2007/07/19

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

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

In regards to the Board's request for comments relating to the above noted Discussion Paper, we would like to provide the following comments:

Definition of Ceiling

The Board Staff's Discussion Paper suggests that the floor for the range of the monthly fixed charges be equal to the avoided costs, and the ceiling be 20% above the direct costs plus the customer related portion of the revenue requirement for poles, lines and transformers. The Discussion Paper states that LDCs whose fixed monthly charges are 20% above the ceiling should bring them down to or below this level at the time of its next rebasing rate application.

Clarification is required on the ceiling: Is the 20% increase applied to the Minimum System with PLCC Adjustment Customer Unit Cost determined within the Cost Allocation model? EnWin and a significant number of other LDCs have OEB-approved Monthly Fixed Charges that are well above the proposed ceiling. If there is to be a ceiling, the definition and calculations associated therewith must be unambiguous. Further, the ceiling must be clearly communicated to LDCs well in advance of its implementation in order that LDC might be able to redesign and implement new business models with greater certainty.

Clarification is also required to confirm that "next rebasing" refers to the next rebasing cycle in order that the policy is consistent across LDCs, regardless of their year of rebasing in the current cycle.

Fixed v. Variable

EnWin and other LDCs have previously advocated for a larger fixed component in the distribution rates. Unfortunately, the reasoning behind particular fixed-variable mixes has not been addressed in the Board Staff's paper in any detail. Such analysis is of particular relevance in the GS>50, Large User and USL categories where LDCs are clearly employing significantly different mixes.

EnWin believes it is critical to this process of policy development to fully consider the rationale behind the fixed component and incorporate the findings into the proposed system. Some of those reasons for a higher fixed component include revenue risk mitigation, matching fixed expenses with fixed rates and historical considerations. Not surprisingly, the clustering shown in the Board Staff's paper indicates that LDCs have utilized larger fixed rate components for larger customers. Board Staff proposes to create asymmetrical ranges that still have unity as the reference point. The practical short-term effect is to create a higher median for the range. However, the long-term effect may be to perpetuate the suggestion that unity is the appropriate target for all customer classes. Our respectful submission is that based on the rationale behind the fixed components, unity may not be the right target for all customer classes of all LDCs. Exceptional cost considerations for particular customer classes should not only help justify "outliers", but should support the appropriateness of ranges that centre on ratios greater than unity.

Some of these cost drivers have been considered in the context of this process as well as rate design policy development. In fact, within the Rate Design Discussion Paper, 100% fixed monthly charges is one of the options. Given the convergence and stages of progress, it may be prudent to fold the cost allocation policy development process into that of rate design. Alternatively, greater crossover should occur between the two policy development processes such that the final rate mix and design is sustainable, consistent, and sensitive to reasonable and justified variances among LDCs.

Movement within Ranges

It is not clear from the Board Staff's Discussion Paper, what rules will apply to rates that fall within the proposed ranges. For example, will LDCs be permitted to counterbalance fixed rates that are forced below the ceiling by raising other fixed rates that fall within a range?

Establishment of a USL Metering Credit, Transformer Credit, and Stand-by Rates

Setting the USL metering credit, transformer credit and stand-by rates in a sustainable and consistent manner that is sensitive to reasonable and justified variances among LDCs is possible. As suggested by Board Staff, this may be accomplished through common methodologies and template for the determination of these credits/rates.

We appreciate the opportunity to provide comment in this Consultation. If you have any questions on the above, please do not hesitate to contact me at the contact information provided below.

Yours truly,

ENWIN Utilities Ltd.

Original signed by A. Sasso

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