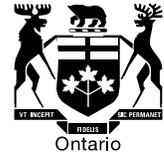


**Ontario Energy
Board**
P.O. Box 2319
2300 Yonge Street
27th Floor
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656

**Commission de l'Énergie
de l'Ontario**
C.P. 2319
2300, rue Yonge
27e étage
Toronto ON M4P 1E4
Téléphone: 416-481-1967
Télécopieur: 416-440-7656



BY E-MAIL AND WEB POSTING

August 21, 2006

**TO: All Licensed Electricity Distributors
All Participants in EB-2005-0317
All Other Interested Parties**

RE: Cost Allocation Review - Further Comments invited on select Issues

The Board wishes to thank stakeholders for the written comments received on the Staff Proposal issued June 28, 2006 regarding the Principles and Methodologies for the forthcoming Cost Allocation Review filings.¹

The Board has decided that it would be desirable to seek further stakeholder comments on the following issues before finalizing the common cost allocation review filing methodology, and associated filing model, in September 2006:

- 1) Load Data Requirements for Optional 3rd Run for Load Displacement Class;
- 2) Weighting Factors for
 - a) Number of Bills
 - b) Services (Account #1855); and,
- 3) Allocation of Conservation and Demand Management Costs.

1) Load Data Requirements for Optional 3rd Run for Load Displacement Class

In the optional Run 3, a distributor will have the option to model a separate rate classification for customers with load displacement facilities by adding actual or estimated metered generator load displacement to the metered usage (see pages 20-21 June 28 Proposal). To be consistent with the general load data approach used for the other rate classifications, the load data for this rate classification should properly recognize any generation diversity of the customers within the rate classification. In the case where there is more than one customer, the need to provide for a standby distribution service to these customers may not occur at the same time and, therefore, when a distributor is adding an amount

¹ The June Proposal and Comments received can be reviewed at the project web page:
http://www.oeb.gov.on.ca/html/en/industryrelations/ongoingprojects_costallocation_review.htm.

reflecting the load displacement facility to the metered usage, it should consider any diversity of the load displacement facilities in the estimate.

The Board would be interested in receiving comments on the inclusion of the following filing question (to be inserted under section 3.6.1 of the Report) to be answered by any distributor that will file a 3rd Run using the alternative method for modeling the “customers with load displacement facilities” rate classification.

“In your Run 3, if have you modeled a separate rate classification for customers with load displacement facilities, please provide an explanation as to the level of the displaced load that has been added to the metered usage (i.e. using actual or estimated data), including any recognition to reflect any diversity of the load displacement facilities among the customers?”

The comments would include whether the proposed filing question is reasonable and sufficient.

2a) Weighting Factors for Number of Bills

During the consultations, it was suggested a weighting factor be applied to the number of bills by customer classifications in order to reflect the relative costs and effort put into preparing and validating the bills for different customer classes. Applying weighting factors to the number of bills is a typical practice in cost allocation studies and has been implemented in many other jurisdictions. The Cost Allocation Working Group, however, did not have time to come up with weighting factors based on Ontario data. As a result, the June Proposal (see section 9.3.1.2 at page 62) simply proposed that the number of bills be used to allocate such costs.

Board staff proposes the following insertion at 9.3.1.2 in the Report regarding weighting factors for number of bills.

“Staff proposes that weighting factors be applied to the number of bills by customer classification in order to allocate those costs related to billing activities (including “billing, collecting, and associated supervision and customer care costs”).

The following weighting factors are to be used as default factors for billing costs:

Rate Classification	Weighting for Customer Bill
Residential	1
General Service < 50 kW	2
General Service > 50 kW	3
Large User	15

A distributor should enter distributor specific weighting factors into the cost allocation model if its actual Billing costs per rate classification are materially different (i.e. differ by 10% or more compared to the defaults) and supporting information is available and filed.”

The proposed factors are derived from a survey compiled by Board Staff’s cost allocation policy consultant using results from other jurisdictions.

The Board would be interested in receiving comments on the expansion of the proposed allocation to accommodate some form of weighting and whether the proposed factors are reasonable to reflect the Ontario circumstances.

2b) Weighting Factors for Services (Account #1855)

Stakeholders have requested that the allocation of Services (Account #1855) should be more fully addressed in the Staff Proposal.

This was another area in which Board Staff’s cost allocation policy consultant had previously undertaken a survey to investigate weighting factors commonly used. It is preferable on cost causality grounds that the costs associated with Services (e.g., depreciation, O&M, etc.) should be allocated to customer classes on a “weighted customer basis”. This would entail weighting the number of customers/connections in each rate classification by the average cost of a connection. Time did not permit the inclusion of factors reflecting Ontario data.

Board staff proposes the following insertion in the Report regarding weighting factors for Services (Account #1855).

“Staff proposes that weighting factors be applied to the number of customers/connections in each rate classification to reflect the cost of connection in each rate classification.

The following weighting factors are to be used as default factors for Services (Account #1855):

Rate Classification	Weighting for Services
Residential	1
General Service < 50 kW	2
General Service > 50 kW	10
Large User	30

A distributor should enter distributor specific weighting factors into the cost allocation model if their actual Services costs per rate classification are materially different (i.e. differ by 10% or more compared to the defaults) and supporting information is available and filed.”

The Board would be interested in receiving comments on the expansion of the proposed allocation to accommodate some form of weighting and whether the proposed factors are reasonable to reflect the Ontario circumstances.

3) Allocation of Conservation and Demand Management Costs (“CDM”)

In the June Staff Proposal (see section 9.3.4.2 at page 66), it was proposed that for the purposes of upcoming cost allocation filings, the capital and indirect or overhead costs would be allocated across all rate classifications based on a combination of the energy consumed and the demand used by the rate classification.

In the 2006 EDR Decision the Board decided that that capital and indirect operating CDM expenses would be allocated on a volumetric basis. Direct CDM expenses would be allocated directly to the benefiting customer class. In most cases, a distributor only had direct CDM expenses in the 2004 historical test year if any at all. This meant the 2006 EDR rate applications had most of the CDM expenses allocated directly to the customer classes that benefited from the CDM programs

Since the issuance of the original Staff Proposal, the Ministry of Energy has announced its direction to the Ontario Power Authority to invest an additional \$400 million in energy conservation over three years.

It should also be noted that in the Ontario natural gas distribution sector, DSM costs are allocated on the same basis as budgeted DSM spending by customer class. This allocation is applied to both direct and indirect DSM program costs.

As the CDM costs contained within the distributors’ test year trial balances to be used in the cost allocation filings are only a part of the overall CDM funding now available to distributors, and in order to maintain consistency between the

electricity and natural gas sectors, Board Staff now propose that all CDM expenses (both capital and direct and indirect operating expenses) must be allocated by participant customer class in the cost allocation review filings.

The Board would be interested in receiving comments on the proposed allocation for CDM.

Stakeholders wishing to provide comment on these revisions to the Staff Proposal are asked to file three paper copies and an electronic version (Word and PDF) with the Board Secretary by 4:30 p.m. on August 30, 2006. Electronic copies may be submitted on diskette or by e-mail to boardsec@oeb.gov.on.ca. The comments must quote file number EB-2005-0317 and include your name, postal address, telephone number, e-mail address and fax number.

This letter and all additional written comments received will be available for public inspection on the Board's website at www.oeb.gov.on.ca and at the Board's office during normal business hours.

If you have any questions regarding the above, please contact John Vrantsidis at 416-440-8122 or toll-free at 1-888-632-6273 or by e-mail at CAreview@oeb.gov.on.ca.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary