

Review of Electricity Cost Allocation Policy

EB-2010-0219

Stakeholder Presentation

November 18, 2010

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Board initiative to review selected Cost Allocation Policy Issues

Disclaimer

The Views expressed in the report are those of Elenchus, and do not necessarily represent the views of, and should not be attributed to, the Ontario Energy Board, any individual Board member, or Board Staff.

Issues to be Reviewed

- MicroFIT Rate Class Creation
- Refine the following issues:
 - Cost allocation to unmetered load
 - Treatment of Transformer Ownership Allowance
 - Allocation of Miscellaneous Revenues
 - Weighting factors for services and billing costs
 - Allocation of host distributor costs to embedded distributors

Issues to be Reviewed (cont.)

- Options to Allocate costs to load displacement generation
- Review the three widest Target Revenue to Cost Ratio Ranges
- Address accounting change and transition to IFRS

New MicroFIT Rate Class

- Less than 10kW generator
- Board approved \$5.25/month customer charge for all distributors in Ontario
- Based on 9 USoA accounts

MicroFIT Alternatives

1. The same accounts identified by the Board should continue to be used to establish the microFIT charge.
2. Request a sample of distributors with experience in connecting microFIT to identify costs and related accounts
3. Create separate customer class

MicroFIT Alternative Variants

- Uniform provincial rate
- Distributor Specific rate

MicroFIT Recommended Alternative

Continue to use the USoA accounts currently identified to establish the uniform provincial fixed rate for microFIT.

Each distributor should be allowed to establish its own microFIT rate to better reflect cost causality for each distributor.

MicroFIT Questions

Has ERA collected any quantitative data from LDCs on the volume of MicroFIT activity they have seen to date?	No we have not. OPA may have
Billing cost covers a variety of activities outside of simple issuance of bills. One might assume that different customer types might drive different levels of billing activity, such as queries about the correctness of a bill. Has ERA checked with any LDCs to validate the assumption that Micro FIT-related billing costs are similar to regular residential consumption billing?	No we have not, but...

MicroFIT Questions (cont.)

Did Elenchus review the appropriateness of using the 9 accounts identified in the Board's EB-2009-0326 Report as the basis for establishing the fixed monthly charge for microFIT and satisfy itself that "all related costs have been appropriately captured" per the basis for Option #1 as discussed on page 11?

**No
we
have
not,
but...**

In particular, did Elenchus consider why it was appropriate to allocate a portion of the "PILs for general plant assigned to meters" to the monthly charge but not allocate any of the net income (or debt costs) for general plant assigned to meters since PILs is based on net income (see the list of included cost elements on page 9)?

**No
we
have
not,
but...**

MicroFIT Questions (cont.)

If Option #3 were approved, would it be reasonable to permit the input sheet for the Cost Allocation model to allow for a Service count greater than zero in the event that some microFit installations do have a separate service drop?	Makes sense
Assigning the same Billing weighting factor to the microFIT as is used for the Residential class presupposes that the effort required to prepare both bills is the same. Has Elenchus undertaken any analysis or assessment to determine if this is the case? Would it be reasonable to permit LDCs to over ride this default value if they considered different weighting to be appropriate?	No analysis was undertaken Assuming option #3 selected, yes
The recommendation calls for the continued use of the USoA accounts currently identified to establish the uniform provincial fixed rate for microFIT. How does Elenchus foresee the Board updating the microFit rate each year? Would the inclusion of specific “microFIT” worksheet in the cost allocation model facilitate the provision of the data necessary for such an update?	Really up to the Board. Yes it would

MicroFIT Questions (cont.)

If microFIT is not a separate rate class, are changes required so as to ensure the anticipated revenues for microFIT customers are included in the determination of the revenue to cost ratios? More specifically, has Elenchus undertaken any assessment as to how microFIT revenues should be allocated to customer classes?	Revenues should be included. No assessment done
The current Microfit rate design is premised on the assumption that power consumption associated with these accounts is expected to be negligible. Could there be situations where that is not the case, and if so, what are the implications for cost allocation and rate design?	If consumption is significant would have to re-evaluate assumptions

MicroFIT Questions (cont.)

