



**Ontario Energy Board**

**Commission de l'énergie de l'Ontario**

**Update on Staff Proposal re  
Common Cost Allocation Principles  
and Methodologies**

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June 15 , 2006**

# Chapter 1: Introduction - Summary

- 1) Review project scope and objectives
  - Description of rate design matters deferred
  
- 2) Model filing dates proposed:
  - LDCs to file in 4 tranches from November 2006 to March 2007
  - filings to be public
  
- 3) What is included in standard model



# Chapter 1– Further Discussion Points

- 1) Optional 3rd Run to be scoped
- 2) Stakeholder comments on consolidated results and Staff recommendations
- 3) Approved cost allocation principles to be given weight in future rate cases
- 4) Depending upon results of review, a generic rate hearing may be considered
- 5) Unit costs just one input to future rate design



# Chapter 2: Rate Classifications

Chapter to incorporate Board decision on Staff's May Proposals (8 comments received)

## Run 1: Approved 2006 Rate Classifications

- for USL and standby, model will calculate costs using costs of main rate class as starting point
- if LDCs merging, special rules to be applied if strong prospect of harmonization (effect = filings will model fewer rate classifications)



# Chapter 2: Rate Classifications

## Rate Classification Deletions

- all legacy “TOU” classifications

## Rate Classification Additions (2004 data usually):

- Host-Embedded Distributors
- Large Use class where have 5,000 kW customer
- Rollover GS>50 kW “TOU” into GS Intermediate, GS discreet demand range, or GS>50 kW
- USL as full separate class
- Standby rates as full separate class



# Chapter 2B: Load Data Requirements

- 1) To incorporate Board decision regarding May Load Data Proposals
  
- 2) Load data for standby rates
  - some LDCs cannot identify load displacement facilities
  - reliable load data for separate standby rate class?
  - only load data option1 required for modeling
  
- 3) Confidentiality of load data where few customers



# Chapter 3: Test year - Summary

- 1) Use 2004 data for most distributors
  - for future test year filers in 2006 EDR, must create and file a supporting trial balance
  
- 2) “Revenue” to be defined
  - will build upon 2006 EDR tests



# Chapter 4: Direct Allocation

## 1) Summarizes tests:

- 100% use by single class
- costs must be identified
- supporting system information required
- not applicable where some parts of system for additional reliability

## 2) Filing Question:

- assets used 90% plus by single class to be identified





# Chapter 5: Functionalization

## 1. Grouping of Accounts

- accounts will be disclosed at level of detail needed for recommended cost allocation allocators to operate
- less detail will impair transparency
- greater detail will unnecessarily disclose LDC information



# Chapter 5: Subfunctionalization

2) Core distribution assets (poles and wires) will be subdivided into:

>50 kV

Bulk (if any)

Primary

Secondary

Discussion Points:

- Above goes beyond current USofA, but results in more accurate cost allocation
- Large users will be assigned less of system



## 3. Summary

- propose “functional” approach
- tests for when bulk may or may not exist
- LDC to make final decision and justify
- distance to be used to subdivide costs between bulk, primary and secondary assets

## Discussion Points

- LDCs should start early to complete filings
- LDCs must also subdivide load data

# Chapter 5: Contributed Capital

LDCs will be required to subdivide Contributed Capital between above asset buckets

- methods provided



# Chapter 6: Categorization - Summary

- 1) Minimum system (hypothetical e.g. 100 W bulb) will be used to divide joint costs into demand and customer portions
  - 2) Generic minimum system results proposed for low, medium and high density LDCs
    - results of all past Ontario minimum system studies surveyed
    - customer component decreases as density increases (can impact fixed charges)
- NB: LDC-specific minimum system studies discouraged



## Chapter 6: Generic Minimum System – Discussion Points

- 1) Low density results based on single older study
- 2) New tests proposed to measure density  
(can also file optional run if proves inaccurate)
- 3) Generic results may not fairly apply some LDCs  
(questions asked about downtown network systems, and overhead versus underground)
- 4) Minimum system adjustment for multi-unit dwellings?
  - will ask filing questions to identify scope of issue



# Chapter 6: Peak Load Carrying Capability Adjustment

- 1) Will make minimum system results more accurate
- 2) Past PLCC results surveyed
- 3) Propose standard adjustment, figure just below midpoint range (.4 kW)
- 4) Model will incorporate
- 5) No utility-specific PLCC allowed, unless individual minimum system study undertaken



