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August 8, 2005

Mr. John Zych  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 4<sup>th</sup> Floor  
Toronto, Ontario M4P 1E4

Dear Mr. Zych:

**RE: COST ALLOCATION REVIEW**

Thank you for the opportunity to comment on the scope of the OEB's Cost Allocation review. Enersource believes that the following are among the OEB's goals for this process:

- To establish a 'baseline' allocation of costs to customer classes;
- To support improvements to distribution rates (e.g., enhance the degree to which distribution rates are cost related);
- To focus distributors on data gathering, organization and manipulation in preparation for comprehensive rate design.

Accordingly, Enersource suggests that the scope of this initiative should include:

- An understanding of cost drivers and cost behaviours;
- Comparability related considerations; and
- Diagnostic tests and consistency checks.

As one of the OEB's goals is to identify the actual share of costs for serving different classes of customers, Enersource suggests that there is a need to understand the underlying cost drivers and cost behaviours. The OEB's project scoping should include establishing cost behaviours and identifying cost drivers, as well as quantifying the associated sensitivities. If such a step is provided the information obtained will assist in identifying appropriate allocation factors and in correctly functionalizing costs. Distributors will likely rely on data prepared for other purposes (e.g., for financial reporting purposes) to conduct their individual cost allocation analysis. An understanding of the underlying cost drivers and behaviours may reduce the chances of data being relied on inappropriately.

It appears that the OEB intends to compare the results of distributor specific cost allocation studies to existing rates. Enersource therefore suggests that the scope of the process should be sufficiently flexible to accommodate comparability related issues. There may be lingering legacy rate structures that are not cost-based or cost-related (the now defunct former Ontario Hydro load retention rates are an example) such that adjustments may be required in order to achieve comparability.

Recognizing that distributor's current rates may achieve a low level of cost relatedness and that the data available may not be well suited to the requirements of a cost allocation study, it is suggested that the OEB's process consider diagnostic tests and consistency checks. These will need to deal with both the supporting data and assumptions, as well as the proposed model. A variety of diagnostic tests and consistency checks will be beneficial; for example, so that they may be applied at various stages of the cost allocation process to verify results or to distinguish errors from 'extreme' results.

Thank you for your consideration.

A handwritten signature in black ink, appearing to read 'Chris Buckler', is written over the typed name.

Chris Buckler

Vice President, Customer Service & Regulatory Affairs