Ontario Energy Board Report Regarding

The Minister of Energy's Referral

On Wholesale Meter Service Rebates and Exit Charges

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A) Background

On July 28, 2003, the Ontario Energy Board received a request from the Minister of Energy under Section 35 of the *Ontario Energy Board Act,* 1998. The Minister requested that the Board invite Hydro One Networks Inc. to submit, for the Board's review, a proposal for rebating existing, and new, metered market participants when they make alternative arrangements for the provision of wholesale meter services. Also, the Minister requested that Board examine and advise on the stranded asset calculation to be used by Hydro One in deriving an appropriate exit fee to charge when transferring ownership of these assets to other metered market participants. The Minister's letter to the Board read as follows:

> "A small number of local distributors, who are metered market participants, have recently brought to my attention concerns with the continued need to pay for meter services from Hydro One Networks, and the requirement to purchase the service on a going forward basis from a provider other than Hydro One. In recognition of the provision of meter services as a competitive business, I believe their concerns warrant the Board's review.
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> As you know, section 35 of the *Ontario Energy Board Act, 1998* permits the Minister to require the Board to examine, report and advise on any question respecting energy. I am, therefore, requesting the Board to invite Hydro One Networks to submit, for the Board's review, a proposal for rebating existing, and new, metered market participants when they make alternative arrangements for the provision of these services. I believe this rebate should be based exclusively on the metering costs included in Hydro One Networks' currently approved revenue requirement for its transmission business. In completing this examination, I would also like you to consider and advise on the treatment of any duplicate payments that have been made since market opening to procure such services.

> These same distributors have also expressed an interest in assuming ownership of the metering installations from which they are served. However, they are concerned with the level of the exit fee identified by Hydro One Networks, the current owner of most wholesale meters in the province. Hydro One has indicated that the exit fee is set to avoid the stranding of its assets and to cover removal costs. In its review, I am also requesting the Board to specifically examine and advise on the stranded asset calculation to be used by Hydro One in deriving an appropriate exit fee to charge when transferring ownership of these assets to other metered market participants.
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> I expect the Board to advise me expeditiously on these two issues and I look forward to your findings."

At the request of the Board, Hydro One Networks submitted their proposal regarding wholesale meter service rebates and exit charges on August 21, 2003. The Board assigned file number RP-2003-0188/EB-2003-0233 to the review.

On August 29, 2003, the Board asked all transmitters, distributors, the Association of Major Power Consumers of Ontario (AMPCO), and the Independent Market Operator (IMO) to make written submissions on Hydro One's proposal by September 15, 2003.

A technical conference to discuss the technical aspects of the proposal took place on September 8, 2003 at the Board's offices. Hydro One presented the details of the proposal to the 16 parties in attendance.

Submissions were received from eighteen parties on September 15, 2003. Some of the submissions were from stakeholders other than those asked directly by the Board. Hydro One's reply to the stakeholders' submissions was filed with the Board on September 22, 2003.

B) The Issue

Under federal guidelines administered by Measurement Canada, each meter or logger used for wholesale revenue transactions has a seal period, normally six years, after which it has to be re-verified for accuracy of measurement and resealed. In accordance with the transitional arrangement requirements in Chapter 6 of the Market Rules for the Ontario Electricity Market, Hydro One is registered with the IMO as a Metering Service Provider (MSP) with respect to the metering installations that it owned as of market opening (May 1, 2002). This transitional arrangement would exist for each metering installation up to the earliest of the expiry dates of the seal period of any meter or logger forming part of the metering installation. Once the seal period expires, the Metered Market Participants (MMPs) using these metering installations would be required to obtain the services of a Metering Service Provider, or self-provide, and make alternative arrangements as necessary to comply with the provisions of the Market Rules.

Hydro One owns over 1,200 metering installations, totalling over 1,700 meter points, that fall under the transitional arrangement. The terms Metering Installation and Meter Point are defined in Chapter 11 of the Market Rules.

The wholesale metering equipment measures the electricity supplied to the following entities:

- The distributors and the end users that are connected to the transmission facilities owned by Hydro One;

- The distributors that are embedded in the distribution systems owned by other distributors, if these embedded distributors were former customers of Ontario Hydro and if they are registered as market participants with the IMO; and

- Large Use customers (mainly large industrial customers, as previously defined by

Ontario Hydro) that are embedded in the distribution systems, if these customers were former wholesale customers of Ontario Hydro and are registered as market participants with the IMO.

Just over a quarter of the metering installations and meter points are used by the distribution business of Hydro One, with the remainder split between the distributors and the load customers that are market participants in the IMO-administered market.

Based on the currently approved cost allocation methodology for transmission service, the revenue requirement for wholesale metering service is included in the Network Pool, for which all load customers pay charges on the basis of the approved Network Service rate (approved by the Board in the RP-1999-0044 Decision, May 26, 2000).

