

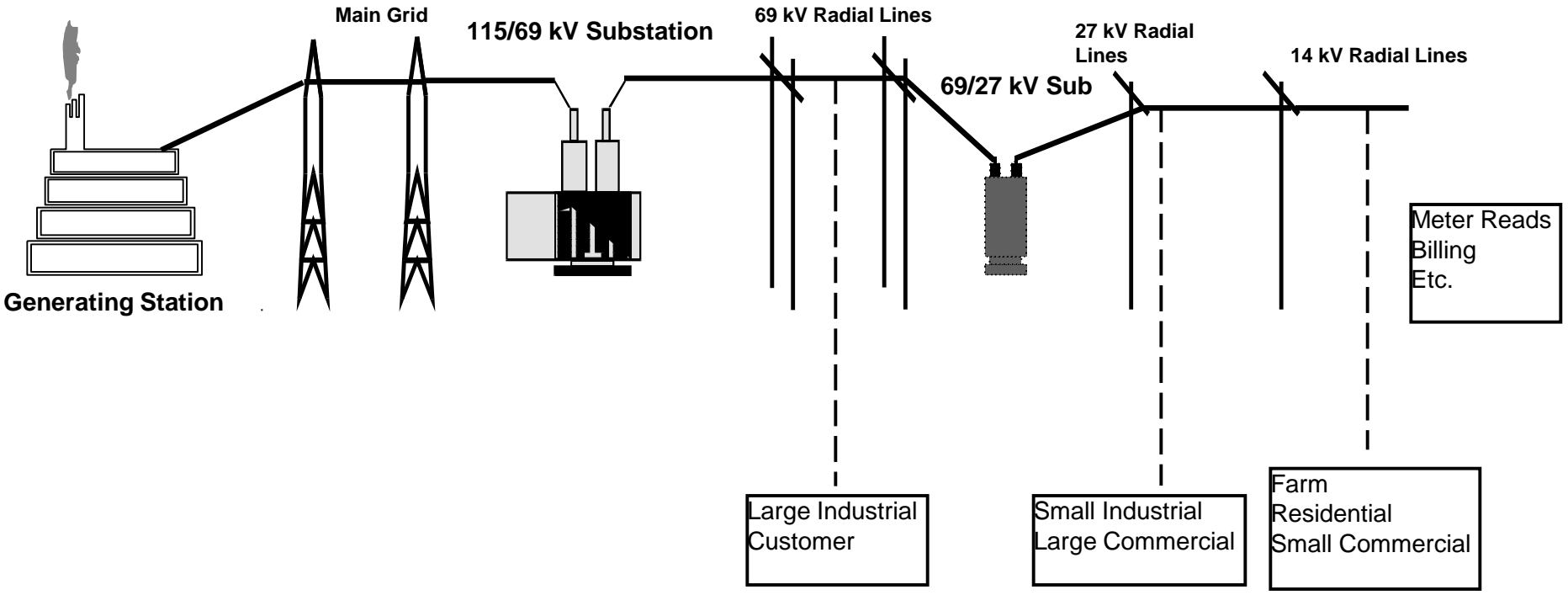
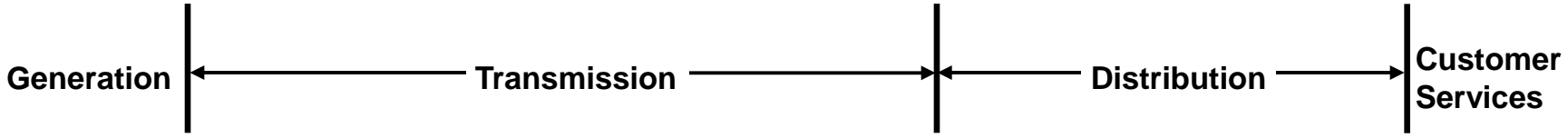
**Standby Rates Policy**  
**EB-2013-0004**  
**Cost Allocation Principles**  
**April 5, 2013**  
**Michael Roger**



# Agenda

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- Cost Allocation Principles
- Cost Allocation Study
- Revenue Requirement
- Revenue to Cost Ratio
- OEB CAM Development
- OEB Policy Documents
- Questions



# Cost Allocation Principles

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**Cost Allocation is the process of apportioning the revenue requirement amongst rate classes on the basis of “causation”**

- **What is the objective?**
  - **calculate class revenue requirements**
  - “Cost allocation policies reasonably allocate the costs of providing service to various classes of consumers and, as such, provide an important reference for establishing rates that are just and reasonable.” [Board Report, EB-2010-0219, March 31, 2011]

# Cost Allocation Study

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## **Traditional approach has three steps:**

- Functionalization – grouping of similar assets and expense items
- Classification – categorizing each cost as customer-related, demand-related, or mixture of both
- Allocation – apportioning customer-related cost items by customer statistics, and demand-related cost items by consumption statistics, reflecting cost responsibility at the class level.

