

Wholesale Market Participants (WMP) Handout Background Notes (December 16, 2005)

Issue:

The differences between a WMP and customers within the same class may be theoretically important to further the principle of cost causality and also to ensure wholesale market participation is not artificially discouraged. However, based on the current limited information, Staff cannot confirm that the amounts involved are material enough to warrant treatment as a rate design priority at this time. But it is proposed that several supplemental questions be posed in the informational filings on this topic, to provide the Board and stakeholders with useful information to allow further consideration about the merits on implementing an allowance in rates for WMP.

Background

Wholesale Market Participants are generally a sub-group of Large Users that, by choice, use fewer distributor services than other customer groups. Unlike other Large Users, the WMPs may be supplied from any voltage and do not necessarily own the transformers to transform bulk delivery voltage to utilization voltage. Any customers can elect to become WMPs if they are willing to pay for the meter installations and maintain their own meters. The advantages are that they can buy power directly from the IESO and participate in the wholesale market, which include services such as load dispatch or direct demand response.

It is therefore theoretically arguable that WMPs should receive an allowance for assets and services that they do not use. However, before implementing such a solution, considerations of materiality and rate design simplicity should be carefully examined (note there have been other theoretical refinements which Staff and the advisory team did not consider material enough to view as a priority for potential 2007 implementation).

Key Allocation Considerations Raised by Technical Advisory Team

- The WMP is responsible for its meter capital and the depreciation expense and therefore arguably should not be charged with meter verification and maintenance expenses (Account 5060 and 5175).
- The Advisory Team agreed that the LDC's avoided cost of the meter for the corresponding class should be theoretically excluded from the allocation, but it was not sure how the total cost of installing a meter is being treated. For example, the meter may cost \$5000, but the ancillary equipment such as current transformers and potential transformers may push the cost to \$40,000. Team members thought it useful to further investigate who pays for these costs (policy on contributed capital) in order to determine the amount of the avoidance.

Staff Proposal

Staff propose that the upcoming informational filings require distributors with WMP's to identify the numbers and types of such customers, to confirm that the number of customers who would benefit from the introduction of a WMP allowance is significant enough to warrant considering the issue on a generic basis in the future.

Staff further propose that several simple questions be asked to gather information about the potential costs differences so that parties have a better sense of the annual dollar amount of the cost differences, when later deciding on the appropriate balance between rate simplicity and accuracy in cost causality.