OAKVILLE

December 1, 2010

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

Dear Board Secretary:

Subject: Review of Electricity Distribution Cost Allocation Policy
OEB File No: EB-2010-0219

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 16, 2010, Oakville sent a letter to the Board Secretary outlining its intent to participate in the consultation process.

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 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) Refining the three widest Revenue to Cost Target Ranges
i) Address accounting changes and the transition to IFRS

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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. Oakville attended the stakeholder meeting and the comments outlined below are based upon the discussions at the meeting.

Oakville will be only making comments on Cost Allocation to Unmetered Load and Refining the three widest Revenue to Cost Target Ranges as it relates to Street Lighting.

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 (Unmetered Scattered Loads), 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.

Oakville comments:

Oakville fully supports the position of CHEC (Cornerstone Hydro Electric Concepts) on this item which is summarized as follows.

a)Each LDC (Local Distribution Company) should investigate the possibility of using the same approach used by Kitchener-Wilmot Hydro and Kingston Hydro to define the number of connections based on the relay/service entrance switches and/or daisy chain connections. 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.

b)A fair treatment of cost allocation for street lights between Hydro One and other LDCs in the province should occur. With this review of the cost allocation policy the Board should ensure a consistent approach should be used for all LDCs

In addition, Oakville is aware that in some cases, in a development area of residential and/or commercial customers there could be only one or a very few number of connections from the distribution system to the street lighting system within the development. The street lighting system within the development area could be owned by the town which means there are no distribution assets supporting the street lighting system within the development. It is Oakville's understanding that this typically occurs in underground systems in developed urban areas and should be recognized in the cost allocation model.

The practice of having many devices attached to one connection is also consistent with the approach taken with traffic lights. In Oakville, there are a number of cases where 6 to 20 sets of signal lights have one circuit connection. Oakville is charged for power and delivery services at this one connection point and it is Oakville's understanding that this one connection point is used in the cost allocation model.

Refining 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.

Oakville comments:

Oakville also agrees with CHEC's position on this item as it relates to Street Lighting in 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 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 similar results occur with other LDCs then this could impact the Board's view on what would be the appropriate revenue to cost ratio range for Street Lighting. As a result, Oakville suggests the Board's target range for Street Lighting should not change at this time until the Board has better information on the revenue to cost ratio for Street Lighting when the approached used by Kitchener-Wilmot Hydro and Kingston Hydro is applied more generally across the province.

In addition, Oakville suggests that a LDC should be given the option of providing evidence within an IRM (Incentive Rate Mechanism) application that shows the impact on the revenue to cost ratio for Street Lighting assuming a change in the number of connections can be justified. If this change would put the current Street Lighting revenue to cost ratio within the Board's range then the Board should stop any additional changes to the revenue to cost ratio until the next cost of service rate application. In other words, it does not make sense to

Oakville to increase Street Lighting rates when the evidence which supported the increase could change and then a decrease in rates might be needed.

Oakville appreciates the opportunity to participate in this consultation process as it has provided Oakville with a better understanding of the regulatory process in which distribution rates are approved by the Board. Oakville now understands that it missed an opportunity to participate in the review process of Oakville Hydro's 2010 rate application where the schedule to substantially increase Street Lighting rates in 2010, 2011 and 2012 was established. Oakville is concerned with the increase of over 450% in distribution rates for Street Lighting in Oakville over a 3 year period which Oakville understands was justified based on the results of a cost allocation study that assumed each streetlight device was a connection. Oakville would suggest that further study should be conducted in Oakville and across the province to confirm the number of Street Lighting connections assumed in the cost allocation study. As a result, Oakville strongly suggests that the Board consider establishing a moratorium on any future changes to the revenue to cost ratio for Street Lighting until a cost allocation study is conducted that includes the true number of Street Lighting connections.

Regards,

Nancy Sully, CMA
Deputy Treasurer and
Director, Financial Planning

Cc: Gord Lalonde, Commissioner, Corporate Services and Treasurer
David Bloomer, Commissioner, Infrastructure & Transportation Services