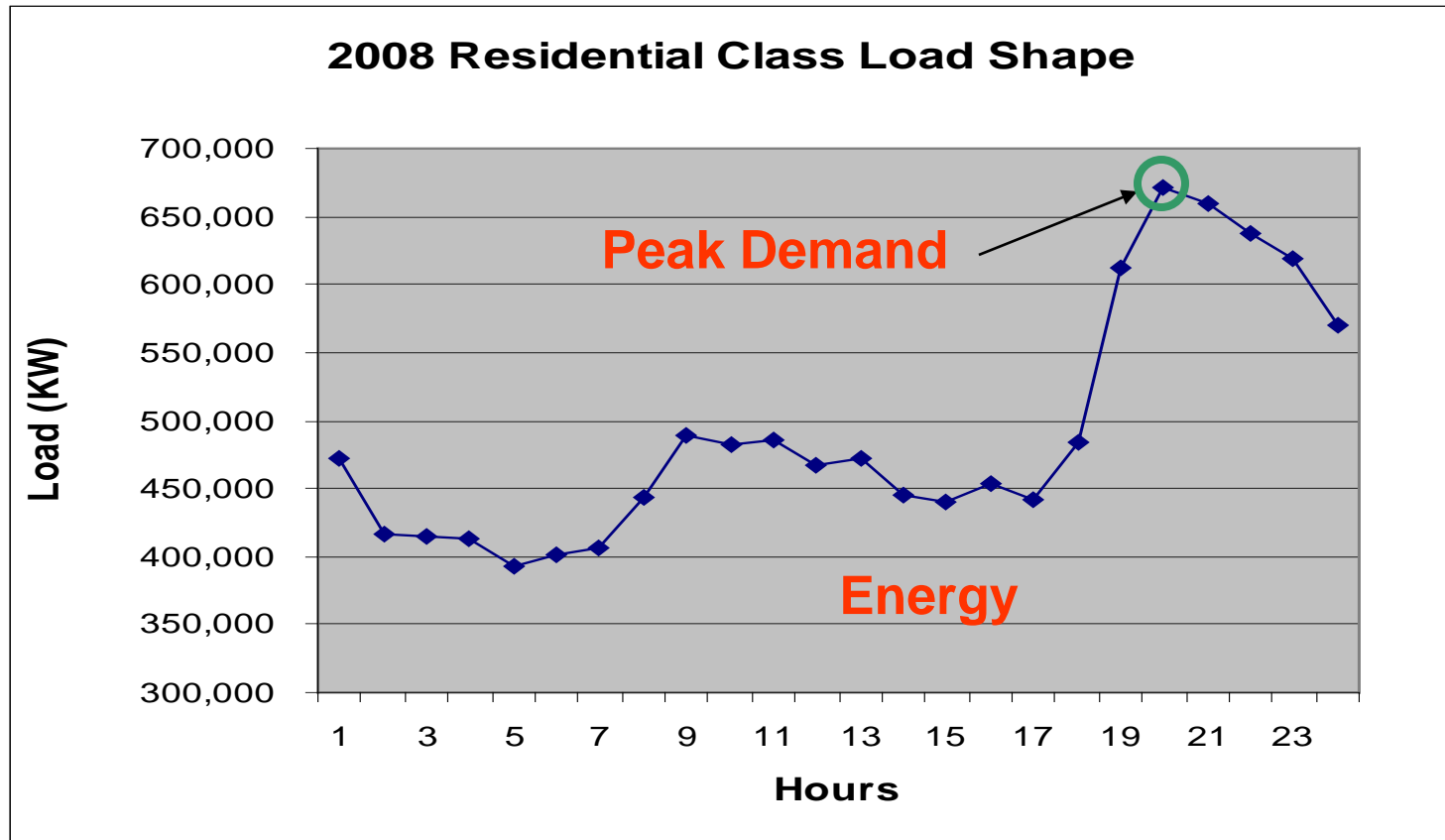
# Functionalization

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- Group similar assets and expenses
  - E.g. Uniform System of Accounts
    - Buildings and Fixtures (1808)
    - Overhead Conductors and Devices (1835)
    - Operations Supervision and Engineering (5005)
    - Customer Billing (5315)

# Classification

## Demand, Energy & Peak Demand



# Allocation

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- Customer groups
  - Allocators
    - kWh
    - kW
    - # of customers
    - Weighted # of customers
  - Direct Assignment
    - Assets used only by Standby customer class