Please provide the rationale for having separate MicroFIT rates for each distributor, rather than a province-wide rate. Please provide the consultant's response to the decision of the Board at page 15 of the EB-2009-0326 Decision, as follows:

“First, in consideration of the Board’s objective to promote renewable sources of energy this approach will provide a single input cost component to the microFIT program province wide. The narrowing of the cost assumptions being made by both the OPA and microFIT program applicants will enhance the attractiveness and effectiveness of the program.”

LDCs are allowed to reflect their own costs on their distribution rates

(Page 8 of ERA’s report)

Allocation of Costs to Load Displacement Generation

- Different approaches used in Ontario
- Current Standby rates approved on interim basis with one exception
- Distributors and customers with load displacement generation have different perspectives on the issue

Alternative for Allocation of Costs to Load Displacement Generation

1. Similar approaches as in other jurisdictions
2. Direct Allocation, Sheet I 9, used to create new customer class
3. Avoided cost estimates to be used for new load displacement and maintain interim approval for existing rates, pending further research.
4. Consider only on-going costs
5. Gas industry approach firm/interruptible power, if applicable

Preferred Alternative for Allocation of Costs to Load Displacement Generation

Standby charges should be established for new load displacement generation above certain size, for example 500 kW. In lieu of a specific customer analysis, default avoided costs values could be used as a simplified approach. A simplified approach should also be followed to establish the benefits that load displacement generation may provide. The Board, following its own judgement, could choose a 5% reduction to allocated costs.

Preferred Alternative for Allocation of Costs to Load Displacement Generation (cont.)

Unless the distributor chooses to follow the above recommendation for existing standby charges, they should continue to be allowed to maintain on an interim basis their standby charges until more research has been evaluated on this issue, including rate design approaches

Allocation of Costs to Load Displacement Generation Questions

On page 38, ERA states " When the customer owned generation is not available, generally due to an outage, the customer is supplied by the distributor for all its electricity needs." Does ERA know this to be consistently accurate? For example, are there load displacement generation cases where the loss of customer owned generation results in no change in demand or a reduction in demand on the LDC system? Put another way, has ERA considered in this report the issue of inter-dependence between the load displacement generation facility and the customer's manufacturing process?

No research done to be able to answer. We don't know. It may be the case

Has ERA considered whether standby charges should be adjustable based on experience? For example, if a load displacement generator had clearly established a pattern of only requiring standby power during periods when demand on the distribution system was low or of using standby power at a level considerably below the generator rating , should it receive a reduced charge?

Not done research that would provide this information

Allocation of Costs to Load Displacement Generation Questions (cont.)

Has ERA considered allowing customers with load displacement generation to contractually opt out of standby service?	Not done research on implications
With respect to Option #1, is there a “standard approach” used in other jurisdictions or would this option require Board direction on which approach should be used?	Option # 1 is not recommended. Not done the research
With respect to Option #3, please indicate what is meant by the term “avoided cost”. Is the intent to base costs on the incremental cost of providing stand-service; on an “allocated share” of existing costs or some other approach?	Avoided costs would mean Incremental costs
Please provide more details as what Elenchus anticipates “a specific customer avoided cost analysis” would entail. Also, please provide details as to how the proposed default value(s) would be established?	Default value based on avoided distribution costs for CDM

Allocation of Costs to Load Displacement Generation Questions (cont.)

The Board did not make any findings in EB-2007-063 as to the how either the costs or the benefits associated with distributed generation should be established. How does Elenchus see these issues being addressed for purposes of implementing Option #3?	Costs based on simplifying assumption (default avoided costs). Benefits based on judgment
The Report states that if the generator is above a certain size (e.g. 5 MW) then the rate capacity should be taken into account in the rate design. To what extent should the rated capacity be taken into account for purposes of cost allocation when the generator's size exceeds 500 kW or 5 MW?	It should not. It is not done for other customer classes
Is there a proposed methodology available for carrying out a specific customer avoided cost analysis? What is the simplified approach for determining a default avoided cost value?	No proposed method. Using OEB's approved avoided costs

Allocation of Costs to Load Displacement Generation Questions (cont.)