The load-consuming Metered Market Participants that exit or will exit the transitional arrangement, and new load-consuming Metered Market Participants, pay for Hydro One's meter related costs as well as the costs for metering services associated with self provision or through another Metering Service Provider. That is, they are double-paying.

C) Hydro One Initial Proposal

To address the double-payment issue, Hydro One proposed to establish a rebate program. The proposal was for an annual rebate of $5,700 to load-consuming Metered Market Participants for each meter point that is removed from the transitional metering arrangement. This amount was determined by dividing Hydro One's Board-approved revenue requirement for wholesale meter service of $9.9 million included in the Network Pool, by the total number of meter points (1,750) eligible for rebates. The total number of 1750 is the addition of the number of meter points for which Hydro One is currently a Metering Service Provider (1,700) and the meter points for which the metered market participants have already made arrangements to obtain the meter service competitively

(50).

The rebate would apply retroactively to May 1, 2002. Payments would be made annually at the end of each year. For meter points that exit the transitional arrangement mid-calendar year, the rebate would be on the basis of the number of full months for which the meter point was not served by Hydro One. The rebate would cease at the time unbundled metering service rates come into effect.

Metered Market Participants with meter points that have been established after market opening would have to apply to Hydro One for rebates to commence.

Hydro One proposed that its rebate proposal be approved as an interim measure until it unbundles the wholesale metering costs from the network pool of costs. This unbundling would take place coincident with Hydro One's next submission of transmission rate proposals to the Board.

As Metered Market Participants exit the transitional arrangements, there would be stranded assets in most, if not all, cases. On grounds of equity, Hydro One proposed that a one-time exit fee be deducted from the annual rebates for each meter point upon seal expiry or exiting the transitional arrangement prior to seal expiry. The exit fee was proposed at $5,200. This amount was calculated by dividing the estimated total net book value of the stranded assets ($8.86 million) by the total meter points that are in the transitional pool (1,700) for which Hydro One is currently a Metering Service Provider. The $8.86 million amount is derived from $13.86 million for wholesale metering assets reflected in the Board-approved revenue requirement when transmission rates were last set, less $5.0 million, which is the estimate of the total net book value of wholesale metering assets considered either obsolete or useable by Hydro One itself.

In its filing, Hydro One presented the options of either a uniform or a meter point specific rebate and exit fee, and proposed the former.

Hydro One included in its filing the policy documents under which it would administer the approved meter rebates and exit fees.

Hydro One proposed that the effective date of the rebate and exit fee program be the date of the Board's decision approving this proposal.

D) Submissions of the Participants

Below is a brief summary of each stakeholder's position. The full submissions are available through the Board's offices.

Local Distribution Companies

Brantford Power, Cambridge and North Dumfries Hydro Inc, and Orillia Power Corporation supported Hydro One's proposal for rebates and exit fees. Cambridge and North Dumfries also indicated that the implementation plan should be designed so that it cannot be applied retroactively to the detriment of MMPs that completed the wholesale meter exit process before Hydro One developed this proposal.

Hydro Vaughan Distribution Inc. (HVDI), agreed in principle with the proposal. With respect to the $5,200 exit fee, HVDI recommended that the stranded cost estimates sent previously by Hydro One to the Metered Market Participants should be an option that a Metered Market Participant can choose, even if an exit agreement has not been officially signed. HVDI also recommended that the removal costs for metering installations should be bundled with the proposed exit fee.

Hydro Ottawa stated that, for this period of transition, determining the rebate using a pooled approach is the best way to expedite resolution of this matter, notwithstanding the significant impact that a net book value based exit fee could have on some Metered Market Participants. Hydro Ottawa noted that it would face an increase in costs (in excess of the

$5,700 rebate) to provide metering services. It also noted that since it cannot be strictly considered a “former customer of Ontario Hydro”, it should be clarified that the distributors that were created from former municipal electricity utilities would be treated as if they were the customers of the former Ontario Hydro.

Enersource Hydro Mississauga did not comment specifically on the proposal. Rather, it sought clarifications on issues generally related to the Market Rules.

Toronto Hydro Electric System Limited (Toronto Hydro) supported the uniform approach at this time to determine the meter rebates and exit charges, even though it noted that this support is provided “less readily” for the uniform exit fee proposal. Toronto Hydro also indicated that it is concerned about:

- the costs of accessing metering installations within Hydro One stations;
- the difficulty of fulfilling Hydro One’s requirement to install new metering facilities outside Hydro One stations due to space limitations in older urban areas; and
- the requirement that the Metered Market Participant provide its own instrument transformers if Hydro One’s equipment fails.

