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BY E-MAIL AND WEB POSTING

September 2, 2010

**To: All Rate-Regulated Licensed Electricity Distributors
All Participants in Consultation Process EB-2007-0667
All Other Interested Parties**

**Re: Review of Electricity Distribution Cost Allocation Policy
Board File No.: EB-2010-0219**

In its 2010-2013 Business Plan, the Ontario Energy Board (the “Board”) indicated that it would review its electricity distribution cost allocation policy and revise it as required. The Board is now initiating a consultation process for that purpose. As explained below, the Board expects this review to be limited in scope, with the potential for a more comprehensive review to be undertaken in the future.

Cost allocation policies reasonably allocate the costs of providing service to various classes of consumers and, as such, provide an important reference for establishing rates that are just and reasonable. The Board expects that any revisions to its electricity distribution cost allocation policy resulting from this consultation would be implemented through cost of service applications starting with the 2012 rate year.

This letter sets out the approach that the Board intends to use to review its electricity distribution cost allocation policy (the “Review”) and provides information on how interested stakeholders can participate in the Review.

Background

On November 28, 2007, the Board issued its *Report of the Board: Application of Cost Allocation for Electricity Distributors* (the “2007 Report”). The 2007 Report set out the Board’s policies in relation to specific cost allocation matters for electricity distributors, and represented the culmination of a consultation process that had begun several years

earlier. It addressed a number of issues, most significantly the relationship between the class revenue and the class total allocated costs (the “revenue-to-cost ratio”). The 2007 Report also discussed the treatment of the monthly service charge, metering credits for the unmetered scattered load class, transformer credits for customer-owned transformers, and charges for the provision of standby power for customers with load displacement generation.

For a number of reasons, the Board believes that it is appropriate to review its cost allocation policies with a view to updating and refining certain elements of those policies at this time. First, since issuance of the 2007 Report, the Board has gained additional experience through the adjudication of a number of cost of service applications in which the Board’s cost allocation policies have been applied. That experience has revealed the potential for refinements to certain elements of the Board’s cost allocation methodology. Second, separate consultations on matters such as standby rates for load displacement generation are not currently scheduled, and a consultation in relation to the Board’s cost allocation policies would provide a forum in which to examine those matters. Third, the Board believes that a review of its cost allocation policy would be of assistance to the industry to determine whether an update is required to take into account the creation of the microFIT rate class, which has occurred since the issuance of the 2007 Report. Finally, based on the Board’s experience to date and the fact that most distributors now have adjusted their revenue-to-cost ratios to fall within or at the end of the current revenue-to-cost ratio target ranges (the “Target Ranges”) or have been approved to make that transition, the Board has determined that it is appropriate to consider narrowing the three widest Target Ranges. While the Board does not believe that the transition to International Financial Reporting Standards (“IFRS”) will trigger a need to update the Board’s cost allocation methodology, the Board is prepared to accommodate such an update as part of this consultation if required.

In the 2007 Report, the Board noted that, with the installation of smart meters and the availability of smart meter data, better cost allocators for the cost allocation model would become available. Data from smart meters is not currently sufficient to justify a more comprehensive review of the Board’s cost allocation policies than described in this letter. The Board expects, however, that such a review will become feasible in the next two to three years.

Scope and Issues

For the reasons noted above, the focus of the Review will be to determine the need for and nature of any update and refinement to specific elements of the Board's electricity distribution cost allocation policy as follows:

- To take into account the creation of the microFIT rate class;
- To refine the following specific components of the cost allocation methodology:
 - Cost allocation to unmetered loads (i.e., unmetered scattered loads, street lighting and sentinel lighting);
 - Treatment of the transformer ownership allowance;
 - Allocation of miscellaneous revenues;
 - Weighting factors for services and billing costs; and
 - Allocation of host distributor costs to embedded distributor(s).
- To review options for allocating costs to load displacement generation;
- To refine the three widest Target Ranges, which are associated with the following rate classes: General Service 50 to 4,999 kW, Street Lighting, and Sentinel Lighting; and
- To address accounting changes and the transition to IFRS.

The Board's Approach

The Board has retained the services of Elenchus Research Associates, Inc. ("Elenchus") to prepare a report that includes options and recommendations on the above-listed matters. The Board expects that the consultant's report will be issued for written comment in October.

To facilitate the provision of written comments, a stakeholder meeting will be held on **November 18, 2010** during which participants will have an opportunity to engage Elenchus in a discussion on the content of its report. The stakeholder meeting will take place in the West Hearing Room at the Board's offices. Further information regarding the stakeholder meeting will be made available closer to the scheduled date. Participants are invited to provide written comments on the options and recommendations contained in the Elenchus report by **December 2, 2010**, in accordance with the filing instructions set out below.

