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Comments regarding Staff Discussion Paper on Implications Arising from a Review of the Electricity Distributors' Costs Allocation Filings – Board File No. EB-2007-0667

<u>General Observations</u>

- Agree with the discussion on pages 9-10 regarding the fact that cost of service analysis requires judgment and the use of less than totally precise data such that there exists a range of reasonableness for the resulting revenue to cost ratios. However, the type of statistical analyses performed by Staff is not a basis for establishing what the appropriate range for revenue to cost ratios should be in the long term. The fact that the revenue to costs ratios for a particular customer class are currently predominantly above or below 1.0, does not say anything about the inherent uncertainty associated with the results of the cost allocation methodology. Similarly, the fact that the results for a class are clustered around a value or widely dispersed does not say anything about the whether the appropriate range should be large or small. On the other hand, if the objective of the Board, for purposes of the 2008 electricity distribution rate filings, is to focus on the extreme outliers; then the analysis can provide some insight into how these outliers can be determined. It would be useful if the Board was to clarify its objective with respect to customer class revenue to cost ratios for 2008 rates:
    - To establish a range of reasonableness for revenue to costs ratios which could be applicable for a number of years (i.e., until significant improvements were made in the data/utility analysis underlying the results), or
    - To establish a range of reasonableness solely for the purpose of the 2008 rate approval process with the objective of addressing extreme outliers.
- The sensitivity analysis undertaken by the Board involves fairly significant changes (e.g., removal of the minimum plant assumption entirely). Such scenarios are only valid if the Board believes that the associated fundamentals set out in its Direction on Cost Allocation are open for further debate/question within the context of a specific distributor's application. The sensitivity analyses should focus on those areas that involved some judgment (either during the development of the cost allocation methodology or in its application), examples include:

  - The demand/customer split for the minimum system,
  - The size of the PLCC adjustment, and
  - The apportionment of certain USoA accounts between cost functions (see Staff Paper, page 34).
  - Areas where the “Filing Questions” that distributors were requested to address as part of their information filing suggested a variation in practice across utilities.
- The discussion in the Other Matters section of the Staff Paper, suggests that it is not appropriate to apply a provincial average value for the USL Meter Credit (page 31), the Line Transformer Credit (page 32), or the Service Charge for Load Displacement Generation (page 33). Agree and, indeed, it would have been surprising if the values calculated for the individual utilities were reasonably uniform. Even if the facilities involved are the same, differences across utilities will arise due to asset vintage, varying levels of OM&A spending and varying levels of overheads.
- The questions in Section 6 suggest that Board Staff is recommending that the USL Meter credit, the Transformer credit and the Stand By rate for load displacement generators should all be set “on each distributor’s application”. However, the wording in Section 5 seems to suggest that Board Staff is uncertain as to whether the results are robust enough to even use the values calculated in the individual cost allocation studies (see pages 31 and 32).

1. What is the appropriate range for revenue to cost ratio for customer classes?

- The /- 20% appears reasonable for both the residential and GS<50 kW class. It recognizes the fact that the 2006 filings are the first cost allocation analyses carried out by most Ontario distributors and that there are a number of areas where the data used needs to be improved. It is difficult to determine precisely how many distributors fall outside this range. It appears that roughly 25%-30% of the utilities fall into this category in the case of the residential class and an even larger percentage in the case of the GS < 50 kW class. This is a reasonable portion of the utilities to address in the first round of rate applications following the information filings.

- The Staff Paper recommends that “any distributor with a class ratio that falls outside the suggested ranges should re-align its distribution rates so that all classes fall within the respective ranges” (page 23). This approach fails to recognize the bill impacts that could one arise from such an adjustment. The application of the Staff recommendation should be “tempered” by the requirement that the resulting bill impacts should be acceptable.

2. What is the appropriate cost range to test the fixed monthly customer charge?

- There appears to be an inconsistency as between the Board Staff conclusions regarding the Fixed Monthly Charge and the USL Meter Credit. In the case of the Fixed Monthly Charge, the Paper advocates the use of “avoided costs” as the floor on the basis that “these costs are easiest to determine, are subject to minimal judgment and thus more accurate” (page 27). The Paper also notes that Avoided cost represents “only meter related costs and billing and collection costs” (page 26). However, under the discussion regarding the USL Meter Credit, the Staff Paper (page 31) appears to question whether “the calculated value of metering costs in individual cost allocation studies should be used by the utility in designing rates for unmetered scattered load customers”. Avoided costs represents an appropriate floor for the fixed monthly service charge. However, in circumstances where an individual distributor’s value is significantly different from the provincial average it will be important for the Board, the distributor and interested parties to satisfy themselves that the variation is reasonable.
- Do not agree that the upper end of the range should be set at 120% of “ceiling value”. In the Staff Paper, the use of the 120% is justified on the basis that there are uncertainties in the “unit costs” (page 29). However, no such allowance for uncertainties was made in the determination of the “floor value” even though the “avoided costs” used for the floor value are also a component of the ceiling value. A lower allowance for uncertainty (e.g., 10%) is warranted.

- Finally, the Board Staff approach again fails to recognize the bill impacts that could one arise from such an adjustment. The application of the Staff recommendation should be accompanied by the requirement that the resulting bill impacts for all customers within the class should be acceptable.

3. **Should the establishment of a USL metering cost credit be based on an individual utility's costs?**
4. **Should the establishment of a transformer credit be based on an individual utility's costs?**
5. **Should the determination of appropriate Stand-by Rates for customers with load displacement generation be based on individual utility's costs?**

- As noted above, in the case of USL, the basis for the credit is the same as that used to establish the monthly fixed charge. There is no reason why it should be acceptable for one and not the other. Furthermore, at this point in time, the idea of a USL meter credit is preferable to creating an entirely different customer class for USL customers.
- Support the use of individual utility data for calculateing the transformer ownership credit. However, given the problems noted by Board Staff regarding the calculation of the transformer ownership credit; any utility specific calculation of the credit will have to be carefully reviewed during the upcoming 2008 rate review process before any changes are approved.
- Finally, with respect to Load Displacement Generation, this is also an area where individual utility data should be used. Suspect that this is also an area where distributors experienced some difficulty in implementing the cost allocation model and that approaches differed across utilities. Again, the calculations will need to be scrutinized carefully as part of the 2008 rate approval process (as opposed to simply adopting the results from the informational filings) before any new/revised rate is implemented.