the allocation base. Asset costs that could potentially be included under a wider scope would include: i) Connection assets paid for by the generator; and ii) Expansion assets whether paid for by the generator or through the Global Adjustment. In VECC's view such issues should be the subject of a separate proceeding.

Impact of Connection Configuration and Ownership

The distributors' proposals have indicated that the costs of administering a micro-generation account could be impacted by configuration[22] or ownership[23]. However,

[18] EDA Response to VECC 2 b) and
[19] HON Response to VECC #2 b)
[20] Examples would be generator funded connection assets and Global Adjustment funded Expansion assets.
[21] HON Response to VECC # 2 e)
[22] ENWIN Proposal, page 2 / EDA Response to SEC #1

there were no real specifics offered and it is likely that the costs can not be readily determined at this time. Indeed, all three distributors/distributor representatives (i.e. the EDA) indicated that more experience was required[24] before a clear picture of the costs associated with micro-generation accounts would emerge. Also, VECC notes that some of the areas where costs could expect to differ (e.g. assets required for connection) are beyond the scope of the current proceeding. As a result, VECC submits that there is no need to introduce rate distinctions based on ownership or connection configuration as an outcome of this proceeding. However, VECC notes that the issue should not be totally abandoned and should be addressed in the context of:

- Future proceedings dealing with charges for micro-FIT generators once more data is available.
- Future proceedings dealing with the appropriate charges for other types of embedded generators and/or the recovery of other cost elements from micro-FIT generators – both issues outside the scope of the current proceeding.

Rate Design

3. Should the approved rate be a uniform rate for all distributors, or should different distributors have different rates?

In VECC's view the rate should be distributor specific and reflect the costs for the distributor in question. The only role for a "uniform rate" is if sufficient information is not available for a distributor to readily (and transparently) develop a micro-FIT rate applicable to its circumstances.

VECC notes that with the completion of the 2010 rate approvals roughly three-quarters of the distributors in the province will have completed Cost Allocation studies that are consistent with rates established on a test year cost of service basis. If the Board were to specify the cost elements to be included in the micro-FIT charge these distributors should be able to readily identify the "unit costs" based on their last rebasing application. For those distributors that rebased on a 2008 or 2009 test year the costs could then be escalated to 2010 using the IRM adjustments applied to its overall rates for the ensuing years. In the case of those distributors rebasing in 2010 the identified unit costs could form the basis for the rate.

For those distributors whose rates are to be rebased in 2011, the Board could utilize the results from these distributors' 2007 Cost Allocation Informational filings and escalate the unit costs to 2010 using the distributor's annual escalation factors adopted for 2GIRM.

Finally, VECC would like to comment on the interim solution adopted by the Board, namely use of Residential service charge. VECC has two fundamental concerns about

[23] HON Response to SEC #5

[24] HON Responses to OEB Staff #3, LPMA # 3 b), SEC #5 and VECC #1 b). ENWIN Response to OEB Staff #2, LPMA #3 and VECC #2. EDA Response to VECC #4 b) and LPMA #2.

the application of this charge to micro-FIT generators. First, in principle, the Residential service charge is meant to capture costs that are not appropriate to charge to micro-FIT generators (e.g., meter depreciation costs, service connection costs, etc.). Second, if one were to calculate the ratio of the residential service charge to residential customer costs[25], the result would vary widely across distributors[26]. As result, a distributor's Residential service charge does not provide a useful basis for expeditiously establishing a reasonable rate.

If the Board is concerned that an approach such as that recommended by VECC is too involved and time consuming then in VECC's view a preferred approach would be calculate the charges for a cross section of distributors. If this cross section was determined using the cohorts the Board has established for purposes of benchmarking OM&A costs then results could be used to create either a) a uniform rate[27] or b) a specific rate for the utilities in each cohort.

4. Should the costs be recovered through a fixed charge, a volumetric rate or a combination of the two? If there is to be a volumetric rate, what should be the basis for establishing the charge determinant? If there is to be a combination of fixed and volumetric, what should be the basis for the cost recovery split?

The scope of the current proceeding is dealing with the recovery of distributors' costs associated with the administration of micro generator accounts, including metering, billing and settlement. The Board's Cost Allocation Methodology considers all such costs as being customer related. As a result, VECC submits that costs should be recovered through a fixed charge. VECC notes that this position is supported by both the EDA[28] and Hydro One Networks[29]. Also, ENWIN has acknowledged[30] administration costs such as billing (which is what this proceeding is dealing with) are generally fixed.

Implementation

5. What should the effective date be for any new rate or rates created by this proceeding? Does the incentive regulation framework pose any difficulties for implementation?

VECC believes that, depending upon the date the Board's decision is issued, it would reasonable for the new rates to be effective May 1, 2010. VECC also agrees with

[25] The OEB's Cost Allocation Model calculates customer costs using three different definitions. However, regardless of which definition is used the results would be a ratio that varies widely across distributors.
[26] This observation is based on VECC's participation in the review of most distributors cost of service rebasing applications over the last 3 years.
[27] Based on an average of the results across all cohorts
[28] EDA Position Paper, page 2
[29] HON Position Paper
[30] ENWIN Response to LPMA #3

Hydro One Networks[31] that the same adjustment mechanism should be applied to the micro-FIT rate as is applied to other base distribution rates during an IRM period. If there are changes in cost allocation methodology and/or additional proceedings dealing with rates for embedded generators during an IRM period, then the question of how to adjust rates for distributors on IRM should be addressed at that time. In VECC's view the resolution of the matter will depend on the nature of changes required and cannot be pre-specified at this time.

Thank you for the opportunity to comment. VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an award of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

Yours truly,

Michael Buonaguro
Counsel for VECC

[31] HON Response to LPMA #5 b)