EB-2010-0219

IN THE MATTER OF the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF a proceeding initiated by the Ontario Energy Board to Review the Electricity Distribution Cost Allocation Policy.

Comments of the Power Workers' Union

1. Introduction

On September 2, 2010 the Ontario Energy Board ("OEB" or the "Board") issued a letter initiating a consultation to review its electricity distribution cost allocation policies and revise it as required. The Board's intent is to review specific elements of its electricity distribution cost allocation policy, with the potential for a more comprehensive review to be undertaken in the future. Any revisions to the electricity distribution cost allocation policy resulting from this consultation will be implemented through cost of service applications starting with the 2012 rate year.

On October 15, 2010 the Board issued a report prepared by Elenchus Research Associates, Inc. ("Elenchus") entitled, *Cost Allocation Policy Review Options and Preferred Alternatives* (the "Report"). A stakeholder meeting was held on November 18, 2010 to provide a forum for participants to engage Elenchus in a discussion on the content of its Report.

2. Comments of the Power Workers' Union

The PWU is of the view that rates must be fair and therefore upholds the principles of cost causality in rate setting. The overarching principle guiding the

PWU's submission below on the issues set out for this proceeding is cost causality. The PWU supports cost-based rates that are fair for the consumers and ensure ongoing LDC financial viability and the ability of LDCs to provide ongoing service quality, reliability and safety.

The PWU has been a key participant in Ontario's energy policy discussions for over 60 years. The PWU represents a large portion of the employees working in Ontario's electricity industry. The PWU's comments stem from the PWU's energy policy:

> **Reliable, secure, safe, environmentally sustainable and reasonably priced electricity supply and service, supported by a financially viable energy industry and skilled labour force is essential for the continued prosperity and social welfare of the people of Ontario. In minimizing environmental impacts, due consideration must be given to economic impacts and the efficiency and sustainability of all energy sources and existing assets. A stable business environment and predictable and fair regulatory framework will promote investment in technical innovation that results in efficiency gains.**

2.1 New MicroFIT Rate Class

Currently the Board has established a uniform province-wide rate for microFIT generators. On March 17, 2010, the Board ordered that the province-wide fixed monthly charge for all electricity distributors related to the microFIT Generator rate class be $5.25 per month, effective September 21, 2009. The recommendation that Elenchus is forwarding in its Report is as follows:

> **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.**

The PWU agrees with the recommendation forwarded by Elenchus. The PWU submits that the rate level should be distributor specific to reflect distributor specific costs thereby ensuring that the cost allocation model reflects the principles of cost causality.

2.2 *Unmetered Loads*

The current cost allocation model allows distributors to use different weighting factors to allocate certain costs to street lighting, sentinel lighting and unmetered scattered loads (“USL”). One of the issues identified in the Report is that many distributors are unaware that the current cost allocation model allows them to use their own weighting factors to reflect the many connections that can be attached to one account for these types of customers. The recommendation that Elenchus is forwarding in its Report is as follows:

> **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.**
>
> **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.**

The PWU agrees with the recommendation forwarded by Elenchus. The PWU is supportive of the addition of the separate sheet as it will make the cost allocation policy more transparent and encourage LDC’s to reflect their utility-specific circumstances in the cost allocation, thereby enhancing fairness. The addition of the separate sheet will also make the model more user friendly for LDCs, municipalities and other stakeholders. The PWU submits that the separate sheet should explain how the default values were derived as well as provide the assumptions for the default values. This will enable the user to determine the appropriateness of default values vs. using their own values.

2.3 Transformation Ownership Allowance

According to the Report, current determination of the Transformer Ownership Allowance (“TOA”) may not be proper as customer classes that do not have customers receiving the allowance are included in the determination. Other issues identified in the Report include the complexity of the data used to calculate the allowance as well as the availability of the necessary data. The recommendation that Elenchus is forwarding in its Report is as follows:

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.

The PWU agrees with the recommendation forwarded by Elenchus and also agrees with Elenchus that "This will ensure that in determining the TOA, cost causality principles are applied". The Report also indicates that the modified cost allocation model will include the addition of simpler instructions to identify the appropriate data to determine the TOA as required by the model. As stated above, the PWU is supportive of any change that will make the cost allocation model more transparent and user friendly to LDCs, municipalities and other stakeholders.

2.4 Allocation of Miscellaneous Revenues

Currently the allocation of miscellaneous revenues is dependent upon the revenue from the charges set out on page 23 of the Report. The recommendation that Elenchus is forwarding in its Report is as follows:

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. 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:cost ratios in the cost allocation model.

Here again, the PWU is in agreement with the recommendation forwarded by Elenchus because it helps to ensure that costs and revenues are properly allocated to all customers classes based on the principles of cost causality.

2.5 Weighting Factors for Services and Billing Costs

Currently, the cost allocation model utilizes weighting factors to allocate certain costs to customer classes. According to the Report, distributors may not be applying the weighting factors used to allocate service and billing costs for unmetered load properly in the cost allocation studies submitted to the OEB. The Report also states that some distributors are not aware that they have the option to apply customized weighting factors in the allocation of Service and Billing costs. The recommendation that Elenchus is forwarding in its Report is as follows:

> **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 their own values for the default values, where appropriate.**

The PWU agrees with the recommendation forwarded by Elenchus for the same fundamental reasons indicated in the previous sections.

2.6 Allocation of Host Distributors Costs to Embedded Distributors

According to the Report, in the instances where embedded distributors are included in General Service customer class of the host distributor, the embedded distributor may end up paying more than the cost of the assets they use due to the fact that they use fewer assets than other General Service customers of the host distributor. The Report also indicates that embedded distributors may have different characteristics and size than other General Service customers and tend to use similar assets as the larger customers of the host distributor. The recommendation that Elenchus is forwarding in its Report is as follows:

> **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. 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**

The PWU is in agreement with the recommendation forwarded by Elenchus. According to the Report this approach will identify assets used by embedded distributors in circumstances where the embedded load is large and is a significant share of the host distributor. As stated above, the PWU is supportive of any change that results in a better reflection of the principles of cost causality.

2.7 Allocation of Costs to Load Displacement Generation

According to the Report, distributors and customers with load displacement generation have different perspectives on this issue. The report notes that each generator's facility would need to be evaluated individually in order to determine its benefits and the cost of such an analysis would outweigh the benefits. The recommendation that Elenchus is forwarding in its Report is as follows:

> **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.**
>
> **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,**

The PWU is supportive of the recommendation forwarded by Elenchus as an interim measure only. The 5% reduction to allocated costs is acceptable as a placeholder until quantitative analysis has been conducted to reflect the true costs/benefits of load displacement generation.

The PWU also suggests that each distributor be given the option to determine the appropriate value for the avoided costs, benefits and the reduction to allocated costs based on management judgement and expertise. Allowing this flexibility in the absence of quantitative analysis would help to ensure that the values used better reflect the unique circumstances of the distributor. If the distributor opted to use their own values instead of the default values they should be required to justify these values to the OEB.

All of which is respectfully submitted.