

DECISION:

MR. KAISER: Please be seated.

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The Board has heard evidence and argument over the last two days in connection with an application that was filed with this Board on January 11th, by Hydro One Networks Inc. and Hydro One Brampton Networks Inc. This was an application for orders approving the conservation and demand management plans filed by those two companies.

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Hydro One Networks operates throughout the province, and is the largest utility in this province, serving approximately one-third of the customers. Hydro One Brampton is a wholly-owned subsidiary, which operates electricity-distribution facilities in the City of Brampton, Ontario.

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For the most part, in this decision, we're going to concentrate on the application of Hydro One. Both applications, for the reasons which will be discussed, are approved, subject to certain conditions, which will also be discussed.

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Mr. Lyle, I have an outline of argument, and two schedules which are going to be attached to -- if you could give those to the parties, and also to the court reporter.

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The application, as I indicated, is for Final Orders with respect to the approval of the conservation and demand management plans filed by these two utilities. The amount of money involved is \$39.5 million in the case of Hydro One, and \$3.2 million in the case of Brampton. These amounts are equal to what is called "MARR" in the case of Brampton, and the equivalent of "MARR" in the case of Hydro One.

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There has been some discussion on this record as to the accuracy of the \$39.5 million number, in the case of Hydro One. Mr. Rogers has undertaken to file a reconciliation or an explanation for that amount, based upon earlier decisions. The Board is content with that further explanation. So, subject to any further adjustments that result from that filing, we're going to talk in terms of the amounts specified in your application. And, of course, there is no issue with respect to Brampton.

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The details of the plans filed by these two utilities are attached, as Schedule A and Schedule B to this Decision.

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RELIEF REQUESTED:

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I'm going to deal, first, with the relief requested. As I mentioned earlier, this is set out in paragraph 2 of the application of January 11th. I am going to put it in the record in order to make sure, Mr. Lyle, that, when the Order goes, we have the relief correct.

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Networks and Brampton are seeking a final order, or orders of the Ontario Energy Board granting:

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"A. An approval of each utility's conservation and demand management plan.

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B. A Confirmation of the each utility's CDM plan satisfies the condition of a financial commitment to reinvest in CDM initiatives, as defined by the Minister of Energy.

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C. A confirmation of each utility's position on future adjustments to its CDM plan, which is set out in paragraph 15 of this Application, is appropriate and acceptable.

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D. A confirmation that each utility's actual expenditures incurred in connection with the preparation of this Application and its participation in this proceeding (including any intervenor award costs that are attributed to each utility) will be credited to the required amount of CDM expenditures for each utility."

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THE ISSUES:

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There are two main issues that have arisen in this hearing, and two subsidiary issues.

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The first of the main issues is smart meters. Having reference to Schedule A, it's apparent that the Networks is proposing to spend some \$14.9 million on smart meters. \$7.8 million of that is in 2005, and \$7.1 in 2006. As a percentage of the total amount, it is almost 39 percent. It's worth noting, in addition that this is also larger than any other utility has spent on smart meters, as a percent of total MARR. But the \$14.9 million, referred to a moment ago, is, in fact, larger than the \$12 million, which was the total amount invested on smart meters by the entire group of six. So it's a very large amount, and everybody accepts that proposition.

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The argument by the intervenors, in opposition, is, essentially, that smart meters are to be funded out of rates, in accordance with government policy: That is to say, they're going to happen regardless of what happens in this Application. And the monies directed to smart meters should really

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be invested in alternative projects, with the view to kick-starting and improving our conservation record.

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The position of Mr. Rogers, on behalf of Hydro One, is, essentially, "Don't treat us any different than the other guys. They got their smart meters expenditure approved; we want our smart meters approved."

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On that point, some of the intervenors noted that this utility, Hydro One, can be distinguished, in that the Board's decision, of December 10th, with respect to smart meters, approved them on the basis that they were pilots. And if we look at that, that, in fact, is the case. This is to be found at paragraph 68 of the December 10th decision.

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In this case, we are advised that all of the '06 number is not a pilot, and part of the '05 number is not a pilot. We are not clear, with respect to the '05 number, which is a pilot and which isn't.

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Mr. Poch, on behalf of his client, said he was content with simply taking out the '06 number. That's \$7.1 million. Mr. Klippenstein, on behalf of his client, wanted to deduct or reallocate some 8.1 million, based on a 17-percent figure that he calculated using the weighted-average of the group.

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It is the Board's view that 7.1 - that is to say, the '06 amount - should be reallocated. It is a condition of this order that the utility, Hydro One, re-file, by June 30th, an application for alternative projects, with respect to that \$7.1 million. We believe this is in accordance with the Board's earlier decision, and we believe it's in accordance with the Government's intention.

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The Government has made a policy decision to fund smart meters out of rates. It's not this Board's mandate to reevaluate or redefine government policy. That's what the government has decided with respect to all utilities, and government policy should not be interfered with.

