July 19, 2007

BY EMAIL & BY COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Board File No. EB-2007-0667
Board Staff Discussion Paper
Comments of Energy Probe

Attached please find three hard copies of the Comments of Energy Probe Research Foundation (Energy Probe) pursuant to the letter from the Board, dated June 29, 2007, in respect of the Board Staff Discussion Paper examining the implications arising from a review of the electricity distributors' cost allocation filings. An electronic copy of this communication in PDF format is being forwarded to your attention.

Should you have any questions or require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

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EB-2007-0667

Ontario Energy Board

ON THE IMPLICATIONS ARISING FROM A REVIEW OF THE ELECTRICY DISTRIBUTORS' COST ALLOCATION FILINGS

Staff Discussion Paper
28 June 2007

COMMENTS OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")

July 19, 2007

ON THE IMPLICATIONS ARISING FROM A REVIEW OF THE ELECTRICY DISTRIBUTORS' COST ALLOCATION FILINGS

Comments of Energy Probe Research Foundation

EB-2007-0667

Background

On March 9, 2005 the Chair of the Ontario Energy Board announced in a letter to stakeholders that in view of the regulatory change whereby electricity distribution utilities no longer required the Minister of Energy's leave to make an application to change their distribution rates, the Board would continue its review of cost allocation.

The Board recognized that prior to the implementation of incentive regulation plans, new cost allocation studies were required to be used to consider the need for adjustments to the share of distribution costs paid by various classes of shareholders. The Cost Allocation Review (RP-2005-0317) was based on the existing rate classifications and a limited number of rate design issues.

Once analysis of cost allocation filings identifies the actual share of costs of different classes of customers, the Board felt that it would be able to consider whether to direct distributors with significant variations between class costs and revenues to address the matter in future rate applications.

Similarly, once an analysis of the new cost allocation studies was complete, the Board could assess the cost basis of current monthly service charges, and consider whether adjustments should be made to address monthly service charge anomalies.

Comments of Energy Probe

Revenue to Cost Ratios

In the Board Staff Discussion Paper *On the implications arising from a review of the electricity distributors' cost allocation filings* (Staff Paper), beginning at Page 3 of 37, Figures 1, 3 and 4 present revenue to cost ratios. Although Figures 3 and 4 are meant to provide additional detail to that presented in Figure 1, it appears that different data underpins both graphs. For example, Figure 1 shows that some residential and GS<50 get distribution service for free, Figures 3 and 4 do not confirm this observation.

The boundaries for revenue cost ratios proposed in the paper for the major rate categories are:

- **residential: +/- 20%**
- **GS<50: +/- 20%**
- **GS>50: -20% to + 80%**

Energy Probe believes that these are acceptable in the near term, but that the Board should encourage movement toward unity and at range for residential and GS<50 of +/- 5% and GS> 50 of +/- 10% in the longer term.

With regard to street and sentinel lighting, the staff analysis has identified a major revenue to cost shortfall. Energy Probe believes that these rate classes should be brought closer to unity but suggests that, since many of the ultimate customers behind these rates may be institutional, it might be advisable to provide notice of rate changes well in advance of the implementation of the revised rate.

Energy Probe is supportive of the proposed approach to outliers, whereby rates within the approved range receive less scrutiny while proposals for rates with revenue to costs ratios outside of the approved range would require a justification by the applicant and a regulatory review.

Energy Probe is also supportive of the proposed approach whereby utilities are expected to maintain an overall revenue to cost ratio of unity.

Monthly Fixed Charges

The approach to fixed monthly charges presented in the paper identifies the minimum allocation as effectively a short-run marginal cost – that is only the meter, billing and collections costs. Energy Probe suggests that this minimum allocation is incomplete. The minimum allocation should also include the costs for the service drop from the street, customer care, and administration and general costs for regulation.

The upper limit for fixed monthly charges might include demand-related costs for rate classes without demand charges.

A Policy which moves toward an upper limit to fixed monthly charges reflecting all non-commodity charges will avoid all LRAM issues and dampen the earnings volatility of electricity distributors across the Province.

General Comment on Completeness

The Staff Paper reports that 65 filings were received, representing 90% of Ontario customers and annual deliveries. It is not clear why all regulated LDCs did not report, nor are the non-reporting regulated LDCs identified in the Staff Paper.

Respectfully submitted at Toronto, Ontario this 19th day of July, 2007.

Tom Adams

Energy Probe Research Foundation