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Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

Re: EB-2010-0219 - Review of Electricity Distribution Cost Allocation Policy - Written Comments of the London Property Management Association

In the September 2, 2010 letter to interested parties the Board indicated that it was initiating a consultative process to review its electricity distribution cost allocation policy and revise it as required. The Board limited the scope of the review with the potential for a more comprehensive review to be undertaken in the future.

In particular, the Board limited the issues to the creation of the microFIT rate class, the refinement of specific components of the existing cost allocation methodology, options for allocating costs to load displacement generation, refining the three widest revenue to cost target ranges and to address accounting changes and the transition to IFRS.

The Board retained the services of Elenchus Research Associates, Inc. ("Elenchus") to prepare a report that included options and recommendations on the issues noted above. The Elenchus Report was posted on the Board's website on October 20, 2010 and participants were encouraged to send written questions on the report to the Board by November 4, 2010. A stakeholder meeting was held on November 18, 2010 at which participants had an opportunity to discuss the content of the Elenchus Report.

The following comments on behalf of the London Property Management Association ("LPMA") are based on the headings related to the issues as identified in the Elenchus Report.

<u>Creation of MicroFIT Rate Class</u>

Elenchus recommends that a separate microFIT rate class should not be created in the cost allocation model. Elenchus also recommends that the model should continue to use the currently identified USoA accounts to establish a uniform provincial fixed rate for microFIT. In addition each distributor should be allowed to establish its own microFIT rate to better reflect cost causality for each distributor.

LPMA agrees with the recommendation to continue to use the currently identified USoA accounts in the establishment of the microFIT rate. The Board has recently reviewed which accounts are appropriate for the inclusion in the costs allocated to this rate class and there has not been sufficient time that has elapsed to allow distributors to gain more experience or a better understanding of the costs incurred to serve these customers.

LPMA does, however, disagree with the recommendation that a separate microFIT rate class should not be created in the cost allocation model. LPMA notes that it is recommended that each distributor should be allowed to establish its own microFIT rate to better reflect cost causality in its specific circumstances. LPMA believes that this would be best accomplished if there was a separate rate class for microFIT in the cost allocation model that could be used consistently by distributors if they decide to apply for their own specific rate.

With respect to allowing each distributor to establish their own microFIT rate, LPMA believes that this would be appropriate in that it allows each distributor to reflect its own unique cost causality. However, the Board may want to defer this ability by individual distributors for a number of years until all distributors have more experience in the connection of microFIT generators and identifying the associated costs.

In addition, LPMA notes that the current microFIT rate is based on a weighted average of the most current cost experiences of the distributors. If some of the distributors with a relatively large percentage of the microFIT customers in the province opt to establish their own specific rate for these customers, then the rate for the remaining customers across the province should reflect the removal of the costs from these distributors. This could cause significant volatility in the provincial microFIT rate if, for example, Hydro One were to establish their own rate and be removed from the pool of the remaining distributors.

Cost Allocation to Unmetered Load

The Elenchus Report recommends that a separate sheet should be added to the cost allocation model that will include the default values used for these types of customers. This would also give distributors the option of using their own values in place of the default values with descriptions of how the default values were developed.

LPMA supports this addition to the cost allocation model. There appears to be substantial confusion and differences across distributors in the use of or calculation of the services weighting factor as well as in the differences in the billing weighting factors. The addition of a separate sheet that shows the calculation of the default values and clearly indicates to distributors the option of using their own values in place of the default values should lead to more consistency across the province and reduce any subsidization between the USL class and other customers.

The Elenchus Report also recommends that for distributors that do not have a separate class for USL, the distributor should required to demonstrate that the revenue to cost ratio for these types of customers would still be within the Board's recommended range. The report indicates that there is no need to force distributors that do not have a USL class to add this as an additional customer class as long as the rate design properly reflects a credit to USL customers for the non-provision of metering services. LPMA disagrees.

LPMA submits that a separate USL rate class should be created in those distributors that currently do not have one. This approach is more transparent than including the USL customers in the GS < 50 kW class, calculating the appropriate credit to the appropriate subset of GS < 50 kW customers while at the same time ensuring that the revenue to cost ratios for this subset of customers falls within the Board's recommended range for the USL rate class.

Treatment of Transformer Ownership Allowance

Elenchus recommends that the cost allocation model should be modified to ensure that only the customer classes that include customers providing their own transformation are included in the transformer ownership allowance. LPMA supports this recommendation based on cost causality. The current model treats the transformer ownership allowance as a cost, but allocates it to all customer classes, including classes that do not contribute to the cost of the transformer ownership allowance. The recommended approach will correct this and will allocate the costs generated within a rate class to all customers within that rate class.