What is the basis for the suggestion of a 5% reduction to allocated costs to account for the benefits that load displacement generation may provide?	Benefits based on judgment
Please advise how, other than considering the possibility that interruptible supply could be offered on a standby basis rather than firm supply for load displacement customers, the analogy to gas companies offering interruptible and firm supply can be used by the Board in considering the cost allocation for standby rates.	Only mention that gas has interruptible and firm services as a possibility

Allocation of Costs to Load Displacement Generation Questions (cont.)

Please explain why benefits have to be calculated on an individual generator basis. Please provide a summary of research in other jurisdictions dealing with the benefits of distributed load displacement generation, and in particular work done in other jurisdictions associated with quantifying those benefits for ratemaking purposes, and any general assumptions or rules of thumb that have an empirical basis.

No research conducted. Only for larger generators it may be worth doing individual analysis

Please provide the basis for the 5 MW threshold, and describe in more detail the different rules that, under the recommended approach, would apply for a larger load displacement facility that meets that threshold.

5MW threshold based on judgment. Same threshold used for Large Users. For larger load specific cost/benefit analysis may be appropriate

Allocation of Costs to Load Displacement Generation Questions (cont.)

Please describe the empirical or other basis for the 5% benefits reduction proposed, and describe any other options the Board could consider if it elects to use “its own judgment” alone to quantify those benefits.

5% based on judgment. Board may look at other jurisdictions for guidance

Allocation of Miscellaneous Revenues

- Late penalty charges, Sentinel Light rental, special meter reads
- Allocated to customer classes based on weighted number of bills, bad debt experience, or Net Fixed Assets
- The Board 2009 3rd GIRM Supplementary Filing Module assumed that all revenues are derived from Distribution Service rates

Alternatives for Allocating Miscellaneous Revenues

1. Allocate Miscellaneous revenues in the same proportion as related costs. Identify major components.
- 2A. Allocate all Miscellaneous Revenues as distribution revenues
- 2B. Allocate all Miscellaneous Revenues as composite OM&A
3. Follow Gas industry example
4. Continue current practice

Preferred Alternative for Allocating Miscellaneous Revenues

The major components included in Miscellaneous revenues should be identified and the allocation to customer classes of these revenue categories should be similar to the allocation of the corresponding costs. The remaining Miscellaneous revenues should be allocated to the customer classes in the same proportion as composite OM&A. Miscellaneous revenues and related costs should be included in the determination of revenue to cost ratios in the cost allocation model.

Miscellaneous Revenues Questions

<p>The Report recommends (page 26) that the major components included in Miscellaneous Revenues should be identified and allocated to customer classes of these revenue categories in a manner similar to the allocation of the corresponding costs. Since miscellaneous charges are derived from specific customer-related activities, it is the level of this activity that drives the cost to provide the service. Given this context, why should the costs not follow the revenues by customer class as oppose to vice versa?</p>	<p>This is a valid alternative</p>
<p>What is Elenchus understanding as to where the costs incurred with respect to each of the following Miscellaneous revenue categories are recorded (i.e. USOA accounts) and how the costs are subsequently allocated to customer classes:</p> <ul style="list-style-type: none">•Late Payment Charges (4225)•Account Set Up and Charge/Change of Occupancy Charge (4235)•Collection of Account Charges (5330)•Specific Charge for Access to Power Poles (4235)	<p>4225 historical Bad Debt 4235 & 5330 composite weighted number of bills</p>

Miscellaneous Revenues Questions (cont.)

Based on the response to part (b), specifically how would the revenues from each of these four sources be allocated to customer classes?	<ul style="list-style-type: none">•Bad Debt Expense•Number of customers by customer class requesting the service
How does Elenchus' recommendation differ from the approach currently used in the Cost Allocation model?	<p>Accounts 4082 Retail Service revenues, 4084 service transaction requests, 4090, electric services incidental to energy sales and 4235 Miscellaneous service revenues are allocated on the basis of CWNB (composite weighted number of bills). Account 4225 (late payment charges) is allocated on the basis of bad debt expense.</p> <p>All the others are allocated on the basis of the NFA (net fixed assets) allocator which is based on the allocation of all fixed assets</p>

Miscellaneous Revenues Questions (cont.)