Guelph Hydro Electric Systems Inc. (GHESI) supported the uniform annual rebate amount. It also indicated that, in the interest of moving the market forward, it would support the uniform exit fee approach if consideration is given to other lower cost, more practical solutions to wholesale meter point upgrades. GHESI noted that its costs will increase and these costs are not recoverable in distribution rates. GHESI raised the issue of allowing competitive metering installations in Hydro One stations, and the provision for access to these installations. It also made certain suggestions in relation to the Market Rules.

Newmarket Hydro agreed with the rebate proposal but noted that costs to distributors will increase. Newmarket Hydro favoured the specific meter point option for determining exit fees by using the proxy net book value approach. It stated that, although in Newmarket Hydro's case the exit fee may be considered immaterial, the principle that its customers should pay for the assets of other distributors' customers is unacceptable.

London Hydro supported the proposal for uniform rebates. With respect to the uniform exit fee proposal, it stated that this method is inherently unfair to distributors of London Hydro's size. London Hydro would prefer a "modified uniform exit fee" approach where the exit fees for metering installations with shared instrument transformers would be established at a nominal amount ($1,000), and the exit fees for pole-mounted metering equipment -style metering installations would be increased to a higher amount ($10,000).

Chatham-Kent Hydro (Chatham-Kent) did not agree with the uniform rate approach for exit fees. It argued that its customers should only be required to pay for the actual exit costs for meters supplying Chatham-Kent. Also, Chatham-Kent asked questions on previous exit fees already paid and on pole-mounted metering equipment. Chatham-Kent did not comment on the uniform rebate proposal.

Associations

The Electrical Contractors Association of Ontario (ECAO) did not comment specifically on the proposal, except by noting that it is encouraged by the Board's action to promptly and decisively deal with the issue of meter rebates and exit fees. It urged a similar initiative on the issue of connection services.

The Electricity Distributors Association (EDA) supported the proposal for the annual rebate and the one-time uniform exit fee. EDA also noted that Hydro One has indicated that the Metered Market Participants that have already signed a contract with Hydro One would have the option to retain the present contract arrangements or accept the new proposed rebate and exit fee. EDA also pointed out that the rebate will not offset all of the costs of new metering installations and that the cost pressures on the distributors will increase.

The Association of Major Power Consumers in Ontario (AMPCO) supported the proposal for a uniform rebate rate and exit fee. AMPCO suggested that a dispute resolution mechanism should be included in the exit policy. AMPCO expressed concern that the cost of removing meter assets could be substantial and could create an obstacle to the development of a viable competitive market for the provision of meter service. AMPCO also submitted that there should be no difference in treatment of those parties that have already executed exit agreements and those parties that have received exit fee quotations from Hydro One.

Others

The Independent Electricity Market Operator (IMO) considered the proposal to be a reasonable first step towards fully unbundling metering service. IMO raised the issue of establishing a Metering Service Provider of last resort where a Metering Service Provider is no longer able to continue providing service or operate in a safe and reliable manner.

The Ontario Electricity Finance Corporation (OEFC) indicated that it serves as the Metered Market Participant for twenty-seven former Ontario Hydro Non-Utility Generation facilities (NUGs) that are market participants. OEFC stated that those facilities are both generators and consumers of electricity and that they pay network transmission charges for their station service consumption when not generating. OEFC submitted that the proposed uniform rebate and exit fee are the most appropriate of the alternatives considered. OEFC argued that the uniform exit fee proposed should apply to all Metered Market Participants (including generators) and that the annual rebate should also apply to generators with station service loads, regardless of whether or not the station service is separately metered.

Algoma Steel Inc. (Algoma), which is connected to a non-Hydro One transmission system, submitted that the proposals for both the exit fee and rebate are acceptable if applied to all transmission customers, not just Hydro One's customers. Algoma stated that a Metered Market Participant should be given the opportunity to switch to another Meter Service Provider without triggering the exit fee if the meter seal has not expired.

Rodan Meter Services Inc. (Rodan), a Metering Service provider, did not specifically indicate whether or not it supports the uniform rebates and uniform exit fees. Rodan recommended that Hydro One provide a documented procedure outlining the prerequisites and the process to pre-qualify a Metering Service Provider and its subcontractors to gain unaccompanied and immediate access to Hydro One stations. Rodan felt that the requirement to pay the exit fee should only be triggered upon seal expiry regardless of when the Metered Market Participant exits the transitional arrangement. Rodan also urged that the annual rebates be based on an actual cost of service model and be provided by all transmitters. Rodan recommended that Hydro One should agree to accept exit agreements, at the discretion of a Metered Market Participant, pursuant to either Hydro One's previous policy (a meter point specific exit fee) or the proposed (uniform fee) policy for seals expiring in 2003. Finally, Rodan recommended that the Board compel utilities wishing to provide metering services to document their physical and financial separation from their regulated businesses.

