

**Cost Allocation – Unmetered Loads Working Group Meeting:**

**Session 5 – Cost Allocation with Respect to Different Streetlighting Configurations**

**EB-2012-0383**

**March 23, 2015 (Webinar), 2:00pm**

*These notes are intended to be indicative of discussion points and progress at the meeting, rather than an exhaustive summary of comments made by the working group members. They are provided to allow others to follow the progress of the working group.*

*\*\*\*Detailed attendance was not taken at this meeting\*\*\**

Board staff: Takis Plagiannakos, Valerie Bennett

Navigant Consulting: Trent Winstone, Todd Williams

Regrets: Vince Cooney (Board Staff)

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Upon convening at 2.00pm

**Streetlighting Adjustment Factor**

As a follow-up item from the February 11, 2015 working group meeting, Navigant developed a methodology for a connection factor adjustment for streetlighting (the “Streetlighting Adjustment Factor”) using generic non-distributor data. As part of this exercise, Navigant reviewed streetlighting adjustment factor calculations and examined rate impacts to various classes from the proposed methodology.

There was open discussion on the alternatives for the Streetlighting adjustment factor. Navigant calculated several adjustment factors based on energy, demand, and peak load carrying capacity (PLCC), and recommended that the demand based SL adjustment be used in the cost allocation model. Navigant noted that data for the calculations is already populated in the CAM model. Per Navigant, sample LDCs interviewed typically estimate the number of streetlighting connections.<sup>1</sup>

Navigant put forward a Streetlighting Adjustment Factor using a ratio of the NCP4 (the four highest monthly peaks in a given year). One sample calculation appears below for a generic distributor:

<b>Primary System</b>	<b>NCP4</b>	<b>Customers or Devices</b>	<b>Average NCP4 (per customer or device)</b>
Residential	42,000	5,000	8.4
Streetlighting	800	1,000	0.8
<b>Streetlighting Adjustment Factor (for Primary System)</b>			<b>10.5</b>

<sup>1</sup> Not all distributors know the exact number of devices, for some connections some distributors only know the number of connections and then estimate the number of devices per connection.

Some parties indicated a preference to use NCP4 for the residential /streetlight ratio. Concerns were also raised that the adjustment factors proposed are not based on cost allocation principles.

Effect on cost allocation using generic distributors yielded the following adjustment in allocated costs vs. allocation using existing CA Model:

Change in Cost Allocation	LDC Connection Ratio	
	< 2	> 10
<b>Customer Class</b>		
Residential	1%	0%
GS <50	2%	0%
GS>50-Regular	2%	0%
Large Use	3%	0%
Street Light	-55%	9%
Other	3%	0%

For a low connection ratio LDC, the cost allocation to the residential class increased by approximately 1% and the cost allocation to streetlighting decreased by over 50%. High connection ratio LDCs were much less sensitive to rate impacts resulting from the SL adjustment factor.

Next steps

\*\*Navigant to provide updated rate impacts for each rate class (not assume an average across all rate classes) *circulated to working group March 31, 2015.*

\*\*Navigant indicated that it would examine seven other LDCs and examine the average Streetlighting Adjustment Factor using NCP4.

\*\*Navigant to prepare its draft Consultant’s Report and circulate to the working group. *circulated to working group on April 7, 2015*

Upon adjourning at 3.30pm

**An important word on cost allocation and rate design from Board Staff**

The scenario above is not associated with actual distributors. It should also be noted that the change in cost allocation above is not indicative or predictive of rate design results (i.e. ultimate rates charged to customers) or the magnitude of the rate increase or decrease for a rate class. Beyond the cost allocation step in rate-making, each distributor must also do rate rebalancing and also examine its particular circumstances with respect to applicable OEB-approved revenue-to-cost policy ranges. For the streetlighting class the revenue-to-cost range is 70-120%, and for the residential class the revenue-to-cost range is 85-115%.

OEB-staff also reminds working group members that Navigant's recommendations and any report prepared by Navigant and posted by the OEB does not, in and of itself, constitute OEB policy. The OEB must specifically adopt recommendations and/or opine on consultant's reports before any of the recommendations included therein become OEB policy.

OEB-staff also notes that, the OEB does not engage in retroactive ratemaking. On approving rates the OEB creates a distinct expectation that the distributor can collect that rate until it is changed prospectively. That is, any changes to OEB policy that may result from this consultation will only have effect on the future allocation of costs and future rates for customers. The timing and implementation of these prospective changes may be affected by the regulatory ratemaking cycle which involves a period of a number of years between Cost-of-Service proceedings. The OEB could recommend that the changes be reflect at the time of the distributor's next Cost-of-Service proceeding or as an adjustment within the context of the Incentive Rate Mechanism (IRM) applications from distributors which occur in the years between Cost-of-Service applications.

The Board has given no indication at this time that either of these revenue-to-cost ranges will change, or that the treatment of movement within or beyond the range will be treated differently for the purposes of rate design for streetlighting.

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