Cost Allocation Work Group Meeting Notes

May 27, 2011

1. Preliminaries

The meeting convened at 9:20 in the West Hearing Room, following some difficulties with computers and monitors. All members of the working group and consultants were present. OEB staff present were Christie Clark and Neil Mather.

For each of the following topics, Andrew and Mike described the changes already made to the model, (version 2.1a).

2. MicroFIT

Andrew described the changes made to the model with respect to General Plant financial costs, amortization, working capital and administration costs

Discussed whether the model could be adapted for distributors that have more than one residential class (Hydro One, distributors that have merged). Decided that the standard model should produce only one amount in worksheet O 3.6, and that staff or consultants of the affected distributors will be able to adapt the model to suit a particular cost-of-service application.

Actions: 1. Mike to re-order paragraphs in documentation to clarify how the allocation of meter-related costs to residential class will be used.

2. Neil to clarify with Regulatory Audit what is intended in the FAQ re sub-accounts, and ensure that the Filing Requirements are consistent with the documentation.

3. Miscellaneous Revenues

- Neil confirmed that no change is planned in the Filing Requirements for the calculation of Late Payment revenue – three year history of actual revenue
- Pole access revenue to be credited by means of a new allocator, based on the allocation of pole costs Account 1830, without distinguishing primary and secondary voltage.
- Standard Supply Service revenue is recorded in a sub-account of account 4080, which needs to be allocated in the model because it is treated as a revenue offset. Simple number of customers would be appropriate, unless there is a really substantial number of customers not on SSS.
- Revenue to a host distributor from an embedded distributor is in a sub-account of account 4080, and is not a revenue offset. The Filing Requirements state that embedded distributors are to be treated as a customer class in the cost allocation information, regardless of whether a distinct rate will be applied or a rate shared with other customers (eg. GS > 50 kW).
- Allocation of revenue from the Account Set-up specific service charge (sub-account 4235-1): In the existing model, the whole account 4235 is allocated by

CWNB, which is also the allocator for Billing costs 5315, Collecting costs 5320, and Collection Charges 5330. The discussion was that much of the cost of account set-up is in the call centre, and there may not be a uniform practice on whether such cost is recorded with collecting, general administration, or other. **Action:** Chris and Henry to check how it is recorded in their operations.

- With new allocators to be applied to certain accounts and new sub-accounts, the user will be required to designate the allocator account by account. This should be done on an Input worksheet, not an Exhibit worksheet such as E2 or E4.— unlike the current model in which the user implements such changes on E4. **Action:** Andrew to design a means of doing avoiding inputs in E4..

4. Treatment of Transformer Ownership Allowance Issue Discussion

Neil to take suggestion that tariff sheets should be clarified: if all customers in a class are required to provide their own transformer in the distributor's Conditions of Service, the tariff sheet should be clear that the TOA does not apply to that class.

5. Weighting Factors

Default inputs (brown background) are replaced with blank inputs (green background) in all cases. Default values will be available as a look-up.

5a. Services,

Neil showed an example using the Streetlight class. **Action:** modify the example to show GS>50 class rather than streetlights, due to overlap with separate study per Board report.

There was discussion that the instructions on the worksheet should remind the distributor that the weighting factor is for Account 1855 only, and should include a summary of the account description. To the extent that there are differences in how distributors post their costs to Lines versus Services, and differences in what is provided in the conditions of service, we may observe in future filings a wide variety in weighting factors in place of the default values.

Group agreed that, as a practical matter, replacement cost values should be used in this and other weighting factors.

5b. Meter Capital

Agreed that replacement cost is appropriate for weighting factors

5c. Billing and Collecting

Discussion centred on the fact that the single weighting factor applies to both billing and collecting, but the description of the default weights has covered only the former. The instructions need to be clear that the applicant should consider both aspects when determining the weights.

6. Transition to IFRS

Neil reported on a conversation with Regulatory Audit, with the conclusion that no new specific accounts are planned. The impact of IFRS will be in how various accounts are reflected in the revenue requirement. There was agreement that some placeholders should be available for the sake of flexibility, primarily in the O&M range of accounts. **Action:** add one placeholder account in 1800 range and three placeholder accounts after the expense-related accounts.

7. Net Fixed Asset allocators

Neil summarized the difference between the NFA-ECC and NFA allocators, indicating that the former is based on larger numbers for Gross FA and accumulated amortization, and the latter on smaller numbers. This is confusing because the E in ECC stands for "excluding" capital contributions. **Action:** Neil undertook to verify that the allocators are being calculated correctly, provide a rationale, and to test the idea of clearer naming for one or both allocators.

8. Streetlights

Instructions need to distinguish clearly between fixtures and connections, with the latter being relevant for the Services weighting factor.

Number of fixtures is a necessary input for the calculation of class revenue, because most distributors have a fixed charge per fixture.

9. Testing the model:

It was agreed that the group should accept Anthony Lam's offer to test the model with Toronto Hydro data, along with Chris with Waterloo North data and Henry as much as possible with Hydro One data. Note: in subsequent discussion Bruce Bacon also agreed to test the model and to attend the next meeting.

10. Revisions to the model:

- References to EDR to be removed. Replaced as much as possible with references to RRWF.
- Print macros to match the updated Filing Requirements would be helpful.
- Improved headers for each sheet, especially those required for hard copy filing.
- Make diagnostic tests less sensitive -- $10 threshold
- Ensure that LV cost incurred by an embedded distributor is included in the calculation of working capital, but does not affect the total revenue requirement directly.
- Instructions to be added within the Excel model.
- **Action:** distribute a blank version of revised model to work group and testers.