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July 16, 2007

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

Re: EB-2007-0667 – LPMA Comments on Board Staff Discussion Paper

Please find attached three copies of the comments of the London Property Management Association on the EB-2007-0667 Staff Discussion Paper dated June 28, 2007.

Sincerely

Randy Aiken

Randy Aiken
Aiken & Associates

Attachment

EB-2007-0667

LONDON PROPERTY MANAGEMENT ASSOCIATION COMMENTS ON BOARD STAFF DISCUSSION PAPER ON THE IMPLICATIONS ARISING FROM A REVIEW OF THE ELECTRICITY DISTRIBUTORS' COST ALLOCATION FILINGS

The comments of the London Property Management Association ("LPMA") have been organized around the questions provided in ***Section 6 Summary for Discussion*** in the Board Staff discussion paper.

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

Short Term Targets

Board staff recommends class specific revenue to cost ratios for the short term as follows:

*	Residential	80% to 120%
*	GS<50 kW	80% to 120%
*	GS 50 to 4,999 kW	80% to 180%
*	Larger Load	80% to 180%
*	Sentinel & Street Lighting	70% to 120%.

In general, LPMA believes that these ranges are the upper limits that should be considered reasonable in the short term. At these levels there continues to be a significant amount of cross subsidization between rate classes that is taking place. However, given the existing range of revenue to cost ratios, the Staff recommendations are at least a starting point to get all utilities moving in the right direction.

LPMA believes there should be a clear mandate for the utilities that currently have utilities outside of the Staff recommended ranges (or any ranges that may approved for the short term) to move towards these ranges. Some utilities will likely be able to move to within these ranges as part of the cost of service filings that are due over the next few years. However, given the number of revenue to cost ratios that are significantly outside of these ranges, a phase-in will likely be required in order to mitigate the impact on some customer classes in some utilities. The Board should direct these utilities to file evidence

as part of their cost of service applications that would provide a plan to phase-in the necessary changes to get the outliers to the appropriate ranges. This plan should provide a specific time frame and the rate impact on customers.

LPMA further believes that for revenue to cost ratios that fall within the short term range recommended by Boars Staff, the status quo is not sufficient. The cost of service applications that will be filed over the next few years by all distributors provides the Board an opportunity to start the process of moving all rate classes in all utilities closer to revenue to cost ratios of 1.00. This process can take a number of years to accomplish. This is because it is often necessary to mitigate the impact on customers of significant changes to their rates. By starting the process at the earliest possible opportunity, the end state can be achieved that much earlier.

LPMA recommends that the Board direct utilities that have revenue to cost ratios that lie within the Staff recommended ranges, but outside of the long term range of 95% to 105% recommended by LPMA below, to file evidence as part of their cost of service applications that would provide a plan to move closer to the long term revenue to cost ratios.

Long Term Targets

LPMA believes that in the long term revenue to cost ratios for all rate classes should be in the 95% to 105% range. This ensures that all rate classes are treated the same and minimizes cross subsidization between customer classes. The range of +/- 5% around unity provides sufficient room to account for small changes in the cost allocation results that may result from the fluctuation in the cost inputs from year to year.

The above noted range is also similar to that for the regulated gas utilities in Ontario, especially for the residential, small commercial and small industrial customers that generally match the customers served by electric utilities under the residential and GS<50 kW classes.

LPMA believes that moving to this range should be done as quickly as possible, with consideration given to rate impacts. It should be noted, however, that because this is a zero sum game, mitigating the impact on customers where the rates need to be increased to get closer to a revenue to cost ratio of 1.00 by phasing in such a change over a number of years will necessarily result in longer transition periods for customers in those classes where the rates should fall to bring their revenue to cost ratios closer to 1.00. This is the reason that LPMA believes that the short term targets should be modified as described above. Movement of the utilities that are within the Staff recommended ranges toward the long term range would facilitate the move in a shorter period of time.

<u>What is the appropriate cost range to test the fixed monthly customer charge?</u>

LPMA agrees with Board Staff that the avoided costs should be the basis for determining the floor of the range of unit costs for comparison to fixed monthly charges. The avoided cost is a fairly accurate measure than can be relied upon.

LPMA does not agree, however, with the Staff recommendation that a maximum upper boundary of 20% above the ceiling defined in the Policy is reasonable. LPMA submits that the maximum upper boundary should be the ceiling defined in the Policy. Staff assert that their proposed maximum value reflects the sensitivity of the upper cost to the judgments in the cost allocation methodology. Adding 20% to the ceiling is just another judgment that is being applied.

