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July 25, 2011

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

Re: EB-2010-0142 - Clarification of Board Policy on Cost Allocation Revenue to Cost Ratios

I am writing to seek clarification on the Board Policy on the movement of revenue to cost ratios when ratios already within the Board approved ranges need to be adjusted to balance for the movement of ratios of other rate classes to the ceiling or floor of their respective ranges. This situation arose in the Toronto Hydro-Electric System Limited (THESL) proceeding (EB-2010-0142).

In the THESL proceeding, in the Decision on Draft Rate Order date July 21, 2011, the Board stated at page 3:

> *"The Board has reviewed the comments of parties on this matter and finds that Toronto Hydro should allocate the $300,000 amount to the customer classes <u>in accordance with the Board's cost allocation policy, outlined in EB-2007-0667 Report of the Board: Application of Cost Allocation for Electricity Distributors of November 28, 2007, as updated in the EB-2010-0219 Report of the Board Review of Electricity Distribution Cost Allocation Policy of March 31, 2011.</u> The Board finds that in accordance with this policy, this amount should be <u>allocated on a pro-rata basis to all customer classes, other than the Large User class, in accordance with the approach used in the Board's cost allocation model</u>."* (emphasis added)

In the Revised Draft Rate Order dated July 22, 2011, THESL has complied with the Board direction. In particular, Table 1 on page 4 of the revised draft rate order shows the increase in the updated revenue after reallocation for all rate classes. The Large Use category remains unchanged from the original draft rate order and all other classes have higher revenue figures. This results in higher revenue allocations to those classes that already have a revenue to cost ratio in excess of 1.0. As can be seen in Table 1, this includes the GS 50-999 kW and GS 1000-4999 kW classes. In fact, the revenue to cost ratio for the GS 50-999 class has increased from 117.7% to 117.8% as a result of the Board's Decision on the Draft Rate Order.

While this increase is minimal, it is because the revenue that needed to be reallocated amounted to only $300,000. If this amount had been more, the impact on the revenue to cost ratios, and the costs to ratepayers in the classes with a revenue to cost ratio in excess of 100% would be more significant.

In the Decision on Draft Rate Order, the Board refers to the EB-2007-0667 Report of the Board: Application of Cost Allocation for Electricity Distributors of November 28, 2007. At page 7 of that Report, the Board indicated that distributors should endeavour to move their revenue to cost ratios close to one if this is supported by improved cost allocations. In the THESL proceeding, the Boar determined that THESL had not provided improved cost allocations, denying the THESL proposal to move revenue to cost ratios closer to one.

The Report then goes on to state that *"Distributors should not move their revenue-to-cost ratios further away from one"*.

The Board required THESL to allocate the additional revenue required from all customer classes, other than the class that was being reduced to the ceiling (Large Use) of its Board approved range. This implicitly requires the increase of rate classes already above 100%, thereby moving them further away from one (or 100%). As a result, the Board's Decision on the Draft Rate Order in the EB-2010-0142 proceeding appears to violate this part of the Board's cost allocation policy, as noted above.

While the impact on the rate classes already above 100% is not material in the THESL proceeding, there could be material impacts in future proceedings of not only THESL, but all electricity cost of service applications.

Intervenors and distributors would be assisted if the Board could provide clarification of its policy on the movement of revenue to cost ratios for those classes already within their Board approved ranges when adjustments are required for other classes to come down to the Board ceiling or to go up to the Board floor. It should also be noted that the reduction in the ceiling for the GS 50 - 4,999 kW class from 180% to 120% as shown in Table 1 of the EB-2010-0219 Report of the Board Review of Electricity Distribution Cost Allocation Policy of March 31, 2011 is likely to mean that this issue may have more of an impact than it has in the past.

If you have any questions, please give me a call.

Sincerely,

Randy Aiken

Randy Aiken
Aiken & Associates

cc. Mr. Glen Winn, Toronto Hydro-Electric System Limited