

**Submissions from the
Cornerstone Hydro Electric Concepts Association Inc. ("CHEC") on
Recommendations provided by
Elenchus Research Associates Inc ("Elenchus") on
Cost Allocation Policy Review
December 2, 2010**

Introduction

In a letter dated September 2, 2010, the Ontario Energy Board ("the Board") initiated the Review of Electricity Distribution Cost Allocation Policy (EB-2010-0219). The Board outlined that it expected the review to be limited in scope, with the potential for a more comprehensive review to be undertaken in the future.

The Board encouraged participation in this consultation process by all interested stakeholders. Interested parties who wish to participate needed to indicate their intent by letter to the Board Secretary by September 17, 2010. On September 17, 2010, CHEC sent a letter to the Board Secretary outlining its intent to participate in the consultation process and that Bruce Bacon of Borden Ladner Gervais LLP would be CHEC's representative in this matter.

The Board retained the services of Elenchus Research Associates, Inc. ("Elenchus") to prepare a report that includes options and recommendations on various items the Board wanted the review process to cover. On October 15, 2010, Elenchus issued its report on options and recommendations on the following issues.

- a) Creation of MicroFIT Rate Class
- b) Cost Allocation to Unmetered Load
- c) Treatment of Transformer Ownership Allowance
- d) Allocation of Miscellaneous Revenues
- e) Weighting Factors for Services and Billing Costs
- f) Allocation of Host Distributors Costs to Embedded Distributors

- g) Allocation of Costs to Load Displacement Generation
- h) Refine the three widest Revenue to Cost Target Ranges
- i) Address accounting changes and the transition to IFRS

On November 18, 2010, in order to facilitate the provision of written comments, the Board held a stakeholder meeting during which participants had an opportunity to engage Elenchus in a discussion on the content of its report. CHEC attended and participated in the stakeholder meeting and the comments outlined below from CHEC, on the recommendations summarized in the Executive Summary of the Elenchus report, are based upon the discussions at the meeting.

Creation of MicroFit Rate Class

Elenchus Recommendation:

The Board should not create a separate MicroFIT rate class in the cost allocation model, but continue to use the currently identified USoA accounts 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.

CHEC comments:

The Elenchus recommendation appears to be a reasonable approach for this item.

Cost Allocation to Unmetered Load

Elenchus Recommendation:

A separate sheet should be added to the Board's cost allocation model that will include the default values used for these types of customers. This would more clearly indicate to distributors the option of using their own values in place of the default values, and include 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.

CHEC comments:

In the Elenchus report the project objectives as stated in the Board's letter dated September 2, 2010 indicated that refining the components of the cost allocation methodology to unmetered loads (i.e. USL, street lighting and sentinel lighting.) was to be addressed. CHEC is concerned that with regards to street lighting the Elenchus report did not address known issues with street lighting that have arisen in the preparation of cost allocation studies over the past three to four years. This past summer CHEC, through the representative of one of its members (i.e. Lakefront Utilities Inc), had a meeting with Board staff to discuss some issues with the cost allocation of street lighting. CHEC is concerned the issues raised at the meeting were not addressed in the report.

Specifically, the consistent treatment of allocating cost to street lighting by LDCs across the province. In the case of Kitchener-Wilmot Hydro's 2010 cost of service rate application and Kingston Hydro's 2011 cost of service rate application the use of relay/service entrance switches, or daisy chains have been used as the connection points which has significantly reduced the number of connection for these two LDCs and improved the street lighting revenue to cost ratio. In the evidence from Kitchener-Wilmot Hydro's 2010 rate application, using relay/service entrance switches as the connection points for the street lighting class moved the revenue to cost ratio from 26.2% to 127.3%. The Board approved Kitchener-Wilmot Hydro's approach as outlined in the following statement from the Board's Decision on Kitchener-Wilmot Hydro's 2010 Rate Application (EB-2009-0267)

"The Board considers KW Hydro's approach reasonable in terms of delineating the connections and the assets and services in KW Hydro's distribution network serving streetlights. In the Board's view, this manner

of treating streetlighting connections for Cost Allocation purposes is markedly different than that used by many other distributors. It may be that given the connection arrangements and possibly the demarcation point for ownership, this may be a realistic way of modeling the allocation of costs. However, due to the uniqueness of the arrangement, the Board expects a more complete explanation of the cost allocation approach to this class to be included in KW's next cost allocation filing"

As a result, the 2010 street lighting rates for Kitchener-Wilmot Hydro were reduced when the revenue to cost ratio was adjusted downward to be within the Board's range.