# Chapter 7: Allocation Demand Costs - CP

## 1) Coincident Peak to be used

- will allocate costs of assets designed to meet system peak
- will apply to all bulk and >50 kV assets
- test developed as to when use 12 CP v 4 CP v 1 CP (test adjusted to be consistent NCP test)

## 2) Will use standard 1 hour (clock hour) to measure peak





# Chapter 7: NCP Allocator

- 1) Non-coincident Peak used for primary and secondary assets
- 2) Test based on 4 NCP and 1 NCP
  - 4 NCP reflects concern of load data experts about reliability of only 1 year load data, and existence dual peaking LDCs
  - use 1 NCP where pronounced peak - i.e. 20%
- 3) 12 NCP
  - used in past
  - some favour for rate stability, esp. residential
  - Staff propose optional use, but only if cost justified



# Chapter 7: Class versus Subclass

- 1) Model will treat classes and subclasses as independent classifications for cost allocation
  - consistent with practice elsewhere
  - differs from past Ontario practice and 2006 EDR

NB: No stakeholder consensus here

- 1) Model will not treat rate design adjustments as full separate classification for cost allocation
  - e.g. many current USL and Standby rates



# Chapter 7: Allocation Line Losses

- 1) Model will use new approach
  - aim to more accurately allocate between classes
  - new methodology intended to be easy to apply

NB: A 2007 project will examine line loss incentives



# Chapter 8: Allocation Customer-related Costs

- 1) Defaults proposed for meter capital and meter reading costs
  - weighted to reflect underlying cost drivers
  - propose LDC must use own data if costs differ from defaults by at least 10%, and must use defaults if within 10%
- 2) Billing activities
  - allocated by number of “bills” (defined)
  - will gather data to improve allocation in future



## 3) Bad Debt

- Staff will propose to allocate between classes based on historical write-offs (more common approach elsewhere)

NB: No consensus - Working Group discussed allocating based on adjusted total revenue

## 4) CDM

- propose allocate 50% demand and 50% energy, to reflect underlying purposes
- differs from approach used in 2006 EDR

# Chapter 9: Allocation Other Costs

## 1) General Plant

- default allocator = pro rata to rate base
- must use better information if available

## 2) Admin & General Expenses

- default allocator = pro rata to O & M
- property insurance and community safety to use rate base as allocator



# Chapter 9: Allocation Other Costs

## 3) Working Capital Allowance

- COP component to be allocated using energy (with certain adjustments)

## 4) Pro rate allocation of rate base will be used to allocate PILs, Cost of Debt, and Return on Equity



# Chapter 10: Allocation Specialized Classes

## 1) Embedded LDC class:

- to use common cost allocation methodology and common two-part Dx rate structure (differed in past)

## 2) Density Subclasses

- detailed support required

NB: Cannot add new density or seasonal subclasses this filing (out of project scope)





# Chapter 10: USL Cost Allocation

- 1) Detailed methodology proposed when modelled as separate class
  - agreement on supporting load data to use for filings (may question in future)
- 2) Model will also calculate Meter Credit where USL stays within GS<50 kW classification
  - stakeholders want Board to examine USL rate classification options in detail; 2006 solution viewed as interim



# Chapter 10: Standby Rates - Summary

- 1) Model will produce initial unit costs
  - to follow general cost allocation principles where separate rate classification; but note supporting load data lacking for some LDCs
  - where not separate class, model will use unit costs of main class as starting point
- 2) Adjustments required where other distribution system savings and costs can be qualified from load displacement facilities
- 3) Benefits of diversity are taken into account for each option



# Chapter 10 – Standby Rates – Discussion Points

- 1) May not be able quantify some distribution system savings and benefits
- 2) Filings will not address any transmission or generation sector savings
- 3) Merchant generation and Hybrid facilities – left up to LDCs to model, but some general comments to be provided
- 4) Rate Design – some initial comments in Appendix for consideration in the 2006 rate design project (separate initiative)
- 5) Load data – option 1 alone needed for model

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# Chapter 12: Review Monthly Service Charges

- 1) Model will calculate unit costs per customer per month for each rate classification
- 2) Reasonable upper and lower unit cost boundaries to be modeled
- 3) Upper boundary based on minimum system, with PLCC reduction to make fairer
- 4) Lower boundary based on mainstream basic customer cost calculation
  - directly related costs, including overhead



# Chapter 12: New Transformer Ownership Allowance

- Cost basis for legacy allowances unclear
- New common methodology developed:
  - LDCs to input own data
  - results may vary
  - methodology considered accurate

