



# OEB COST ALLOCATION REVIEW

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## Direct Allocation of Demand-Related Costs

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# Joint Use Facilities

Where demand-related costs are incurred to jointly serve multiple classes of users, they will be allocated using NCP or CP

- Common approach elsewhere, as many differing customers can make use of the same Dx assets

# Dedicated Facilities

Where certain distribution facilities are dedicated solely to one customer OR one class of customers, such assets could be directly allocated in the cost allocation studies

- further tests proposed below

# Cost Causality

- Accurate cost causality important, as direct allocation could materially shift costs from one class to another
- Staff recommend:  
“Direct allocation would ... not be suitable where the customer takes advantage of other parts of the system”

# Fairness Concerns

Some advisory team members questioned if expansion of direct allocation would create winners and losers based on where any given customer happened to be located on the system

- tension with “postage stamp” principle

# Materiality

- Direct allocation may be more time consuming for utilities to properly document and for Staff to carefully review
- Direct allocation is not commonly applied to small ticket items
- Materiality test(s) to be developed for upcoming filings (during 3<sup>rd</sup> phase consultations)

# 100% Test

- Staff recommends that Direct Allocation be undertaken in present informational filings only where the asset is 100% used by a single user or class

# Other test(s)

A concern raised at the advisory team meetings about the 100% test

- Possible partial solution: Distributors identify and disclose in their upcoming informational filings those distribution assets which 90% or more serve a single user or class of users only
- Other approaches



# Supporting Engineering Information

- LDCs wishing to directly allocate facilities must include with their filings supporting system design information
  - for example, single-line diagram of the dedicated facility in question and the load associated with it

# Supporting Accounting Information

- LDCs wishing to directly allocate must include with their filings sufficient accounting information to support the segregation of the particular line or asset
- This requirement may be challenging; e.g. unless costs are kept at a feeder or asset level

# Further Implementation Issue

Caution re “double allocation”:

- Where direct allocation is used, the distributor must adjust the allocation factors so that the remaining joint costs will not be allocated to that class