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

June 5, 2006
Dear Mr. Zych,

Cost Allocation Review: Staff Proposal Regarding Rate Classifications and Associated Load Data Requirements
EB-2005-0317

In accordance with the OEB's E-mail and web posting of May 26, 2006, the ECMI coalition (ECMI) submits its comments on The Board Staff Proposal Regarding Rate Classifications and Associated Load Data Requirements for the Cost Allocation Review. ECMI's comments specifically reference the issues highlighted in boxes in the Board Staff Proposal. ECMI's comments include some specific examples in an attempt to clarify the item.

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

Introduction

The load data collection and analysis process underpins the cost allocation process. If the OEB is to rely on the results such as cost revenue ratios for rate making purposes it must be understood that each compromise reduces the validity of the end results. There is a risk of diluting the process to the point where no action should be taken in terms of rate making. Each departure from best practices in pursuit of simplicity and administrative ease puts the process at risk.

Information and comments are organised under the boxes included in the May 26, 2006 letter. The text in the Board boxes has been italicised.

Where ECMI has commented on a particular item, those comments generally have implications for both load data and modelling.

ECMI is silent on many of the proposals included in the May 26 2006 letter and is in fact generally relying on those items to proceed as stated.

The Appendix lists all known rate classifications. Distributor comments are requested if a currently approved rate classification is not included.

ECMI Comment
The list of rate classifications is complete from the ECMI coalition perspective.

This fact does not mean that the necessary load data is being

1. obtained
2. accumulated
3. aggregated or
4. adjusted

in such a fashion as to address all of the needs of the cost allocation process. The load data required to analyse some of the cost allocation issues established in the scope of this proceeding appear to be absent. The Board in earlier decisions indicated it would rely on the cost allocation proceeding to provide meaningful information on which to base longer term Board policy decisions.

Stakeholder comments are welcome on the following proposed implementation details.

iii) Modeling Separate Standby Rate Class

ECMI Comment
Standby Rates could apply to:-

1. Generation at a customer's facility which displaces some of the customer's load and is generally capable of normal operation on a 24/7 basis subject to maintenance constraints.

2. Integrated process related generation where at least one of the by-products of the generation is required to operate the plant (process). For example heat or steam.

3. Integrated process related where one of the by-products of the process is utilized to fuel or provide energy to the generation.

4. Load displacement generation which is operated primarily based on the economic cost of either the produced electricity or energy source for the generation. In this case, the load displacement generation operates much like a merchant generator.

5. Merchant generators.

The difference between 2 and 3 above is that the load displacement generation is dependent on the generation in 2, while in 3 the generation is dependent on the process. While 4 is identified as a separate category, its reliability and performance and burden on the distribution system may vary substantively over time and not be predictable. In reality, all load displacement generation operates at least to some extent based on the economies faced by the customer or the customer's relationship with the load displacement generator if it is a separate party.

It is apparent in the data requests for load shape analysis for standby rate customers having load displacement generation, there is no specific recognition of diversity between the load displacement generation in "unavailable mode" with other customers' loads on the distribution system for Run 1. Failure to take this diversity into account in the load data appears to unfairly penalize customers with load displacement generation. This load displacement generation will have some level of diversity with other loads on the distribution system unless the load customer and its load displacement generation exist exclusively on dedicated distribution facilities or are so large relative to all other loads on an almost dedicated facility as to preclude any expectation of diversity.

Failure to recognize this diversity in determining the load shape for the separate load displacement generator classification means that the load shape used to apportion costs between the classes only picks up the diversity between all classes when only one load displacement generator exists within the load displacement generator class. If the assumption is that the generation normally operates on a flat basis, then there would be no diversity between load displacement generators within the load displacement generation class. Further, from a distribution system cost causality perspective the behaviour of the load displacement generator relative to the load it generally displaces may well be more important than the diversity between more than one load displacement generator if these load displacement generators are considered a separate class without consideration of the loads they displace. This relative importance is particularly true for the facilities which are largely dedicated for meeting the load at the customer's premise when that customer has load displacement generation outages.

It may be possible to adjust the load shapes of the classifications which contain customers with load displacement generation prior to input in the model to recognize the diversity which can be expected to exist between the generator and other customers on the distribution facility or facilities or possibly the entire distribution system. One might argue that for the subclass the distribution rates already reflect the diversity attributable to customers within the classification but as soon as separate classification is established, that diversity disappears and only the diversity between the classifications is available to be shared with the load displacement generator. This is true for integrated process load displacement generators 2 and 3 above in particular because a load displacement generator classification does not recognise the close linkage between integrated load displacement generators and the process load with which they are integrated.

iv) Unmetered Scattered Loads

ECMI Comment

In the context of simplicity in rate classification, unmetered scattered loads would remain part of the general service under 50kW classification. However, if the unmetered scattered load class currently includes photo sensitive loads, those loads are similar from a cost causality perspective to either unmetered sentinel lights or unmetered street lights rather than flat unmetered loads. Further, if there is a need to separate the USL from the general service under 50kW group, then the cost causality implications of a flat load versus a photo controlled load, both of which may be unmetered, would indicate that it is crucial that the unmetered scattered photo sensitive loads be put with other UNMETERED loads with a similar load characteristic. The photo–sensitive loads are not homogeneous with flat loads and do not belong in the same class, subclass or group if a separate classification is going to be established. The ECMI coalition preference would be

to maintain street lighting as a separate classification as it exists now and combine any USL which are unmetered with any similarly unmetered sentinel lighting loads and customers for cost allocation purposes.