Informed by the consultant's report and stakeholder comments, the Board will determine the next steps for this consultation, which may be the issuance of a Board report identifying any revisions to the Board's policy that the Board believes to be appropriate at this time.

Cost Awards

Cost awards will be available to eligible persons under section 30 of the *Ontario Energy Board Act, 1998* in respect of their participation in this consultation. Costs awarded will be recovered from all rate-regulated electricity distributors based on their respective distribution revenues.

Attachment A to this letter contains important information regarding cost awards for this consultation, including the process for making eligibility requests and objections.

Invitation to Participate and Filing Instructions

The Board encourages participation in this consultation process by all interested stakeholders. Those interested in participating should indicate their intent by letter addressed to the Board Secretary by **September 17, 2010**. The letter should include a statement as to whether the participant wishes to request cost eligibility. All requests for cost eligibility must be accompanied by the information specified in Attachment A under the heading "Cost Award Eligibility".

All filings to the Board in relation to this consultation must be addressed to the Board Secretary. Two paper copies of each filing must be provided. The Board asks that participants make every effort to provide an electronic copy of their filings in searchable/unrestricted Adobe Acrobat (PDF) format and to submit their filings through the Board's web portal at www.errr.oeb.gov.on.ca. A user ID is required to submit documents through the Board's web portal. If you do not have a user ID, please visit the "e-filing services" webpage on the Board's website at www.oeb.gov.on.ca and fill out a user ID password request. Additionally, interested stakeholders are asked to follow the document naming conventions and document submission standards outlined in the

document entitled *RESS Documents Preparation – A Quick Guide* also found on the “e-filing services” webpage. If the Board’s web portal is not available, electronic copies of filings may be filed by e-mail at boardsec@oeb.gov.on.ca. Those who do not have internet access should submit the electronic copy of their filing on CD.

Filings must be received by **4:45 pm** on the required date. They must quote file number **EB-2010-0219** and include your name, postal address, telephone number and, if applicable, an e-mail address and fax number.

All materials related to this consultation will be posted on the “Regulatory Proceedings” portion of the Board’s website at www.oeb.gov.on.ca. The material will also be available for public inspection at the Board’s office during normal business hours.

Questions relating to this consultation should be directed to Alexandre Ruest at (416) 440-8129 or by e-mail at Alexandre.Ruest@oeb.gov.on.ca. The Board’s toll free number is 1-888-632-6273, and the Market Operations Hotline is 416-440-7604.

Yours truly,

Original Signed By

John Pickernell
Assistant Board Secretary

Attachment

Attachment A

Cost Awards

Cost Award Eligibility

The Board will determine eligibility for costs in accordance with its *Practice Direction on Cost Awards*. Any person requesting cost eligibility must file with the Board a written submission to that effect by **September 17, 2010**, identifying the nature of the person's interest in this consultation and the grounds on which the person believes that it is eligible for an award of costs (including addressing the Board's cost eligibility criteria as set out in section 3 of the Board's *Practice Direction on Cost Awards*). An explanation of any other funding to which the person has access must also be provided, as should the name and credentials of any lawyer, analyst or consultant that the person intends to retain, if known. All requests for cost eligibility will be posted on the Board's website.

Rate-regulated electricity distributors will be provided with an opportunity to object to any of the requests for cost award eligibility. If a distributor has any objections to any of the requests for cost eligibility, such objections must be filed with the Board by **October 4, 2010**. Any objections will be posted on the Board's website. The Board will then make a final determination on the cost eligibility of the requesting participants.

Activities Eligible for Cost Awards

Cost awards will be available in relation to the following activities:

Activity	Total Eligible Hours per Participant
Review of the consultant's report prior to the stakeholder meeting	Up to 10 hours
Attendance at and reporting on the stakeholder meeting	Maximum of actual meeting time plus 50% of meeting time for preparation and reporting
Provision of written comments on the consultant's report	Up to 20 hours

Cost Awards

When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of its *Practice Direction on Cost Awards*. Groups representing the same interests or class of persons are expected to make every effort to coordinate their participation in this process. The Board will consider any lack of coordination when

determining the amount of a cost award. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

The Board will use the process set out in section 12 of its *Practice Direction on Cost Awards* to implement the payment of the cost awards. Therefore, the Board will act as a clearing house for all payments of cost awards in this process. For more information on this process, please see the Board's *Practice Direction on Cost Awards* and the October 27, 2005 letter regarding the rationale for the Board acting as a clearing house for the cost award payments. These documents can be found on the Board's website at www.oeb.gov.on.ca on the "Rules, Guidelines and Forms" webpage.