



## **EB-2005-0317 Scope of Cost Allocation Review**

Friday, 05 August 2005

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The most efficient use of energy requires that each customer know and pay the true cost of their service. AMPCO strongly supports the initiative of the OEB in undertaking this cost allocation review as a necessary step towards fairness and transparency in distribution rate design. AMPCO supports the proposed process, especially the determination that the findings and results of the review will be public.

We are also proposing some allocation issues and approaches for consideration.

1. The current Distribution Rates, determined from unbundling the previous MEU rates, have led to wide discrepancies that can only be addressed through a thorough and accurate examination of cost allocation. For example a 10 MW Large User can have a monthly charge for distribution service anywhere from a low of \$1,983 (Kingston) to a high of \$32,823 (Oakville). There is no reason to believe that these rates reflect different costs of service.
2. The Large User class is distinct from other classes:
  - (a) Many Large Users make limited use of distribution assets. Transmitters usually own the step down from transformation voltage and the switchgear in the transformer station. The Large User is usually supplied by a distributor owned line at 44 kV, 27.6 kV and in some cases 13.8 kV. Depending on the layout of the system, some use may be made of distribution facilities for switching on the distribution network. The Large User usually owns its own facilities to step down to utilization voltage. The line, some switching facilities and a meter may be the only distribution assets used. Cost allocation must accurately reflect this.
  - (b) The numbers of Large Users in each utility franchise area are often few. Many utilities have no Large Users, 11 utilities have only one Large User, 4 have two Large Users, 6 have three Large Users, 2 have four Large Users and 5 utilities have five or more Large Users<sup>1</sup>. In many cases the small numbers of Large Users allows specific identification of the assets used to supply Large Users. This allows for more accurate cost allocation.
  - (c) Large Users are often customers of distributors as "accidents of history". Competitors with similar operations in different locations may be transmission or low voltage customers of Hydro One. Those

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<sup>1</sup> Numbers for each utility are taken from historical data. While they may not exactly reflect the current situation, they are generally indicative.

that are Large User customers of distributors are often so because the previous Municipal Electric Utility enforced its right to supply all customers in its service territory. Cost allocation provides for reconciliation of these legacy issues to ensure that the status quo does not impose additional and unnecessary costs. These accidental Large Users should not be at a competitive disadvantage to those who pay no distribution charges.

3. Cost allocation to the Large User class must be given specific consideration at every stage of the process.
4. Distribution supply to Large Users could be considered a separate function. In this case the allocation of costs to the Large User function could then be made directly based on the specific facilities which supply them.
5. A concern arises with allocating functions across customer classes due to the load-based line cost allocation might be appropriate for residential rate classes but be wildly inaccurate for Large Users. Consider a utility with one Large User supplied by a 10 km line where the Large User is 30% of the load of the utility. The utility may have more than 100 km of line in total. Allocating the line on the basis of load would lead to a grossly disproportionate fraction of line costs being allocated to the Large User.
6. The small numbers of Large Users in many utilities allows for identification of specific facilities used to supply Large Users. A two stage allocation process may be more accurate where the costs of the specifically assigned facilities are directly allocated to the Large User class and the remaining costs are allocated among other customer classes on the basis of load.
7. It may be necessary to provide flexibility to allow different cost allocation depending on circumstances with a particular utility. Direct allocation methods may work well in some utilities where the facilities used to supply the Large User are separately identifiable but may not be applicable where the Large Users are supplied from a network that is serves other customer classes.
8. There a range of alternatives that may need to be considered. AMPCO notes that in many cost allocation studies metering and customer care costs are allocated based on customer numbers in each class. Maintaining this method will be important to the Large User Class.
9. AMPCO also notes that some administrative costs cannot be allocated to customer classes except by prorating costs according to the allocations of the other costs. This places increased importance on accurate cost allocation of identifiable costs to avoid magnifying the effect of misallocations.

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