



3240 Mavis Road
Mississauga, Ontario
L5C 3K1

Tel: (905) 566-2727
Fax (905) 566-2737

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto, ON M4P 1E4
Attn: Ms. K. Walli
Board Secretary

July 18, 2006

Dear Ms. Walli

Re: EB-2005-0317
Comments on Cost Allocation Review: Staff Proposal on Principles and
Methodologies, June 28, 2006

These comments on the above-noted Staff Proposal are provided by the electricity distributors named below (the "Utilities"):

- Enersource Hydro Mississauga Inc.;
- Horizon Utilities Corporation;
- Hydro Ottawa Limited;
- Toronto Hydro-Electric System Limited;
- Veridian Connections Inc.

Veridian is providing comments on issues raised in the Staff Proposal that are specific to its interests. The comments provided herein are consistent with those specific comments.

The Staff Proposal provides the compilation of the issues and their proposed treatment. We understand this to be the first opportunity to comment on the 'package' rather than on individual components.

General

We understand that cost allocation studies are helpful in understanding the degree to which authorized rates are cost-related. These tools have inherent limitations; they cannot be relied on to design rates for new services, unbundle rates, redesign rate class boundaries, change costing methodologies (of note this cost allocation implicitly uses average costs). We also understand that cost allocation studies are not undertaken annually but that they are longer-lived analytical tools. The durability of a cost allocation study depends on the stability of the costs allocated, the cost drivers and consumption patterns. Several of the regulatory initiatives now underway (e.g., Standard Offer, the

continuation of CDM under different administrative rules, Smart Meters) suggest that distribution costs, distribution cost drivers and consumption patterns of distribution customers will likely change over the next few years. It is also important to note that the OEB recently announced a distribution rate design project that will commence later this year. From a customer's perspective, it is important to recognize that, if this cost allocation informational filing is relied on to adjust rates then some customers could be significantly affected. For all the reasons outlined in these comments we caution against relying on this cost allocation study to guide changes in rates.

Data Concerns

Many of Ontario's electricity distributors were recently authorized to charge rates that collect a rebased revenue requirement. These rates result from the reduction of the distribution revenue requirement by other regulated revenues. The costs included in this adjusted revenue requirement were adjudicated; because the process was geared to determining revenue requirement the consumption estimates supporting the determination of rates were not adjudicated. There is a mismatch in the standards supporting the determination of costs and consumption for historic test year filers. Specifically, the costs are stated to the standard of those of a typical 2004 while consumption is a three year average class consumption applied to 2004 customer class counts.

The staff paper recognizes some of the shortcomings of distributors' consumption data and, as a result, permits defaults and proxies (e.g., derived from sample distributors, based on a period less than a year long). Because the cost allocation studies will link to the approved 2006 distribution rates and because some distributors have sought changes to those rates it would be helpful for the OEB to distribute to each distributor a copy of the 2006 EDR model populated with the data relied on to authorize distribution rates.

A data inconsistency may be avoided by grossing up demand to reflect the load displaced by embedded generators. If this gross up is allowed then the distribution revenue of these customers will be appropriately recognized. If it is not allowed then a cross-subsidization will occur between these customers and all other distribution customers in that class and the revenue-to-cost ratios will not be reliable.

Some of the definitions provided must be applied carefully. For example, Section 6.2.2.4 states 'assets built to support the distribution system's peak will be treated as bulk assets...' and 'a 44kV line with a large user connected to it would usually be a bulk asset'. A 44kV line that is dedicated to a single customer may be bulk but it would not have been built to support the system peak. Similarly, in Section 8.3.1 Coincident Peak (CP) is to be used to allocate distribution assets designed to serve a distributor's system peak, i.e. for assets > 50 kV and those defined as bulk. This may be true for a smaller utility with one TS where all load goes through the bulk system. For a larger utility with numerous TSs - and only part of the system using bulk - such assets are designed to serve a portion of the distributor's total system peak.

The staff paper recognizes that the trial balance data that was reliable for revenue requirement determination purposes does not have appropriate ‘granularity’ for cost allocation purposes. It suggests that distributors must apply judgment, for example to the following data sets:

- Bulk – primary – secondary ratios;
- Application of metering and metering cost proxies;
- Analysis of default minimum system characteristics.

It is suggested that the OEB provide templates to support the determination of these and other such adjustments. A template may also be helpful to those distributors who do not maintain detailed records of class specific bad debt expenses.

Analytical Concerns

The analytical techniques proposed may, or may not, be consistent with the policies administered by the previous regulator. As an example, the OEB’s working capital allowance relies on very different assumptions and produces different results than those of the former regulator. Another example is that the previous regulator may not have relied on net rate base when determining the revenue requirement on a customer class basis. A further example is the determination of non coincident peak (NCP); the staff’s paper proposes that NCP be able to be adjusted for standby customers (with >500 kW of generation) or by the deemed minimum system capacity (400 W); it is not known whether the former regulator adhered to these positions.

The cost causality of this analytical tool could have been enhanced by relying on 1 NCP. This is the design criteria relied on by engineers and has direct bearing on the connection and upstream assets that the distributor commissions to be able to reasonably serve a load. The use of 4 NCP is subject to test; passing the test and using 4 NCP introduces a margin of error in the data and the impact of those errors on the output should be examined.

It is important to properly quantify a distributor’s NCP and each customer class’ NCP. If the NCP for one class is inappropriately low then that class will be allocated fewer distribution assets and expenses than the distributor actually employs and incurs to provide service. Conversely, another customer class or other customer classes may be allocated more distribution assets and expenses. If the outputs of this cost allocation study may guide future rate changes then its inputs should, to the extent possible and without creating undue costs, be accurate.

Filing Concerns

It is suggested that in addition to the filing summary that distributors be permitted to file any, and perhaps all, of the following:

- Sensitivity tests (e.g., if the bulk assets increase in value by 1% how do costs allocated to the applicable classes change?)
- Stability tests (e.g., if a key input varies by 2% do the outputs vary by significantly more than 2% or less than 2%?)
- Extrema tests (e.g., does the model provide reasonable results if a customer class is eliminated?)
- Independent verifications (e.g., verify the Minimum System results through a high level Zero Intercept test)
- Evidence that supports gaps (e.g., absence of bulk delivery assets). Section 6.2.2.5 should also require that where a distributor doesn't believe it has assets that serve a bulk function, that the Filing Summary provide the distributor's reasoning
- Information on estimation techniques (e.g., how the distributor estimated the number of customers on a feeder) In Section 6.2.2.9, it should be understood that for some LDCs, the number of customers that use each type of asset will be an estimate only, as they don't yet have exact records of customer by feeder. Clarity of whether customers or connections is used, i.e., in Section 7.5.2 – is the PLCC adjustment 0.4 kW per customer per connection or is it 0.4 kW per customer or per connection?
- Clarity of definitions (e.g., whether the distributor can use a 60 minute period based on rolling 15 minute window for measuring peak when Section 8.4.2 states one hour (clock hour) measurement of the peak period?)
- Applications of ratios computed for a specific purpose to an ancillary purpose (e.g., using estimated bulk-primary-secondary ratios for assets to determine applicable capital contributions or operating expenses)
- Scenarios (e.g., adjusting consumption to reflect extreme or mild weather)
- Due recognition that not all distributors will be able to answer all the Filing Questions identified in the staff paper.

The filing guidelines could also provide appropriate flexibility to forward test year filers in recognition that their rate applications used forecast data; for example, Section 4.3.1 should be restated to incorporate forward year test filers use of 'weather normal' kWhs and kW. There are other instances where direction is given to historical filers and it should also apply to future test year filers. For example, the directions to historical test year filers provided under Section 4.1.2 with respect to moving dollars from one account to another to better reflect the cost allocation methodology should also apply to forward test year filers. There are instances where the directions to historic test year filers should be translated into comparable direction to forward test year filers (e.g., the grouping of accounts into 33 items).

The paper would also benefit from a discussion of the possible treatments of anomalous or counter intuitive inputs. Discussion of 'mechanical' aspects of the cost allocation study (e.g., the number of significant digits) will assist analysis.

In summary, the explanatory power of this analytical tool depends on:

- Whether the data is adequate and of an appropriate quality
- Whether the defaults are appropriate
- Whether judgment has been applied appropriately
- The consistency between the techniques of this cost allocation study and those previously relied on.

Thank you for the opportunity to comment on the Staff Proposal.

Sincerely

K. Litt
Regulatory Affairs Advisor

cc. Cameron McKenzie, Horizon Utilities Corporation;
Lynne Anderson, Hydro Ottawa Limited;
Pankaj Sardana, Toronto Hydro-Electric System Limited;
George Armstrong, Veridian Connections Inc.

This document was created with Win2PDF available at <http://www.daneprairie.com>.
The unregistered version of Win2PDF is for evaluation or non-commercial use only.