On page 25, the Elenchus Report states that related Miscellaneous Revenues are excluded from derivation of the revenue to cost ratios (in the current cost allocation model). However, Sheet O1 of the Cost Allocation model specifically includes miscellaneous revenues in the determination of the revenues used in the revenue to cost ratio calculation. Please explain the basis for the statement and what specific changes would be made to the Cost Allocation model based on Elenchus' recommendation.

the Board 2009 3rd generation Incentive Regulation Mechanism Supplementary Filing Module assumed that all revenues are derived from Distribution Service rates. Consequently, the Board revised its 3rd generation Incentive Regulation Mechanism Supplementary Filing Module in 2010, to ensure that Miscellaneous revenues are included in the determination of the revenue:cost ratios.

Miscellaneous Revenues Questions (cont.)

Please advise what work was done to determine whether the additional precision in allocating Miscellaneous Revenues under Option #1 was of sufficient benefit to cover the incremental cost of doing so.	Looked at main accounts for Misc. Rev.
Please advise what work was done to determine whether any of the potential cost drivers, such as composite OM&A costs or distribution revenues, has a significant and robust correlation with the actual costs underpinning either all of the Miscellaneous Revenues, or the major account components, or any of the specific major accounts.	No work done other than analysis of major accounts. Composite allocators are an accepted alternative

Unmetered Load

- Street Light, Sentinel Lights, Unmetered Scattered Load (e.g. TV amplifiers, billboards, traffic lights)
- Default Weighting Factors for allocating Service and Billing costs

Unmetered Load Alternatives

1. Separate input sheet for weighting factors
 - 1A. Update weighting factors
2. Research Other Jurisdiction on how costs are allocated to these customers

For Customer Classification Issue:

3. All distributors to treat USL as a separate customer class
4. Develop Revenue to Cost Ratio for USL

Recommended Alternative Unmetered Load

A separate sheet should be added to the cost allocation model that will include the default values used for these types of customer and that would give the option to distributors of using their own values in place of the default values with descriptions of how the default values were developed.

Recommended Alternative Unmetered Load (cont.)

For distributors that do not have a separate class for USL, the distributor should be required to demonstrate that the revenue:cost ratio for these types of customers would still be within the Board's recommended range.

Unmetered Load Questions

Has ERA examined in detail whether these differences justify separating USL into a separate class from the lighting accounts? Related, has ERA investigated whether there should be a threshold test based on consumption by USL equipment that would justify placing some USL assets into a metered general service class based on significant variability in energy used?	No we have not examined it, but...
Has ERA examined the causal relationship between weighting factors and numbers of connections for this or other classes?	No we have not examined it.
The Board's September 2006 Cost Allocation Report (page 67) made a distinction between number of customers, number of connections and number of devices. Where one connection can link a number of devices to a distributor's system and a customer can have a number of connections. The Elenchus Report appears to discuss the difference between customers and connections but not acknowledge the difference between connections and devices. Should the proposed "separate input sheet" allow for the input of all three values and require the distributor to document the basis for the differences.	Makes sense. LDCs always have the option of using their own data

Unmetered Load Questions (cont.)

With respect to page 15, what is Elenchus' understanding as to the assumed invoicing practice that underlies the default weighting factor for Billing currently used in the Cost Allocation model and is the current value of 1.0 (the same as Residential) reasonable given this invoicing arrangement?	SL is 1. LDCs can use own values
Given the possible variation in invoicing approaches (see page 15), is it possible to have one set of default values or should there be a different set of default values for each invoicing arrangement?	One set. LDCs can use their own values
The recommendation (page 17) calls for distributors that do not have a separate USL class to demonstrate that the revenue to cost ratio for these types of customers would still be within the Board's recommended range. How does Elenchus see distributors making such a "demonstration"? Does the current Cost Allocation model provide the necessary data to make such a demonstration absent the inclusion of a USL class? If not, what changes are required?	Running the Cost Allocation Model with a separate class

Unmetered Load Questions (cont.)

