

## **Handout B: “Basic Customer Charge” Methodology**

### **General Background**

Most Canadian electric utilities classify a portion of their distribution network system costs as customer-related and many of these do so using the Minimum System Method or a variation thereof. However, in recent proceedings in Manitoba, Quebec, Nova Scotia, and Newfoundland intervenors and/or Board staff have presented arguments that customer costs should be restricted to the “basic customer costs”, that is the costs of those facilities and services directly involved in serving the customer – i.e., connection facilities, metering, customer billing and collections, and customer care.

Furthermore, for virtually all of the Canadian utilities that classify a portion of their distribution network system costs as customer-related, the monthly customer service charge does not recover all of the customer-related costs. In these instances, “basic customer costs” are sometimes used to test the reasonableness of the monthly customer service charge.

As a result, it is likely that information regarding the basic customer costs will be useful when the Board comes to reviewing monthly customer charges.

### **Ontario Situation**

The OEB’s Accounting Procedures Handbook for electricity distribution utilities requires that the cost of “services” (i.e., connection assets) be recorded separately. However, prior to 2000, the former regulator of municipal electricity utilities (Ontario Hydro) did not have a similar requirement. As a result, it is likely that many of the distribution utilities in the province do not have separate accounting records for connection assets. Rather, the cost of connection facilities is included in the overall costs of the distribution plant.

In order to comply with OEB’s requirements, LDCs had estimated the costs prior to 2000 and reclassified them into account 1855 Services. Since 2000, LDCs have been recording connection assets such as line drops to account 1855. However, there are inconsistencies in the point of demarcation among LDCs. Some could only consider assets from the secondary to the down-pipe, while others may consider assets all the way back to the line transformer or poles. This inconsistency will have a major impact on the definition of Basic Customer Service.

Under the Distribution System Code, Section 3.1.4, the basic connection for each customer shall include at a minimum:

- “1) supply and installation of overhead distribution transformation capacity.....
- 2) up to 30 meters of overhead conductor”.

## **Implications for Basic Customer Method Calculations**

There could be varying definitions of Basic Customer Method Calculations. The Advisory Team group investigated several strawman options:

### Option 1

It was pointed out that if a strict avoided cost philosophy is used, only the mailing, meter related costs and the billing costs will be avoided. Also in using the avoided costs approach, no administration overhead will be applied. But the Advisory Team accordingly felt that the results would be an unrealistically low.

### Option 2 (*Recommended*)

An alternative approach includes in costs that are viewed as directly related to the customer the 'avoided costs' listed above; operations performed at the customers premises and collection expenses are also included in the calculation. (Under this approach, the revenue from the related operations such as Service Transaction Request revenue and Late Payment charges will be credited back to the cost centres.) The Advisory Team thought it important that the allocation of administration overhead be included.

### Option 3

LDCs have to adhere to the Distribution System Code, and one could argue this implies that the basic customer cost should include all connection assets, the corresponding customer related costs, and allocation of general plant and administration expenses. It was thought that the results would be at the high end of the spectrum. It was also noted that the minimum system calculation was also to be built into fling model to identify an upper-end figure already.

## **Recommendations**

The project's general goal is to use the Basic Customer Charge to calculate a widely accepted cost-based floor for identifying customer service charges that are anomalously low. The model will also generate a customer cost ceiling using a minimum system approach. Given the intended uses of the upcoming filing information, it is recommended that option 2 above would be the most appropriate basis for the model's basic customer charge (i.e. "floor") calculation. Details of the calculation are set out in a companion document, Handout C.