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May 22, 2009

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

Re: EB-2008-0046 – Comments of the London Property Management Association On Board Staff Discussion Paper

Overview of Comments

These are the comments of the London Property Management Association ("LPMA") on the Board Staff Discussion Paper on an Electricity Distributors' Deferral and Variance Account Review Initiative dated April 1, 2009.

In general LPMA supports the Staff proposals found in the Staff Discussion Paper as being an appropriate compromise between ensuring the timely disposition of account balances to ensure inter-generational equity and regulatory efficiency, predictability and transparency.

The remainder of these comments is organized by the headings in the Staff Discussion Paper.

Section 3 – Scope

LPMA agrees that this initiative should be extended to all deferral and variance account balances. As noted, the Board is required to review all accounts at least annually and account 1588 at least quarterly. This requirement is to ensure that balances do not grow to the point where their recovery or rebate to customers causes rates to be volatile.

Whether the balance to be recovered or refunded is commodity related or non-commodity related, it could have the same impact on a ratepayer. There is no reason, in the view of LPMA, to not deal with all of the deferral and variance accounts as part of this initiative.

Section 4 – Annual Review and Disposition of Account Balances

LPMA supports the differentiation of the annual review and disposition process under the comprehensive cost of service rebasing application and the formulaic IR framework, as proposed by Staff.

Section 5.1 – Accounts Classification Criteria

While it generally supports the two criteria as outlined in the Staff Discussion Paper, LPMA is concerned that the result may not be appropriate. In particular, the clearance of accounts in Groups 1 & 2 based on the specific threshold assessments proposed by Board Staff could result in a perverse result. For example, Group 1 accounts may meet the threshold for clearance to customers, while the Group 2 accounts may not meet their threshold. If the Group 1 accounts result in recovery from customers, while the Group 2 accounts would result in a rebate to customers, the ratepayers end up paying more now than they would if both sets of accounts were cleared. In this example, the customers would get their rebates at a later point in time, with additional interest on the balances. However, this raises the issue of inter-generational inequity.

LPMA submits that the Board may wish to change the process so that if the threshold is exceeded for either of the Group 1 or Group 2 accounts, then all of the Group 1 and Group 2 accounts should cleared at the same time. This would be a simple process if the Group 2 accounts exceed the threshold. The addition of Group 1 accounts to the clearance would be straight forward since Group 1 accounts do not require a prudence review. On the other hand if the threshold is exceed by the Group 1 accounts, addition of the Group 2 accounts could slow down the process since these accounts require a prudence review. However, LPMA submits that despite this, clearance of both sets of accounts is more appropriate, and less confusing, for ratepayers.

As an alternative, the Board may want to consider joining the accounts in Groups 1 and 2 and having one threshold assessment for these accounts in aggregate. If the threshold is surpassed, then all of the accounts in Group 1 and Group 2 would be cleared. The only remaining difference between Group 1 and Group 2 accounts would be the need for a prudence review on the Group 2 accounts.

<u>Section 5.1.1 – Is a Prudence Review Required?</u>

LPMA agrees that a produce review should not be necessary for the Group 1 accounts since the costs in these accounts are generally considered to be pass through amounts. However, the Board still needs to ensure that the amounts have been calculated properly.

<u>Section 5.1.2 – Can a Threshold Mechanism be Used for Disposition?</u>

LPMA agrees that the accounts in Group 2 should require a prudence review before their disposition to ratepayers. LPMA also agrees that the accounts included in Group 3 do not lend themselves to a disposition threshold, for the reasons provided by Staff.

<u>Section 5.2.1 – Customer Rate Impact</u>

LPMA is concerned that Staff have only examined the potential rate impact on the residential customer class. The dollar impact on the General Service customers would be larger than that for residential customers based on any $ per kWh disposition threshold. As a result, a lower threshold may be appropriate than that proposed by Staff.

While LPMA supports the use of a $/kWh threshold approach rather than a fixed dollar amount, it submits that the Board may also want to take into consideration the impact on GS < 50 kW and GS > 50 kW customers of the proposed thresholds.

With respect to the threshold for a rate mitigation plan, LPMA submits that the Staff paper is unclear whether the $0.01/kWh upper limit on the disposition threshold is additive or inclusive. In other words, is the $0.01/kWh related only to the clearance of the deferral and variance accounts irrespective of the rate changes related to the IRM or rate rebasing application or is the $0.01/kWh inclusive of all rate changes including deferral/variance accounts and IRM or rate rebasing changes?

