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BY E-MAIL AND WEB POSTING

March 31, 2011

**To: All Rate-Regulated Licensed Electricity Distributors
All Participants in Consultation Process EB-2010-0219
All Other Interested Parties**

**Re: Review of Electricity Distribution Cost Allocation Policy
Issuance of the Report of the Board
Board File No.: EB-2010-0219**

Today the Ontario Energy Board (the "Board") issued its *Report of the Board on the Review of Electricity Distribution Cost Allocation Policy* (the "Report"). The Report sets out a number of revisions to the Board's electricity distribution cost allocation policy that are to be implemented through cost of service applications starting with the 2012 rate year, and identifies elements that are to be the subject of further consultation in the short term. A copy of the Report is available from the Board's website at www.ontarioenergyboard.ca.

Background

By letter dated [September 2, 2010](#), the Board initiated a consultation to review certain elements of its electricity distribution cost allocation policy. This consultation was intended to be limited in scope, with a more comprehensive review becoming more feasible in the next two to three years as smart meter data increases in volume. The focus of this consultation was therefore to determine the need for and nature of any update and refinement to the following elements of the Board's electricity distribution cost allocation policy:

- To take into account the creation of the microFIT rate class;
- To refine the following specific components of the cost allocation methodology:
 - Cost allocation to unmetered loads (i.e., unmetered scattered loads, street lighting and sentinel lighting);
 - Treatment of the transformer ownership allowance;
 - Allocation of miscellaneous revenues;
 - Weighting factors for services and billing costs; and

- Allocation of host distributor costs to embedded distributor(s).
- To review options for allocating costs to load displacement generation;
- To 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; and
- To address accounting changes and the transition to International Financial Reporting Standards (“IFRS”).

Board Policy Implementation and Further Consultations

The revisions to the Board’s policy set out in the Report trigger the need for changes in or additions to the worksheets for the Cost Allocation Model for Electricity Distributors (the “CA Model”). These revisions will be developed with the assistance of stakeholders via a working group, as further detailed below.

In its Report, the Board notes that it will initiate a separate consultation process on the terminology and modeling methodology for the Street Lighting and Unmetered Scattered Load classes. Further details on this consultation will be communicated in the near future.

The Report also indicates that another separate consultation will be undertaken in the near term to further examine issues associated with load displacement generation. Further information on this consultation will also be communicated by separate correspondence.

Finally, the Report notes the need for more analysis on proposed threshold(s) above which a host distributor would be expected to create a separate customer class for its embedded distributor(s). This further analysis will require the collection of data from embedded and host distributors. Details of the data request will be communicated to distributors via separate correspondence in the near future.

Cost Allocation Working Group

A Cost Allocation Working Group (the “CA Working Group”) will be established to assist Board staff in developing the changes to the CA Model that are required to implement the revisions to the Board’s policy as set out in the Report. The CA Working Group will be led by Board staff. The Board’s consultant, Elenchus Research Associates, Inc. (“Elenchus”), will provide technical advice and prepare draft CA Model changes as required.

The implementation issues to be addressed by the CA Working Group will include:

- Development of a separate worksheet in the CA Model for the calculation of microFIT administrative costs;
- Development of a separate worksheet in the CA Model for allocating the major

components of miscellaneous revenues to customer classes in a manner that matches the allocation of the corresponding costs;

- Revisions to the CA Model that allocate the remaining miscellaneous revenues on the basis of composite operations, maintenance and administrative expenses;
- Inclusion of a separate worksheet in the CA Model for deriving all weighting factors on a distributor-specific basis, including appropriate weighting factors for allocating costs to unmetered loads, so as to make this part of the CA Model more user-friendly and to emphasize the “customizable” aspect of the weighting factors;
- Streamlining of the existing CA Model worksheets to clarify the proper treatment of the Transformer Ownership Allowance in accordance with Chapter 2 of the Board’s Filing Requirements for Transmission and Distribution Applications, as revised on June 28, 2010;
- Expansion of the CA Model, to ensure that additional accounts in the Uniform System of Accounts (“USoA”) can be conveniently and consistently accommodated once changes to the USoA due to the transition to IFRS have been finalized; and
- Provision of input on the development of supporting documentation to clarify the proper use of the CA Model by distributors with respect to each of the above issues.

Once the work of the CA Working Group has been completed, the Board will issue a revised CA Model.

Participation on the Cost Allocation Working Group

The Board is seeking expressions of interest from those who would like to participate in the CA Working Group. Those interested in nominating themselves or a third party to participate in the CA Working Group should submit a letter to the Board to that effect by **April 11, 2011**, in accordance with the filing instructions set out in the Board’s September 2, 2010 letter. The nomination letter should quote file number **EB-2010-0219** and include the following:

- The name of the nominee and the interest or constituency represented; and
- A short statement identifying the nominee’s relevant experience and qualifications, having regard to the technical nature of the work to be done by the CA Working Group.

Based on these expressions of interest, Board staff will select a group of no more than five people. Depending on the number of nominations received, it may not be possible to accommodate all interested participants. If not all nominations can be

accommodated, Board staff will select five people with a goal of achieving an appropriate balance among the three following criteria: representing a broad range of identifiable constituencies; demonstrated technical expertise in the area of cost allocation including familiarity with the CA Model; and availability to participate fully in each of the working group meetings. Groups representing the same interest or constituency are strongly encouraged to make every effort to coordinate their nomination for participation on the CA Working Group.

The Board expects that the inaugural meeting of the CA Working Group will take place in the last week of April, and that the CA Working Group will complete its work in May. A schedule for additional meetings in April and May will be set at the inaugural meeting. Between meetings, it is expected that comments and feedback will be provided via emails and conference calls that may require CA Working Group members to devote an average of two hours per week. An information package, including an overview of the dates of and logistics for each meeting, will be provided to the CA Working Group members prior to the first meeting. All meeting materials and notes prepared by Board staff in relation to the CA Working Group discussions will be posted on the Board's website to allow stakeholders to follow the CA Working Group's progress.

Cost Awards

As noted in the Board's September 2, 2010 letter, cost awards will be available to eligible persons under section 30 of the *Ontario Energy Board Act, 1998* in respect of their participation in this consultation. Cost awards will be available in relation to participation on the CA Working Group and will cover preparation for, attendance at and reporting on each CA Working Group meeting, to a maximum of actual meeting time plus 50% of meeting time for preparation and reporting.

The Board has already determined a number of participants to be eligible for an award of costs in this consultation. In the event that a stakeholder that has not yet been determined to be eligible for cost awards in this consultation is selected to participate on the CA Working Group, the stakeholder's cost award eligibility will be addressed at that time.

Questions relating to this consultation should be directed to Neil Mather at (416) 440-7650 or by e-mail at EDR@ontarioenergyboard.ca. The Board's toll free number is 1-888-632-6273.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary