Ontario Energy Board
Suite 2700
2300 Yonge Street
Toronto, Ontario
M4P 1E4
ATT: Mr. John Zych, Secretary

July 17, 2006

Dear Mr. Zych,

Cost Allocation Review:
Staff Proposal on Principles and Methodologies EB-2005-0317

In accordance with the OEB's E-mail and web postings of June 28 2006, the ECMI coalition (ECMI) submits it comments on the "June Staff Proposal". ECMI has participated in Phase 2 and Phase 3 of the Cost Allocation Technical Working Group and as a result is supportive of most of the initiatives and most of the final positions or compromises if the final position represents a compromise. ECMI will limit its comments to the areas of concern or continuing concern with the "June Staff Proposal".

Three paper copies are enclosed and electronic copies in both Adobe Acrobat and Word have been sent this date by email to Boardsec@oeb.gov.on.ca.

Requested contact details are as follows:-
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Respectfully submitted for the Board's consideration,

Original signed by R. White

Roger White
President

The following are ECMI's submissions on the "Cost Allocation Review: Staff Proposal on Principles and Methodologies." Chapter references, sections, and subsections are provided for convenience as to one of the key related issues underpinning the comment, but the Ontario Energy Board's (OEB) consideration of the comments should not be limited to those references.

Chapter 5
Direct allocation is seldom generally constrained to items which are 100% attributable to an individual class. This constraint reduces the value of the cost allocation process as items which are substantively and identifiably attributable to individual customers or classes will be pooled for the cost allocation process suggested in this OEB Staff proposal. The result will be to reduce the validity of the costs allocated as costs which are clearly and largely attributable to an individual class will be shared and **transferred** to other classes through the non coincident demand allocator. Even though these items may not be exclusively used by an individual class, it is probable that their use by other classes may be limited to one of the 5 remaining classes served by the LDC (Local Distribution Company).

For example, if an LDC has 6 classes and specific assets or services serve only two of those classes, 75% to one **class** and 25% to a second **class**, the OEB Staff proposal will result in 4 **classes** who do not utilize the assets or services being allocated significant costs associated with those assets or services, which they do not utilize. Further, if the costs associated with those assets or services are allocated on the basis of non coincident peak (NCP), it is quite possible that if the specific services related to the two classes noted above which utilize the assets or services, with their NCP representing 25% of the sum of the NCP for all of the classes, the result would be to allocate 75% of the identified costs to the 4 classes which do not utilize those assets or services. At the same time, the customer classes utilizing 100% of the assets or services would be allocated 25% of the cost.

ECMI suggests that assets or services which relate at a level of 75% to an individual class with limited use or "zero" use by the other classes served by the LDC should be permitted to be allocated through the direct allocation process.

Chapter 6.2
The establishment of bulk primary and secondary functions will be crucial to permitting a more meaningful cost allocation process.

Chapter 7.4.2.4
The use of a universal density allocator as proposed in this OEB Staff proposal does not deal effectively with LDCs which have different density-based rates within their service areas. There is a fundamental question as to whether the determination of density, as proposed in this OEB Staff proposal, is valid. It is ECMI's position that the wire km determination is not an appropriate method for determining customer density. However, in an effort to address this issue, the OEB Staff proposal goes well beyond clarifying the identified issue, and creates material problems.

For example, if an LDC takes 4 distribution feeders from a transformer station to supply 4 individual customers and each of these feeders is utilized to 100% of its capacity by the 4 individual customers, then there is no additional capacity on any of the 4 feeders available for any additional customers. If the feeders run individually in a radial fashion from the transformer station, and each feeder has a length of 10 km, then the customer density for those customers would be 0.1 customers per km. If, on the other hand, those four feeders run in parallel on the same roadway or right of way, the OEB Staff proposal would change the customer density to 0.4 customers per km. This proposal ignores the fact that customer density is utilized to determine if more costs are attributable on a customer basis than on a demand basis. When assets are fully utilized, as in the example, or heavily utilized, then that fact that the feeders run on a common right of way does not reduce the density from a cost causality perspective. In fact the contrary is the case for large customers, which utilize a material component of a feeder's capacity. In those cases the customer density is reduced as a result of the requirement to build additional feeders, which is what the cost allocation process should be capturing.

ECMI proposes that feeders, whether single-phase or 3-phase, be used to determine customer density instead of road km or right of way km.

Chapter 7.5 & 11.5.2
The Peak Load Carrying Capability (PLCC) adjustment seems appropriate if the concept underpinning the adjustment is that capacity costs have been inappropriately allocated to a particular class or subclass. Where the OEB Staff proposal falls short is that it assesses only 0.4 kW per customer as the demand cost to be returned from the minimum system model. If the minimum system model assesses 1.0 kW of capacity per customer per connection, then that is the capacity that has been allocated to the customer connection. To limit the PLCC adjustment credit to not allocate demand costs below "zero" does not recognize that the customer through the customer allocation process has paid for 1.0 kW of capacity. Where the "zero" demand cost allocation threshold is invoked as contemplated in Chapter 11.5.2, or whether it is similarly invoked for street-lighting customers/connections, it leaves the customer component cost resulting from the minimum system model over allocated. This means that the class or subclass is being over allocated costs.

ECMI proposes that where the "zero" threshold is invoked that any capacity not required to bring the demand to "zero", result in a minimum system demand allocation below the initial 1.0 kW used in the customer component of the minimum system model. For example, if the PLCC adjustment credit is 0.4 kW and only 0.3 kW is required to bring the demand allocation to "zero", then the customer component of the minimum system allocation should be reduced from 1.0 kW to 0.9 kW or 90 % of the cost allocated to the other classes or subclasses which do not reach the zero threshold.

Chapter 8.6
The suggestion in section 8.6.1 paragraph 4 that a loss factor is utilized to correct a perceived error in rate design is inappropriate and should not be utilized in either cost allocation or rate design. Incorrect loss factors should not be utilized in either cost allocation or rate design to "correct an error" perceived or otherwise in allocation cost or recovering costs. The separation of the commodity cost from the distribution costs must preclude this type of action.

Chapter 9.3.5.2
Where an LDC has few customers or one customer in a class the bad debt risk in history may be zero. However, if the customer or customers are large, then incurring the bad debt cost for that one customer's bankruptcy will mean that the class in which the customer resides has notionally received no cost allocation for bad debts while the bad debt cost incurred is material. Certainly, this result would not be consistent with good cost allocation. The Stelco bankruptcy protection action in Hamilton resulted in huge bad debt costs for the LDC. In this example, the cost allocation for bad debts under the OEB Staff proposal ignores the fact that LDCs make every effort to avoid bad debts from all customer classes. The OEB Staff proposal would allocate zero cost associated with bad debts to the large user class if the cost allocation were done based on 2002. The change in allocation based on the year of Stelco's Bankruptcy protection action would be quite different. Year to year instability should not be inherent in cost allocation modeling rules.

ECMI proposes that bad debt costs be allocated on a per kW.h basis. This is a more valid allocator because the cost of the commodity (kW.h) is the majority of the dollars at risk associated with any non payment of account for any class.

Chapter 11.3
The OEB Staff proposal has selected a flat model for cost allocation purposes. The fact that this model suggests that all classes are equal ignores the fact that density is a "subclass" issue. If the density associated with the class in aggregate is further allocated to all of that class's subclasses, then the sharing between the subclasses produces the best equity between the class with density sensitive rates and the other classes of the LDC. This is a pyramid model approach.

ECMI suggests that a pyramid model or subclass approach is appropriate for density related subclasses.

Chapter 11.3.2 “d)”
The OEB Staff proposal appears to take a strong position against a linear relationship between costs and density. It is quite possible that if an exhaustive study contemplated in 11.3.2 paragraph “d)” on page 74 were performed on density related cost drivers, that a linear relationship would be the best cost allocation tool. Such a study would cost a distributor thousands of dollars and for the three smaller LDCs in Ontario with density related residential rates, the costs associated with these studies could readily reach $15 to $25 per customer. The OEB should carefully consider the value of imposing this study requirement on LDCs even though the LDC may be prepared to eliminate the density related subclasses in the next regular rate application. The regulatory cost burden imposed on the LDC and its customers by the OEB Staff proposal is unfair because of the lack of notice and option provided by this filing process.

ECMI proposes that the long term commitment requirement contemplated in 11.3.3 be extended to the 11.3.2 “d)” discussion above, and that LDCs who commit to eliminating the density related rates in their next formal application submission should be permitted to use a linear density relationship for cost allocation purposes in this information filing.

Concluding Comment
ECMI’s preceding comments are intended to enhance the quality of the cost allocation process and permit the OEB and LDCs to obtain maximum benefit from this time consuming and costly process.