

**Ontario Energy
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**Commission de l'énergie
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BY E-MAIL AND WEB POSTING

August 5, 2011

**To: All Rate-Regulated Licensed Electricity Distributors
All Participants in Consultation Process EB-2010-0219
All Other Interested Parties**

**Re: Review of Electricity Distribution Cost Allocation Policy
Issuance of Revised Cost Allocation Model
Board File No.: EB-2010-0219**

Today the Ontario Energy Board (the "Board") issued its revised cost allocation model ("CA Model") that reflects the changes required to implement the revisions to the Board's policy as set out in the *Report of the Board: Review of Electricity Distribution Cost Allocation Policy* (the "Cost Allocation Report") issued on March 31, 2011. The revised CA Model is to be used for cost of service applications starting with the 2012 rate year. The revised CA Model and associated documentation are available on the Board's website at www.ontarioenergyboard.ca.

The revised CA Model is being issued to facilitate the preparation of cost of service rate applications. The Board reminds distributors that they remain fully responsible for filing rate applications that are complete and accurate. Notwithstanding use of the CA Model, the material presented is the applicant's evidence and the onus remains with the distributor to demonstrate to the satisfaction of the Board that the proposed rates are just and reasonable.

Background

By letter dated September 2, 2010, the Board initiated a consultation of limited scope to review certain elements of its electricity distribution cost allocation policy. The focus of this consultation was to determine the need for and nature of any update and refinement to the following elements of the Board's electricity distribution cost allocation policy:

- To take into account the creation of the microFIT rate class;
- To refine the following specific components of the cost allocation methodology:

- Cost allocation to unmetered loads (i.e., unmetered scattered loads, street lighting and sentinel lighting);
- Treatment of the transformer ownership allowance;
- Allocation of miscellaneous revenues;
- Weighting factors for services and billing costs; and
- Allocation of host distributor costs to embedded distributor(s).
- To review options for allocating costs to load displacement generation;
- To refine the three widest target ranges, which are associated with the following rate classes: General Service 50 to 4,999 kW, Street Lighting, and Sentinel Lighting; and
- To address accounting changes and the transition to International Financial Reporting Standards (“IFRS”).

The Cost Allocation Report set out a number of revisions to the Board’s electricity distribution cost allocation policy relating to the above.

Revisions to the CA Model

The revisions to the Board’s policy contained in the Cost Allocation Report gave rise to the need for changes to the CA Model. In its March 31, 2011 letter accompanying the Cost Allocation Report, the Board announced that a Cost Allocation Working Group (the “CA Working Group”) would be established to assist Board staff in developing the changes to the CA Model that are required to implement the revisions to the Board’s cost allocation policy. The implementation matters to be addressed by the CA Working Group included changes to the CA Model that are intended to:

- facilitate the calculation of microFIT administrative costs, including interest and net income components;
- enable an improved allocation of miscellaneous revenues;
- facilitate appropriate distributor-specific weighting factors;
- streamline the treatment of the Transformer Ownership Allowance; and
- accommodate possible changes due to the transition to IFRS accounting.

The Board also identified the provision of input on the development of supporting documentation to clarify the proper use of the CA Model by distributors with respect to the above as an additional implementation issue.

Board staff and the CA Working Group developed a revised CA Model accordingly, and a detailed description of the revisions to the CA Model is set out in Board staff’s *Report to the Board: Implementation of the Revisions to the Board’s Electricity Distributor Cost Allocation Policy*, which is also being released and posted on the Board’s website today.

In addition to addressing the implementation issues identified by the Board in its March 31, 2011 letter, Board staff and the CA Working Group also updated the CA Model for

greater consistency with the current filing requirements for cost of service applications. The Board accepts the revised CA Model developed by Board staff and the CA Working Group.

The Board wishes to express its appreciation to the members of the CA Working Group and others who have assisted in the development and testing of the revisions to the CA Model.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary