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Thursday, December 2, 2010

Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON
M4P 1E4

Attention: Kristen Walli, Board Secretary

Dear Ms. Walli:

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

Pursuant to the letter dated September 2, 2010, attached are North Bay Hydro Distribution Ltd.'s comments in regards to the Elenchus report issued October 15, 2010 entitled "Cost Allocation Policy Review: Options and Preferred Alternatives".

Yours truly,

Original signed by

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North Bay Hydro Distribution Ltd. (NBHDL) has reviewed the report prepared by Elenchus Research Associates Inc. (ERA) entitled “Cost Allocation Policy Review: Options and Preferred Alternatives” (Report) and attended the stakeholder meeting November 18, 2010.

In accordance with the letter dated October 20, 2010, NBHDL has organized the following comments in the order of the Report.

Unmetered Loads

Further to the recommendation within the Report, NBHDL believes that the Board should include clear and concise definitions of how default values are to be determined; specifically, the Board should define the term “connection” and how an LDC is to apply this. The number of connections is a major contributor to the amount of costs attached to the Street Light class and has a significant impact on rates. There appears to be an inconsistent approach to the interpretation of the current definition of connection and unambiguous instruction on how to determine this value will allow for consistency and fairness across all LDCs. For NBHDL, this definition becomes even more critical with the development of the underground system and the way Street Lights are connected to the distribution system when compared to the overhead system.

In addition, the Board should provide guidance as to how an LDC is to approach any changes that may arise through the clarification of these definitions. It is conceivable that the unmetered load classes may incur significantly less costs with a more refined definition of connection; it may be prudent to freeze additional revenue:cost ratio adjustments until an LDC enters its next Cost of Service application, at which time cost allocation would be reviewed and adjusted accordingly.

Transformation Ownership Allowance (TOA)

It is the understanding of NBHDL that the TOA is already addressed through rate design for the applicable classes and as such it is not clear what the benefit or purpose of handling this through cost allocation is.

Allocation of Miscellaneous Revenues

It is the understanding of NBHDL that Miscellaneous Revenues are already handled in the cost allocation model. In addition, NBHDL questions whether refining the way these revenues are allocated would have a material impact on cost allocation among the classes.

NBHDL does not have the information available to appropriately allocate the revenues as suggested by ERA; these activities are not tracked by class by the Customer Service department or in an easily accessible manner through the billing system. To implement such tracking would

require proper planning and cost considerations as well as potential changes to the billing system for reporting purposes. The benefits of such an undertaking must outweigh the costs and it is not clear in the Report that this is the case.

NBHDL believes that the way Miscellaneous Revenues are currently treated in cost allocation is appropriate.

Weighting Factors for Services and Billing Costs

NBHDL's primary concern with regards to weighting factors is the Street Light class. NBHDL believes that each class of customers should be responsible for their costs; however, it must be recognized that the distribution system was not developed strictly for Street Lights and there are very little incremental costs to attach Street Lights to the system. For example, with regards to Services, to attach a weighting factor similar to the Residential class assumes that the Street Light class utilizes the same level of Services capital which may not be the reality.

Based on this principle, allowing LDCs to assign different weighting factors where suitable is an appropriate recommendation. NBHDL believes that there should be clear explanations of how these default values were determined and provide direction as to how the default values can be changed. The Board should also provide clear direction as to what information would be required in order to substantiate any changes to the weighting factors.

Allocation of Host Distributors Costs to Embedded Distributors

It is the view of NBHDL that the suggested thresholds recommended by the Report should initiate a review of the embedded distributor to determine if there are unique characteristics, along with a material difference in costs, which would justify a separate rate class. The recommendation that host distributors be required to set separate charges, with the only stipulation being a threshold test, does not take into account that in some instances an embedded distributor has commonality with the class that it is in. Immaterial cost differences may not justify setting up a new rate class.

NBHDL believes that the Board should provide clear instructions that would guide a utility in determining the costs of an embedded distributor.

Allocation of Costs to Load Displacement Generation

Encouraging load displacement generation is a provincial initiative. Customers installing load displacement generation might have facilities serviced by different LDCs. On this basis, NBHDL believes it would be prudent to provide clear direction as to how an LDC should conduct a customer specific analysis. The instructions should provide a methodology that can be applied

consistently that enables the calculation of a stand-by charge. The Board should also provide direction on how to utilize standard default values, if an LDC chooses this option.

As a general comment, NBHDL feels that a policy that is driving such a significant component of rate-making should be of sufficient clarity that it is interpreted consistently by all users. There should not be a wide discrepancy amongst LDCs in how costs are allocated amongst rate classes and the methodology to do so.

NBHDL looks forward to the Board's next steps with regards to the consultation and fully supports the integrated approach the Board has taken in determining potential revisions to the policy.