In view of the fact that some LDCs render a separate bill for each USL connection and some LDCs render an aggregate bill, should the “default” weighting factors for billing not be different for these situations	One set. LDCs can use their own values
Do you have any recommendations as to what data and analysis an LDC might use to support its choice of a weighting factor other than the default factor	Depends on LDC size. Track costs
If LDCs are encouraged to consider substituting their own weighting factors for the default factor, is it not appropriate to require the LDC which has used the default factor to provide support for the reasonableness of that choice when it files its cost allocation study	No. Default normally do not need justification

Unmetered Load Questions (cont.)

Please confirm that the entry of data into sheets I7.1 and I7.2 should result in exclusion of a separate class of USL from any allocation of meter and meter reading costs, and that therefore there is no “weighting factor” for these costs. If these is not correct, please clarify the actual methodology to ensure that no meter-related cost are allocated to USL	Confirmed
Please confirm that where USL is not presently a separate class, the computation of the USL credit is the methodology for exclusion of meter-related costs from the cost allocated to USL customers. If this is no correct, please clarify the actual methodology	Confirmed
At the top of page 16, the Report states: “The main principle in determining what the allocated costs should be is that these customers should be responsible for the costs they impose on distributors and that distributors’ customers should not be subsidizing unmetered load customers.” Please confirm that it is also true that unmetered load customers should not be subsidizing metered customers	Confirmed

Unmetered Load Questions (cont.)

At page 17 you state: “The proposal in Option #3 to force distributors to add an additional customer class for USL when it currently does not exist, is also not necessary, as long as the treatment of USL is accompanied by a proper rate design that provides a credit to USL for the non-provision of metering services.” Please confirm that, as also outlined on page 17 of your report, the requirement will be that the USL credit results in USL customers having a revenue:cost ratio within the Board’s approved range for such customers	Confirmed
Please advise whether any review has been undertaken as to the relative cost associated with the development of customer weighting factors by individual distributors. To what extent is the additional cost justified by the additional precision or other benefits of these custom factors?	No review done, but R/C can change if not using proper weighting factors
Please advise whether, in light of the comments on pp.14-15, updating the default values may provide a benefit to those distributors who do not plan to use custom weighting factors.	Yes it may provide benefit

Unmetered Load Questions (cont.)

Please advise whether any review was done to determine whether there is any readily available information from other jurisdictions that could be used to inform the Board with respect to USL, streetlighting, or sentinel lighting cost allocation approaches and techniques.	No review was conducted
Please assess the benefits of some distributors keeping USL in a General Service Class, vs. the cost of requiring those distributors to create a new class for those customers.	Less customer classes

Weighting Factors for Services and Billing Costs

- Weighting Factors better reflect cost causality
- Distributors may be unaware of option to use and/or replace default values

Alternatives for Weighting Factors for Services and Billing costs

1. Add separate sheet to model
- 1A. Update default values

Preferred Alternative for Weighting Factors for Services and Billing costs

A separate input sheet should be developed that would include the default weighting factors, explain the reasons behind the different weighting factors and include an option for distributors to substitute the default values with their own values, where appropriate.

Weighting Factors Services and Billing costs Questions

Will there be an update to the OEB cost factors for Service and Billing costs as a result of changes driven by the adoption of smart meters and TOU billing?	Not aware of changes. LDCs can use their own values
Please identify the weighting factor issues associated with customers (such as school boards or other multiple location customers) that have many connections, separately metered, but one actual customer to whom bills and customer contacts are directed.	Have not done research on this area

Transformer Ownership Allowance (TOA)

- Credit for customer owning transformer
- Allocation of costs of the transformer ownership allowance to customer classes

TOA Alternatives

1. Change cost allocation model to allocate costs of allowance only to customer classes with customers receiving TOA
2. Maintain current methodology and add instructions
3. Establish separate customer classes for customers that receive TOA
4. Simplify current methodology
5. Perform avoided transformer cost analysis

TOA Preferred Alternative

Modify the cost allocation model to ensure that only the customer classes that include customers that provide their own transformation are included in the determination of the TOA.