Cost allocation models are subject to judgment. However, in this case, it is the same model that is being used by all distributors. As a result, the judgment is the same regardless of distributor. By increasing the ceiling by an artificial level of 20%, the Staff proposal will lead to inconsistencies between rates charge to customers in different utilities. As an example, a customer in one utility may be paying a fixed monthly charge that is at the estimated ceiling level of the range identified by the model for their utility. A similar customer served by another utility may have a monthly charge that is reduced to a level of 20% above the ceiling calculated by the model. The resulting rates could

therefore be substantially different from one another, even if the annual distribution costs to these customers are similar. The impact on the customer with a lower monthly customer charge is that they will have a higher delivery rate, making them more susceptible to changes in consumption that may result from the weather or conservation measures. It is inappropriate to set a maximum for the range above the ceiling defined in the Policy.

In the Discussion Paper, Staff also recommend that a distributor should bring all of its customer monthly fixed charges to the calculated floor at the time of its next rebasing rate application. LPMA suggests that this should be done with the rate impacts on small customers taken into account. As the Board is aware, increasing the monthly fixed charge by even a small amount can have significant rate implications for small volume customers. The Board has dealt with this issue many times over the last decade in the natural gas industry and has always strived to phase-in increases in the fixed monthly charge to mitigate the impacts on small volume customers. Distributors should keep this in mind when proposing any significant increase in order to bring the fixed charge up to the floor level.

LPMA is also concerned that significant changes to the fixed monthly charges may be premature at this point, beyond moving these charges to a minimum of the calculated floor. As shown in Table 2 of the Discussion Paper, a total of only 38 rates across the distributors have fixed monthly charges below the floor level. This compares to 152 rates with in the range and 157 rates above the range.

There is likely to be significant debate in the rate design process about whether the fixed monthly charge should be higher or lower than the floor or the ceiling or some other level. The impact on the business risk of the utility can be significantly impacted by the make up of it's fixed versus variable revenues. The impact on Conservation and Demand Management of the resulting variable delivery rates is also an important issue, as is the possibility for the design of rates to change significantly, especially for the heavily populated residential and GS<50 kW rate classes, with the introduction of smart meter

data for these customers. LPMA urges the Board to move slowly on changing fixed monthly charges until it has completed a comprehensive review of the options and their consequences. To do otherwise may only serve to confuse customers that may see a decline in the fixed charge one year or over several years, only to see that trend reversed and climb significantly a few years later.

<u>Should the establishment of a USL metering credit be based on an individual utility's costs?</u>

LPMA agrees with Board Staff's proposal that the establishment of metering costs for USL be assessed on each distributor's application, rather than having this credit based on a provincial average.

The metering credit in any given utility should be related to the costs of metering in that utility, not in any other utility and or the provincial average metering cost. Rates paid by any customer group, including USL customers, should be based on the utility costs to serve those customers. This principle applies to rates that customers pay and should also apply to credits that customers may receive.

LPMA further recommends that the calculated value for metering costs in the individual cost allocation studies should be used by the utility in setting rates for unmetered scattered load customers. In the absence of any other information, this is the best estimate available of the avoided metering costs for these customers in each individual utility. If a utility proposes to use some other figure, the utility should be required to provide justification from deviating from the cost allocation model estimate, and provide an estimate of the impact on other customer classes. In other words, if the metering credit is higher than that from the model, the utility should quantify and explain why other customers should make up this difference. Similarly, if the metering credit is less than that from the model, the utility should quantify and explain why the USL customers should not get the full credit.

Should the establishment of a transformer credit be based on an individual utility's costs?

LPMA agrees with the Staff proposal that the transformer credit should be set based on each distributor's application, and not on a provincial average. The reason for this is the same as those for the metering credit for USL customers discussed above. The individual utility costs are the costs that should be reflected in the transformer credit. While the calculation of these costs in the cost allocation model are complex and may be subject to more uncertainty than other estimates, it is still the best estimate available to all parties.

LPMA recommends that it may be worthwhile to investigate what could be done to firm up the information used for the line transformer non-coincident peak allocator.

Should the determination of appropriate Stand-by rates for customers with load displacement generation be based on an individual utility's costs?

LPMA does not believe that there is any reason why the fully allocated costs should or could be the same across a number of utilities. As a result, LPMA agrees with the Staff comment that the determination of a uniform average value and requiring the distributors to adjust the Standby charges to that value is not feasible. LPMA also believes it would not be appropriate. Again the charges should reflect the utility specific costs, or in this case the specific class revenue requirement for customers with load displacement generation.

Cost Account Inputs

In addition to the questions posed by Board Staff, the discussion paper discusses the difference between the detail in the USoA accounts and the detail required by the cost allocation model.

LPMA has been a long time proponent of changing the USoA accounts to reflect the needs of the distributors, the Board and intervenors. LPMA recommends that the Board should take a lead role in updating the USoA accounts to take into account the level of

detail required for a number of purposes, including cost allocation. LPMA notes that the level of detail and the consistency of the detail across utilities have been raised as issues in a number of areas, including smart metering and benchmarking. The sooner the USoA is updated to reflect the various needs that have been identified the sooner the results of the cost allocation model, for example, will be seen as increasing in reliability and acceptance.