Section 5.3 – Unitization of Groups 1 and 2 Account Balances

As noted above, LPMA believes that it may be more appropriate to divide the total billed kWh into the sum of the account balances of the Group 1 and Group 2 accounts in aggregate and comparing this to a present disposition threshold rather than having two present disposition thresholds. As noted earlier, this could result in a greater recovery/rebate to customers than clearly both Groups at the same time. If the combination of the two Groups results in a higher recovery/rebate to customers (i.e. both groups are either in a credit or debit position) than if the two threshold model is used, then the Board can still ensure that some mitigation is put in place.

Section 5.4.1 – Preset Disposition Threshold for Group 1 Accounts

LPMA agrees with the level of +/-$0.002/kWh as a threshold to be used. Larger thresholds would mean the inter-generational transfer of power and transmission/wholesale charges of larger amounts. LPMA does not believe this would be appropriate. Smaller threshold may result in virtually all distributors clearing the balances in these accounts on an annual basis. This would not be efficient from a regulatory perspective.

Section 5.4.3 - Review Process if Disposition is Triggered for Group 1 Accounts

LPMA is concerned with the proposed 30 calendar day process by which a streamlined written hearing could be completed. While interested parties could make submissions, it is not clear whether there would be a discovery process, if one was needed. LPMA submits that the Board could accept the Staff proposal but make it contingent on a complete filing by the distributor. If interested parties felt the need for a discovery process, they should be free to make submissions on this to the Board. If the Board agreed, then the process would likely extend beyond 30 calendar days.

Section 5.5.1 – Preset Disposition Threshold for Group 2 Accounts

LPMA has the same concerns and comments with respect to the rate mitigation plan threshold as in Section 5.2.1.

LPMA believes that the threshold of $0.01/kWh may be too higher. In particular, LPMA believes that the balances in the accounts, while less than $0.01/kWh, may end up growing in to significant amounts before they are required to be cleared. This could be especially true for General Service customers that typically have higher kWh consumption. This will end up costing customers more through the interest rate addition to the accounts, or require distributors to pay more out to customers in added interest costs.

LPMA submits that the Board should consider reducing the threshold to $0.005/kWh. As shown in Table 2, this would have resulted in somewhere between 4 and 13 distributors meeting the threshold in 2007. If the Board is concerned that this may increase the number of distributors that would meet the threshold, then LPMA would submit that a threshold of $0.006/kWh would be appropriate. As shown in Table 2, only 4 distributors would have hit this threshold in 2007. Again, this would help mitigate the impact on General Service customers.

Section 5.5.3 – Review Process if Disposition is Triggered for Group 2 Accounts

As noted by Staff, the disposition of Group 2 accounts will require a prudence review. LPMA submits that when the Board issues a notice of application, it will need to ensure sufficient time lines for interested parties to ask interrogatories and provide submissions. If these accounts are being cleared as part of a rates rebasing application, this is not likely to impact on the timelines associated with the entire proceeding. However, when the threshold is exceeded and these accounts are cleared outside of a rates rebasing application, then the Board will need to be aware of the added time to deal with the prudence review.

Section 5.6 – Review Process and Preset Disposition Threshold for Group 3 Accounts During the IR Plan Term

LPMA agrees with the proposal that an annual case-by-case review with no preset disposition threshold should be used for Group 3 accounts.

Section 6 – Annual Review Process and Disposition of Account Balances in a Rebasing Year

LPMA supports the Staff proposal that all distributors be required to file all account balances regardless of whether or not they wish to dispose of an account balance. This would provide the information to both the Board and intervenors to determine if all the accounts should be cleared. In the absence of this information being provided in the pre-filed evidence, it would end up being asked through the interrogatory process.

Section 7.1 – Preset Disposition Threshold for Account 1588

Staff has submitted that the quarterly disposition of account 1588 balances should be limited to exceptional cases only. In particular, Staff are proposing that when the balance exceeds a present disposition threshold of $0.01/kWh for two consecutive quarters (credit or debit), then the disposition process would be initiated.

As noted earlier, LPMA believe that the threshold of $0.01/kWh hour is too large because of the significant impact it could have on the costs of general service customers. LPMA also notes that for a typical residential customer consuming 1,000 kWh per month, this threshold is equivalent to $10 per month, or $120 per year. This amount appears to LPMA to be a large amount to defer recovery or rebate from/to customers. LPMA believes that the Board should not only support the concept of ratepayers paying for the real cost of power in Ontario, but that ratepayers should pay the real cost of power in a timely manner. This may require more frequent disposition of the balances in account 1588 than that proposed by the Board.

LPMA notes that the Board has a long history of Quarterly Rate Adjustment Mechanism ("QRAM") filings by the provinces natural gas distributors (Union Gas, Enbridge Gas Distribution and Natural Resource Gas Limited). The current filings are mainly mechanist in nature and allow the distributors to adjust the commodity cost of gas on a regular and predictable basis as of January 1, April 1, July 1, and October 1 of each year. The balances in the Purchased Gas Variance Accounts ("PGVA") are continually being cleared on a 12 month forward looking basis.

