



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

December 02, 2010

Dear Ms. Walli

Re: Comments on the Cost Allocation Policy Review paper (EB-2010-0219)

ENWIN appreciates the opportunity to comment on Elenchus's Cost Allocation Policy Review paper, issued on October 15, 2010 as a part of the EB-2010-0219 proceeding. Cost allocation policy is key to ensuring that our customers have just and reasonable rates and represents a significant concern to LDCs.

As such please refer to the following comments on the policy recommendations proposed by Elenchus.

Sincerely,

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microFIT service charge: *ENWIN* agrees with the proposal to continue using the current USoA accounts in establishing a microFIT service charge. Furthermore, *ENWIN* agrees with the proposal that LDC specific charges be developed to ensure better cost-causality.

Cost Allocation to Unmetered Load: *ENWIN* does not object to the recommendations forwarded by Elenchus and welcomes the additional clarity it would provide in allocating costs to unmetered load.

Transformer Ownership Allowance: *ENWIN* does not object to reallocating the Transformer Ownership Allowance as a cost to be borne only by the customers of the rate class within which the allowance is being applied.

Allocation of Miscellaneous Revenue: *ENWIN* does not object to the proposal forwarded by Elenchus regarding the treatment of Miscellaneous Revenues. Given that currently the cost for Miscellaneous Revenues is counted in the distributors' general revenues and therefore included in the calculation of cost allocation model, it is equitable to use the same allocator for its associated revenues.

Embedded distributor cost allocation: *ENWIN* does not object to the methodology prescribed by Elenchus in allocating costs to embedded distributors, by incorporating Schedule 10.7 of the EDR Handbook into the cost allocation model. This is issue of little relevance to *ENWIN* as we do not have any embedded distributors.

Standby Charges for behind-the-meter load displacement generation: The issue of standby charges is extremely complex and one that cannot be conclusively settled through this proceeding. As mentioned in the policy paper, standby charges have been the subject of no less than three previous OEB proceedings (EB-2007-0630, RP-2005-0020/EB-2005-0579) over the last five years. And while standby charges have generated considerable discussion and even detailed recommendations (as outlined in the Power Advisor LLC report and the EESC report), there

has been little progress in finalizing a methodology that can conclusively provide all relevant stakeholders with direction they require.

Elenchus's policy recommendation to create effectively a new rate for the standby charge is a step in the right direction. However, the recommendation falls well short of providing the regulatory clarity required on this issue within the industry. The following issues outline in detail, concerns *ENWIN* has with the current proposal:

Eligibility threshold for customers: Elenchus has stated that standby charges should be applied to new generation for customers above a certain threshold. Elenchus states that based on empirical evidence, 500 kW represents a significant load for most LDCs and that any generation load displacement generation above this threshold should have a standby charge applied to it.

ENWIN's preference is to allocate standby charges based on the current consumption level combined with off-set load (ideally establishing the base load requirement of the customer) for the following reasons:

- A threshold based solely on generation capacity ignores the fact that the offset load combined with service load may change the customer classification, lead to revenue under-recovery and not be optimally aligned with cost-causality principle
- Furthermore, generation smaller than the threshold (e.g. 450 kW) but large enough to affect the customer rate class, could lead to a significant under-recovery of funds through the lack of standby charges.

In order to ensure standby rates recover lost distribution revenue that are reflective of the cost-causality principle, the threshold should be linked to the potential rate class that the customer should fall into if behind-the-meter generation was not available. Unless this is done, distributors risk under collecting the true cost of providing the appropriate levels service.

Avoided cost analysis: The policy analysis paper also calls for a customer specific avoided cost analysis to be conducted in order to factor out the potential "benefits" of load-displacement generation. The paper also recommended that a simplified approach be taken in lieu of a customer analysis. The paper specifically states that the OEB could, based on its own judgement, apply a set percentage reduction (in the document established as 5%) to allocated costs.

It should be noted that the Power Advisor LLC report on quantifying system wide DG benefits included the following two recommendations (amongst others)¹:

- Methodologies should reflect the design and operating characteristics of different DG technologies and;
- Methodology should distinguish between DG used for merchant generation, load displacement and hybrid installations to the extent it has a meaningful impact on the calculation of benefit.

This specificity is warranted given the complex nature of distribution system planning as well site specific needs assessment for our customers. For example, the site specific needs for a premise with a parallel connected FIT installation may differ from the needs of a premise with behind-the-meter generation. In one case the load for the premise is defined, in the other case the load is widely variable based on the availability of the generation. The associated service and infrastructure vary considerably as may the overall benefits of generation.

Within this context, specificity is required to balance the inherent tension between reflecting the benefits of such generation and recovering costs associated with providing the service necessary for the premises.

It is the opinion of *ENWIN*, that a “judgement” based approach is not acceptable for incorporating benefits within standby charges in a manner that reflects proper cost-causality, particularly considering the situational and systemic complexity involved with load-displacement generation.

Interim status for standby rates: Interim rates, by their very nature are exempt from the non-retroactivity policy of the OEB and represent a significant concern for *ENWIN*. Unfortunately, all current standby rates (16 at last count) as well as the varying methodologies used to justify them have been grandfathered under the “interim” umbrella. As such, LDCs could be forced to retroactively adjust with customers, years of standby charges against any final rates that may be approved by the OEB.

The continued use of interim rates puts distributors in a difficult position from a risk management perspective. Distributors have to choose between financial under-recovery against the regulatory, operational and financial burden of “truing up” potentially years of rates that are applied due to the lack of regulatory clarity.

LDCs also face the risk of spending substantial resources and manpower to implement an interim rate that may be replaced in the near future.

¹ http://www.oeb.gov.on.ca/OEB/Documents/EB-2007-0630/report_Power_Advisory_20080922.pdf, Executive Summary, pg 1

Although the intent of the proposal is to afford distributors some measure of flexibility in approaching standby rates, the proposal does not reduce the risks involved for distributors.

An additional danger is that the distributor may be caught in a rate-centric battle during rebasing over the appropriate methodology to be used. Equal legitimacy over multiple methodologies does not provide the proper regulatory clarity required to tackle this issue in a conclusive manner.

Recommendations: Overall *ENWIN* is concerned that the interim standby charge lacks the granularity to ensure proper cost-causality. Furthermore, the proposal falls short of the OEB's long-standing recommendation for a single defined methodology that allocated both the costs and benefits of distributed generation². What emerges is a half-measure that will only divert scarce hours and resources for development and implementation away from a complete solution.

ENWIN recommends that the OEB begin work developing and implementing a standard methodology for standby charges that accurately reflects the costs and benefits of load-displacement generation as per its EB-2005-0529 decision.

Weighting Factors for Services and Billing Costs: *ENWIN* does not object to the recommendations forwarded by Elenchus and welcomes the additional clarity it would provide to distributors in allocating the associated costs

Revenue to cost ratios (GS 50-4999, Street Lighting, Sentinel Lighting): *ENWIN* does not object to the proposal by Elenchus to narrow the revenue to cost ratios of the three customer classes by the percentages stipulated within the paper.

² In the EB-2005-0529 proceeding (page 12), the Panel stated that "a standard methodology across all utilities is preferable, but notes that a standard methodology does not necessarily mean identical rates. The starting point for the development of the standard methodology would be the proper allocation of costs to those that cause the cost, as well as a quantification of the benefits."