December 2, 2010

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

RE: CLD Submission on the Review of Electricity Cost Allocation Policy, Board File No.: EB-2010-0219

Dear Ms. Walli:

On September 2, 2010, the Ontario Energy Board (the "Board") initiated a consultation to review specific elements of its electricity distribution cost allocation policy and revise it as required (the "Review"). On October 20, 2010, the Board posted for comment a report prepared by Elenchus Research Associates, Inc. ("Elenchus") entitled "Cost Allocation Policy Review: Options and Preferred Alternatives" (the "Report"), which provides background information and sets out options identified and recommendations made by Elenchus on the matters in scope for the Review. On November 18, 2010, the Board held a stakeholder conference where participants had an opportunity to engage with representatives of Elenchus regarding the content of their Report.

The Coalition of Large Distributors ("CLD") comprises Enersource Hydro Mississauga Inc., Horizon Utilities Corporation, Hydro Ottawa, PowerStream, Toronto Hydro-Electric System Limited, and Veridian Connections and appreciates this opportunity to provide input into this important initiative. The CLD is supportive of the desire to improve the cost allocation model, particularly with reference to the ongoing goal of better aligning costs and revenues for each of the customer classes. Such may involve an ongoing evaluation of the customer categories, including consideration of the introduction of a Super Large User class (>20MW). However, it is important to distinguish between making changes to cost allocation and venturing into the area of rate design. The CLD believes that this has happened in several of Elenchus' recommendations and would suggest that this consultation is not the appropriate place for this to occur. Details of this concern will be provided below under the appropriate recommendation.

In addition, the CLD urges the Board to ensure that there is a balance between the amount of effort required by Local Distribution Companies ("LDCs") to meet the final approved changes and the resulting impact on the revenue to cost ratios. In some cases the data is not available or the work required to obtain the data in the required format is not worth the resulting refinement in the ratios. For all CLD members, distribution revenue from customers' classes other than Residential, General Service and Large Use represents less than 5% of the total distribution revenue.

The CLD's comments are provided below for each of Elenchus' nine areas of review:

1. *Creation of MicroFIT Rate Class*

Elenchus has recommended that 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. The CLD is supportive of this recommendation but notes that as there is no class to which to allocate the revenue from the fixed rate for microFIT, it will be treated as Miscellaneous Revenue and therefore would fall under the recommendation in part 4 below.

2. *Cost Allocation to Unmetered Scattered Load ("USL")*

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

3. *Treatment of Transformer Ownership Allowance ("TOA")*

The CLD supports the recommendation that 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. Any change in the model should be consistent with the current methodology of adjusting for TOA and should not result in large swings in the revenue to cost ratios.

4. *Allocation of Miscellaneous Revenues*

Elenchus has recommended that 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. The CLD is concerned that the data required in determining the specific costs related to collecting the Late Payment charges, the account setup and change of occupancy charge, specific charge for access to poles and collection of account charge are not kept by LDCs and the work required to determine these costs would not justify added allocation precision. Therefore, the CLD recommends that no changes be made to the cost allocation with respect to the allocation of Miscellaneous Revenues.

The CLD notes that the Elenchus Report mistakenly states that Late Payment charges are allocated based on historical bad debt expense information, when in fact they are allocated on the basis of the three year historical average of late payment charges.

5. *Weighting Factors for Services and Billing Costs*

The CLD supports Elenchus' recommendation that 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.

6. *Allocation of Host Distributors Costs to Embedded Distributors*

The CLD supports Elenchus recommendation that 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 run the analysis to determine whether or not separate charges for embedded distributors should be set. The recommended thresholds are:
1. If the embedded distributor represents more than 10% of the host distributor's total volume sales, or
2. If the embedded distributor is larger than 500 kW average demand per month. Note that there is a proceeding (EB-2007-0900) that updates Schedule 10.7.

7. *Allocation of Costs to Load Displacement Generation*

Elenchus has recommended that 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 judgment, 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.

