

*Response to Board Staff Discussion Paper on
the Implications Arising from a Review of the
Electricity Distributors' Cost Allocation*

Filings

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1 BACKGROUND

Rogers Cable Communications Inc. ("Rogers Cable") is an integrated cable and communications company that receives electricity for its power supplies from distributors throughout Ontario. Rogers Cable uses power supplies in its cable network to energize its cable signal amplifiers. The power supplies are connected to the distribution network at a number of different points, and are unmetered in most distribution systems.

In each distributor's territory where Rogers Cable operates, its power supplies consume electricity in essentially the same manner. However, differences in the rates that distributors charge produce significantly different bills. The 2006 EDR process resulted in a consensus proposal which was adopted as an interim solution to address the wide variation in distribution rates applied to unmetered scattered load ("USL") customers by different local distribution companies ("LDCs"). The Board made it clear that this interim measure was not based on any particular rate making principles, and was merely a temporary solution pending further review.

Subsequently, Rogers Cable participated to the full extent allowed in the Cost Allocation Review stakeholder process, which was completed in 2006. This process resulted in information filings by all distributors following the methodology determined by the Board. It is the submission of Rogers Cable that the results of these information filings (the "filings"), together with identification of appropriate principles in the Rate Design review which is currently in progress, finally provide the basis for developing a long term solution to the outstanding USL issues in a manner that will result in just, reasonable and consistent rates for USL customers.

Rogers Cable agrees with the conclusions of the Staff Discussion Paper, which indicate on a brief analysis of LDCs with unique USL rates that revenue/cost ratios for this grouping tend to show a pattern of over-contributions. However, we believe that the further analysis described herein will illustrate and clarify the filing results with respect to USL as well as raising appropriate issues and questions, and believe that the following results and analysis will be of assistance to Staff and the Board.

2 METHODOLOGY

Rogers Cable reviewed and analyzed the results of those LDC filings that it has been able to obtain either in electronic or printed form. This data, in conjunction with rate data for 2006 contained in either the 2006 or 2007 rate models of the LDCs, constitutes the basis of the computations that will be presented herein.

Filings from 37 LDCs were obtained and reviewed. The filings of two LDCs were eliminated from the data set because these LDCs are amalgamated and, as of 2006, not yet harmonized as to rates, making the comparative computations too complex for the time available. This reduced the main data set to 35 LDCs. As will also be noted in the later discussion, three of the filings are excluding from certain of the comparisons and summaries made below, because they reported zero or nearly zero distribution revenue from USL in their Run 2 analysis, despite the fact that they indicated connections and kWh consumptions for this customer grouping, and allocated costs to it. In a small number of other cases, although some distribution revenue was included in computation of the revenue/cost ratio, the amount of revenue is very different from the figure that would be computed by applying the LDC's rate, as per its rate model, to the number of connections and load. The reasons for this are not known to Rogers Cable or its advisors at the present time. The data was accepted for purposes of this analysis; however, we believe that clarification should be obtained before final conclusions are drawn based on the filings in these specific LDCs.

Computations involving the unit meter cost computed in Schedule O-3.5 of the Model were made. This data was not available for seven of the LDCs in the data set, and so these LDCs are excluded from computations involving unit meter costs. Six of the LDCs among the 35 appear to have unique rates for USL. These were excluded from the portion of the analysis which computes the impact of implementation of a 50% reduction in monthly fixed charges on an interim basis.

In the filings, Run 2 involved separation of USL from the class of GS<50 kW for those LDCs that do not otherwise define USL as a separate rate class. We collected, from Run 2 of each filing, the revenue/cost ratios for the GS<50 kW class (metered) and for USL. We then computed USL revenue based on the 2006 rates of each LDC as indicated in their 2006 or 2007 rate model, and the number of kWh and connections included either in the filing or in the LDC's 2006 rate model, as available. This was done to confirm whether it appeared that the rates were being applied to the consumption as would be expected.

Note was made of the cases where the monthly charge for USL included in the LDC's rate schedule was significantly different from the 50% of the GS<50 monthly charge, or where the variable charges applicable to metered GS<50 kW and to USL are different. In several cases, the rates indicated in the rate model did not reflect the 50% reduction, yet in such cases the revenue/cost ratios were different (generally lower) than what would have been obtained by applying the rate in the rate model. This may indicate that a 50% approach was applied by these LDCs in billing, but not reflected in its rate schedule; however, it is not clear whether USL is receiving the benefit of the 50% reduction in monthly fixed charges in all LDCs. In a number of cases it was also found

that the level of variable charges was different for USL than for metered customers. The level of the variable charges, as well as the fixed charges, is a significant factor in the level of total bills and in resulting revenue/cost ratios.

The GS<50 kW class rates per the rate model were then applied to the USL class to determine what the revenue and revenue/cost ratio would have been, had those rates been applied to the USL customers without modification. And finally, where the data were available, we subtracted the computed meter credit amount from the GS<50 monthly charge, and used the net amount, with the GS<50 variable charge, to compute revenue, and a revenue/cost ratio for the USL customers. The purpose of this was to give a sense of the impact on relative revenue/cost ratios if USL were to continue to be treated as part of the GS<50 kW class, but receive a billing credit based on the computed meter-related costs, per customer per month.

3 RESULTS

3.1 *Application of the Unmodified GS<50 kW Rate to USL*

Table 1 shows, in order from lowest to highest in the sample of 35 LDCs, the Run 2 revenue/cost ratios of the GS<50 kW class, compared for each LDC with the revenue/cost ratio that would be achieved if USL customers were exposed to the unmodified GS<50 kW rates, *as they were in most LDCs prior to the negotiated interim solution which resulted in a 50% reduction to USL in fixed charges effective commencing in 2006.*

Table 1 – Comparison of Revenue/Cost Ratios of Subclasses at GS<50 kW Rates

R/C Ratio GS<50 per Run 2	R/C Ratio USL Computed from GS<50 Rate	Difference	
64.56%	89.08%	24.53%	
65.19%	100.46%	35.27%	
81.23%	229.47%	148.25%	
81.75%	193.74%	111.99%	
82.72%	178.56%	95.84%	
86.33%	67.49%	-18.84%	
87.69%	193.58%	105.88%	
90.28%	76.88%	-13.39%	
91.08%	31.84%	-59.24%	
92.58%	146.63%	54.05%	
96.90%	147.70%	50.80%	
97.52%	137.79%	40.27%	
97.96%	192.18%	94.22%	
98.06%	239.07%	141.01%	
98.08%	316.35%	218.27%	
99.10%	60.41%	-38.69%	
101.43%	237.24%	135.81%	
103.75%	86.77%	-16.98%	
105.06%	270.49%	165.43%	
109.11%	199.23%	90.12%	
109.71%	159.55%	49.84%	
111.99%	91.70%	-20.29%	
112.93%	158.25%	45.32%	
113.86%	129.99%	16.13%	
114.98%	195.67%	80.69%	
121.51%	204.67%	83.16%	
121.85%	220.36%	98.51%	
122.17%	120.14%	-2.03%	
122.38%	252.44%	130.06%	
124.31%	144.35%	20.04%	
126.84%	368.75%	241.91%	
129.77%	159.46%	29.68%	
129.77%	131.50%	1.73%	
130.98%	117.43%	-13.55%	
182.95%	289.85%	106.90%	
Average	105.90%	169.69%	63.79%

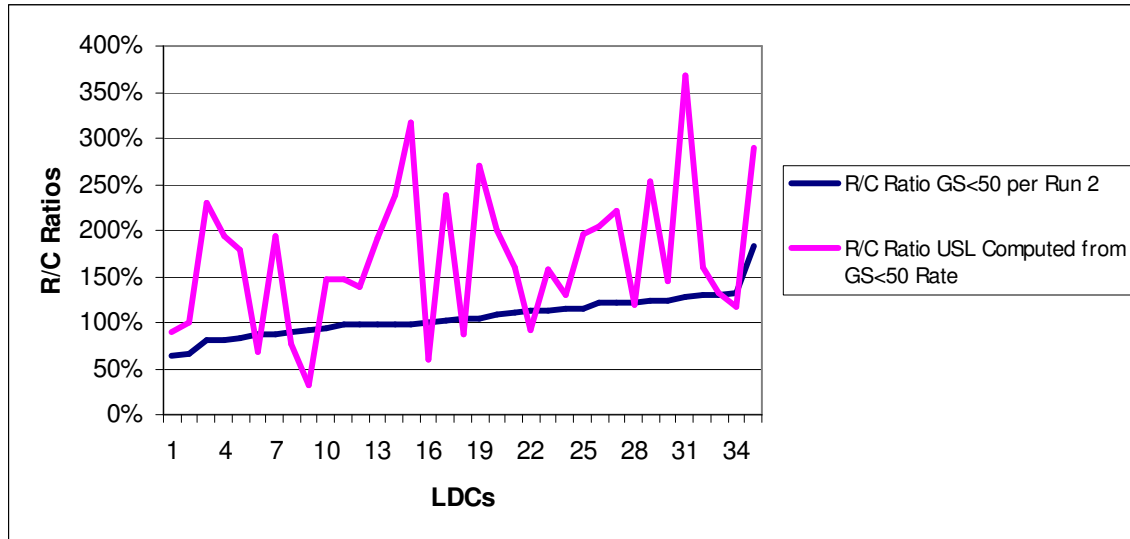
For 16 or nearly half the LDCs, GS<50 kW class is below 100% revenue/cost ratio, and in only two cases does it exceed 130%. The average revenue/cost ratio for metered GS<50 kW customers across all LDCs in the sample is 106%. By contrast, the revenue/cost ratio for USL at these rates would be below 100% in only 7 cases, and in 10 of 35 cases it exceeds 200%. The revenue/cost ratio of USL at the full GS<50 rates exceeds that for the metered customers in all but 7 cases, and with these 7 negative examples included, the average differential is 64%. In some cases the difference between the two ratios exceeds 200%. The average revenue/cost ratio for USL at these rates is 170%.

All 35 LDC filings in the main data set were included for purposes of this table, accepting as correct the allocation of costs made by the LDCs. However, it is noted that in a small number of cases, the revenue/cost ratio for USL (based on the unmodified GS<50 kW rate) is lower than the ratio for metered customers. This is not only inconsistent with the pattern in the majority of the LDCs that were reviewed, it is counterintuitive given that USL customers would not receive an allocation of meter-related costs. We therefore suggest that the filing data for these LDCs be re-examined before relying on it for local rate decisions.

We conclude that the GS<50 kW rate in unmodified form is clearly inappropriate for application to USL customers, since it results on a relatively consistent basis, in a different and much higher level of contribution by USL as compared with metered customers (170% as compared with 106%).

Figure 1 shows the same comparison in graphic form.

Figure 1 – Comparison of Revenue/Cost Ratios of Subclasses at GS<50 kW Rates



3.2 Modification to the GS<50 kW Rate

In reviewing the results of modifications to the GS<50 kW rate for application to USL, we suggest that inquiries be made to clarify some of the results reported by LDCs in their filings.

A number of LDCs in the sample assigned zero or near zero distribution revenues to USL class, which would not be expected from a review of their rate models. We suspect that these are errors, and these LDCs have been eliminated from Figure 2. We are assuming that other smaller anomalies result from conditions of the rate that were not apparent from our review, but it is also possible that these are errors or atypical conditions that should be corrected before basing decisions on the filings.

Figure 2 shows the revenue/cost ratios of the LDCs for USL as set out in Run 2 for the main data set, excluding the LDCs which reported zero or nearly zero distribution revenues, and also excluding 6 which appear to have unique USL rates.

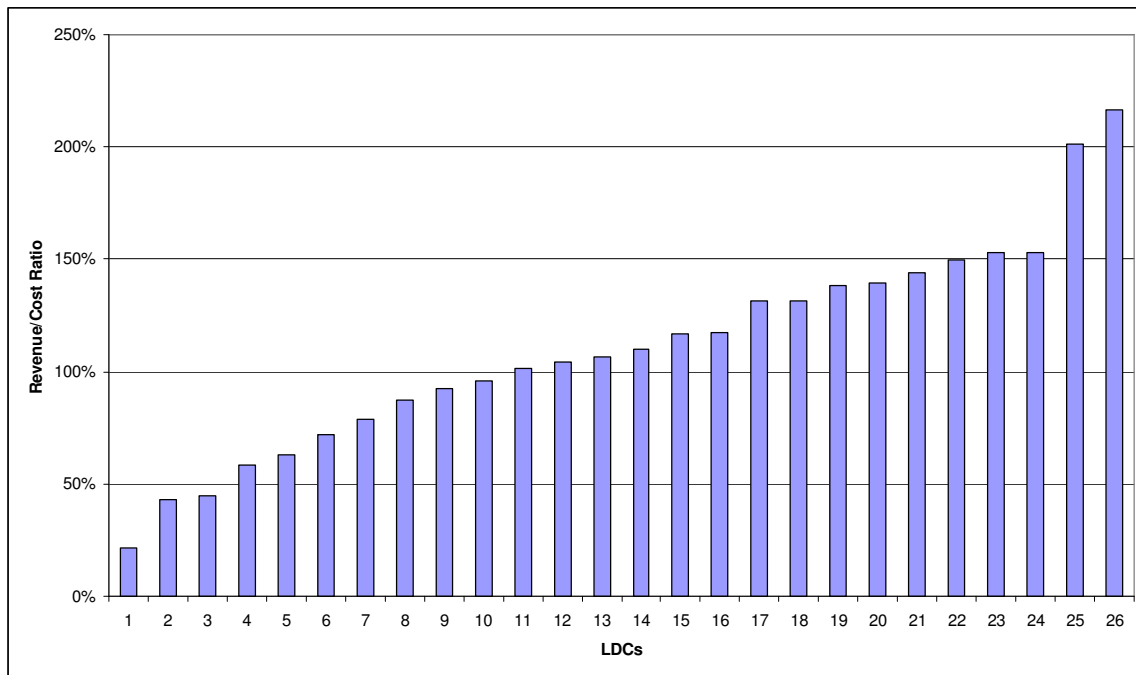
The LDCs with unique USL rates were analyzed and reported on in the Staff Discussion Paper, Section 3.4.3. Staff concluded on page 20 that "there appears to be a tendency

for the ratios to be to the right of 100%". Our analysis therefore focuses on the effects of the 50% reduction in monthly services charges for those LDCs without unique rate.

Board Staff, at page 20 of the Discussion Paper, suggest that "the range for the USL class should be the same as the GS<50 class". We concur with this recommendation. Board Staff also suggest that "a range of +/- 20% of unity (i.e. 80% to 120% is reasonable". Only seven LDCs out of the 26 that were analyzed, and which do not have a unique USL rate, have USL revenue/cost ratios on this basis which are below 80%, and in ten of the LDCs, the revenue/cost ratio exceeds 120%. The average revenue/cost ratio for the group is 110%, at the high end of the range suggested by Board Staff.

Board Staff's suggestion would establish up to 40% relative rate differentials (80% to 120%) as acceptable. Some other regulators have defined the range of reasonableness for class revenue/cost ratios more narrowly, for example as +/- 5% of unity or 95% to 105%. In the view of Rogers Cable, differentials of more than 10% are not just and reasonable, and we strongly recommend that all classes in all LDCs be moved to revenue/cost ratios close to unity as soon as can be done without rate shock.

