OAKVILLE HYDRO

Oakville Hydro
Electricity Distribution Inc.
P. O. Box 1900
861 Redwood Square
Oakville ON L6J 5E3
Telephone: 905-825-9400
Fax: 905-825-5831
email: hydro@oakvillehydro.com
www.oakvillehydro.com

December 9, 2010

Kirsten Walli
Board Secretary
Ontario Energy Board,
2300 Yonge St.
Suite 2700, P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Oakville Hydro Electricity Distribution Inc.
Review of Electricity Distribution Cost Allocation Policy
Board File No.: EB-2010-0219

Please find attached, Oakville Hydro Electricity Distribution Inc's comments on the options and recommendations contained in the *Cost Allocation Policy Review* report prepared by Elenchus Research Associates Inc.

Should there be any questions, please do not hesitate to contact me.

Respectfully submitted,

Maryanne Wilson

Maryanne Wilson, CGA
Manager, Regulatory Affairs
Oakville Hydro Electricity Distribution Inc.
861 Redwood Square
Oakville, ON L6J 5E3
Telephone: (905) 825-4422
Email: mwilson@oakvillehydro.com

Review of Electricity Distribution Cost Allocation Policy
Board File No.: EB-2010-0219
Oakville Hydro Electricity Distribution Inc. (Oakville Hydro) – Comments

In its 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 indicated 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. Parties interested in participating were instructed to indicate their intent by letter to the Board Secretary by September 17, 2010. On September 17, 2010, Oakville sent a letter to the Board Secretary notifying the Board of its intention to participate in the consultation process.

The Board retained the services of Elenchus Research Associates, Inc. (“Elenchus”) to prepare a report that included options and recommendations on issues listed below. On October 15, 2010, Elenchus issued its report options and recommendations on the following issues.

- Creation of MicroFIT Rate Class
- To refine the following specific components of the cost allocation methodology:
    - Cost Allocation to Unmetered Load
    - Treatment of Transformer Ownership Allowance
    - Allocation of Miscellaneous Revenues
    - Weighting Factors for Services and Billing Costs
    - Allocation of Host Distributors Costs to Embedded Distributors
- Allocation of Costs to Load Displacement Generation
- Refining the three widest Revenue to Cost Target Ranges
- Address accounting changes and the transition to IFRS

On November 18, 2010 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 Hydro attended the stakeholder meeting and is now providing its comments. Oakville Hydro is not providing comments on the Allocation of Host Distributors Costs to Embedded Distributors.

Creation of MicroFIT Rate Class

Elenchus Recommendation

Elenchus has recommended that the USoA accounts currently used to establish the uniform provincial fixed rate for microFit be continued but that each distributor should be allowed to establish its own microFIT rate to better reflect cost causality for each distributor.

Comments:

Oakville Hydro has had limited experience with microFIT customers and agrees that the accounts that have been identified by the Board should continue to be used to establish a uniform provincial fixed rate for the microFIT rate class and that distributors should have the option of billing the provincial rate or establishing an LDC specific rate. Oakville Hydro suggests that the cost allocation model should be updated to include the microFIT rate class to allow those distributors that wish to establish a microFIT rate to do so through the cost allocation model.

If a new microFIT rate class is added to the cost allocation model then distributors must be permitted to adjust the weighting factor for Billing to reflect the additional costs to calculate microFIT bills and to administer two separate accounts.

Cost Allocation to Unmetered Load

Elenchus Recommendation:

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

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.

Comments:

In its report on *Application of Cost Allocation for Electricity Distributors*, Board File number EB-2007-0667 issued on November 28, 2007, The Board stated that it agreed with staff's analysis and with the comments of the participants to the effect that the Street Lighting and Sentinel Lighting Classes present significant issues that need to be resolved in respect to the allocation of costs and the model's sensitivity to changes in assumptions. Oakville Hydro suggests that these issues be addressed through this consultation.

Through this consultation process, Oakville Hydro has determined that is has different street lighting connection configurations. Typically, in the overhead distribution area there is one streetlight per connection (one to one relationship). Typically, in the underground distribution area, there are multiple streetlights per connection (several to one relationship). Oakville Hydro's cost allocation model is based on the number of streetlights rather than the number of connections to its distribution system and therefore its streetlighting connections are overstated. Oakville Hydro suggests that the Board examines whether this is the underlying reason for Board Staff and participants comments in the initial consultation that the model over-represents costs for streetlighting.

