



OEB COST ALLOCATION REVIEW

Treatment of Embedded Distributors

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Present Situation

- Several LDCs have applied for new distribution wheeling rates in 2006 EDR applications
- Staff understand that other LDCs are also effectively providing distribution wheeling services
- 2006 EDR Handbook set out an “interim” cost allocation methodology if a host LDC wanted a distribution wheeling rate approved

Rate Classification Issue (1)

Issue: Only some host distributors will have a separate rate classification for Embedded distributors

Proposal: If any other host utility is providing distribution wheeling services to an embedded distributor, it must create a separate Embedded LDC customer classification for purposes of the upcoming cost allocation informational filings

Rate Classification (2)

Issue: Some Advisory Team members wonder if the cost causality features of embedded LDCs are distinctive enough to permanently warrant a separate rate classification?

Proposal: Following review of the informational filings, the Board and stakeholders can further discuss appropriate long-term rate classification for these customers

- for example, some utilities may propose merging Embedded LDCs with Large Users into a new subtransmission class

Cost Allocation: Issue (1)

- September Discussion Paper suggested costs be allocated to this classification using same general principles as elsewhere in filings
- Proposal: A standard cost allocation procedure be developed so the costs are allocated to the Embedded LDC classification in a consistent manner
- for example:
 - common 100% direct allocation test
 - common functional "subtransmission" test

Cost Allocation: Issue (2)

Issue: Use of distance as allocator raised in 2006 EDR process, but Staff recommended use demand as the allocator for distribution system costs in Phase 1 of cost allocation consultations

Staff Proposal: Distance to be used to subfunctionalize, but not thereafter as allocator (consistent with HONI presentation to Team)

Cost Allocation: Other Issues

- Should Embedded LDC classification be grouped along with Large Users when deciding upon sharing of diversity benefits ?
- Should a full “before” versus “after” analysis be required if an Embedded LDC classification is introduced by a host utility in its cost allocation informational filing ?