Figure 2 – USL Revenue/Cost Ratios from Filings Run 2



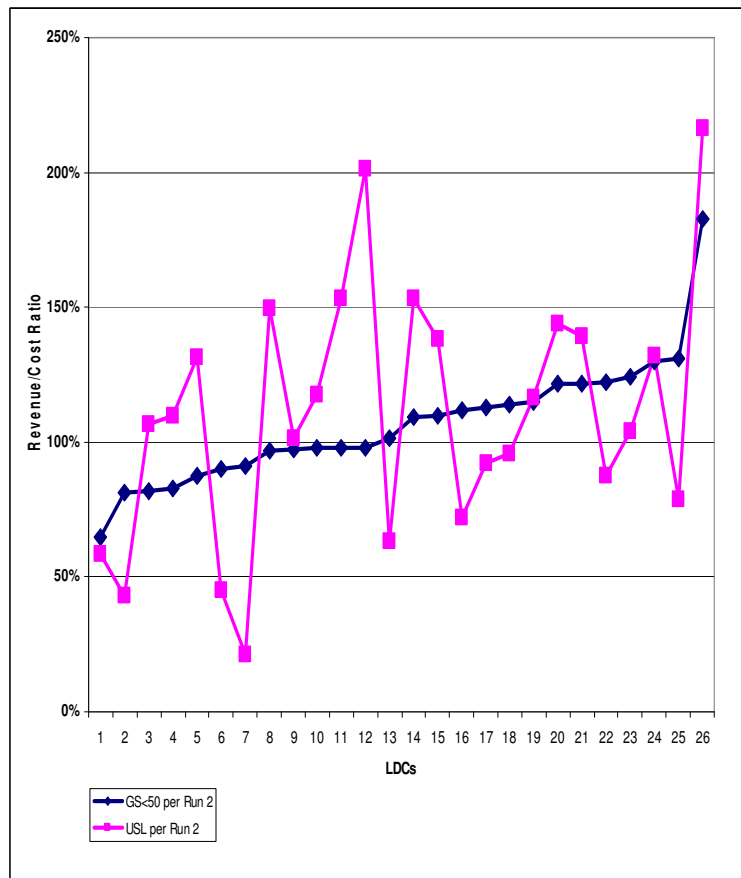
The impact on the relative revenue/cost ratios of metered GS<50 kW customers and USL customers of a 50% reduction in monthly fixed charges is dependent on a number of aspects of the rate, including the component of total bills represented by the fixed charge. As a result, the pattern of differences is not consistent. Table 2 compares the Run 2 revenue/cost ratios for USL (which are presented in graph form as Figure 2) with the Run 2 revenue/cost ratios for metered GS<50 kW customers for the same LDCs. For USL, the Run 2 results in these LDCs were assumed to reflect a modified GS<50 kW rate with a 50% reduction in monthly fixed charge. The average revenue/cost ratio is 110%.

We believe that it should be a goal of any rate adjustments that are made as a result of the filings, or of further cost allocation analysis at a later date, that the revenue/cost ratios for all classes of customers should be within a band of 95% to 105%, and that the revenue/cost ratio for USL should not be significantly different from the revenue/cost ratio for metered small general service loads. On average, the 50% reduction approach achieves a revenue/cost ratio which is at the high end of Board's Staff's suggested range, and well above the range that we would recommend. Furthermore, the extreme variability among LDCs is highly undesirable.

Table 2 – Comparison of Revenue/Cost Ratios for GS<50 kW and USL, From Filings Run 2

	GS<50 per Run 2	USL per Run 2
	64.56%	58.24%
	81.23%	42.85%
	81.75%	106.77%
	82.72%	109.69%
	87.69%	131.45%
	90.28%	44.85%
	91.08%	21.48%
	96.90%	149.52%
	97.52%	101.22%
	97.96%	117.38%
	98.06%	153.04%
	98.08%	201.39%
	101.43%	62.90%
	109.11%	153.20%
	109.71%	138.26%
	111.99%	71.89%
	112.93%	92.30%
	113.86%	95.67%
	114.98%	116.70%
	121.51%	143.71%
	121.85%	139.36%
	122.38%	87.52%
	124.31%	104.24%
	129.77%	131.76%
	130.98%	78.89%
	182.95%	216.54%
Avg	106.75%	110.42%

Figure 3 – Comparison of Revenue/Cost Ratios for GS<50 kW and USL, From Filings Run 2



Another potential approach to modification of the GS<50 kW rate for use by USL would be to apply a credit based on monthly per customer meter-related costs. An amount was computed by each LDC as part of its filing.

Table 3 compares the revenue/cost ratios which we computed using this approach, with the revenue/cost ratios for USL from the LDCs' Run 2. Some of the inconsistency within LDCs reflects a comparison with a unique USL rate in the Run 2 figures, and some is due to the difference between the reduction in fixed charge computed on the meter credit basis and the reduction computed as 50% of the GS<50 kW monthly fixed charge. The computed unit meter cost for the LDCs in the sample group ranges from \$3.07 to \$12.79, and averages \$7.35. Monthly fixed charges for the GS<50 kW rate for this group of LDCs average \$20.20 per month, so that a 50% reduction would average \$10.10 per month, if applied uniformly by all the LDCs.

Note that the Run 2 column averages lower for USL in this table than the Run 2 column of Table 2. This results from the elimination from the data set, for Table 3, of the LDCs for which no meter unit cost data was available. This included several of those for which the Run 2 USL revenue/cost ratio was among the highest in the group.

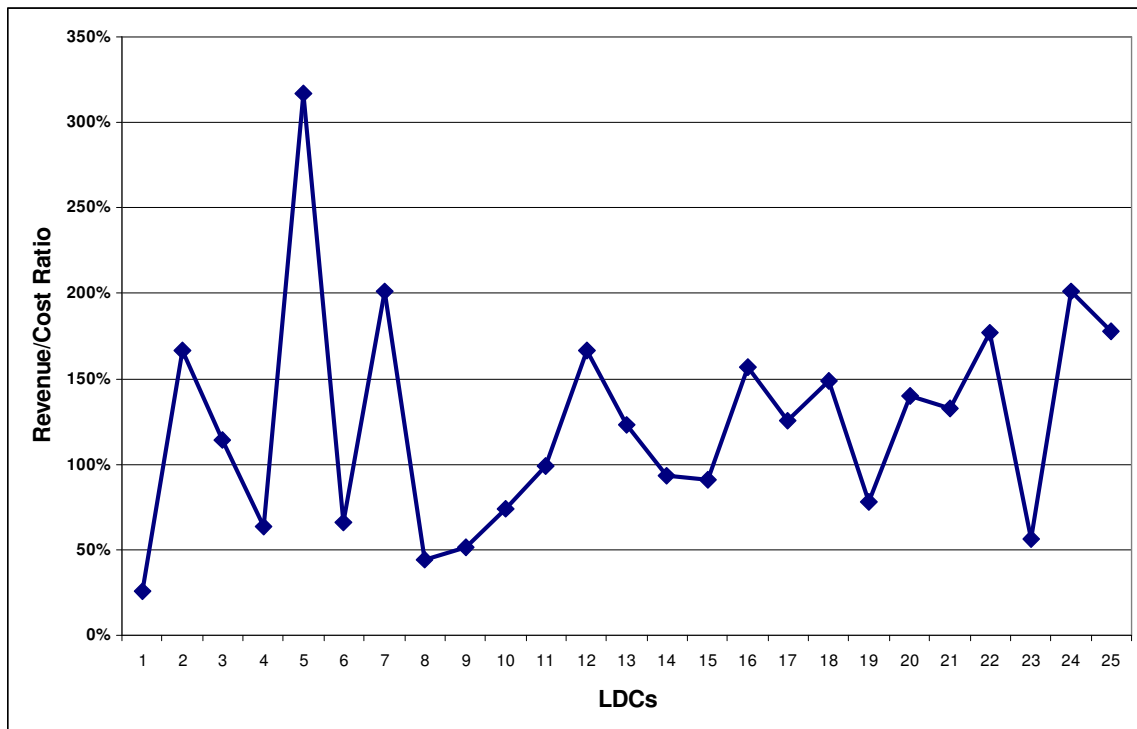
Table 3 – Comparison of Run 2 USL Revenue/Cost Ratios with USL Revenue/Cost Ratios computed on Basis of GS<50 kW Rate with a Meter Credit

R/C Ratio USL per Run 2	R.C Ratio USL Using GS<50 Rate and Metering Credit
101.22%	93.08%
104.24%	90.97%
138.26%	139.96%
21.48%	25.37%
92.30%	123.15%
62.90%	201.52%
44.85%	63.86%
106.77%	156.96%
87.52%	166.33%
78.89%	98.94%
42.85%	166.92%
153.04%	201.34%
56.93%	316.88%
117.38%	125.32%
71.89%	73.68%
143.71%	177.06%
131.45%	149.12%
131.76%	77.93%
66.30%	44.04%
152.18%	56.53%
139.36%	132.45%
153.20%	177.50%
43.01%	114.25%
58.24%	65.84%
71.36%	51.37%
Average	94.84% 123.61%

On average, the revenue/cost ratio for USL achieved by this approach is outside an acceptable range, even if the less stringent criterion recommended by Board Staff is accepted, and the extreme variability is also highly undesirable.

Figure 4 shows the revenue/cost ratios for USL computed using the metering credit (data from Table 3) in graphic form, to demonstrate the variability of results in different LDCs.

Figure 4 – USL Revenue/Cost Ratios computed on Basis of GS<50 kW Rate with a Metering Credit



4 CONCLUSION

In our view, the results of the LDCs' cost allocation information filings show that applying the GS<50 kW rate to USL customers without modification, as was the case in most LDCs prior to implementation of the 50% reduction in fixed charges as an interim measure in 2006, leads both to excessive variability in revenue/cost ratios among LDCs, and also to a pronounced pattern of over-contribution by USL both in absolute terms and relative to metered small general service customers. In many individual cases and on average, the level of over-contribution greatly exceeds a reasonable range of acceptable revenue/cost ratios, even by the criteria suggested in the Discussion Paper (range of 80% to 120%). By a narrower interpretation of the "range of reasonableness" concept (95% to 105%), the level of over-contribution is even more pronounced.

In addition, Board Staff in the Discussion Paper have identified a pattern of over-contribution where the LDCs have a unique rate for USL.

Two approaches to modification of the GS<50 kW rate were examined:

- a 50% reduction in fixed monthly charge (which is currently in effect on an interim basis for those LDCs without a unique USL rate); and
- application of a meter credit in the amount of the unit meter-related costs computed in each LDC's filing.

The former method achieves more in terms of producing an acceptable average level of revenue/cost ratios for USL customers than the latter; however both fall short in that the level of variability among LDCs is very high. Modification of the GS<50 kW rate for application to USL would perpetuate the high level of variability in revenue/cost ratios that has been shown.

We believe that the variable as well as the fixed part of the rate needs to reflect the cost causation pattern of the customers in the class, and appropriateness of the entire rate design to a class of small, high-load-factor consumers should be reviewed. It is our view that the results of the filings strongly support the need for a separate rate classification for USL, with its own rates that will result in appropriate revenue/cost ratios for USL customers in each LDC which are just, reasonable and consistent.