



OEB COST ALLOCATION REVIEW

Project Objectives and Deliverables

Bill Rupert

Managing Director, Strategic Planning & Policy Development

Outline

- Project Team
- Purpose of Today's Meeting
- Background
- Project Objectives
- Project Deliverables
- Future Rate Implementation
- Comprehensive Rate Design

Project Team

- Board Staff:
 - Kirsten Walli - Project Manager
 - John Vrantsidis - Project Co-Lead
 - Pascale Duguay - Project Co-lead
 - Rose Deng - Model Assistance
 - Harold Thiessen - Rates Group Contact
 - Sarah Branco - Administrative Support
- Consultants:
 - Neil Yeung
 - Gary Saleba, EES Consulting (USA)

Purpose of Today's Meeting

- Discuss the planned consultation process for the Cost Allocation Review
- Explain the scope of the topics list on each phase of the project

Background

- Updated cost allocation studies were not required when rates unbundled by OEB
- Chair's March 9th 2005 letter outlined Board's major rate-setting initiatives over the next few years
- Confirmed a review of cost allocation will proceed

Background (Cont'd)

- Revenue requirement - sets reasonable size of pie
- Cost Allocation - fairly divides pie between classes
- Rate Design - fairness within class
- Rate Classification – sets appropriate classes

Project Objectives

- Identify with greater certainty the actual share of costs for serving the different classes of customers
 - Will allow Board and stakeholders to ascertain extent of any cross-subsidization

Project Objectives (Cont'd)

- March 9th 2005 letter advised cost allocation review to be based “primarily on the existing rate classifications and a limited number of rate design changes”
- Select potential rate classification changes:
 - Drop legacy class known as TOU
 - Add new class scattered unmetered loads
 - Consider adding new class embedded distributors
 - Consider adding new class for larger GS customers

Project Objectives (Cont'd)

- Collect information to allow subsequent review of fixed monthly service charge anomalies
 - Substantial changes to the fixed/variable distribution rate philosophy will be deferred

Key Project Deliverables

- Board Report on Cost Allocation Methodologies and Principles (March 2006)
 - Conclusions will guide development of mandatory filing requirements and model finalization
- OEB mandatory filing requirements (July 2006)
- OEB cost allocation model (July 2006)

Future Rate Implementation

- All distributors file new cost allocation studies (Fall 2006)
 - Informational filings
- Board review of public informational filings

Future Rate Implementation (Cont'd)

- After considering the filing results and the overall regulatory context, the Board will decide upon the priorities for adjustments
- Certain distributors may be directed to address specified matters in their 2007 or future rate applications

Comprehensive Rate Design Study

- Chair's March 9, 2005 letter announced separate comprehensive study of distribution rate design
- Discussion paper to be released 2006 Q1

Questions



OEB COST ALLOCATION REVIEW

Consultation Process

Kirsten Walli

Manager, Strategic Services

Overview of Consultation Process

- Submission on Planned Scope of Consultations
- Staff Discussion Paper
- Stakeholder Technical Workshop
- Technical Advisory Teams
- Stakeholder Comment on OEB Policy Proposals and Mandatory Filing Requirements

Submission on Planned Scope of Consultations

- Timing: July 27, 2005 for distributors other than those required to file their 2006 EDR Application by August 2, 2005
- Timing: August 8, 2005 for distributors required to file their 2006 EDR Application by August 2, 2005

Staff Discussion Paper

- Will identify major policy options and proposals
- Will guide initial discussions at the Technical Advisory Team
- Timing: September 2005

Technical Workshops

- Objective: Provide broad stakeholder input on concepts under development by staff
 - Attendance by all stakeholders
 - Provides opportunity for parties not involved in Advisory Team to participate

Technical Advisory Team

- Objective: Provide technical input to Staff
- Extensive technical knowledge:
 - Prior cost allocation experience
 - Prior rate design experience
 - Accounting and engineering expertise
 - Representation from across the Province
 - Varying size utilities and consumer groups

Consultation Phases

- Phase 1: OEB cost allocation principles and methodologies
- Phase 2: Select rate design and rate classification matters
- Phase 3: OEB filing requirements, model design, and data inputs

Policy Proposals

- Proposals to address:
 - OEB cost allocation principles and methodologies for electricity distributors
 - Select rate classification/design matters
 - Timing: January 2006
- Will be issued for written stakeholder comments