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There are some other reasons that may be important. If parties have reference to the Board's Report with respect to smart meters, we find that the Board has stated the most recent that the installation and implementation that program should commence, first, with the big urban utilities. The rationale in the Report was that, it would provide a more focused manner to evaluate the technology in the first instance. We don't know whether the government will adopt the Board's report. But if it did, it may be that under that there wouldn't be any roll out of smart meters by Hydro One in '06 in any event, because those are essentially rural areas.

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We don't know what is going to happen, but we direct Hydro One, to refile by June 30th with respect to that 7.1 million. We do not, however, wish to

tinker with the '05 numbers. As Mr. Poch said, it's probably a little bit too late in the game. We don't want to hold anything up. We want to proceed and get on with it. We don't know the amounts in any event.

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The procedure we've outlined will not interfere with any project, and by the time '06 rolls around, the refiling will have been completed by June 30th of this year, and the utility will be in the position to carry out its '06 obligations in accordance with the total amount of the approved MARR.

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Just to clarify the decision, we are approving the total amount. A deferral account will be established for that purpose. We're simply asking, with respect to the smart meter issue, that the 7.1 million be pulled out of 2006 and a refiling take place to use those funds in an alternative fashion.

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The next major issue is what is been referred to as avoided costs. The evidence on this, in large part, is at paragraph 1112 of February 17th transcript. Various intervenors questioned Hydro One as to the status of their analysis of avoided cost. The reason was that calculations with respect to avoided costs are essential in calculating an ultimate cost/benefit analysis, usually referred to as a TRC. The evidence provided by the witnesses was that within a month, they will have calculated the avoided costs of distribution, and within a month or so after that, they believed they could come up with the numbers for avoided cost with respect to transmission.

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With respect to the avoided cost of generation, which is the third but necessary part, Hydro One essentially said that wasn't their problem or it wasn't their responsibility. Ms. Rossini said at paragraph 1112:

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"My understanding is that the Conservation Bureau is going to do the cost/benefit analysis. I've confirmed that with them twice, so I don't know why I should undertake something that I can't use for my customers and that I have no data access to and that's not really within my business mandate."

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The problem the Board faces, however, is this: One of the conditions that we have imposed on utilities with respect to these CDM plans, (and incidentally one that this utility accepts), is quarterly and annual reports. I am going to come to that later in this decision, but the annual reports requires a cost/benefit analysis and provides that there will, in fact, be public review of that annual report.

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We have imposed that reporting requirement in order to ensure that there is some oversight of what are significant expenditures. We recognize, as stated in the initial decision, that it was impractical to require these utilities to do a cost/benefit analysis up front. Mr. Rogers has read that decision

into the record, and that's our position with respect to this utility. We're not ordering this utility to do a cost/benefit analysis at this time. We recognize, as in the case of the group of six, they can't do it. They don't have the data. But it's important for all parties in this process to make sure we have this data before this first annual report comes rolling around, because if these annual reports get filed on the public record and they are meaningless, we're all going to look pretty stupid. So we have to get this avoided cost data, one way or another.

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Now, this utility is not only the largest in the province, but they are publicly-owned. So that does place, as some of the intervenors suggest, a little additional responsibility on them. They have in their budget before this Board some \$3.4 million allocated for administrative expenses, so they may be able to find a few dollars in that to hire the consultant that's been urged upon them. Whether they hire a consultant or do it internally is of no consequence to the Board. But given that they have committed to do two-thirds of it, we believe it's appropriate to ask them or direct them, if you will, to do the third part of it. We recognize this will be to the benefit of the entire industry, but we have to start somewhere and this seems the logical way to start. If additional costs are required, they may recover those costs from their CDM budgets that are being approved today.

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We are setting as a date for the completed avoided cost data the end of May. If an extension is required, Mr. Rogers can approach the Board.

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It is important that we get on with this process as soon as possible. It's also important in the case of this utility, because this is the first utility where the Board has asked them to refile and come up with alternative programs. In this case with respect to some \$7.1 million. We believe that some greater understanding of avoided cost and TRC may, in fact, help this utility and, indeed, the entire industry come to a new understanding and greater precision with respect to evaluating these competing conservation programs.

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This isn't in any way a criticism of this utility. The evidence filed by this utility in this proceeding has been very helpful, as indeed has been the evidence of the other parties. Dr. Hill's evidence was particularly helpful. We need to advance this process. I'm not suggesting this is an adversary sense, Mr. Rogers quite properly said he thought the Board's decision of December 10th suggested this would be done in a cooperative fashion. We contemplate it will be. We just need to kick start it somewhere, so we're picking on the big guy, the guy that's owned by the government, the guy that is going to do two-thirds of the job anyway, we're asking him to see if he can help us get the whole thing finished in a timely manner.

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Now, there were some subsidiary issues. First there was this question of direct transmission customers. There's evidence that has been filed that those parties represent about 10 percent of the load. There was a

complaint. I'm not sure whether it was a complaint or just a comment that there didn't seem to be any programs allocated to them. It's the Board's view that this is not a distribution customer. They have access to IMO programs. We don't believe it's necessary for the Board to address this issue in this proceeding.

