



OEB COST ALLOCATION REVIEW

Unmetered Scattered Load, Sentinel and Streetlighting - Cost Allocation and Rate Design Issues

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Methodology

- Methodology should ensure that all customer groups are treated fairly
- Common cost causation principles should apply to all customer groups

Distribution and General Plant

- Unmetered scattered load (“USL”) customers should bear the full allocated costs of distribution facilities (and associated depreciation) with the exclusion of:
 - Meters (account #1825)
 - Load Management Controls – Customer Premises (account #1970)
- The costs of test meters installed by distributors to verify consumption should be directly allocated to the USL class/sub-class(es) and recovered through a connection charge
- General plant would be allocated in same fashion as any other customer (proportion to the allocated distribution rate base)

Operating and Maintenance ("O&M") Expenses

- O&M allocated to the USL class/sub-class(es) should exclude the following accounts:
 - meter expenses (account 5065)
 - maintenance of meters (account 5175)
- Monitoring expenses should be directly allocated to the USL class/sub-class(es) and recovered through a connection charge

Customer-Related Costs

- Distribution plant classified as customer-related should be allocated based on the number of connections
- Billing costs be allocated based on the number of bills issued
- Summary bill costs:
 - Should be borne by USL customers if sole users of the service
 - If service provided to other customer groups, costs should be shared among the users based on the number of “connections”

Customer-Related Costs (cont'd)

- Collection and bad debt expenses should be allocated in the same fashion as other customer rate classes
- Unmetered scattered load customers should avoid paying for meter reading expenses (account 5310)
- Expenses such as tracking additions and deletions of connections, revising estimated consumption, should be allocated based on the number of connections

A&G and Miscellaneous and Other Revenues

- All customers would be allocated A&G expenses in the the same fashion
- Same applies to miscellaneous and other revenues

Rate Design

- In its Discussion Paper, Staff proposed the following three part rate for the recovery of distribution costs:
 - Customer Charge – Number of Customers
Would recover the costs that vary based on the number of customers
 - Customer Charge – Number of Connections
Would recover the cost that vary based on the number of connections

Rate Design (cont'd)

➤ Volumetric Energy Charge

Remaining distribution costs would be recovered through a volumetric charge

- Recommendation:

- Most costs will be allocated based on the number of connections
- From a materiality and simplicity standpoint, a single customer charge based on the number of connections should be established

Streetlighting and Sentinel Lighting

- The cost allocation and rate design principles discussed above are also applicable to sentinel and street lighting applications
- Where applicable, the allocation based on the number of connections should be replaced by an allocation based on the number of fixtures