Implementation Proposals

- Proposal on OEB mandatory cost allocation filing requirements to be issued for stakeholder written comment
- Timing: May 2006

Stakeholder Cost Awards

- Board to decide on eligibility
- Costs to be awarded will be recovered from all licensed Ontario electricity distributors based on distribution revenues

Website

- See “Cost Allocation Review” page
(under OEB Key Initiatives section)
- Consultation process will build upon previous work
(see Load Data Collection Directions)
- 2000 Navigant Report to Board Staff on cost allocation methodologies
(see Cost Allocation Load Data web page)

Questions



OEB COST ALLOCATION REVIEW

Phase 1: OEB Cost Allocation Principles and Methodologies

Pascale Duguay

Senior Policy Advisor, Rate Development and Finance

Purpose of Cost Allocation

- To allocate the costs to provide service (revenue requirement) to the various customer categories (rate classes) based on cost causation principles
- Serves as a guide for rate design
- Other principles or objectives may be considered by regulators when setting just and reasonable rates

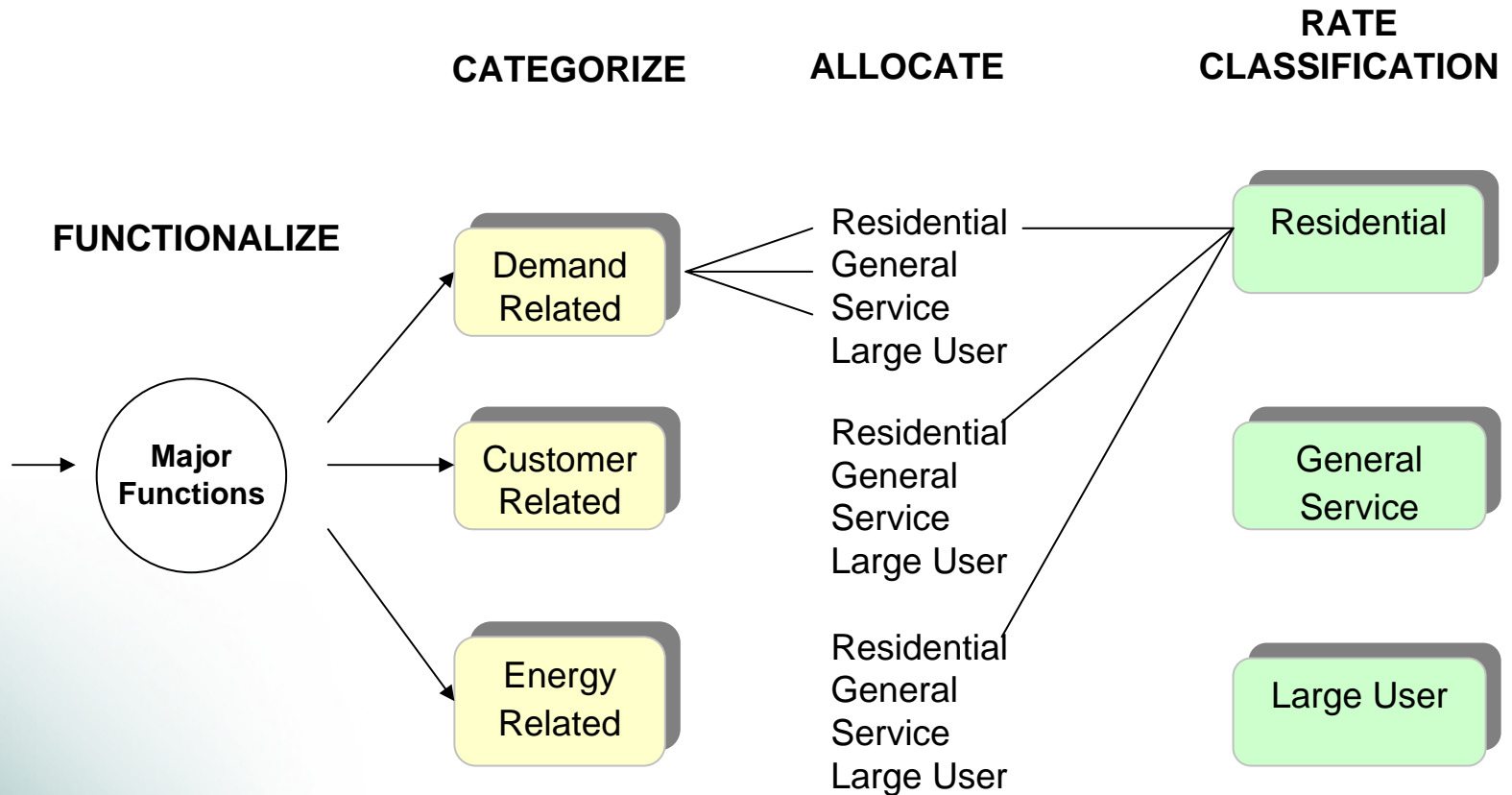
Overview of Cost Allocation Process

- Direct assignments
- Three-step process to allocate common costs:
 - Functionalization
 - Categorization
 - Allocation

Overview of the Cost Allocation Process (cont'd)

MAJOR STEPS IN ALLOCATING COMMON COSTS

TOTAL REVENUE REQUIREMENT



Directly Assignable Costs

Costs that can be directly attributable to a specific rate class

Items for discussion:

- Identification of accounts: update prior list in Navigant 2000 Report
- Confirm accounting data availability

Functionalization

Grouping of costs into major functions

Items for discussion:

- Identification of major functional costs centres (e.g. distribution, metering, billing, customer service) and sub-functions (if applicable)
- Confirm data availability

Categorization

Separation of costs into sub-groups based on cost drivers

Items for discussion:

- Review account categorization
- Merits and scope of approaches to separate joint demand and customer-related costs (e.g. basic customer charge, minimum system, and zero intercept)

Allocation

Allocation of categorized costs to customer rate classes

Items for discussion:

