

## **Cost Allocation Work Group Meeting Notes**

**May 9, 2011**

### **1. Introduction of Participants**

- Bill Harper Econalysis Consulting Services, representing VECC
- Chris Amos Waterloo North Hydro
- Henry Andre Hydro One Networks
- Ken Robertson Cornerstone Hydro Electric Concepts (CHEC)
- Shelley Grice representing AMPCO
- Elenchus Research Associates: Mike Roger, Andrew Frank
- Ontario Energy Board staff: Pascale Duguay, Christie Clark, Chris Cincar, Neil Mather

### **2. Purpose of Work Group**

Pascale Duguay provided an overview of what is expected of the Working Group from the Board's perspective, per OEB letter of March 31, 2011. Confirmed by Chris Cincar, who was the case manager for the policy phase which culminated in the Board Report "Review of Electricity Distribution Cost Allocation Policy", March 31, 2011. (Note: Pascale is manager of Electricity Rates Applications, the department responsible for the implementation phase of the cost allocation review. Both phases share the file number EB-2010-0219.)

### **3. Review of existing Cost Allocation Model**

Mike and Andrew led a review of the model (version 1.2) that has been available on the Board's web-site since December 2006 [EB-2005-0317], and the filing requirements (Filing Requirement for Transmission and Distribution Applications, section 2.8, June 28, 2010).

### **4. MicroFIT Issue Discussion**

- Discussion of a new worksheet in the model (O3.6) to update the residential allocation of "nine +" accounts each time that a distributor files its cost-of-service application, expressed on a per-customer basis.
- Rationale for a pro-rated allocation of PILs, debt cost and return on equity, associated with General Plant. Two pro-rating factors: meters as a proportion of distribution assets (excluding General Plant), and residential meters as a proportion of total meters.

- **Actions:** 1. Andrew to distribute the existing formula for PILs cost, and the now-proposed formula for debt and equity costs. Everyone to review individually and communicate by e-mail
  2. Andrew to add unit cost calculation for each account used in the MicroFIT calculation on Sheet O3.6

## 5. Miscellaneous Revenues Issue Discussion

- Three new revenue sub-accounts for account set-up, collection charges and access to poles (pole rental) -- agreed to designate with Dewey-decimal style numbers rather than letters, **Action:** Andrew to ensure that all sub-accounts are included in Sheet E.5 'Reconciliation'.
- Confirmed: allocate each sub-account in same way as most-nearly-comparable O&M cost account, and failing that, then use composite O&M. Question: how to enable users to choose one from a menu of reasonable cost accounts and enable them to implement the appropriate allocator?
- Access to poles – Chris has confirmed the account to be used to record these revenues is 4210 'Rent from Electric Property'. **Action:** Elenchus to propose a formula for a situation where there is access to some poles carrying primary voltage and others carrying secondary voltage.
- Composite O&M allocator to be used as a fall-back: Confirmed that the composite O&M is to include accounts 5420 'Community Safety Program', 5635 'Property Insurance', plus any O&M costs that have been allocated directly in Sheet I.9.
- Late Payment Charges **Action:** Neil to confirm if Late Payment revenue is to continue to be allocated based on 3 years of late payment history or changed to be allocated based on how related costs are recorded.

## 6. Treatment of Transformer Ownership Allowance Issue Discussion

- Confirmed that cost is for distributor-supplied transformers only, not including the "cost" of the allowance, and the comparable revenue is actual revenue from rates after TOA. Allocator is load supplied through distributor-supplied transformers only.
- A new data input module will make the computation of revenue at current approved rates from each class more transparent – it will show the current approved rate per kW together with the forecast of billing kW paying the tariff rate, and it will show the approved rate less approved TOA together with forecast billing kW of consumers that provide their own transformation. To avoid confusion, there will not be a module for proposed rates or proposed TOA.

- **Action:** Provide instructions on the same input sheet. Neil or Mike to draft the instructions

## 7. Weighting Factors for Services, Billing (both currently on Sheet I.6), meters (Sheet I7.1), and meter-reading (Sheet I7.-2) Issue Discussion

- Andrew showed a prototype model with the default weighting factors removed from Sheet I.6, now standing alone as data inputs in Sheet I5.1  
**Action:** provide instructions on the same sheet; Neil or Mike to draft instructions. Emphasize that there are separate weights for services (connections) versus billing. Provide enough instructions or worked examples to enable most users to input their own data. Instructions will point to Board Report section 2.6.4, which explains when and how to use default values. Default weighting factors will not be updated with more recent information
- **Action:** Provide an example of simple streetlight class weighting factors. Recognizing that a separate consultation will be initiated per the Board Report section 2.5, the example would be a placeholder pending more comprehensive guidance to come after the consultation. Neil or Mike to draft.
- Sheets I.7.1 & 2: no fundamental redesign required. **Action** Provide instructions on the same sheet, Neil or Mike to draft.
- Smart Meters and automated meter readings: instructions to cover the transitional situation where some Smart Meters are in the test year rate base, while others are not yet transferred to rate base. **Action:** if time permits, draft a prototype and distribute for comment

## 8. Transition to IFRS Issue Discussion

- Distributors filing cost-of-service applications in 2012 will be required to provide IFRS data, and the cost allocation model will be useful only if it reconciles to the total revenue requirement and is otherwise consistent with the information in all exhibits. **Actions:** Andrew to provide additional rows in the model as placeholders for additional accounts. To be determined: Will there be composite allocators assigned to the new rows, particularly in the O&M range in the model, as the general thrust of IFRS will be toward fewer items being capitalized? Neil is to obtain any available input about changes to the Accounting Procedure Handbook. Unless more detailed information becomes available on accounting changes resulting from the implementation of IFRS, no more changes to the cost allocation model will be done at this time.

## **9. Plans for updated user instructions**

- In general, provide user instructions on the same sheet as the data input, and ensure complete consistency with the Filing Instructions. A stand-alone instruction document may not be necessary.
- The existing document may be marked as obsolete.

## **10. Wish list for changes to enhance clarity or convenience:**

- Print macro for worksheets and print areas that are to be filed with the application in pdf format. Ensure consistency with the filing requirements.
- Area on initial Sheet I1 for a description of each run of the model, where the analyst can identify all features that would differ between various runs of the model while the initial application is being developed and subsequent runs for example in response to interrogatories or supporting a draft rate order.
- Examine the allocation of current and accumulated depreciation, as a means of avoiding negative or anomalous results in worksheet O2.
- Add account 4750 to the model for the purpose of Working Capital, but ensure that LV costs and revenues are not included in the distribution revenue requirement and revenues otherwise.
- Modify formula for Out of Balance error messages to permit inequality up to \$10.
- Allow for microFIT calculation for other classes in addition to Residential

## **11. Next steps:**

- Post working group minutes and initial Cost Allocation Working Group announcement to the Board's web-site
- Distribute a modified version of the model to participants as soon as available.
- Distribute draft documentation for the various issues at the same time as the Excel model is distributed to the Work Group
- Distribute a meeting notice and agenda for the next meeting asap.

## **Other notes arising from general discussion:**

- User instructions are to be included as much as possible on the Input worksheet where they are required.

- Customer and connection data should generally be annual average amounts. Instructions to emphasize that year-end numbers should not be input in the model.
- Neil to review the precise meaning and rationale for the allocator NFA-ECC, and report at next meeting:
  - how do capital contributions affect the composite allocator?
  - in which situations does it make sense to use NFA versus NFA-ECC?
- Use the model to calculate revenue to cost ratios for pro-rated approved rates, a.k.a. “status quo” ratios. In other words use the model to calculate ratios for the “no re-balancing” case. For re-balanced ratios, compare alternate class revenue amounts with the class revenue requirements using a separate spreadsheet, and file the proposed ratios per Filing Requirements chapter 2.8.