July 19, 2007

Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Via email to BoardSec@oeb.gov.on.ca and by courier

Dear Board Secretary:

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

The Electricity Distributors Association (EDA) is the voice of Ontario's local distribution companies (LDCs). The EDA represents the interests of almost 90 publicly and privately owned LDCs in Ontario.

The EDA has reviewed with its members the discussion paper. The consensus is that the paper is reasonable in its approach of establishing acceptable ranges for utility revenue to cost ratios and class specific monthly fixed charges.

The paper correctly identifies that there is no single method for determining cost allocation. Further the paper states that "certain judgments and assumptions contained in the methodology underpin the outcomes."

The use of either a statistical or sensitivity analysis has allowed the OEB staff to identify suggested acceptable revenue to cost ratios for five specific classes of LDC customer:

(1) Residential and GS<50 kW: 80% to 120%
(2) Unmetered scattered load: 80% to 120%
(3) GS 50 kW to 4,999 kW: 80% to 180%
(4) Larger load customers: 80% to 180%, and
(5) Sentinel and street lighting classifications: 70% to 120%.

In principle, the EDA agrees with these ranges. However, it is noted that, for several LDCs, adopting these ranges may involve significant adjustments that would negatively impact customer costs in some customer classes. For example, the impact on the sentinel and street lighting class of customer will be especially dramatic. The OEB's analysis shows that the

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revenue to cost ratio in this class is less than 40% for approximately 70% of the customers. The EDA believes that LDCs should have the ability to mitigate the potential impact of implementing these ranges. In addition, the materiality of any impact should be measured in both percentage terms and dollar terms in order to properly assess the potential effect on customer costs.

The EDA notes that the Cost Allocation Model used by the OEB is highly complex, especially in how it allocates transformer ownership credits. It is possible that this aspect of the model may not have been well understood by some LDCs and may have resulted in some distortion of the related calculations for some classes of LDC customers developed and reported by LDCs. It is recommended that the OEB review and re-assess this data to ensure that the model has been interpreted accurately. The EDA believes that this re-assessment should be undertaken before the OEB proceeds further on this particular issue.

Further, the OEB is currently undertaking a rate design review with fixed charges being an integral part of that review. Consequently, the EDA recommends that the OEB should not require LDCs to lower their fixed monthly charges where the fixed monthly charges are above the maximum level, until the OEB's rate design review has been completed. Otherwise, customers could be faced with several directional changes to the level of the fixed charge; a scenario that should be avoided. The EDA agrees that fixed monthly charges below the minimum level should be raised to bring them into the range.

Also, the reference to "the customer related portion of the revenue requirement for poles, lines and transformers" is assumed to specifically reference the Minimum System with PLCC Adjustment Customer Unit Cost in the cost allocation model. Clarification of this would be helpful.

Lastly, it is noted that the three items dealt with in section 5 of the report on "Other Matters" (USL metering credit, transformer credit, and standby rates) will also be addressed in the rate design review. The EDA agrees that these items should be assessed on each LDC application. However, the development of a common methodology for the establishment of these rates would significantly facilitate the process.

In conclusion, the EDA and its members support the OEB staff's positions presented in the paper. The approach presented here provides flexibility to LDCs to address the issues and is generally reasonable in its approach. However, it is important to note that this paper and its analysis represent an interim step only that has been based on informational filings. The EDA looks forward to working with the OEB in developing a rate design and future revenue to cost ratios that will serve both the customers and the LDCs in Ontario.

Yours truly,

Richard Zebrowski
Vice President, Policy & Corporate Affairs

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