

November 26, 2004

Mr. John Zych
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
Toronto, ON, M4P 1E4

SMART METER INITIATIVE – DRAFT IMPLEMENTATION PLAN (RP-2004-0196)

Dear Mr. Zych:

This letter is in response to the Ontario Energy Board's (the "Board") Draft Smart Meter Implementation Plan (the "Plan") issued for comment on November 9, 2004. PowerStream Inc. commends the Board's efforts in developing this Plan within the ambitious timelines set out by the Government of Ontario as the first step in establishing its "conservation culture". The Government's targets of installing 800,000 smart meters by December 31, 2007 and of installing smart meters for all Ontario customers by December 31, 2010 is laudable.

PowerStream Inc. supports the Board in its position that with the appropriate price signals, smart meters will equip customers with the ability to take control over their own individual consumption. In order to move forward in a prudent and responsible way however, it is crucial that we do not underestimate the time and effort required to implement and achieve such aggressive targets.

The draft plan proposes a very complex and ambitious undertaking by the Board, the proposed Implementation Coordinator (IC), the Local Distribution Companies (LDC) and other market participants. The operational, financial and regulatory risks should not be underestimated. The scope of the work required to plan, coordinate and implement the Board's proposal is unprecedented.

PowerStream has discussed the Plan with other members of the Coalition of Large Distributors (Enersource Hydro Mississauga, Toronto Hydro-Electric System Limited, Hamilton Hydro Inc., Veridian Connections Inc. and Hydro Ottawa Limited). We are generally supportive of each other's positions; however time constraints precluded a joint submission. We will continue to work closely together on this initiative.

Regulatory and Customer Certainty

The Plan assigns responsibility to LDCs for the procurement and installation of smart meter systems. This involves the careful planning and timing of not only the procurement function but also developing the associated logistics, the resourcing, the deployment and communications. In order to ensure that this is carried out in a timely and prudent manner it is crucial for the Board to establish transparent, consistent and predictable rules.

Specifically:

- Distributors and other stakeholders require certainty as to how, when and through what process deferral accounts will be disposed of *before* such accounts are established.
- The protocols for procurement need to be negotiated and established up front so that all stakeholders understand that process. This is particularly crucial given the aggressive timelines set out in the Plan.
- The regulatory timelines need to be established and adhered to by all parties.
- External risks (e.g. supply shortfalls) could also impact negatively on costs and timelines. The Board needs to establish mitigation strategies and contingency plans to address these risks in advance of the implementation.

PowerStream is concerned about the aggressive timing that will be required to implement all the necessary legislative changes (OPA as IC) and regulatory changes (changes to codes and licenses for both LDCs and retailers). Appropriate and clearly communicated contingency plans should be developed to minimize this risk and associated regulatory costs. Nevertheless, PowerStream is fully committed to working with the Board to develop the necessary regulatory changes that will be required to implement the final Plan.

The Plan outlines the need to effectively manage the customer relationship. We would submit that the significance of good communication cannot be underestimated. The events of summer 2002 attest to the critical importance of a sound communications strategy. It is crucial that all market participants are clear about their respective roles and responsibilities and that a coordinated communications plan is in place at the outset.

PowerStream endorses the concept of moving towards developing a “multi-meter” application combining electric, water and gas installations to develop common communication platforms. However, there may be lost opportunities if this concept is left to a single utility to bring forward in an independent business plan. The development of initiatives involving the three utilities is best to be introduced through explicit public policy.

Balanced Approach

1. The Plan contemplates providing LDCs with flexibility when choosing the smart metering system that best suits their regional conditions and customer mix. Yet the Plan also establishes a significant amount of rigidity in contemplating that the IC may oversee the procurement processes, require quarterly progress reporting from LDCs and may oversee inter-party testing. PowerStream would suggest that a key objective in developing the necessary legislative and regulatory changes be the requirement to strike an appropriate balance between flexibility and accountability.
2. Similarly, the Plan contemplates two different levels of review without establishing clear accountabilities (i.e. envisions that LDCs will now be accountable to both the IC and the Board). We recommend that the IC have an oversight role not a regulatory role.

PowerStream does not support the proposition that that the authority of the IC be extended beyond that of providing an oversight function. LDCs are competent at

managing their utility business and this proficiency will extend to the implementation of smart meters. Furthermore, LDCs are supportive of the Minister's mandate and binding authority is likely only to add unnecessary complexity and cost.

If it is determined that a provincial IC is desirable, then that role should be restricted to the monitoring and coordinating of LDC activities where necessary. LDCs could also bring forward any critical issues to the IC, where they have identified a need for assistance.

PowerStream considers the Board to be in the ideal position to perform this oversight function. The Board has direct responsibility for setting LDC rates and has developed a good understanding of the issues that LDCs and other market participants will face. Further, the tools are readily available within the Board to undertake the light handed oversight role that is required. For example, the Board could amend the existing Record Keeping and Reporting Requirements (RRR) to require the LDCs to report quarterly on their progress with smart meter implementation. PowerStream believes that retaining this role within the Board will simplify management of smart meter deployment both for the LDCs and for the Board itself.

Rate Implications

1. PowerStream is concerned that the potential for considerable rate shock exists despite the cost recovery strategy outlined in the Plan. Given that current rates are largely based on 1999 distribution costs, that the regulated price plan is likely to yield higher commodity costs for customers, and that regulatory asset recovery is continuing, the implementation of smart meters will only exacerbate upward rate pressures. We are concerned that the significant costs associated with Plan implementation will potentially displace and/or delay the recovery of other essential cost elements.
3. While we acknowledge that the implementation of smart meters will bring about costs savings we believe that the estimate of \$ 0.39/residential customer/month (\$800,000 per year for PowerStream) is unrealistic.
4. The Plan proposes two options for the recovery of smart metering costs (sections 3.4.1 and 3.4.2). PowerStream supports the cost recovery mechanism which seeks to recover the costs of the entire smart meter program from all customers within a class (section 3.4.1). With respect to the issue of whether costs should be recovered in fixed or volumetric charges, we would suggest that costs should be recovered in the distribution (fixed) charge only, given that the smart meter project costs are not consumption related.
5. PowerStream does not support the transfer of stranded costs from the rate base into regulatory assets, in part due to the significant materiality of these costs. The current net book value of PowerStream Inc.'s meter assets is approximately \$ 20M. In order to maintain administrative simplicity amidst more complex accounting and financial protocols, we would propose that these costs remain in

6. the rate base for the duration of the recovery period and until such time as they are scheduled to be retired.

Retailer Responsibilities and Roles

1. The role of retailers in offering “enhanced services” is not clear in the Plan and requires further elaboration and clarification.
2. LDCs are being tasked with the responsibility for choosing the type of smart metering system that best suits their regional conditions and customer mix. The Board has indicated that distributors will continue to be responsible for the installation, servicing and reading for the meter. With the ability for retailers to offer “enhanced functions” where does the distributor’s responsibility (and therefore accountability) end? Will there be any implications with respect to customer mobility for retailers offering “enhanced services”? Might enhanced services affect the way LDCs move data? Amended codes or service agreements should contain language to clearly ensure that meter “additions” do not burden the LDC at a later date with additional stranded asset costs. As well, these enhanced functions may require CSA or ESA approved and be subject to future changes.

Operational Concerns

1. Industry Canada’s re-verification of meter groups should be addressed to limit the impact of replacing meters more than once due to sample compliance testing. The large purchase volumes of Smart Meters will create large groups due to a compressed timeline for installation. This will become very onerous to the LDC when it comes time to re-verify these meters. If the sample fails the LDC would be burdened with the high cost to replace the entire group.
2. LDC’s experiencing high growth rates will be considerably challenged to both service new installations as well as achieve their retrofit targets, based on the installation timelines.
3. The limited number of trained meter technicians in Ontario able to carry out the commercial and industrial installations may become a serious resource limitation.
4. The target timeline of 24-hour customer data presentment requires further assessment due to the limitations of telemetry relative to a large customer base. In the case of PowerStream Inc. we must successfully query 200,000 meters and then present the resultant and verified consumption data in less than 24 hours. Current telemetry would be hard pressed to successfully manage the associated data volumes.
5. As the plan unfolds the Board will need to clarify several operational Customer Information System and Information Technology issues. There is a need for appropriate standards for data collection and data warehousing so as to minimize

6. costs, improve speed of access and ensure all customers receive appropriate information. Issues to be addressed include:
 - a. How will the implementation schedule be integrated with the EBT 3.0 and 3.1 rollouts already scheduled for 2005? EBT and smart metering technology must be compatible.
 - b. There needs to be a provincial standard on data presentment.
 - c. Who will own the transmission media for data?
 - d. Need to identify and standardize the demarcation points for all intersection points of data flow from meter to back room.
 - e. What standard requirements might the Board place on service level agreement with our vendors and service providers?
 - f. Need to establish standards for:
 - i. Disaster recovery for smart data collection computer
 - ii. Back up and recovery process of data
 - iii. Data retention requirements
 - iv. Tolerance levels for down time
 - v. Data integrity for smart meters
 - vi. Security standards and policies for data communications component of back office
 - vii. Operational production support requirements post production

We look forward to working with the Board further on this important initiative. If you require further clarification, please do not hesitate to contact me at 905-417-6903.

Yours truly,

Original signed by Dennis Nolan

Dennis Nolan
Executive Vice President Corporate Services