- Merits of non-coincident peak (NCP) versus coincident peak (CP) to allocate demand-related costs
- Appropriate allocation factors for customer-related costs (e.g. number of customers, number of bills)
- Data requirements and availability

Allocation of Other Costs

Residual costs (A&G, general plant, etc.) and other

Items for discussion:

- Appropriate basis of allocation for residual costs:
 - ✓ detailed analysis
 - ✓ composite allocation factors
 - ✓ labour ratios

- CDM costs: discuss the methodology set forth in the 2006 EDR Handbook

Load Data Requirements

Volumetric data required to allocate demand-related costs

Items for discussion:

- All distributors must have 12 months of load data available
- Need and methodology for weather normalization

Proposed Technical Team Advisory Group Composition

- 4 ratepayer/public representatives:
 - AMPCO (Ken Snelson/Wayne Clark)
 - LPMA and Energy Probe (Randy Aiken)
 - Schools (Darryl Seal)
 - VECC (Bill Harper)

Proposed Technical Team Advisory Group Composition (Cont'd)

- 6 medium to small utility participants:
 - Alliance of LDCs (Jim Richardson)
 - CNPI (Doug Bradbury)
 - Lakeland (Margaret Maw)
 - Milton Hydro (Don Thorne)
 - Waterloo North Hydro (Chris Amos)
 - Whitby Hydro (Ramona Abi-Rashed)

Proposed Technical Team Advisory Group Composition (Cont'd)

- 7 large utility participants:
 - Brampton Hydro (Scott Miller)
 - Hydro One (Mike Roger)
 - London Hydro (Dave Williamson)
 - Ottawa Hydro (Jane Scott)
 - PowerStream (Bruce Bacon)
 - Thunder Bay Hydro (Cynthia Domjancic)
 - Toronto Hydro (Anthony Lam)

Consultation Schedule

- Technical Advisory Team: up to 6 days (from September 19th to October 7th, 2005)
- Technical Workshop: 2 days (target dates: October 20-21, 2005)
- Written comments on proposals: February 2006

Questions



OEB COST ALLOCATION REVIEW

Phase 2: Select Rate Design and Rate Classification Matters

John Vrantsidis
Policy Advisor

Scope

- General Scope:
 - Examine select rate classification and rate design priorities
 - Separate comprehensive study of distribution rate design pending

Select Rate Classification and Rate Design

- Eliminating legacy rate class identified as “Time of Use”
- Adding a new rate class for scattered unmetered loads
- Consider adding a new rate class for host distributors to charge embedded distributors