Oakville Hydro agrees with Cornerstone Hydro Electric Concepts Association's (CHEC's) recommendation that distributors be allowed to review the number of street lighting connections and submit revised cost allocation study results with their IRM rate application. Oakville Hydro also agrees with CHEC's recommendation to discontinue any additional cost to revenue ratio adjustments, until such time as distributors have submitted a new cost allocation study.

Treatment of Transformer Ownership Allowance

Elenchus Recommendation:

Modify the cost allocation model to ensure that only the customer classes that include customers that provide their own transformation are included in the determination of the TOA.

Comments:

Option 1, as recommended by Elenchus, modifies the cost allocation model to ensure that only the customer classes that include customers that provide their own transformation are included in the determination of the TOA. Option 3 establishes customer classes that include the requirement that the customer provides their own transformation facilities. These customer classes would include all customers that own their transformation assets and therefore there would be no need to determine TOA.

Oakville Hydro suggests that option #1 and option #3 be combined and that distributors be permitted to include classes that have some customers that provide their own transformer assets in the calculation of the transformer ownership allowance and exclude classes for which all customers provide their own transformer assets.

Allocation of Miscellaneous Revenues

Elenchus Recommendation:

The major components included in Miscellaneous revenues should be identified and allocated to customer classes of these revenue categories, in a manner similar 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.

Miscellaneous revenues and related costs should be included in the determination of revenue:cost ratios in the cost allocation model.

Comments:

Oakville Hydro agrees with Elenchus' recommendation but suggests that distributors be permitted to define which accounts are to be considered major components and to define the OM&A accounts under which the costs incurred to provide these services reside. Oakville Hydro also suggests that the cost allocation model should permit direct allocation of miscellaneous revenues.

In addition, Oakville Hydro suggests that Miscellaneous revenues be excluded from the calculation of the *Customer Unit Cost per month - Avoided Cost*, the *Customer Unit Cost per month - Directly Related*, and the *Customer Unit Cost per month - Minimum System with PLCC Adjustment* on tab *O2, Fixed Charge, Floor Ceiling* of the cost allocation model. It is Oakville Hydro's opinion that the allocation of miscellaneous revenues for the purpose of calculating the floor and ceiling is inappropriate unless those revenues have a direct relationship to the customer class.

Weighting Factors for Services and Billing Costs

Elenchus Recommendation:

A separate input sheet should be developed that would include the default weighting factors, explain the reasons behind the different weighting factors and include an option for distributors to substitute their own values for the default values, where appropriate.

Comments:

Oakville Hydro agrees with Elenchus' recommendation.

Allocation of Costs to Load Displacement Generation

Elenchus Recommendation:

Standby charges should be established for new load displacement generation above a certain size, for example 500 kW. 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. The Board, following its own judgement, could choose a 5% reduction to 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.

Comments:

Oakville Hydro agrees with Elenchus' recommendation to permit distributors to undertake a specific customer avoided costs analysis or to use a simplified approach. Oakville Hydro suggests that this simplified approach be built into the cost allocation model. Oakville Hydro also agrees that standby charges should be established for new load displacement generation above a certain size but suggests that the determination of that size merits further study. In addition, it should recognize that, as more generators connect to the distribution system, the combined load displacement generation could be substantial and other rate classes may subsidize this customer class.

It is Oakville Hydro's opinion that cost allocation should be based on cost causality and an arbitrary reduction of 5% is unjustified. If there are no similar situations in the gas industry upon which to draw conclusions (as suggested by Elenchus) perhaps a review of electricity distributors in other jurisdictions is warranted.

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 (from 1.80). The bottom range should be left unchanged at 0.80.

For Street Light and Sentinel Light customer classes the bottom range should be increased gradually over 3 to 4 years 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.

Comments:

Oakville Hydro suggests that the top range for General Service 50 kW to 4,999 kW should be 1.20 unless there is a rationale for doing otherwise. Oakville Hydro also believes that the bottom range for Street Lighting and Sentinel Lighting should be moved to 0.80 but, as suggested earlier, no further movement in the revenue to cost ratio should take place until a distributor has been given the opportunity to submit a revised cost allocation model.

Address accounting changes and the transition to IFRS

Elenchus Recommendation:

Utilities will be required to comply with the IFRS requirements but there is no need to modify the cost allocation model to address the accounting reporting changes, unless changes to USoA accounts or the content of a USoA account are identified.

Comments:

On November 17, 2010 the Board initiated a working group to deliver recommendations for consideration by the Board on how IFRS should be adopted in an IRM environment. Oakville Hydro suggests that the Board consider whether this working group could also identify the impact of IFRS on OEB account balances to allow the stakeholders in the cost allocation review to assess the impact on the cost allocators.