



# OEB COST ALLOCATION REVIEW

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## **Introduction to Rate Classification Structure**

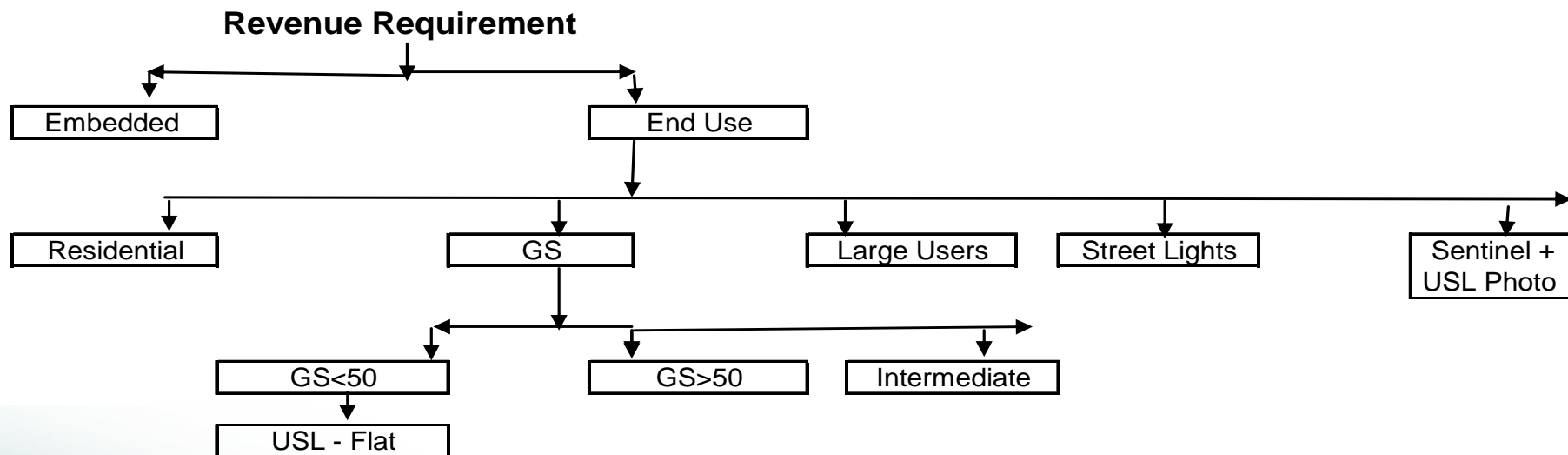
Pascale Duguay and Neil Yeung

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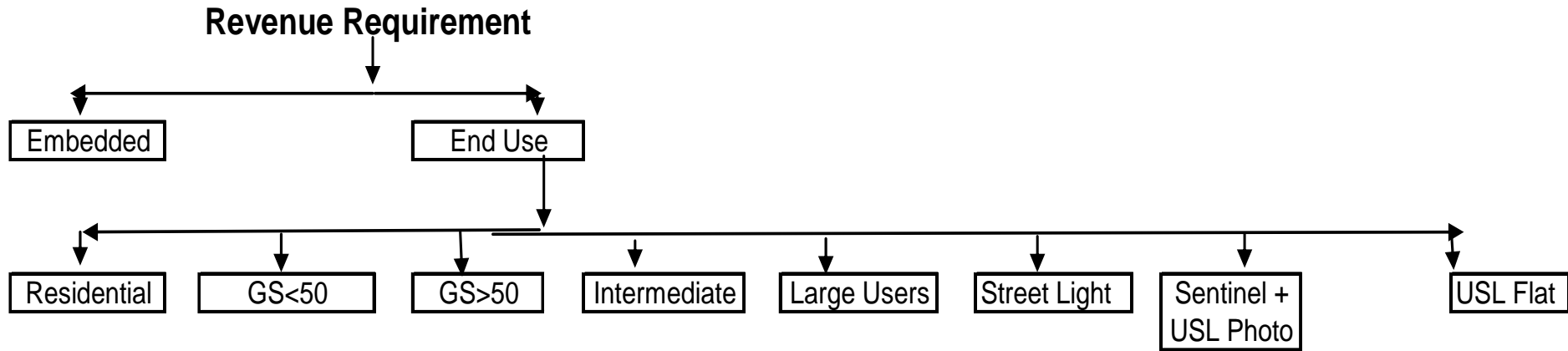
# Hierarchy vs Flat Approach

- 2 possible approaches to allocate costs to customer rate classes:
  - Hierarchical allocation
  - Flat allocation
- Difference: affects the allocation of demand-related costs
- Hierarchical approach:
  - Keeps the class diversity within the class and only permits diversity to be shared amongst sub-classes
- Flat approach:
  - Diversity is shared at the rate class level and is re-distributed when customers move in and out of the class or when a new class is created

# Hierarchical Approach – Illustrative Example



# Flat Approach – Illustrative Example



# Proposal from Technical Advisory Team

- The Team proposes that the hierarchy approach be adopted for this process
  - Is in keeping with the “spirit” of the 2006 EDR and the limited rate classification issues underpinning this initiative
- This proposal is without prejudice to future rate classification issues