LPMA believes that the provision of simpler instructions, including a numerical example, would be useful to both distributors and intervenors in better understanding and applying this aspect of the cost allocation model.

Allocation of Miscellaneous Revenues

The Elenchus Report recommends that the major components of 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 would then be allocated to the customer classes in the same proportion as composite OM&A.

LPMA supports this recommendation, but as an interim measure in the evolution of the allocation of miscellaneous revenues. LPMA believes that the end state for electricity allocation of miscellaneous revenues should be similar to that currently in place for the natural gas industry. As a major step in that evolution the Elenchus recommendation results in a similar treatment for the major components of miscellaneous revenues.

The Elenchus Report also recommends that miscellaneous revenues and the related costs should be included in the determination of the revenue to cost ratios within the cost allocation model. LPMA strongly agrees with this recommendation. The current model includes the costs incurred to obtain the miscellaneous revenues as part of the overall revenue requirement. These costs are, therefore, included in the revenue to cost ratio calculations. However, the miscellaneous revenues are not included on the revenue side of the revenue to cost ratio calculations. Fixing the model so that both revenues and costs associated with the miscellaneous revenues are included in the revenue to cost ratios will be an improvement.

Weighting Factors for Services and Billing Costs

The issue related to weighting factors for services and billing costs is that distributors may not be properly applying these factors in the cost allocation studies model submitted to the OEB. This would result in costs not being properly allocated to customer classes.

Elenchus has indicated that some distributors are not aware that they have the option to apply customized weighting factors in the allocation of service and billing costs in place of the default values.

Elenchus is recommending that a separate input sheet that would allow users to apply their own weighting factors when allocating service and billing costs. LPMA supports the ability of distributors to substitute their own values for the default values, provided that adequate justification is provided. This would ensure that each distributor would be free to reflect their own unique cost causality circumstances.

LPMA recommends that in addition to the Elenchus recommendation, the separate input sheet should contain instructions for distributors on how to substitute the default values with values that are more reflective of their own circumstances. This would be similar to the recommendation related to unmetered loads.

Allocation of Host Distributors Costs to Embedded Distributors

The Elenchus Report recommends that Schedule 10.7 of the 2006 EDR Handbook continue to be used to determine the percentage of assets that are bulk. This percentage would then be applied to sheet I9 of the cost allocation model to allocate the USoA accounts to a new customer class for embedded distributors.

LPMA supports this approach. However, Elenchus has also recommended that in situations where an embedded distributor is below a certain threshold, the Board could allow the host distributor to continue to classify the embedded distributor as a General Service customer. In particular, Elenchus recommends that the threshold above which host distributors would be required to establish separate charges for embedded distributors be based on two criteria. The criteria are that the embedded distributor represents more than 10% of the host distributor's total volume sales or the embedded distributor is larger than 500 kW average demand per month. Further, these thresholds would apply per embedded distributor delivery point rather than with respect to the embedded distributor's total load.

LPMA does not believe that creation of an a artificial threshold for delivery points is appropriate. The Board should move the cost allocation for embedded distributors, regardless of size, to a methodology more in line with the historical practices in the natural gas industry.

Elenchus claims that creating a separate class that includes larger embedded distributors is a similar treatment of embedded distributors as it is done in the gas industry where contracts are signed instead. LPMA submits that the issue of contracts in the gas industry are irrelevant. In response to questions posed by LPMA, Elenchus indicated that there is no significance with respect to cost allocation or separate rate classes for embedded distributors of signed contracts and that contracts with larger customers is a standard practice in the gas industry. Elenchus further acknowledged that Union Gas has a non-contract rate class for small embedded distributors.

LPMA believes that a separate rate class should be established for embedded distributors currently served in the GW > 50 kW rate class. This is an existing break point for General Service customers.

Further analysis should be undertaken to determine what OM&A costs should be allocated to the embedded distributor class. Elenchus noted that it had not done any research on what costs that are currently allocated to embedded distributors as part of the General Service classes may not be allocated to them if they had their own rate class. These costs could include bad debt expense, collection expenses, call center operations and CDM expenditures.

LPMA further notes that Elenchus did not do any research on the number of embedded distributors that would qualify for a separate rate class based on its recommended thresholds or how many would not qualify for the separate rate class. LPMA submits that the Board should undertake to obtain information on the number and the associated load of the embedded distributor delivery points. This information would be useful in determining whether any thresholds that are proposed.