TOA Questions

Did ERA consider a classification option whereby the default would be that customers in the class would own their own transformation, but the LDC would provide transformation service separately on specific request?	No, this was not considered
Did ERA examine the possibility of having LDCs provide transformation as a distinct service for specific classes of customers (e.g., GSd?)	No, this was not considered
The current directions from the Board exclude the “cost” of the TOA from the revenue requirement to be allocated to customer classes and require that the distribution revenues used in the determination of the revenue to cost ratios reflect the revenues net of (i.e., after) the transformer ownership discount is applied. It is not clear precisely what changes Elenchus is proposing (pages 21-22) should be made to the Cost Allocation model for purposes of determining customer class revenue to cost ratios. Please clarify.	No change proposed for the determination of R/C ratio. Costs allocated to proper classes

Allocation of Host Distributors Costs' to Embedded Distributors

- Embedded distributors more like larger customers
- Embedded distributors usually included as General Service above 50 kW class
- Separate class for embedded distributors requires identifying asset utilization (bulk, primary, secondary assets)

Alternatives for Allocation Host Distributors' Costs to Embedded Distributors

1. Continue approach of grouping as General Service above 50 kW
 2. Recommend simplifying approach to split bulk, primary and secondary assets
 - 2A. Common definition
 - 2B. Gas utility approach, if applicable
 - 2C. Schedule 10.7 of 2006 EDR Handbook
- Threshold for requiring different treatment

Preferred Alternative for Allocation Host Distributors' Costs to Embedded Distributors

Schedule 10.7 of the 2006 EDR Handbook should continue to be the approach followed by host distributors and this schedule should be incorporated into the cost allocation model. The Board should establish a threshold above which host distributors would be required to establish separate charges for embedded distributors.

Preferred Alternative for Allocation Host Distributors' Costs to Embedded Distributors (cont.)

The recommended thresholds are:

- **If the embedded distributor represents more than 10% of the host distributor's total volume sales, or**
- **If the embedded distributor is larger than 500 kW average demand per month**

Allocation Host Distributors' Costs to Embedded Distributors Questions

Please confirm that the M9 rate is available to a distributor that enters into a contract to receiver delivery of annual quantity of gas of at least two million cubic meters.	Confirmed
Please confirm that Union Gas also has a "Small Wholesale Service Rate" under rate M10 that is used to provide service to small non□contract distributors (i.e. those that do not qualify for M9 service).	Confirmed
Please confirm that contracts with large volume customers (industrial, commercial, institutional) is a standard practice by gas distributors in Ontario and is not unique to embedded distributors.	Yes, it is standard practice
What is the relevance or significance of signed contracts in the gas industry in terms of cost allocation or a separate rate class for embedded distributors?	No significance, but...

Allocation Host Distributors' Costs to Embedded Distributors Questions (cont.)

Given that there are more host□embedded electricity distributors than gas distributors in Ontario, would it not be more important, rather than less important, to establish an allocation of costs to these distributors in the electricity sector? If not, why not?	Yes, it is more important
Are there any costs that are currently allocated to small embedded distributors as part of the applicable GS rate classes that might not be allocated to them if they had their own rate class (such as bad debt expense assuming no history of bad debt by a small embedded distributor, CDM expenditures, call center operations, etc.)?	Not done research
Does Elenchus have any estimate of the number of embedded distributors that would qualify based on its recommended thresholds, and how many embedded distributors would not qualify for the separate charges for embedded distributors?	No, we have not done the research
What proportion of the embedded distributors in Ontario are served by Hydro One?	Hydro One: 64 LDCs 460 DPs

Allocation Host Distributors' Costs to Embedded Distributors Questions (cont.)

