## Cost Allocation Work Group Meeting Notes

## June 15, 2011

### 1. Preliminaries

The meeting convened at 9:00 in the North Hearing Room. All members of the working group were present, except for regrets from Ken Robertson. Mike Roger and Andrew Frank represented Elenchus. OEB staff were Christie Clark and Neil Mather. Anthony Lam of Toronto Hydro and Bruce Bacon of Borden Ladner Gervais were also present.

Since the previous meeting on May 27, the model had been revised and had been distributed with and without data, along with an updated draft of the project documentation and a draft of the relevant chapter and appendix from the 2012 Filing Requirements.

### 2. Corrections and Suggestions re the Revised Model

- Provide an input cell for the percentage of COP/OM&A to include in rate base, i.e. 15% or alternative result from a lead-lag study.
- Follow through from adding the IFRS placeholder in I-3 by adding a row as needed in worksheets I-4, I-9, E-2, E-4 etc.
- Okay to leave allocators suggested by the working group in column I of I-3, along with the new drop-down menus ~~.~~that enable allocators other than the suggest~~ion~~ed
- Where possible, replace EDR references with updated external references to Revenue Requirement Work Form and/or Filing Requirements for COS rate applications.
- Plan to have all updated instructions together on a single sheet at the beginning of the model, rather than on individual worksheets as discussed earlier.
- Correct worksheet O-3.2: cell reference at cell D50 should be to worksheet O-4 row 36 not 35. Related depreciation references to O-7 are okay. This may have affected fixed charge "floor" calculations in worksheet O-2 in the previous model~~.~~.

### 3. Miscellaneous Revenues

- Okay to have default allocators in worksheet I-3, column I.
- Pole access revenue to be credited by means of a new allocator POLE. User inputs weighting factor of Primary versus Secondary lines at worksheet I-5.1, cell D~~19~~21, and allocator is then a weighted average of the allocators of respective line assets.
- Standard Supply Service revenue is recorded in a sub-account of account 4080-~~-~~2.~~2 .~~ Okay to allocate by total number of customers (CCA).

- 2012 Filing Requirements will be clearer than previously, re an exception where the costs allocated to embedded distributors and revenues collected from embedded distributors do not need to be treated as a separate class. In the cost allocation model. Clarified that revenue from embedded distributors (4080-C) is not treated as Miscellaneous Revenue and it is not necessary to distinguish it with a separate row from the main distribution revenue. The allocator ED was discussed at previous meeting, but is actually unnecessary.
- Account Set-up Charges: Discussion was that most distributors have sub-accounts for revenue from account set-up charges, with each class having a sub-account. If they do not report by sub-account, the default allocator should be CWNB, proportional to Billing and Collecting.~~.~~
- Add a message to worksheet O-1, row 18, that total Miscellaneous Revenue should equal Other Operating Revenue in the RRWF

## 4. Weighting Factors

- Services: edit the example for confusing comments re customers that have $0 costs recorded in account 1855.
- Billing and Collecting: example to be added to Instructions (Action: Neil)
- Meter Capital:
  - Example to be added (Note: upon further review of the model, example would be redundant. NM)
  - Need to make instructions clearer that the weighting factors are to reflect whatever meter costs are in account 1860. Increasingly, this will be Smart Meters, and not stranded unsmart meters.
- Meter Reading:
  - Account 5310 is small for many distributors and likely to get much smaller with automated meter reading
  - Instructions should provide advice for ~~a~~ weighting factors that have little or no variation over customer classes, to cover the situation where automated meter reading is covered in a computer-related account or General Admin.

## 5. MicroFIT

- Reviewed Appendix D from the Decision on microFIT. **Action:** Neil to confirm the formula how the ten rows were used to arrive at the average $5.25 per residential customer. (Note: Have since confirmed that PILs component was derived by subtracting avoided cost from directly related cost (i.e row 143 – row 81), which captures the general plant assigned to meters, without the meter plant itself.)
- Discussion re whether the appropriate pro-rating has been accomplished in the model with respect to PILs, return, working capital, so that these relate to general

plant assigned to meters, while excluding the analagous costs that would relate to capital contributed by the microFIT generation customer. Discussion in the meeting was not conclusive. **Action:** Andrew to verify how working capital is included**. Done.**

## 6. Revenue Inputs

- Model has insufficient rows for THESL USL class. There may be other examples. Action: add an additional row in worksheet I-6.1 for a rate and a row for an additional charge determinant, and modify the formula in worksheet O-1.
- General model will not accommodate billing interval other than one month (eg. 30-day equivalent).
- Agreed to not make fundamental updates to the top portion of worksheet I-3, in the interests of finishing the project in time for 2012 applications.

## 7. Net Fixed Asset Allocators

- Model distinguishes the allocator that produces larger asset numbers as NFA-ECC and smaller asset numbers as NFA. Interpretation: ECC means “excluding any credit for contributed capital”). NFA-ECC is used to allocated General Plant, and total plant related costs such as property insurance. NFA is used to allocate only three accounts related to income tax and interest cost.
- Bruce confirmed that the amortization amounts are specific to the asset accounts in sheet I.4, so the model is internally consistent with respect to accumulated depreciation of regular and contributed capital., i.e. columns F, G,H, & I .on Sheet I-4.

## 8. Modifications to Worksheet O-1

- Filing Requirement will be for one run of the model, with test year class revenue requirements (i.e.costs).
- Revenue will be the test year total, but without rebalancing, so the revenue to cost ratios produced by the model will be “status quo” ratios. Proposed ratios after re-balancing will be required in the Filing Requirements, but a run of the model showing re-balanced ratios will not be required.
- Decided to eliminate the row of ratios that reflect a revenue deficiency, and show only the status quo ratios that add to 100%.
- Bruce pointed out the importance of having the revenue offset correct ie. consistent with the application. The formula that produces status quo class revenues and status quo ratios works properly if the Miscellaneous Revenue amount is correct; conversely it can give a false impression of accuracy if it is not correct.

## 9. Miscellaneous Tidying

- **Question:** account 6105 Taxes Other than Income Taxes is being allocated by NFA. It includes property taxes and commodity taxes. Would it be more logical to allocate it by NFA-ECC? (The difference is likely to be exceedingly small.)
- **Question:** worksheet I-5.1 currently has the Smart Meter adder as an input, and it carries over to the comparison in worksheet O-2 of the monthly service rate (including adder) against calculated floor and ceiling amounts. **Action taken since the meeting:** On Neil's direction Mike and Andrew have removed the Smart Meter input. The basis for the change is that Smart Meter rate riders are now being shown separately on most tariff sheets, which makes the comparison invalid. Bruce has written agreeing that this is a timely change. This action can be reversed if the group so decides.

## 10. Finalizing the Project:

- Agreed that an update of the model, revised documentation, and Instructions can be distributed by e-mail, and comments shared. Another meeting should not be necessary.
- **Action taken since the meeting:** conference call set up for Thursday, June 30, 9:00 am.