

INTERROGATORIES OF TORONTO HYDRO-ELECTRIC SYSTEM LIMITED TO THE SMART SUB-METERING WORKING GROUP

1. Ref: Page 1

The submission filed on December 15, 2009 is entitled "Pre-Filed Evidence of the Smart Sub-Metering Working Group." It is not clear what individual(s) authored this submission.

- a) Please confirm whether Mr. Hanser prepared this submission and whether he will adopt this evidence as his own at the oral hearing. If not Mr. Hanser, who prepared the submission and who will adopt it at the hearing?

2. Ref: Para 1

- a) Please provide your list of 'generally accepted regulatory principles'.

3. Ref: Para 1, Para 10

The ultimate conclusion being rendered is that of "a cross-subsidization from THESL's regulated business to a competitively offered service..."

- a) What specific "competitively offered service" is being referred to? What, precisely, is the market that is competitive?
- b) What range of specific costs does the author assume exists for providers of this "competitively offered service"?
- c) Are you aware that it is established industry practice for sub-meterers to offer payments to condominium developers in the order of \$100 or more per unit for the right to install their sub-metering systems? Did the author of the submission take into account any cash payments that may be paid by "competitive service providers" to property developers/land owners/landlords in connection with the installation of suite meters? What impact would

such cash payments have on the operation of the competitive suite meter market assumed by the author of the submission? Do you consider such a practice to be consistent with offering services on an equal footing with non-regulated competitive entities as stated at paragraph 10?

- d) Please identify the general principles that guide cost allocation and rate design in the context of essentially purchasing end-customers through cash payments to land developers/land owners/landlords as referenced in part c) above.

4. Ref: Para 2

The author makes the statement: “Some cross-subsidization within a rate class is inevitable.”

- a) How should electricity regulators manage the implications of this conclusion in connection with the application of general principles that guide cost allocation and rate design?
- b) Is the elimination of cross-subsidization within a rate class practically feasible?

5. Ref: Para 2

On July 27, 2009 the OEB issued a decision concerning the rate application made by a neighbouring utility and specifically the issue of suite metering of condominiums by utilities. In that Decision, the Board stated as follows:

“Condominium suite metering, as offered by PowerStream, involves installing a separate meter for each condominium unit, and billing each unit owner as a residential customer; the condominium corporation is billed for the common areas. There is no bulk master meter required and there is no sub-metering taking place. The rates are regulated. As is common for residential customers, PowerStream does not charge for the cost of the meters; these are included in the costs allocated to the residential class as a whole. The cost of the condominium meter (Quadlogic) is considerably more expensive (about \$680) than the standard meter for an individual single home (about \$250). On the revenue side, PowerStream replaces one commercial customer with a larger number of residential customers, generating higher revenue because of the rate classification under which it bills for the same load previously billed for the bulk meter.

Smart sub-metering, as offered by members of the SSMWG, happens “behind” the bulk meter. Members of the SSMWG install the smart meters for the condominium units. The condominium corporation continues to be a commercial customer of PowerStream. Smart sub-metering allows for the allocation of the condominium corporation’s bill among the

various unit owners, presumably in relation to their consumption of electricity. The rates are not regulated.

Because no contribution is required by PowerStream for the higher cost of the meter for condominium customers, the SSMWG alleges that there is a cost subsidy for these customers by the rest of PowerStream's ratepayers and that this harms the competitive market and harms the SSMWG members.

The relief sought by the SSMWG is that the condominium activity should be performed by an affiliate of PowerStream. In the alternative, if in the utility, the condominium activity should be treated as a stand-alone program, on a fully-costed basis. Under the stand-alone categorization, revenues and costs of the condominium suite program would be segregated from the rest of the distribution business. In the event the program is less profitable than the distribution business on a fully-costed basis, revenue would be imputed thereby reducing the revenue requirement and rates for the rest of the ratepayers.

Should the Program be offered through an Affiliate?

The SSMWG accepted that under the existing legislative and regulatory framework, utilities are required, when asked, to install smart meters in condominiums but argued that it is open to the Board to require that the condominium activity should be undertaken through an affiliate.

PowerStream, Board staff and the intervenors argued that the legislative and regulatory framework clearly suggest that a utility such as PowerStream not only has the ability to carry out these activities directly through the utility as opposed to a separate subsidiary, but in fact it is required to do so. PowerStream argued that if the activity was carried out through a separate subsidiary, which is not by definition a distributor, a utility would not be meeting its requirements under the *Electricity Act*, the Regulations and the Distribution System Code.

Section 71 (1) of the *Ontario Energy Board Act, 1998* (the "Act") states that distributors cannot carry on any business activity other than the distributing of electricity, except through an affiliate. However, section 71 (2) of the Act provides an exception to the general rule. Section 71 (2) states that a distributor may provide services in accordance with section 29.1 of the *Electricity Act, 1998* that would assist the government of Ontario in meeting its objectives in relation to electricity conservation.

Ontario Regulation 442/07, promulgated on August 1, 2007, allows licensed distributors to install smart meters in existing condominiums when the board of directors of the condominium corporation approves the installation of smart meters.

The Board's Distribution System Code was recently amended by adding section 5.1.9 which reads as follows:

When requested by either:

- (a) the board of directors of a condominium corporation; or
- (b) the developer of a building, in any stage of construction, on land for which a declaration and description is proposed or intended to be registered pursuant to section 2 of the Condominium Act, 1998,

a distributor **shall install** smart metering that meets the functional specification of Ontario Regulation 425/06 – *Criteria and Requirements for Meters and Metering Equipment, Systems and Technology* (made under the Electricity Act). (Emphasis added).

On the basis of the existing legislative and regulatory framework, the Board accepts that it is appropriate for PowerStream to continue to carry out its condominium activities as it has and proposes to continue.” (emphasis added)

- a) What differences between PowerStream and THESL support your conclusion that THESL should be required to conduct suite metering through an affiliate when the Board has very recently confirmed that it is appropriate for PowerStream to do so directly through the utility?

6. Ref: Para 7

- a) Does the SSMWG assert that THESL is practising predatory pricing? If so, provide the evidentiary basis for the assertion.

7. Ref: Para 10

The author states, “THESL suggests that it would provide superior service at lower costs because it is regulated. This rationale suggests that THESL is subsidizing the suite meter costs through the charges that it collects from its other customers.”

- a) Please explain the logic that the SSMWG used to equate THESL’s provision of superior service at lower costs because it is regulated, with the conclusion, “THESL is subsidizing the suite meter costs through the charges it collects from its other customers.”
- b) Does the SSMWG not agree that among the purposes of public regulation are to ensure that customer service quality is maintained and that costs are kept as low as possible?

8. Ref: Attachment: Case 1A – Attachment: Case 4B

- a) Please provide the rationale for adding the “Incremental Operating Expenses” to the OM&A cost per customer in deriving the total OM&A figure?
- b) Please explain how these are incremental to the costs of \$210/customer?

9. Ref: Attachment: Case 1A – Attachment: Case 4B

- a) Please explain why the rate class used for the “Foregone Commercial Revenues” is the GS<50 kW class, when the conversions would be from the GS 50-999 kW class?

10. Ref: Attachment: Case 1A – Attachment: Case 4B

- a) Please re-run all eight cases, removing the “Incremental Operating Expenses”, and in the case of conversions, using the proposed GS 50-999 kW rates and assuming 1420 kVA displaced load in Cases 2A and 2B, and 3014 kVA displaced load in Cases 4A and 4B. Please include a calculation of Revenue to Cost ratio for each case.