LPMA submits that the Board should investigate a similar approach for the electric distributors so that they can adjust the rates to their customers on a quarterly (or semi-annual – see below) basis. This would ensure that the balances in account 1588 remain low and that inter generational issues are minimized.

LPMA recognizes that the Board may not be prepared to deal with approximately 80 such filings on a quarterly basis. LPMA believes that there are a number of approaches that the Board could take to lessen the burden on itself while ensure ratepayers are treated fairly.

First, the Board could institute a Quarterly Cost of Power ("QCOP") process similar to the QRAM process for the large electric distributors. This would ensure that the vast majority of electricity ratepayers in the province are treated in a manner consistent with natural gas ratepayers. The Staff proposal as presented could then be applied to the smaller distributors.

Second, the Board could stagger the QCOP filings and rate changes into three distinct timelines. The first would be rate changes to reflect the QCOP filings effective the first day of January, April, July and October. The second would reflect changes the first day of February, May, August and November. The third would reflect changes the first day of March, June, September and December. This would spread out the QCOP filings and reduce the peak period for filings. This approach could be taken if all the distributors would be directed to file QCOP on a quarterly basis, or whether only the large distributors are required to do the QCOP.

Finally, the Board could institute a semi-annual copy of power ("SACOP") filing process rather than a QCOP. This could be done either for all distributors, or only for the smaller distributors, with the larger distributors continuing on with the QCOP. Like the QCOP, the SACOP could also be staggered throughout the year to reduce the peak number of filings to a more manageable level throughout the year.

The QCOP and/or SACOP filings, like the current QRAM filings of the natural gas distributors, would be largely mechanical in nature and it is not expected that the Board or Board Staff would have to spend any significant amount of time on them. These processes would, however, provide ratepayers with timely clearance of balances on a regular timeline, as in the natural gas sector. The quarterly (or semi-annual) clearance of balances on a 12 month forward basis would ensure that the account balances would not grow to large levels. In addition to ensure that ratepayers are not hit with large balances for recovery, this methodology benefits distributors in that the balance (credit or debit) is likely to be smaller on an ongoing basis resulting less impact on the balance sheet.

Finally, LPMA notes that the balances in this account, unlike the balances in most of the other deferral and variance accounts would not be disposed of to all customers (RPP vs. non-RPP). As a result, the calculation of any threshold amount per kWh and/or the calculation of a rate rider for their disposition will require the distributors to disaggregate their delivery volumes into the appropriate categories.

Section 7.3 – Review Process if Disposition is Triggered

As noted above the filings associated with a QCOP and/or SACOP would be mechanical or formulaic in nature, similar to a QRAM filing. As the Board is aware, there are few, if any, issues that need to be dealt with in a QRAM filing and the Board normally approves the changes in rates as requested by the gas distributors.

The Board should consider setting up a special page on its website where all of the QCOP and SACOP filings would be placed so that interested parties would have access to the filings without the need for formal notification from the Board or the distributor. This would simply and shorten the process, while allowing an interested party to review the filing if they so wish and provide comments on it.

Section 8.1 – Cost Allocation Methodology

It is unclear to the LPMA what Staff are submitting as the appropriate allocation factors to use in terms of the fact that allocation factors (kWh, kW, Dx revenue, number of customers, etc.) change and evolve over time.

LPMA submits that the proper vintage of allocation factors to be used during an IRM term is the allocation factors taken from the last Board approved cost of service filing. This is the standard practice for the natural gas utilities regulated by the Board. This approach eliminates any confusion and conflicts to using allocation factors that, while being based upon more recent historical information, have not been examined by parties. Further, the last Board approved allocation factors would have been instrumental in how costs were allocated across classes.

During a rebasing application, the allocation factors should reflect the approval of those factors in that case, since those are the most recent figures to be used and will be approved by the Board.

Section 8.2 – Allocation of Group 1 Balances

LPMA agrees with the Staff proposal for the allocation of Group 1 balances.

Section 8.3 – Allocation of Group 2 Account Balances

LPMA submits that distribution revenues should be used for the allocation factor for the sub-accounts of account 1508 related to the OEB cost assessment and pension contributions. LPMA agrees with the rationale provided by Staff related to the OEB cost assessment costs.

With respect to the pension contribution costs, LPMA submits that these costs are not directly related to distribution volumes or revenues. They are closely related to the number of employees. In the absence of a detailed cost allocation that would track the labour component of a number of OM&A and capital accounts (resulting from capitalized pension costs) that would be different for all distributors, LPMA submits that pension contribution costs are more closely related to distribution revenues than volumes, since the revenues recover the revenue requirement which includes, directly and indirectly, pension costs.

