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VIA MAIL and E-MAIL

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

Dear Ms. Walli:

Re: Norfolk Power Distribution Inc.
2009 3GIRM Electricity Distribution Rate Application (EB-2008-0201)
Vulnerable Energy Consumers Coalition (VECC) Comments

Set out below are the comments of Vulnerable Energy Consumers Coalition (VECC) in the above-noted proceeding. The comments focus on the proposed Cost Allocation adjustment included in the Application.

Cost Allocation

With respect to the cost allocation adjustment, VECC notes that the Board's 3GIRM Supplementary Filing Module uses the shares (percentages) of a distributor's revenue requirement from the Cost Allocation Informational filing to determine what portion of the 2009 revenue requirement would represent 100% cost responsibility for each customer class. VECC has four concerns regarding this approach.

First, most distributors are now allocating the “cost” of the transformer ownership allowance solely to those classes receiving the discount. This is a change from the 2006 methodology. VECC notes that Board Staff has acknowledged this issue[1] and undertaken to correct the methodology for 2010 rates.

Second, in the 3GIRM Supplementary Module the revenue to cost ratio adjustment is applied to the total distribution revenue requirement including LV costs, although LV costs were not included in the model used for the Cost Allocation Informational filings. Again VECC notes that Board Staff has acknowledged this issue and proposed to correct it for the 2010 rates.

Third, and potentially more significant, is the use of the class revenue requirement distribution from the Cost Allocation Informational filing to determine 100% cost responsibility for 2009[2]. This approach only works if the billing parameters (i.e., kWhs, kWs and customer count) represent close to the same proportions by class in 2009 as they did in the Cost Allocation filing. The reason for this is that costs are allocated to classes based on allocation factors that reflect the relative loads and customer count by class. If these relative values change then so will the relative cost responsibility by customer class. Indeed, a number of the utilities filing 2009 Rate Application have recognized this issue and have assessed the ongoing validity of their Cost Allocation Informational filing as part of their 2009 Rate Application[3].

In VECC’s view, given the potential for such anomalies to exist, a preferred approach for 3GIRM Applications is to assume that revenues at current rates are consistent with the revenue to cost ratios underlying the rates established in the last cost of service review. This would then be used as the starting point to determine the allocation of the distribution revenue requirement that would yield 100% cost responsibility for each

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[1] See Staff Submissions regarding Norfolk’s Application
[2] Model Sheet C1.1
[3] Examples include Westario Power (EB-2008-0250); COLLUS Power (EB-2008-0226) and Bluewater Power (EB-2008-0221)

class. VECC submits that Board should direct staff to also revisit this part of the Supplementary Module as part of its model redesign for 2010.

Finally, VECC notes that the Cost Allocation Informational filings included both distribution service revenues and miscellaneous revenues in the “revenue” values used to establish the revenue to cost ratios. In contrast, the Board’s Supplementary filing module assumes that all revenues are derived from distribution service rates. The impact is likely to be small. However, this is another issue that VECC submits the Board should direct staff to revisit as part of its model redesign.

VECC notes that Norfolk has not used the Board’s Supplementary Module to determine its cost allocation adjustment. Rather it has attempted to address the first three shortcomings identified above by excluding LV cost and the transformer ownership allowance from the revenue requirement used to determine the cost allocation adjustments[4] and by assuming that revenues at current rates are consistent with the approved 2008 revenue to costs ratio. Unfortunately, the calculated percentage adjustments were then applied to the full base rates (including LV charges). However, in VECC’s view the methodology used in Norfolk’s application represents an improvement over that incorporated in the OEB’s Supplementary Filing Module and should be accepted by the Board.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC

cc: Norfolk Power Distribution Inc.

[4] VECC #1 a)