In summary, LPMA believes that embedded distributors should be dealt with in a manner similar to their treatment in the natural gas industry. That is, regardless of size, the appropriate costs are allocated to these customers. The design of rates, which is outside of this process, may be different based on the size of the customer, as it is in the natural gas industry. The key issue is that costs should be allocated to these customers on the basis of cost causality. Costs driven by these customers should be allocated to them. Similarly costs that are not incurred to serve these customers should not be recovered from these customers. This may be the situation when the embedded distributors remain in the General Service class rather than being placed in their own specific class.

Allocation of Costs to Load Displacement Generation

LPMA submits that the key principle in determining standby rates is that of cost causality. Standby customers should be responsible for the costs they impose on the distribution system. Other distribution customers should not subsidizing customers that have their own generation behind their meter.

LPMA supports the Elenchus recommendation that Option #3 from their report be approved for the time being. LPMA believes that the Board should initiate a more comprehensive review of standby rates that encompasses cost allocation and rate design options, along with a review of the types of service being offered in other jurisdictions. This review would look at issues such as firm or interruptible service, contracted demand levels versus generation capacity and system planning implications of different scenarios.

LPMA does not believe the Board has sufficient information available to it at the present time to determine a final approach for cost allocation to standby customers. The Elenchus recommendation would provide an interim approach until such time as a more comprehensive review can be completed.

As noted in the Elenchus Report, there is a wide divergence of opinions on what costs should be allocated to standby customers. These opinions range from nothing to the same amount that would be allocated if the generation did not exist. LPMA suggests the appropriate amount is somewhere in between these extremes. Based on the information currently available to the Board and other participants in this process, it is not clear that the Board could estimate with any degree of accuracy where this amount lies along the spectrum of costs to be allocated to this class of customer.

Refinement of the Three Widest Target Ranges

Three customer classes currently have OEB recommended revenue to cost ratio ranges that are wider than the recommended revenue to cost ratio ranges for the other customer classes. These three classes are General Service > 50 kW, Street Lights and Sentinel

Lights. The current revenue to cost range for the General Service > 50 kW is 0.8 to 1.80, while the range for the Sentinel Lights and Street Lights is 0.7 to 1.20.

LPMA recommends that the approved revenue to cost ratio range for the Street Lighting and Sentinel Lighting classes be narrowed from 0.7 to 1.20 to 0.8 to 1.20, as recommended by Elenchus. The Elenchus recommendation also suggests that the increase in the level of the bottom of the range should be increased gradually over 3 to 4 years. LPMA believes that this recommendation should be modified to increase the bottom of the range to a phase in period that is a maximum of 3 or 4 years. The increase for each individual distributor should be based on increasing the revenue to cost ratio for these classes by the maximum amount possible each year while limiting the total bill impact to a specified level, such as 10% per year.

With respect to the General Service > 50 kW class, Elenchus recommends that the top of the revenue to cost ratio range should be reduced from 1.80 to 1.40. There would be no phase in for this reduction.

LPMA supports this recommendation with two modifications. First, the reduction from 1.80 to 1.40 in one step should be approved only in circumstances where the impact on the other rate classes does not result in an increase on a total bill impact basis of more than 10%. If the reduction in revenues from the General Service > 50 kW class results in an increase in another rate class that has a revenue to cost ratio of less than 1.0 of more than 10%, then LPMA submits that the change should be phased in over a number of years.

The second modification recommended by LPMA relates to the movement in the top of the range from 1.80 to 1.40. LPMA assumes that this change would be implemented in the next cost of service rebasing for each distributor (and phased in over the following IRM years, if necessary). LPMA believes that the Board should take a further step and indicate that the top of the range will be reduced to 1.20 in the second cost of service rebasing application following the change in the Board approved range for the General

Service > 50 kW rate class. This would ensure that this rate class is moved to the same range as would be in place for other rate classes.

Accounting Changes and the Transition to IFRS

The Elenchus Report did not identify any need to modify the cost allocation model to address accounting report changes. The report lists a number of variance and deferral accounts that should be added to the cost allocation model, but Elenchus has also indicated that these accounts should not be included in the allocation of the revenue requirement, since these accounts to not form part of the revenue requirement.

LPMA sees no need at this time to adjust the cost allocation model for potential IFRS related impacts. Until the IFRS rules are known with certainty, any changes would be based on speculation. LPMA also sees no need to add the accounts identified in Appendix A to the cost allocation model since they are not included in the revenue requirement.

Sincerely,

Randy Aiken

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