EDA
The Voice Of Ontario's Electricity Distributors

May 25, 2009

Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Via RESS and by courier

Dear Board Secretary:

Re: Board File No. EB-2008-0046
Electricity Distributors' Deferral and Variance Account Review Initiative

The Electricity Distributors Association (EDA) is the voice of Ontario's local distribution companies (LDCs). The EDA represents the interests of over 80 publicly and privately owned LDCs in Ontario.

The EDA would like to provide the attached submission in response to the Ontario Energy Board's initiative to determine if, when, and how the balances in Deferral and Variance accounts should be disposed of. The EDA reviewed the Board staff proposals outlined in the staff discussion paper with its membership and prepared the submission.

The EDA supports the Board staff proposals in general but recommends making a few minor changes in respect of the following aspects:

- classification of Account 1582 as Group 1 and not as Group 2
- threshold for Group 2 accounts
- disposition frequency of Account 1588 (commodity account)
- obtaining a certificate from an external auditor for disposition of a specific group of accounts
- clearing of RCVA (1548 and 1518) balances
- use of volumetric rate rider to clear account balances

Yours truly,

"original signed"

Richard Zebrowski
Vice President, Policy and Corporate Affairs

Attach.

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Electricity Distributors Association
3700 Steeles Ave. W., Suite 1100, Vaughan, Ontario L4L 8K8 Tel 905.265.5300 1.800.668.9979 Fax 905.265.5301 email@eda-on.ca www.eda-on.ca

EDA's Comments - OEB staff discussion paper on

Electricity Distributors' Deferral and Variance Account Review Initiative

1. The EDA scrutinized the Board staff proposals against the principles of fairness; intergenerational equity; and minimizing customer rate impacts and determined that the following staff proposals in general are sound and practicable. However, the EDA recommends a few minor changes to the proposals as outlined in paragraph 2 for reasons mentioned against each.

   - The Deferral and Variance Accounts be classified in to 3 separate groups based on the criteria:
     a. Whether a prudence review is required?
     b. Can a threshold mechanism be used to trigger the disposition of account balances?
   - The Composition of each of the three proposed groups (Group 1 to 3) of accounts is reasonable except for Account 1582 which should be in Group 1 and not Group 2.
   - The use of preset disposition thresholds to trigger disposition of Group 1 and Group 2 accounts during the Incentive Regulation (IR) plan term is appropriate. The threshold limit of $0.002/kWh for Group 1 accounts is considered reasonable. However, the threshold of $0.01/kWh for Group 2 accounts appears to be very large.
   - Determining a threshold based on $/kWh that ensures customer rate impacts do not exceed the prescribed limit of 10% increase on customer's total bill. In addition, setting the threshold based on $/kWh as opposed to a fixed dollar amount is highly useful.
   - The approach of 'Unitizing' the Group 1 and 2 account balances is a very practical method of determining whether the balances in respective groups of accounts are higher than the preset threshold limit which in turn triggers for disposition. (The unitization of groups' balances means 'dividing the sum of the account balances within a group by the total billed kWh' for the corresponding calendar year).
   - The review processes proposed for all groups of accounts are reasonable.
   - All accounts would be disposed of in a rebasing year (as part of cost-of-service application) whether or not the balances exceed the preset threshold limits with the

exception of Group 3 accounts. Group 3 account balances are reviewed by the Board annually.

- If account 1588 (commodity account) balance exceeds the preset disposition threshold of $0.01/kWh for two consecutive quarters, the account balance would get triggered for disposition.
- The quarterly review process for account 1588 would be identical to the review process for group 1 account balances during IR term.
- Default cost allocation methodology would apply to all LDCs for disposing of account balances. However, LDCs could propose a different cost allocation methodology in a cost of service review with justification for departure from the default approach. Allocation factors for each group of accounts would be as follows:

Accounts	**Allocation Factors**
a. Group 1 (all accounts)	kWh or kW
b. Group 2:	
o Account 1508	Distribution Revenue
o Accounts 1518, 1548, 1570	Number of customers
o Account 1571, 1582	kWh

- o Account 1525 - Account Balances associated with rebate cheques may be allocated to customer rate classes in proportion to the number of customers in each class that received the rebates (as proposed by Board staff)
- o Accounts 1574, 2425 – on a Case by Case basis allocation factors should be used to allocate these account balances

c. Group 3 accounts – on a Case by Case basis allocation factors should be used to allocate Group 3 account balances except for Accounts 1590, 1595. These account balances would be allocated to rate classes in proportion to the recovery share as established when rate riders were implemented.

- Use of volumetric rate rider to recover the account balances is considered appropriate. However, the rate riders should not be added to the distribution component on a customer's bill.
- The default disposition period would be 1 year to clear the account balances through rate riders. LDCs could propose a different disposition period with a justification.
- The Board staff proposals with respect to timelines for the application for disposition; filing requirements; and the effective dates for implementing rate riders are agreeable except for Account 1588 disposition.

2. The EDA recommends minor modifications to the Board staff proposals as indicated below:

    - Classification of Account 1582 RSVA – One-Time Wholesale Market Service: The account 1582 relates to costs from IESO settlement invoices and therefore should be in the same category of accounts as all other retail settlement variance accounts (RSVAs) which is Group 1 and not Group 2 as proposed by the Board Staff.
    - Threshold for Group 2 accounts – the threshold proposed by Board staff for Group 2 accounts is very high. On average, the threshold equals to about 11% of the total annual revenue of a distributor based on the analysis of 2007 data. In other words, until 11% of a distributor's total revenue is locked up in Group 2 deferral accounts, those accounts will not get triggered for disposition during the IR plan term. Locking up 11% of total annual revenue in Group 2 accounts alone may prove to be burdensome. Therefore the EDA recommends lowering the threshold for Group 2 to a reasonable limit. Alternatively, a distributor be permitted to self identify for disposition of Group 2 accounts should the individual financial and operational circumstances of a distributor so warrant.
    - Account 1588 disposition – if the account is approved to be disposed off every quarter as per proposal, the rates will change every quarter causing confusion among customers. Instead, the EDA recommends disposing of the account once every 6 months perhaps coinciding with the semi-annual change in RPP rates.
    - Obtaining a certificate from an external auditor just for a specific group of accounts being considered for disposition would be onerous and expensive. In order to ensure that the information filed is consistent with the Board's accounting requirements and procedures, the Board should consider using the annual audited financial statements and the audited

year-end trial balances filed as part of RRR. In addition, LDCs may be asked to file reconciliation statements where necessary.

- The clearing of deferral and variance accounts 1548 and 1518 (RCVA) dealing with retailers should be cleared by adjusting retailer cost rates or in the alternate to retailer customers to avoid the required cross subsidy from Standard Supply Service customers to pay for retailer costs.
- The EDA concurs with the proposal of using volumetric rate riders as it would be the most effective way to recover or refund the account balances. However, the rate rider should not be added to the distribution component of the customer's bill as it will lead to a customer misunderstanding that the distribution rates have gone up. Any rate rider not resulting from the distribution or transmission charges should be excluded from the delivery charge line on the customer's bill.