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The Secretary
Ontario Energy Board
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Cost Allocation Review, Comments on select issues,
File EB-2005-0317

This is in response to the request dated August 21 for comments on select issues. I wish to comment only on item 3, being the proposal by Board staff that all LDC CDM costs be allocated by participant customer class. Three hard copies are enclosed. An e-mail copy in Word format has been sent.

**Background to Comments
Minister's Directive to OPA**

Based on the Minister's Directive to the OPA dated July 13, 2006, it is apparent that the role of LDCs and especially the funding mechanism for post Sept 2007 CDM programs will change significantly. LDCs will basically be contactors in the delivery of OPA CDM programs and will be paid by the OPA for their delivery costs through a "Global Adjustment Mechanism", presumably an add-on to the energy component of all customers in Ontario including those of LDCs and end-use transmission customers.

Symmetry With Natural Gas

The benefits of electricity CDM programs accrue to all customers, even though they as individuals or as a class may not have participated in the programs. Benefits include reduced or deferred transmission costs and lower commodity costs through reduced demand for a scarce commodity. Natural gas CDM programs in Ontario are driven by the profit maximization objectives of the gas distributors. Small reductions in Ontario's gas demand will have negligible effect on the North American commodity price. Hence, symmetry of regulation with the natural gas industry is not really appropriate for allocation of CDM program costs.

Variations in LDC CDM Programs

Many LDC CDM programs are not targeted to specific customer classes. Examples would be general system upgrades to reduce losses, Smart meter pilot programs, promotion of compact fluorescents and general branding and education programs. Others are open to both residential and small general service customers such as air condition control systems.

Future Use of CA Filings

The current CA filings of Ontario's LDCs are informational. However, they could be used as the basis for allocation of costs to customer classes for many years into the future. The loading of the current short term LDC CDM program costs by customer class could introduce a distortion into future cost allocation. That is, the costs of current CDM programs could be loaded onto the residential class in a way that is inconsistent with the way the OPA will be allocating future CDM costs. In fact, it is unlikely that LDCs will incur any significant CDM costs in future, as they will be financed from the \$400 million OPA fund.

Comments & Recommendations

Since the CA Review is to set a framework for future cost allocation among customer classes, it is recommended that you adopt a method for CDM cost allocation consistent with the way these costs will be allocated by the OPA in the foreseeable future. That is, they should appear in the consumption component as an equal amount per kwh or per kw amount for all customer classes. It is naive to say that a customer class to whom the CDM program is targeted is the sole beneficiary. Every customer benefits from the CDM efforts of others; hence all should pay.

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