Hydro One has established an ST Class, which goes beyond EDR 10.7, in that it further breaks out the specific types of assets used by individual customers in this class and charges separately for each asset type used by the customer (e.g., use of high voltage DS, use of radial LV feeder, etc.). Does ERA regard Hydro one's approach for the ST class as appropriate for the treatment of embedded distributors?

It is not inappropriate

Are the thresholds meant to apply per embedded distributor delivery point or with respect to the embedded distributor's total load?

by DPs

Allocation Host Distributors' Costs to Embedded Distributors Questions (cont.)

The 2006 EDR Handbook was developed prior to the Board issuing its Directions on Cost Allocation Methodology for Electricity Distributors (RP-2005-0317). As a result, there are inconsistencies between Schedule 10.7 in the 2006 EDR Handbook and the Board's Cost Allocation Methodology in terms of i) the types of costs that would be deemed to be associated with serving an embedded distributor (e.g., Schedule 10.7 makes no provision for metering-related costs, billing costs, general administrative costs or general plant costs) and ii) how costs are allocated. What is Elenchus' view on the need to update Schedule 10.7?

Yes, probably should be updated

Allocation Host Distributors' Costs to Embedded Distributors Questions (cont.)

Please provide the basis for the 10% and 500 KW threshold recommended, describe other thresholds that were considered, and explain why the other thresholds were rejected. What are the “empirical estimates” referred to on page 37?

500 kW threshold used by some LDCs to apply standby charges. 10% based on judgment. Board may choose any other value

Revenue to Cost Ratio

- Board approved range of acceptable revenue to cost ratios for cost allocation studies.
- Widest ranges for General Service above 50 kW, Street Lights and Sentinel Lights customer classes

Reasons for Revenue to Cost Ratio Ranges

- Quality of accounting and load data,
- Limited modelling experience,
- The then concurrent rate design initiatives and
- Managing the movement of rates closer to allocated costs.

Alternatives for Revenue to Cost Ratio Ranges

1. Maintain current ranges until smart meter data collected
2. Same narrower range for the three classes
3. Narrower range in gradual steps
4. Same range as General Service below 50 kW
5. Different narrower range for Street and Sentinel lights than for General Service above 50 kW

Preferred Alternative for Revenue to Cost Ratio Ranges

For the General Service class 50 kW to 4,999 kW the top range should be reduced to 1.40. The bottom range should be left unchanged at 0.80.

For Street Light and Sentinel Light customer classes the bottom range should be increased gradually over 3 to 4 years to match the bottom range of the General Service less than 50 kW class of 0.80. The top range should be left unchanged at 1.20.

Revenue to Cost Ratio Ranges Questions

Please explain why there is a phase in of the increase in the bottom of the range for the street light and sentinel light customer classes, but no phase in of the decrease in the top of the range for the GS 50 to 4,999 kW class.	Bill impacts of moving SL to 0.70
Given the relatively small increase in the bottom of the range from 70% to 80% for the street light and sentinel light classes, why is a phase in period of 3 to 4 years necessary?	Bill impacts
ERA is recommending the continuance of an asymmetrical band for the GS 50-5,000kW class, with the centre being a ratio of 1.10. Did ERA investigate whether any data suggests the Revenue:cost ratio determination uncertainties for this class justify an asymmetrical band?	No investigation was conducted. Based on Board report
The logic on page 44 with respect to rejecting Option #2 is unclear and appears to be circular, suggesting that different ranges should be preserved because different ranges exist. Are there data that ERA considered that would justify the continuance of different ranges for these different classes?	No data exists, it is premised on the existing ranges

Revenue to Cost Ratio Ranges Questions (cont.)

Similarly, the logic in rejecting Option # 4 for the GS 50-5,000kW class is not apparent. Is ERA suggesting that bringing this group to a similar treatment with other customers should be rejected simply because the change might be significant in some LDCs?	No. Reflects current R/C ratios ranges
Has ERA determined how many LDCs have a Revenue:cost Ratio above 1.20 for the GS 50-5,000kW class and what proportion of the GS 50- 5,000kW customers in Ontario are being charged at a ratio greater than 1.20?	22 LDCs out of 52 that have GS>50 kW. Based on 60 LDC applications
In terms of revenue:cost ratios the Board has frequently approved not only ratios for the test year but also further adjustments in the ratios during the subsequent IRM period. Do the highest/lowest ratios reported on page 42 represent the approved test year values or the approved target values to be achieved over the IRM period?	Target values

Revenue to Cost Ratio Ranges Questions (cont.)

For those utilities that already have a R/C ratio for their street and sentinel lights customer classes close to the bottom range of 0.80, why is it necessary to implement the move to 0.80 over 3 to 4 years? Could the move to 0.80 be done more quickly?	Because of bill impacts. Yes
Please provide the basis for the recommendation of 1.40 as the upper bound for GS>50. Please describe why choosing 1.20 would be a less appropriate choice. Please expand on the statement on page 44 “it would be a significant change from the currently approved revenue:cost ratio for this customer class”. Please identify which of the four reasons on page 40 are applicable to the recommendation of 1.40 as the upper bound, and how they are applicable.	Gradual move towards R/C of 1. Managing movement of rates closer to costs
Please explain why the movement from 70% to 80% for streetlighting and sentinel lighting should take place over three or four years, when the movement of those classes from much lower levels - often below 20% to 70% - was accomplished in three years.	Tied to IRM period. Impacts

Accounting Changes and IFRS Transition

- Number of accounts identified that have been excluded from the COSS model
- IFRS reporting starting 2011

Alternatives to Deal with IFRS Changes

- No impact identified as of now
- If issues identified, will be dealt with appropriately

Preferred Alternative to Incorporate IFRS Changes

There is no need to modify the cost allocation model to address the accounting reporting changes.

The accounts identified in Attachment A should be added to the cost allocation model

Accounting Changes and IFRS Questions

The Report does not specifically address the accounts listed in Attachment A and explain why they should be included in the cost allocation model. Most of the accounts are deferral/variance accounts whose balances are disposed of through separate rate riders. Why is it appropriate to include these accounts in the cost allocation model, since they do not form part of the Distribution Revenue Requirement?

The Deferral accounts should not be included. In Rev. Req. The accounts are proposed for completeness purposes

Please describe what investigation was undertaken to reach the conclusion that “the implementation of IFRS does not seem to have an impact on the cost allocation model”.

Based on IFRS understanding

Accounting Changes and IFRS Questions (cont.)

Similarly, why is it appropriate to include Accounts #4750 and #4075 in the cost allocation model as these accounts record the costs charge to embedded distributors for transmission and LV and the related revenues recovered from its customers to cover off such charges? Again, the RTSR and LV charges are typically recovered through separate rate adders or charges and not part of the Distribution Revenue Requirement.

The accounts are proposed for completeness purposes

General Question

Please confirm that the recommendations in the Report are based on the assumption that they will be implemented for a period of no more than two or three years, before a “comprehensive review” of cost allocation is carried out. Please identify any of the recommendations that, in the opinion of Elenchus, are sufficiently robust that they can be considered to be long-term solutions to the issues identified.

Recommendations are for items identified for review. If circumstances change would have to revisit.

Other Questions

<p>The report recommends that the cost allocation model be modified to ensure that only the customer classes that include customers that provide their own transformation are included in the determination of TOA. Has the Board reviewed the 2007 Cost Allocation Filings to determine the effect of the proposed change on the ranges of revenue to cost ratios? Particular emphasis should be placed on the Larger User Class where the Board implemented a narrow revenue to cost range based on the original methodology. Would the Board consider adjusting the current Revenue to Cost range for the Large Use class based on the revised findings? Do actual costs to service Large Use customers vary significantly from LDC to LDC?</p>	<p>Scope did not include reviewing the Large User ratio ranges</p>
<p>The Cost Allocation module includes an opportunity for the direct allocation of costs. Does Elenchus or the Board consider the use of this column an important part of completing a relevant Cost Allocation filing? Are there statistics available to show what percentage of LDC's actually used this column in their Cost Allocation Filing?</p>	<p>Elenchus has used this column for its customers. No data available</p>