LPMA submits that with respect to accounts 1525, 1574 and 2425, the allocation factors should be determined on a case-by-case basis. Only when specific items are brought forward for disposition will parties be able to determine what the relevant cost drivers were and what an appropriate allocation for recovery would be. This is a situation in which a one size fits all does not work.

Section 8.4 – Allocation of Group 3 Account Balances

LPMA submits that for the Group 3 accounts (excluding 1590 and 1595) a case-by-case analysis of what allocation factors should be used should be done. For the same reasons given in Section 8.3 above, the drivers of the costs need to be identified before any allocation is put in place.

As for Accounts 1590 and 1595, LPMA is concerned that the approach proposed by Staff may result in unintended consequences. By allocating the balances to rate classes in proportion to the recovery share as established when rate riders were implemented, the Board may be overlooking changes that have occurred in the meantime. While LPMA generally supports the intent of the allocation factor for these accounts, there may be situations where a case-by-case review is required. For example, this may involve situations where new rate classes have been created since the implementation of the relevant rate rider, or where a class now has no customers remaining in it. There may also be situations where a class may have had a handful of customers, and now there is only one customer remaining in that class. It is not clear to LPMA that that lone customer should be allocated the residual balance from an entire rate class.

This issue may not be of much significance to the residential and GS < 50 kW classes because of the large number of customers, but it could be significant in these economic times when the number of GS > 50 kW and Large Use customers at many distributors is changing significantly from historical figures.

<u>Section 8.5 – Rate Rider Derivation</u>

LPMA agrees with the Staff proposal that the Board continue to use the volumetric rate rider. While a volumetric and fixed charge rate rider combination may be more accurate in disposing of the balances, it would be much more confusing to ratepayers. There would also be a significant increase in the regulatory burden of such an approach.

LPMA agrees with Staff that the default disposition period should be one year and if rate mitigation is required, then the distributor should provide a justification for a longer period.

LPMA notes that Staff is silent on the volumetric figures that should be used in calculation the rate riders. In a rate rebasing application, the forecasted volumetric figures for the test year should be used. This represents the best forecast available over which to recover/refund the account balances.

During the incentive period between rate rebasing, the Board needs to determine whether he volumetric figures to be used should be based on the last Board approved figures from a rebasing application, the most recent 12 months of actual data available, or a forecast. LPMA recommends against the use of a forecast, as this would add a complicating issue to what should be a straight forward process.

In general, LPMA supports the use of the forecast included in the last Board approved rebasing application for the reasons noted above. However, the distributor should have the option of using the most recent 12 months of data available if there has been a significant change in the make up of its load. A significant change could result from the loss or gain of a few large customers, or the rapid growth of the residential class in a suburban distributor.

Section 9 – Proposed Timelines During the IR Plan Term

It is not clear to LPMA why application for clearance of account balances should be tied to the filing of an IR application, as is shown in footnote 4 on page 20 of the Staff Discussion Paper. LPMA submits that it may be more efficient for the IR filings and the account balance filings to be separate, as is done by the gas distributors. This eliminates the potential that one part of the joint application holds up the other part of the application. For example, a prudence review of Group 2 accounts could hold up the processing of a straight forward IR application. Similarly, an IR application with a capital module request could hold up the disposition of Group 1 accounts.

The effective date could still be the May 1 or November 1 dates proposed by Staff as this is when other components of a customer bill are normally adjusted.

With respect to the Group 1 accounts, LPMA submits that applications should be filed before the proposed date of September 1, given that the trial balance data is available April 30. The short period between September 1 and November 1 for implementation may be a problem if issues on how the Group 1 figures have been calculated arise.

As noted above, LPMA does not believe that Group 2 account applications, if required, should be tied to the IR applications. In fact, LPMA submits that Group 2 applications should be filed on or the middle of July. This provides distributors with a minimum of 2.5 months to prepare their application and provides the Board and intervenors 3.5 months to examine the evidence, provide interrogatories and submissions and still have a November 1 effective date. LPMA believes that a November 1 implementation date is preferable to the following May 1. May 1 of the following year would mean that the clearance would come 16 months after the close of the year in which the balance was accumulated. November 1 reduces this lag to 10 months.

LPMA submits that Group 3 accounts should be cleared on the same timeline as proposed above for Group 2 accounts.

Section 10 – Filing Requirements

LPMA agrees with the filing requirements as proposed by Board Staff in Sections 10.1, 10.2 and 10.3 but recommends that the Board indicate that more information may be required in the future, as this process evolves. Some additional information, or method of reporting the information may be requested by parties on a going forward basis. Incorporating these additions or changes into the filing requirements in subsequent years may make the application process more efficient.

Please contact me if the Board requires any further information related to these comments.

Sincerely,

Randy Aiken

Randy Aiken
Aiken & Associates