E) Hydro One Response and Revised Proposal

In response, Hydro One expressed willingness to compromise on many of the issues raised by the stakeholders during the technical conference and subsequent written submissions.

Hydro One agreed to absorb the cost of removal of metering equipment, to extend the exit fee proposal to the OEFC (NUGs), and to provide choice of methodology to determine exit fees for the Metered Market Participants that have already signed exit agreements or that were in the process of negotiating such agreements on August 21, 2003, the date of filing its initial proposal with the Board. Hydro One was not willing to extend this choice to all the Metered Market Participants or to all Metered Market Participants that have received previous estimates. Hydro One indicated that it is committed to resolving the issue of access by Metering Service Providers to Hydro One stations and would initiate a dispute resolution mechanism, through the Revenue Metering Subcommittee of the IMO.

With respect to the possibility of transferring the ownership of the pole on which pole-mounted metering equipment is mounted, Hydro One indicated that if the pole in question is dedicated to the Metered Market Participant it would be transferred to the Metered Market Participant with the other metering equipment. In response to Ottawa Hydro, Hydro One clarified that the distributors that have been established since 1998 and are successors of former Ontario Hydro customers, will be included in the implementation of the proposed rebate and exit program.

Hydro One argued against the other matters raised by the parties which it considered relevant to the review, and did not respond to the matters that it considered outside the scope of the review or matters that are more properly addressed by the Board and others.

F) Board Findings and Recommendations

The Board notes that Hydro One's initial proposal has the general support of the large majority of the participants. Hydro One's revised proposal and the clarifications and commitments made by Hydro One would, in the Board's view, further enhance stakeholders' support of Hydro One's proposal.

In the Board's view, Hydro One was justified in not commenting on matters raised by certain parties that were clearly beyond the scope of this review.

The Board will comment on the one, more generic, matter that was at issue. That is the proposal for a uniform rebate and exit fee rather a meter specific approach.

A small number of parties suggested that a per meter specific rate approach would be more equitable, rather than a uniform rate approach. One party suggested a modified uniform exit fee, whereby the exit fee for metering installations with shared instrument transformers would be established at, say, $1,000, and the exit fee for pole-mounted metering equipment-style installations would be increased to, say, $10,000. While the Board appreciates that issues of equity and cost causality are important regulatory principles, the Board cannot support a proposal that would unreasonable delay implementation as this would be contrary to the expectations of the large majority of the participating stakeholders, contrary to the letter and spirit of the Minister's request, and it would delay the development of the market for provision of metering services. The Board also notes that the Hydro One proposal is an interim solution. The Board finds that, overall, Hydro One's revised proposal strikes a reasonable balance between materiality and administrative efficiency toward a quick implementation of the rebate and exit program.

Keeping with the letter and spirit of the Minister's request, the Board will not address at this time matters that the Board considered to be outside or peripheral to the main issue, such as suggestions that the Board compel distributors wishing to become Metering Service Providers to document their physical and financial separation from their regulated businesses, that a similar process as this process be initiated on the issue of connection facilities, and that all transmission providers, not just Hydro One, be included in the rebate and exit program. However, on the latter point, the Board will consider outside this review what may be feasible for the Province's smaller transmitters in regard to a similar rebate and exit fee arrangement.

In this review, the Board considered the specific issues raised by the Minister in the July 24, 2003 letter to the Board requesting that the Board initiate this review. In particular,

1. *"...the rebate should be based exclusively on the metering costs included in Hydro*

One Networks currently approved revenue requirement for its transmission business."

The Board finds that the Hydro One proposal is based on the approved revenue requirement for Hydro One's transmission business.

2. *"...I would also like you to consider and advise on the treatment of any duplicate payments that have been made since market opening to procure such services."*

Hydro One's revised proposal includes provisions for the approximately sixty (60) Metered Market Participants that have already signed an Exit or a Conveyance Agreement or that have communicated their preference in writing to Hydro One as of August 21, 2003. These Metered Market Participants will have the choice of either paying the exit fee amount previously quoted by Hydro One or choosing the uniform exit fee proposed above. The Board believes that this provision addresses the issue of duplicate payments that have been made by Metered Market Participants since market opening (May 1, 2002).

3. *"...the Board to specifically examine and advise on the stranded asset calculation to be used by Hydro One in deriving an appropriate exit fee to charge when transferring ownership of these assets to other metered market participants."*

The Board finds that the calculation of the one-time exit fee is reasonable in that it is based on previously Board-approved revenue requirement amounts and on stranded costs only.

The Board recommends to the Minister that Hydro One's revised proposal be adopted. The Board also recommends that the rebate rate proposal be approved as an interim measure until Hydro One's next transmission rate proceeding, when Hydro One plans to bring forward proposals for unbundling wholesale metering costs from other transmission pooled costs.