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20 December 2005

Mr. John Vrantsidis
Ontario Energy Board

By e-mail

Dear Sir:

Re: EB-2005-0317 Cost Allocation Review - Phase Two and re: Flat rate water heater CDM

I write to provide GEC's comments following the pahse II presentations last week.

Fixed Charge Methodology:

As noted earlier, GEC's primary interests in this process are with respect to the categorization of costs as fixed (customer) versus variable (demand) and the corresponding rate implications, as well as with respect to the allocation of C&DM costs. Last week's workshop dealt with aspects of the fixed monthly charge. GEC has previously noted it is concerned that LDCs have an incentive to consider most costs fixed as this reduces their rate revenue risk but that this approach will diminish the conservation price signal.

We note that the intention of the Board is to address utilities with anomalous (very high or low) fixed charges. The Board staff have recognized that rate design may take into account factors other than cost categorization such as the benefits of maintaining a high level of variable charges that can be time differentiated with the advent of smart meters. It was stated that this leads to a preference for methodologies that set a wide range between the floor and ceiling levels that are *prima facie* acceptable fixed charge allocations. Despite this laudable statement of intent, the working group seems to have decided to layer on costs beyond those determined by a basic 'avoided costs' approach because simple 'avoided costs' were thought to be "unrealistically low". This is an example of the bias toward higher fixed costs that we have previously noted. LDCs are not inclined to see overheads as avoidable and therefore want them loaded into fixed charges.

While GEC recognizes that a pure avoided costs approach might err on the side of low fixed costs, it would allow for a range of outcomes when the Board addresses the fundamental policy debate that will underlie rate design -- utility revenue assurance versus the benefits of a conservation price signal.

Further, the working group did not simply add selected head office accounts to the list of basic customer charge accounts, it then went on to allocate general administrative overhead to each of these accounts. The plenary was not provided with any details to evaluate the extent of the impact of that exercise. Again, the process seems dominated by the LDC perspective and is not transparent nor does it allow for intervenors to test the data or application thereof.

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Flat Rate Water Heaters:

Unfortunately, I was unable to attend for the update on flat rate water heaters due to travel constraints. I did however have an opportunity to confer with a representative from Toronto Hydro where most of these heaters are located. Flat rate heaters are a problem beyond concerns about fairness as they provide no incentive to conserve. We understand that there are roughly 39,000 such heaters in Toronto and that 85% are in areas where gas service is available. These heaters are typically equipped with two elements and one 3kW element is typically on when the heater is operating. Allowing for diversity, it would appear that these heaters may account for approximately 40MW of peak coincident load. Many of these heaters are found in homes with 60 amp service, often in lower income neighbourhoods. To accommodate metering, meter bases and distribution panels would often have to be replaced costing several hundred dollars. It strikes us that mandating the elimination of the 'rate' and simultaneously providing hefty incentives to help with the cost of conversion to gas would be an excellent CDM opportunity. The opportunity to switch 85% of these units (approximately 35MW) off peak for perhaps $25 million seems worthy of investigation, particularly when the load is located in an area where transmission constraints are a problem. Accordingly, we urge the parties concerned and the Board not to act on the 'rate problem' without first evaluating the CDM opportunity.

Given that Toronto Hydro and Enbridge will not have budgeted for a 25 million fuel switching program, we will provide a copy of this letter to the Conservation Bureau as well as those utilities.

Thank you for the opportunity to comment.

Sincerely,

David Poch, Counsel to the GEC

cc: Peter Love, Enbridge, Toronto Hydro