OEB COST ALLOCATION REVIEW

Allocation of Customer-Related Costs

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Costs Categorized as Customer-Related

- O&M expenses:
  - Billing
  - Collection
  - Bad debt
  - Meter reading
- Assets and associated depreciation:
  - Meters
  - Service drops
  - Portion of distribution costs categorized as customer-related (e.g. transformers, primary/secondary lines)

Allocation Methodology

- Commonly allocated based on:
  - Number of customers
  - Weighted customer allocation factors
- Weightings take into account other factors such as investment costs, density, and level of effort and complexities
- Weighted allocation factors favoured from a cost causality perspective

Survey Results

- Staff requested that EES perform a survey of relative weightings by class and density for readily available North American LDCs
- Objective: to develop standard weighted factors by account
- Team analyzed the survey results with the assistance of EES and decided to develop results specific to Ontario distributors

Meters

- Metering costs include capital costs, depreciation, and O&M

- Current proposal:

  - Allocation based on weighted number of meters (capital and depreciation)

  - O&M allocated in the same fashion as capital and depreciation

  - Team developed standard costs per type of meter per rate class

Meters (cont'd)

- Costs include: replacement costs of the meter, labour, overhead, and truck time
- Distributors to enter the number of meters per type per rate class
- Allocation factors will be calculated automatically (standard factors)
- Distributors could file their own weighted allocation factors for information purposes in addition to the standard factors

Service Drops

- A similar approach to meters
- Several issues were identified:
  - Lack of consistency around conditions of service
    - Demarcation point (e.g. property line vs pole)
    - Contributed capital
  - Overhead vs underground costs
- Current proposal: use meter-weighted factors as a proxy
- Further discussions required to deal with customers that own their service drops (Phase III)

Meter Reading

- Costs include "physical" meter reading, data validation, telephone lines
- Cost drivers:
  - "Physical" or electronic reading (interval meter)
  - Frequency
  - Customer density
  - Location of the meter (inside/outside premise)

Meter Reading (Cont'd)

- Issues:
  - Separation of costs attributable to conventional and interval meters is not readily available
  - frequency is by far the easiest factor to quantify
- Current proposal:
  - Allocation using relative charges from third party service provider (allocation at the account level)
  - Recommend that separate account be created for interval meters for future use

Billing

- Certain costs vary based on the number of bills:
  - Postage
  - Stationary
  - Handling
- Residual costs (e.g. software maintenance, billing validation, manual interface) could be allocated using another allocator (e.g. number of line items per bill or using management judgement)
- Some parties opined that retailers and larger users with interval meters impose greater costs (complexities and time)

Billing (Cont'd)

- Limited analysis showed that the end result by rate class was not materially different from using the combined number of bills and line items method

- Current proposal:

  - For simplicity, use an allocation based on the number of bills per rate class

  - Distributors could file their own weighted allocation factors (for residual costs) for information purposes in addition to the standard factors

Collection

- Certain costs vary based on the number of bills:
  - Payment processing
- Residual costs could be allocated using another allocator (e.g. collection efforts on a rate class or management judgement)
- Current proposal:
  - For simplicity, use an allocation based on the number of bills per rate class
  - Distributors could file their own weighted allocation factors (for residual costs) for information purposes in addition to the standard factors

Bad Debt

- Favoured allocation options:
  - Total revenues
  - Historical write-offs per rate class
- Issue: should an approximation of risk of default be included or should all rate class be treated equally?
- Current proposal:
  - Allocation based on total revenues adjusted to exclude embedded distributors

CIS, Call Centre, Key Accounts

- These costs are not recorded in a separate account and may be difficult to isolate
- May also be recorded differently across distributors
- Current proposal:
  - Isolating costs not mandated for the purpose of the informational filings
  - Distributors to indicate the account in which account these costs are recorded
  - Recommend creation of separate accounts for future use

Distribution Costs

- Include portion of distribution costs categorized as being customer-related (e.g. poles, towers and fixtures, overhead conductors)
- Generally allocated based on the number of customers
- Current proposal:
  - Allocation based on number of customers
  - Adjustment may be required to exclude customers served from primary level (do not use secondary lines)