# Cost of Service Application

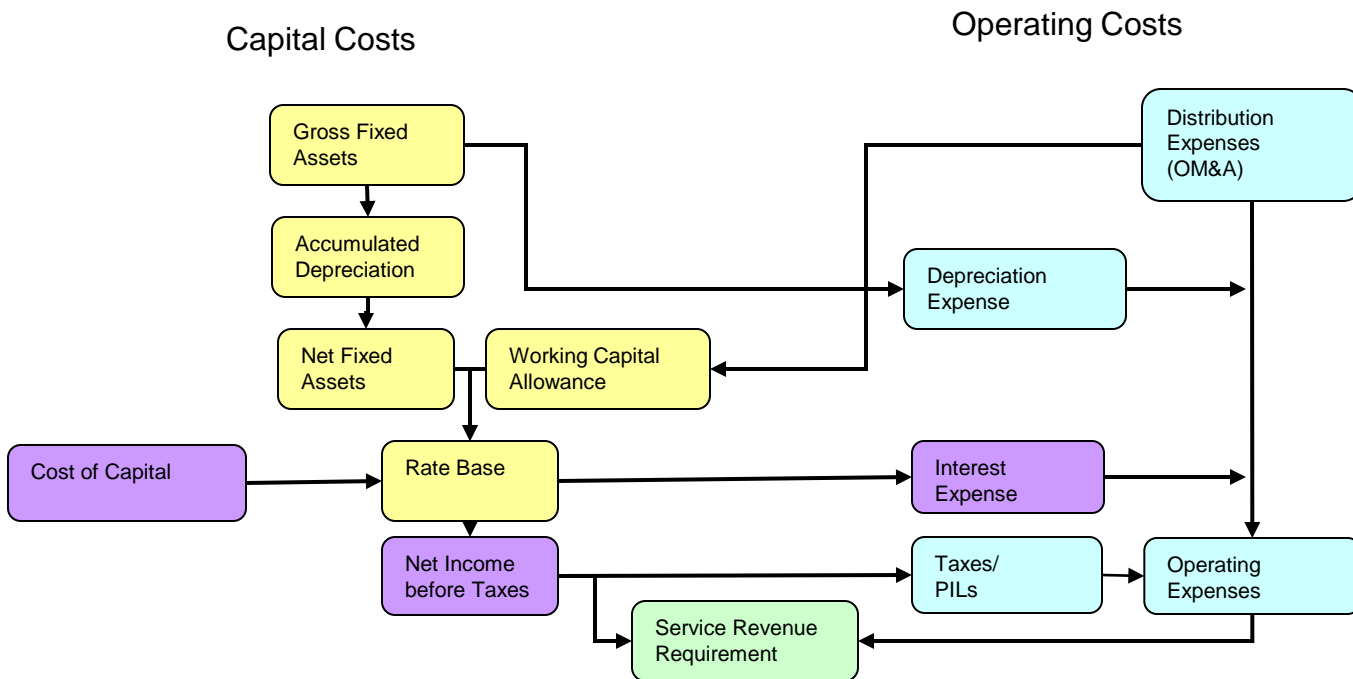
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Cost-of-service application has two main parts:

- establishing total revenue requirement
- rate design

# Revenue Requirement

## Schematic for Service Revenue Requirement



Source: Orientation 'The Basics of Applications', Keith Ritchie, July 2010

# Revenue to Cost Ratio (R/C)

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## Measure of Allocated Cost Recovery

- Below 100% - under recovery
- Above 100% - over recovery

# Revenue to Cost Ratio (cont.)

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## OEB Recommended R/C Ratio Ranges:

Residential	85% to 115%
General Service <50 kW	80% to 120%
General Service >50 kW	80% to 120%
Large User	85% to 115%
Street Light	70% to 120%
Sentinel Light	80% to 120%
Unmetered Scattered Load	80% to 120%

# How CAM Used by LDCs for Standby Class

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- Added a new customer class to model
- Input data for the new class:
  - Number of customers
  - Forecast energy and demand
  - Weighting Factors
  - Meter type and costs
  - Current Distribution Rates (Standby)
- One LDC uses Direct Assignment of certain assets

# LDC Results for Standby Class

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- 3 LDCs reviewed
  - R/C ratio 79%, 90%, 147%

# OEB CAM Development

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- Initial Work group:
  - Obtain load data (2004)
  - Develop model (2006)
  - Informational filing (2007)
  - First Group of Utilities filed for 2008 distribution rates (Version 1 of model)
- Policy Refinements (2011) version 2 of the model
- Currently using version 3
- Ongoing Policy Reviews for USL and Standby

# OEB Policy Documents

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- EB-2010-0219: Report of the Board “Review of Electricity Distribution Cost Allocation Policy”, March 31, 2011
- EB-2007-0667: Report of the Board “Application of Cost Allocation for Electricity Distributors”, November 28, 2007
- EB-2005-0317: “Board Directions on Cost Allocation Methodology for Electricity Distributors”, September 29, 2006
- 2006 Electricity Distribution Rate Handbook, May 11, 2005



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Questions?