



ECMI
energy cost management inc.
1236 Sable Drive Burlington, Ont. L7S 2J6
Phone: (905) 639-7476 Fax: (905) 639-1693

Ontario Energy Board,
26th Floor,
2300 Yonge Street
Toronto, Ontario
M4P 1E4
Attn. Mr John Zych, Secretary

July 26, 2005

Dear Mr Zych,

**Cost Allocation Review
EB - 2005 - 0317**

In accordance with its letter of July 12, 2005, issued by email only, ECMI hereby submits its comments on the planned scope of the consultations for the Cost Allocation Review.

Proposal to limit scope

As all parties may well be aware, it is more difficult to eliminate an initiative after the initiative has been established rather than during the pre adoption phase. I am reminded of the interruptible B and C classes of power offered by Ontario Hydro to its direct industrial customers in the 1970's. The phase out of these rate classes required 5 years, in part because of customer dependence on the rates. As the Board is embarking on defining customer classifications with (from the July 20th 2005 meeting) an apparent bias that the scattered unmetered loads is an established class or sub class of the General Service, confirms my worst fears on this issue that the one year short term compromise has been embraced as a permanent "fait accompli" by at least some of the participants in the cost allocation process. The notion that this compromise represents a fully considered assessment of the underpinnings behind the establishment of a class or sub class ignores many if not all of the principles of establishing a class or sub class. These principles include:-

1. That the class or sub class being established will be largely homogeneous.
2. That the class or sub class being established is sufficiently distinctive to warrant the establishment of a separate class or sub class. That is, the facilities used to supply customers within the proposed class or sub class are different from those facilities which are generally utilised to supply customers in the class or sub class from which the proposed class or sub class customers are being extracted.
3. Distinctiveness should be demonstrated using other criteria than simply facilities. If the maintenance costs associated with supplying these customers are somewhat distinctive, it may warrant the establishment of the proposed class or sub class. (Maintenance may include such items such as monitoring loads and energy levels as is the case with the scattered unmetered loads).
4. Distinctiveness from a cost causality perspective is not limited to the preceding, but can readily include considerations of load shape as one of the cost causality considerations.

5. Risk exposure of the distributor based on such considerations as scale may warrant the establishment of a proposed class or sub class
6. The population of the proposed class or sub class should be of a sufficient size (subject to the consideration identified in bullet 5) to warrant the establishment of a class or sub class. This threshold is often considered to be 10% of the source class or sub class.
7. When rates are established for a proposed class or sub class, then all rates paid by the class or sub class (distribution, commodity, other regulated charges, etc.) should be established in full recognition of all of the distinctive characteristics of the proposed class or sub class.
8. When a proposed class or sub class is considered, distinctiveness considerations should ensure that other customers in the source class or sub class are sufficiently different from those migrating to the proposed class or sub class to warrant the discrimination through the establishment of the class or sub class. Ontario Divisional Court, in at least one decision regarding electricity customer classification, recognised that the establishment of a new class or sub class is an act of discrimination. The Ontario Energy Board in the previous guidelines it adopted from the predecessor regulator, Ontario Hydro, included the concept that discrimination is to be avoided.

Of the preceding illustrative criteria, the last two (7 and 8) are probably the most important and should be considered at the cost of all others. This was not the case with the establishment of the short term one year compromise for the unmetered scattered loads.

The above comments on classification are an attempt to illustrate the fundamental importance of properly capturing principles early in the cost allocation process. The preceding is an attempt to identify the types of issues which must be carefully considered by the first group when undertaking the initiative currently before the Board. When sub classes are established primarily on the basis of customer demand, failure to consider transition issues between sub classes ultimately produces problems. In the absence of transition considerations and design, these problems are manifested in inequity and unfairness if not blatant discrimination for the population of customers around the boundary.

As noted in its letter of July 11, 2005 with respect to the Technical Advisory Team, ECMI currently provides significant support to one large distributor, four medium sized distributors and five small distributors. We therefore have experience with and an understanding of the issues faced by various sized distributors. ECMI will be representing this group of utilities as the ECMI Coalition on the Technical Advisory Team.

The preceding illustrates the risk that flows from a piecemeal approach to what are clearly principal issues which should be considered in establishing any criteria to be used in undertaking any fundamental changes in customer classification or the cost allocation process. To set out all of the issues which might be created would require writing books on the subject.

Respectfully submitted for the Board's consideration.

Roger E White
Roger White
President