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There then was the question of the low-income programs. We note that Hydro One has developed, or plans to develop, I should say, low-income programs. At page 17 of their evidence they say they are currently in discussions with potential delivery channel partners, community-based organizations, non-government organizations, federal governments and the private sector to determine the content of the CDM program. Assuming Board approval, Network would enter negotiations with one of the above delivery agents.

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VECC appeared before this Panel and argued that greater consideration should be given to social housing. They pointed to and filed a recent study filed by Hydro Quebec in this regard. On this matter, the Board would simply ask Hydro One, when it's re-evaluating or refiling programs relating to the \$7.1 million, if greater consideration could give it social housing and address the particular submissions that have been made by VECC.

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We would, of course, also ask Hydro One to have regard to the evidence that was filed and given here by Dr. Hill, which this Panel found particularly useful, as to some of the broad-based efficiency programs that he was considering. Mr. Rogers properly pointed out that the forgotten child in these proceedings, Brampton did, in fact, have a residential construction program, but there was some credible evidence given that there may be other areas in this field that have not been given due regard.

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We are not making any decision at this point whether any public hearing will be required with respect to the refiling on June 30th. We will look at it when it comes in. We will make a decision at that time. But we would ask Mr. Rogers, as I'm sure he would, to file copies of it with all the intervenors of record in this proceeding.

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REPORTING AND MONITORING:

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I'd like to turn next to the reporting and monitoring requirements. In this regard, I am going to refer back to our decision of December 10th. Essentially, what we are saying is that we intend to adopt exactly the same procedures in this case as we did with respect to the CLD group. The requirements for reporting and monitoring are set out at paragraphs 81 to 85 of that decision. I do not believe it is necessary for me to read them.

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The order, Mr. Lyle, in this case, will go in exactly the same form as the order in the previous case. It will require quarterly reports. The form of that quarterly report, I now understand, has been defined, or is at least under discussion with the parties, so we are more advanced than perhaps we were back on December 10th.

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I understand from Board Staff that we are close to finalizing the form of the annual report, and the annual report, of course, is dealt with at paragraphs 83 and follows.

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I want to read this because it bears upon what I said with respect to avoided cost, so that the utility understands the importance of the avoided cost.

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"We then come to the annual report. This should be done on a calendar year. It should be filed with the Board no later than March 31st of the following year. So the first one would be for the year 2005. This will contain all of the information that would be in the quarterly report but, in addition, should attempt a cost-benefit analysis. The methodology with respect to that cost-benefit analysis should be determined in advance, and the Board suggests that a working group be formed with Board Staff and representatives of each of these utilities, with possible involvement of the intervenor community involved in this case. We don't want to face an argument a year from now as to what this methodology should be. In the interim we should work out the methodology, but a year from now, the Board would like to receive from each of these utilities a cost-benefit analysis on the initiatives that have been conducted up until that date."

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Now, of course, we've had some developments since December 10th. As most of these parties are aware, the methodology is currently being determined in the course of the 2006 EDR proceeding. Various witnesses have been heard. We fully expect that within the next month or so, the methodology will have been determined.

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That, then, leads us to the data requirement which we have discussed in this hearing and in this decision. Hopefully we will have the first part of the data, at least the avoided cost part of that data, by May 30th.

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It is the intention of the Board, just to give you an update with respect to December 10th decision to develop certain other data that will be necessary in completing a cost-benefit analysis of the programs that have been filed by these two utilities and the six other utilities. The totality of those programs pretty well represents all of the programs that are currently in operation in the province of Ontario.

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Focussing on the array of programs that are currently before us, it's our intent, as we said back on December 10th, to have further discussions with

the community by way of a working group or hearing with respect to the values that would be required to evaluate each of those programs. And, of course, this will include estimates of the energy saving for each of the programs, or what Mr. Adams would call it the avoided consumption.

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We have had evidence in in EDR 2006 which emphasizes the importance of the parties agreeing on these values. It's imperative to the Board, and, we believe, for the credibility of the utilities, that when these annual reports, when filed, are meaningful. As meaningful as they can be. And we're only going to get there if we get these values defined well in advance. Otherwise, we are going to have the mess we had in the gas industry for a number of years, and we're intent on avoiding that.

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I wanted to offer that by way of explanation as to where we are in of this process. I thank Mr. Rogers in advance and his client in advance for undertaking these additional initiatives.

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The last aspect of this is program modification. This was raised in the application. It's also dealt with in paragraph 64 of the December 10th decision. The decision of this Panel is the same. That is to say, the utility may make any adjustments it considers appropriate without coming back to the Board if below the 20 percent threshold.

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The last issue is perhaps the most important, and that's costs. Costs have been requested by various parties. The Board acknowledges that the contribution of the intervenors has been helpful and significant. And, as I mentioned, we particularly appreciated the evidence of Dr. Hill. We did not have the advantage of expert evidence in the previous proceeding, and it was helpful to have it in this proceeding. A cost order will go in the usual form, Mr. Lyle, subject to the Board assessment procedures.

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Are there any questions? Thank you. That completes the Board's decision in this matter.

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--- Whereupon the hearing concluded at 3:27 p.m.