The CLD feels that this recommendation strays from cost allocation into rate design. Furthermore the CLD does not support an arbitrary reduction in allocated costs as a proxy for 'benefits' that have not been demonstrated or quantified. Therefore the CLD does not support the Elenchus recommendations and suggests that, with respect to Standby charges, the cost allocation model should not be changed at this time. These issues would be better addressed by way of the consultation on the rate design for Embedded Generation which the CLD recommends be re-convened by the Board.
If the Board directs LDCs to establish Standby rates based on Elenchus' recommended methodology, the CLD would emphasize that these rates would be for new load displacement generation only.

8. *Refine the three widest Target Ranges, which are associated with the following rate classes: General Service 50 to 4,999 kW, Street Lighting, and Sentinel Lighting*

At this time, the CLD supports the recommendation that for the General Service class 50 kW to 4,999 kW, the top range should be reduced to 1.40 from 1.80 and for street lighting, the bottom range should be increased gradually over three to four years as distributors apply for rebasing, to match the bottom range of the General Service less than 50 kW class of 0.80, in principle. LDCs may need to perform further analysis to better appreciate the impacts on the particular customer classes.

The CLD notes that when one class' revenue to cost ratio is reduced, then the revenue foregone from that class must be realized from another class as the total amount of the distribution revenue requirement does not change. The inevitable result of this recommendation is that the Residential, GS < 50kW and Large Use classes rates may rise for those LDCs that must adjust the ratio of the GS 50 to 4,999 kW classes.

For the sentinel lighting class, the CLD suggests that this is a legacy class and as some LDCs are phasing out this class, changes to the cost allocation model with respect to this class are not warranted at this time.

9. *Address accounting changes and the transition to IFRS*

Elenchus states that there is no demonstrated need to modify the cost allocation model to address the accounting reporting changes as a result of IFRS. However, there may be new accounts created as a result of IFRS which would have to be allocated in the cost allocation module. Many costs that are currently recorded by most distributors within capitalized overheads may be disallowed for capitalization purposes under IFRS. Currently the Accounting Procedure Handbook is silent or not prescriptive on the treatment of these costs. These include items such as engineering supervision, employee training and other indirect employee benefits and procurement costs related to inventory and stores items. The CLD suggests that this may be the appropriate time for the Board to provide direction to distributors on the accounting treatment of these costs to ensure consistent treatment by utilities and for Elenchus to provide recommendations on the appropriate treatment within the Cost Allocation model.

Elenchus recommended that the accounts identified in Attachment A of the Report should be added to the cost allocation model. The CLD notes that these accounts would only be added to the model for information purposes and would not be allocated as they are not related to distribution revenue. Adding them to the model may cause unneeded confusion.

In conclusion, the CLD emphasizes the importance of having a working cost allocation model available for 2012 cost of service rate filers. For distributors that file for January 1, 2012 rates, this means that the model must be available by February 15, 2011.

Please contact the undersigned if you have any further questions on this submission.

Yours truly,

Original signed by:

Jane Scott
A/Director, Regulatory Affairs
Hydro Ottawa
613-738-5499 ext. 7499
janescott@hydroottawa.com

On behalf of:

Gia M. DeJulio
Enersource Hydro Mississauga Inc.
(905) 283-4098
gdejulio@enersource.com

Indy J. Butany-DeSouza
Horizon Utilities Corporation
(905) 317-4765
Indy.Butany@horizonutilities.com

Jane Scott
Hydro Ottawa
(613) 738-5499 X7499
janescott@hydroottawa.com

Colin Macdonald
PowerStream Inc.
(905) 532-4649
colin.macdonald@powerstream.ca

Colin McLorg
Toronto Hydro-Electric System Limited
(416) 542-2513
regulatoryaffairs@torontohydro.com

George Armstrong
Veridian Connections Inc.
(905) 427-9870 x2202
garmstrong@veridian.on.ca