



OEB COST ALLOCATION REVIEW

Use of Cost Allocation Filing Model When Proposing Changes to Current Rate Classifications

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Limited Rate Classification Changes On Agenda for Forthcoming Filings

Chair's March 9th 2005 letter explicitly advised stakeholders that the Cost Allocation Review will be based **“primarily on the existing rate classifications”**

- The new informational filing model will therefore incorporate only a limited number of changes to each utility's approved 2006 rate classifications

Select Rate Classification Changes to be Modeled

- 1) Addition of mandatory Embedded LDC classification
- 2a) Addition of Large User Class (where the LDC has a customer with demand of 5000 kW plus)
- 2b) Optional Merger of Large User Subclasses, or Large Users and Directs
- 3a) Legacy TOU GS > 50 classification - merge with GS > 50 kW or rename as GS Intermediate?
- 3b) Other legacy "TOU" – eliminate

Select Rate Classification Changes to be Modeled

- 4) Mandatory Unmetered Scattered Load Classification (note some LDCs have already)
- 5) Merge Sentinel class and photo-sensitive USL (under discussion)
- 6) Flat Rate Water Heater Rates Classification (rare) – eliminate if still exists in 2006

Utility-specific Rate Classifications: Potential Later Consideration

Staff have reviewed the structure of 2005 rates and noted several utility-specific rate classifications

- for example, small commercial, sewage treatment plant, polyphase, Large Use 3 TS

The Board may decide after the forthcoming filings are reviewed whether to require examination of any utility-specific rate classification(s) in that LDC's future rate application

Model Filing Requirements for Changes in Rate Classifications

- Common filing requirements will be developed for any rate classification changes to be allowed in the model
- See Handout for illustration of potential additional information to be required
- The filing requirements will also apply to any LDC allowed to use its own model

Supporting Documentation for Rate Classification Change(s)

2 options discussed:

- 1) Suitable “before” and “after” information be filed to isolate and explicitly document the impact of the proposed rate classification change (some suggested reserve for major changes)
- 2) For other approved changes (e.g. minor ones), the impact of the new rate classification changes could simply be incorporated into the model’s general output – makes filings simpler

Multiple Runs of Filing Model?

Team noted that if Board wants filings to fully document two potential rate classification changes, the utility may need to rerun the filing model multiple times:

- 2nd change v status quo, and
1st and 2nd change v. status quo
- is a simpler approach warranted?
(such as combing allowed changes together)

Role of Informational Filing v. Future Board Rate Approvals

The upcoming informational filings will illustrate the effect of a proposed rate classification change (e.g. a new USL subclass)

- But a specific rate application before the Board will be required to ultimately implement the proposed rate classification change in a given utility's rates
- Potential long-term role of forthcoming policy recommendations

Future Rate Implementation Issues

- 1) Utilities could later ask for a phase-in period for some rate classification changes
(e.g. Team advised some customers would be significantly impacted by dropping “TOU” rates)
- 2) Which customer classifications of a utility should assume the impact of a given approved rate classification change is also an issue
(as in the 2006 EDR process)

Classification v. Rate Design Changes

Team noted that some potential rate design changes will not require new rate classifications, such as updated credits

- for example, new Transformer Allowances