Items for discussion:

- Need for and implications of above
- Associated rate design issues

Select Rate Classification and Rate Design (Cont'd)

- Consider adding a new class for GS customers between 50 kW and 5000 kW

Items for discussion:

- Pros and cons of common kW boundary for larger GS class
- Identify fixed/variable split anomalies for larger GS customers

Monthly Service Charges

- Gather underlying cost data to assist identifying monthly service charge anomalies

Items for discussion:

- Lowest, highest and average fixed monthly service charge for various classes

Out of Scope Issues

- Present consultations will defer discussions on:
 - Density/seasonal/polyphase/TOU rates
 - Smoothing of rate classification boundaries
 - Substantial changes to fixed/variable rate philosophy

Proposed Technical Team Advisory Group Composition

- 4 ratepayer/public representatives:
 - AMPCO (Ken Snelson/Wayne Clark)
 - CCC (Julie Girvan)
 - LPMA and Energy Probe (Randy Aiken)
 - VECC (Bill Harper)

Proposed Technical Team Advisory Group Composition (Cont'd)

- 6 medium to small utility participants:
 - Alliance of LDCs (Jim Richardson)
 - Bob Mason Associates (Bob Mason)
 - Chatham-Kent Energy (Jim Hogan)
 - CNPI (Doug Bradbury)
 - ECMI (Roger White)
 - Milton Hydro (Don Thorne)

Proposed Technical Team Advisory Group Composition (Cont'd)

- 7 large utility participants:
 - Enersource
 - Horizon Utilities (Dan Graphic)
 - Hydro One (Mike Roger)
 - Kitchener-Wilmont Hydro (Margaret Nanninga)
 - Ottawa Hydro (Jane Scott)
 - PowerStream (Bruce Bacon)
 - Toronto Hydro (Anthony Lam)

Consultation Schedule

- Meet for up to 6 days
(from November 1 to November 18, 2005)
- 1-day Technical Workshop
(target date: December 9, 2005)

Questions



OEB COST ALLOCATION REVIEW

Phase 3: OEB Filing Requirements, Model Design and Data Inputs

John Vrantsidis
Policy Advisor

Scope

- General Scope Phase 3:
 - Filing requirements and model implementation issues
- Timing: March – July 2006
- Implementation proposals to be consistent with Board's Report on Cost Allocation Principles and Methodologies (to be issued March 2006)

Filing Requirements

- OEB cost allocation review filing requirements (applicable to all LDCs)

Key items for discussion:

- Ensure Board obtains suitable information to review class cost to revenue ratios, and fixed/variable charge anomalies
- Confirm data generally available for mandatory requirements

Load Data Requirements

- See Board Directions November 10, 2003

Item for discussion:

- Confirm distributors obtaining updated load data for their various rate classes

Reference Period

Item for discussion:

- Which year(s) of financial data will be used in the Fall 2006 cost allocation review filings

Filing Requirements/Model Inputs

Items for discussion:

- Identify all data required for the filings
- Level of accounting data input
- Source of data when a distributor outsources

Filing Requirements/Model Outputs

Items for discussion:

- What outputs are required to review class cost allocations (e.g. revenue to cost ratios)
- What outputs will help identify fixed monthly service charge anomalies

Rate Classification Changes

- Adding or dropping a class

Item for discussion:

- Explain how the filing requirements and model apply when a rate classification change is proposed

Use of New Board Model

Item for discussion:

- Are there any technical reasons that preclude filing of the new Board cost allocation model by all utilities?

Consultation Schedule

- Technical Advisory Team: up to 5 days
(during second to fourth week March 2006)
- Technical Workshop: 1.5 days
(target dates: April 13-14, 2006)

Testing

- Working draft of OEB model will be ready for Phase 1 Technical Workshop
- Waterloo North and Newmarket have agreed to test the first draft of new cost allocation model
- Completion: by early January 2006

Draft Filing Model

- 2nd draft to be presented at April 2006 Technical Workshop
- Three utilities of varying sizes to test:
 - Horizon Utilities
 - Whitby Hydro
 - Lakeland Energy

OEB Model Finalization

- New model to be introduced to stakeholders at wrap-up meeting (target date: late July 2006)

Questions