In RP-2005-0317 Cost Allocation Review Board Directions on Cost Allocation Methodology For Electricity Distributors, section 9.2 Definition of Customer and Connection for Filings states:

"The accounts/sub-accounts that are allocated based on the number of customers or connections in total or in part were listed in Appendices 7.2 and 7.3. For the purpose of the cost allocation filings, a "customer" is generally defined by a meter point that measures energy consumed over a period of time.

For unmetered loads, the number of connections will be used to allocate some customer-related costs. For street lights, sentinel lights and unmetered scattered loads, the number of connections will be the actual number of devices.

In the case of street lights, one "connection" frequently links a number of fixtures to the distribution system and simply using the number of devices may overstate the number of physical connections to the distributor's system. Therefore, where better information is available, distributors must

apply a connection factor to the number of streetlight fixtures for the purpose of determining the customer allocation factor"

Based on the above, the steps taken Kitchener-Wilmot Hydro and Kingston Hydro to improve the street lighting ratio is an acceptable practise. **However, CHEC would suggest a detailed explanation with examples on how to use this feature should be included in the enhanced documentation for the cost allocation model. The enhanced documentation could be included in the separate sheet which Elenchus is recommending be included in the cost allocation model with regards to default weighting factors for services and billing.**

To assist the Board in its review of cost allocation for the street lighting class, CHEC has prepared the following table. For each LDC listed the table shows information from the cost allocation study used as the starting point to move the revenue to cost for the street lighting class.

LDC - CHEC Members	# of Customer from CA	Street Light Connections from CA	% Street Light Connections to Customers	Street Light R:C Ratio - Starting Point
Centre Wellington Hydro Ltd.	6,015	1,568	26.1%	10.6%
COLLUS Power Corp	13,614	2,715	19.9%	15.5%
West Coast Huron Energy Inc. – Goderich Hydro	3,758	680	18.1%	27.8%
Innisfil Hydro Distribution Systems Limited	13,689	2,309	16.9%	9.4%
Lakefront Utilities Inc.	8,605	2,693	31.3%	14.4%
Lakeland Power Distribution Ltd.	8,943	2,058	23.0%	16.9%
Midland Power Utility Corporation	6,446	1,469	22.8%	23.5%
Orangeville Hydro Limited	11,258	1,524	13.5%	7.3%
Parry Sound Power Corporation	3,231	1,004	31.1%	13.6%
Rideau St. Lawrence Distribution Inc.	5,690	1,635	28.7%	41.6%
Wasaga Distribution Inc.	10,067	2,134	21.2%	6.0%
Wellington North Power Inc.	3,336	942	28.2%	9.1%
Other LDCs				
Atikokan Hydro Inc.	1,745	618	35.4%	22.8%
Brantford Power Inc.	36,907	10,056	27.2%	14.8%
Burlington Hydro Inc.	64,730	1,581	2.4%	15.1%

Cambridge and North Dumfries Hydro Inc.	50,553	6,613	13.1%	13.7%
Chapleau Public Utilities Corporation	1,359	341	25.1%	17.4%
Enersource Hydro Mississauga	175,316	10,240	5.8%	25.2%
Festival Hydro Inc.	18,760	1,146	6.1%	28.6%
Halton Hills Hydro Inc.	18,323	3,944	21.5%	15.1%
Hydro One Brampton	133,217	19,310	14.5%	20.1%
Hydro One Networks Inc.	1,177,552	5,561	0.5%	60.0%
Kenora Hydro Electric Corporation Ltd	5,835	550	9.4%	56.2%
Kingston Electricity Distribution Limited (Connections divided by 10)	27,142	516	1.9%	82.4%
Kitchener-Wilmot Hydro Inc. (Original)	87,448	22,777	26.0%	26.2%
Kitchener-Wilmot Hydro Inc. (2010 using relay/service entrance switches)	87,448	1,585	1.8%	127.3%
London Hydro Inc	137,240	14,037	10.2%	16.9%
Milton Hydro Distribution Inc	30,459	2,895	9.5%	12.8%
Newmarket Hydro Ltd.	25,718	6,599	25.7%	9.0%
North Bay Hydro Distribution Limited	23,820	5,459	22.9%	14.8%
Niagara-on-the-Lake Hydro Inc.	7,312	884	12.1%	14.9%
Oakville Hydro Electricity Distribution Inc.	54,268	15,062	27.8%	12.0%
Orillia Power Distribution Corporation	12,080	3,487	28.9%	20.8%
Oshawa PUC Networks Inc.	48,753	10,076	20.7%	23.2%
PowerStream Inc.	211,423	10,690	5.1%	54.4%
Toronto Hydro-Electric System Limited	675,521	113,377	16.8%	10.4%
Thunder Bay Hydro Electricity Distribution Inc.	49,152	12,769	26.0%	13.5%
Welland Hydro-Electric Systems Corp.	21,003	6,495	30.9%	11.9%
Whitby Hydro Electric Corp.	34,855	10,228	29.3%	23.7%
Woodstock Hydro Services Inc.	15,156	2,509	16.6%	24.6%

A review of the results of the above table indicate that the starting point revenue to cost ratio for street lighting are typically in the range of 10% to 25%. With regards to Kitchener-Wilmot Hydro and Kingston Hydro the starting point ratios reflect the discussion above. However in the case of Hydro One Networks ("Hydro One") it is not entirely clear how Hydro One defines the number of connections for street lighting in their cost allocation model. They have 5,561 connections in their model with about 1.2 million customers. The percentage of street lighting connections to the total number of customers is 0.5%. In the North Bay Hydro case, they also have around 5,500 connections in their cost allocation model but they only have about 24,000 customers

and the percentage of street lighting connections to the total number of customers is 23% which is the typical percentage for LDCs across the province. The resulting revenue to cost ratio for Hydro One is 60% while North Bay Hydro's is 14.8%. Based on the Board's acceptable revenue to cost ratio of 70% to 120% for street lighting, Hydro One only needs to increase their street lighting rates by 17% (i.e. $70/60 - 1$) to be within the Board's range but North Bay Hydro will need to increase street lighting rates by 373% (i.e. $70/14.8 - 1$) to be within the range.

In a response to an interrogatory from Rogers Cable in EB-2009-0096, Hydro One states that Street Light and Sentinel Lights account can have multiple connections while USL is one account per connection. CHEC is concerned that Hydro One is using number of Street Lighting accounts in their cost allocation model and not number of connections. **If this is the case, CHEC submits this would be a unfair treatment of cost allocation for street lighting between Hydro One and other LDCs in the province. With this review of the cost allocation policy the Board should ensure a consistent approach should be used for all LDCs**

Treatment of Transformer Ownership Allowance

Elenchus Recommendation:

The Board should modify the cost allocation model to ensure that only the customer classes that include customers providing their own transformation are included in the determination of the TOA.

CHEC comments:

As per the current filing requirements for cost of service rate applications, the Board has directed applicants to exclude 'costs' and 'revenues' associated with transformer allowance from the cost allocation model. This approach correctly determines the revenue to cost ratios net (i.e. after TA is applied) of the transformer allowance. Therefore, no change to the cost allocation model is needed to determine the appropriate revenue to cost ratios.

In CHEC's experience, the collection of transformer allowance from the appropriate class has been addressed in rate design for those cost of service applications CHEC has been involved with since 2008. As a result, no change is needed to the cost allocation model to address any issue with transformation allowance.

Allocation of Miscellaneous Revenues

Elenchus Recommendation:

The major components included in Miscellaneous revenues should be identified and allocated to customer classes in a way that corresponds 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.

CHEC comments:

To allocate miscellaneous revenues to rate classes in manner similar to the allocation of the corresponding costs is not doable as the cost detail associated with such items as late payment charges, account set-up charges and collection of account charge is not available.

CHEC has no problem with the remaining miscellaneous revenues being allocated to the customer classes in the same proportion as composite OM&A but an analysis should be completed to determine whether this change would have a material impact on the revenue to cost ratios. If a material impact does not occur then no change should be made.

Miscellaneous revenues and related costs are currently included in the determination of revenue to cost ratios in the cost allocation model.

Weighting Factors for Services and Billing Costs

Elenchus Recommendation

A separate input sheet should be developed that would include the default weighting factors. It should explain the reasons behind the different weighting factors and give distributors the option of substituting their own values for the default values, if appropriate

CHEC comments:

The Elenchus recommendation appears to be a reasonable approach as additional documentation would be helpful.

Allocation of Host Distributors Costs to Embedded Distributors

Elenchus Recommendation:

Host distributors should continue to use Schedule 10.7 of the 2006 EDR Handbook and this schedule should be incorporated into the cost allocation model. The Board should establish thresholds above which host distributors would be required to set separate charges for embedded distributors. The recommended thresholds are:

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

CHEC comments:

It is CHEC's understanding that Schedule 10.7 of the 2006 EDR Handbook was revised and enhanced in EB-2007-0900 - Cambridge and North Dumfries Hydro 2008 IRM Rate Application which was approved by the Board. This revision takes into consideration costs that were not in the original Schedule 10.7. CHEC suggest the revised Schedule 10.7 could be used for allocation of host distributors costs to embedded distributors

Allocation of Costs to Load Displacement Generation

Elenchus Recommendation:

Standby charges should be established for new load displacement generation above a certain size, for example 500 kW. The costs attributable to customers with load displacement generation should be determined by undertaking a specific customer avoided costs analysis. 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. For example, the Board could choose, based on its own judgement, a 5% reduction in 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.

CHEC comments:

If this approach is adopted a detail explanation with good examples should be provided to show how to conduct a specific customer avoided costs analysis and incorporate the results of the analysis in the cost allocation model. In addition, if default avoided cost values are used the source of the default values should be established by the Board.

Refine the three widest Revenue to Cost Target Ranges

Elenchus Recommendation:

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 lighting and sentinel lighting customer classes, the bottom range should be increased gradually over 3 to 4 years when distributors apply for rebasing, 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.

CHEC comments:

CHEC agrees that 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.

With regards to Street Lighting and Sentinel Lighting, it is CHEC's opinion that each LDC should be given the opportunity to revise its cost allocation model by investigating the possibility of changing the number of connections for Street Lighting and Sentinel Lighting consistent with the approach used by Kitchener-Wilmot Hydro and Kingston Hydro. In the case of Kitchener-Wilmot Hydro, this approach changed the revenue to cost ratio for Street Lighting from 26.2% to 127.3%. If this same approach is applied across the province and the revenue cost ratio for Street Lighting typically moves above 100% then in CHEC's view this could impact the Board's view on what would be the appropriate range for Street Lighting. Since a LDC will not be able to update their cost allocation studies until the next time the LDC submits a cost of service application the Board will not know the impact of the potential change in number of connections. As a result, CHEC suggest the Board's target range for Street Lighting and Sentinel Lighting should not change at this time until the Board has better information on the revenue to cost ratio for Street Lighting and Sentinel Lighting.

In addition, CHEC suggest that a LDC should be given the option of providing evidence within an IRM application that shows the impact on the revenue to cost ratio assuming a change in the number of connections for a particular class can be justified. If this change would put the current revenue to cost ratio within the Board's range then the LDC should have the option to seek approval from the Board to stop any additional changes to the revenue to cost ratio until the next cost of service rate application. In other words it would not be prudent to increase rates for a particular class when the evidence which supported an increase, changes and shows rates should decrease or at least stay the same.

Address accounting changes and the transition to IFRS

Elenchus Recommendation:

There is no demonstrated 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.

CHEC comments:

CHEC agrees there is no demonstrated need to modify the cost allocation model to address the accounting reporting changes. However, if new accounts are added in the cost allocation model the Board may want to include some dummy accounts for future use.