It is our understanding that the Cost Allocation Review process would assist in determining if a separate classification for unmetered scattered loads is warranted and that the 2006 EDR interim compromise was without prejudice with respect to the long term disposition of this item as to whether unmetered scattered loads should be a separate classification .

If the Board and the electrical distribution industry and their customers are to rely on the cost allocation process to determine whether a separate classification is warranted, a clear comparison of the following two options is required:

1. The cost/revenue ratios which would be produced for the existing interim compromise where the unmetered scattered loads are generally treated as general service under 50kW customers with a rate design fix which may address differences in the cost causality. To evaluate this situation the pro rata share of the costs allocated as part of the general service class would have to be compared with the revenue produced by the existing rates which for most distributors are a rate change fix to a notional sub class with its own specific cost allocation principles such as the lack of a meter, the incremental monitoring costs and

2. The cost/revenue ratios which would be produced by a full cost allocation process by the establishment of a separate classification.

The fundamental difference between the two approaches from a cost allocation perspective will include the allocation of specific customer related costs and demand related costs and determination of the appropriate load shapes which underpin those demand related allocators. This is particularly true for tracking the load shape components in the modelling process. Separate cost revenue ratios for this subclass will be an important part of determining whether a separate classification is required or not.

It is important to recognise that if a separate classification is established, appropriate retail transmission rates should be established to be applied to customers of that new class. As the expected load characteristics (load shape) are quite different between a separate classification and the general service under 50kW group, it is unlikely that a simple application of the general service under 50kW retail transmission rates for such a new class would be consistent with the costs produced by the existing HONI transmission rates. Further, it is reasonable to expect that the HONI transmission rates would produce quite different retail transmission rates for the general service under 50kW group and the expected load shape associated with unmetered scattered loads.

With respect to 2006 electricity distribution rates, The Report of the Board stated in part on page 77, that "The Board regards the proposal to be a reasonable interim measure pending a more comprehensive review of the rate structure for such loads. The Board recognises that the proposal is not based on any particular rate making principles, but is rather an expedient measure designed to narrow the range of diversity in treatment of these loads pending further consultation." Failure to consider the USL a subclass or group under the general service under 50kW with specific costs allocated to that subgroup and a comparison with revenue at the interim rate level will not produce results which fulfil that apparent commitment. The Board is urged to fully address this issue to finally resolve the issue to the benefit of LDC's and customers.

Optional Rate Classification Changes (Run 3)
The structure of the model may be sufficiently constrained to preclude an LDC from producing the desired Run 3 alternatives.

Proposed Load Data Requirements for Rate Classifications to be Modeled

The attached Appendix summarizes the proposed source of load data for each known rate class to be included in Run 1 and Run 2 of the model. Comments are welcome.

See ECMI comments on Standby Rates and Unmetered Scattered Loads.

If a distributor has Board approval for harmonizing rates prior to, or as part of its 2006 EDR application or if it has a specific commitment for harmonization in its 2006 EDR application or as part of the MAADS approval by the time of its cost allocation filing then separate load profiles are not required for each of the merging distributors.

ECMI Comment

Density Rates

LDC's were precluded from initiating phasing out of density rates in this proceeding. This resulted in the imposition of material costs on the involved utilities.

Concerns have been expressed during the working group sessions that only one specific density mechanism in the underpinning documentation and functionality of the model is established. This mechanism is the recognition that distributors

with lower density will have different minimum system drivers from distributors with higher density. The functionality of the model applies the same density driver in the minimum system component to both urban and suburban, or presumably in the case of Hydro One Networks Distribution to urban, high density and normal density. Apparently the model relies on load shape to pick up any incremental costs associated with supplying lower density loads. As the shape of the load for a given customer may be largely independent of density related costs, it is unlikely that the current approach will produce any material difference in the per unit costs allocated to the urban and suburban customer subclasses.
The requirement for separate residential appliance saturation surveys for these subclasses has been an expensive and onerous undertaking. Some of ECMI's clients complied when "urged to cooperate in the execution of such surveys."

Either pyramidal (hierarchical) modelling or some specific density related weighting option seems to be the minimal recognition that the average density for the urban customers may be many times that of the suburban customers. For example:

1. The urban customers may have an average customer density of say 60 customers per km of line and

2. The suburban customers may have an average density of 12 customers per km of line.

To suggest that the cost of delivering energy to the average customer in each subclass is the same confounds even the crudest form of cost causality analysis. This appears to defeat the purpose of the cost allocation filing. To fail to recognise the density drivers of real distribution system costs fails to permit LDC's "to fully reflect that classification in the Fall 2006 informational filings" as load shape will probably prove to be a smaller per unit cost driver than any reasonable consideration of the kilometres of distribution line used to deliver power and energy customers.

In an attempt to ensure that the thousands of dollars spent on separate residential appliance saturation surveys for the urban and suburban subclasses are not wasted, ECMI urges the Board to ensure that the modelling priorities include the provision of specific recognition of different density weightings within the model. To fail to incorporate such an adjustment in the cost allocation model fails to produce a model reflective of the general principles which must underpin a cost allocation initiative.

Further, it is ECMI's view that it not reasonable to require LDC's to incur further costs in developing their own models to address this issue while precluding them from harmonizing the subclasses as part of the base filing which them to avoid both modelling and survey costs on a going forward basis. These incremental costs may well exceed any difference in revenue between the two sub-classes.

Suggested Load Profile for Separate Standby Rates Class

i) Potential Load Data Options

Alternative 1 above will be the default when modeling standby rates as a separate rate class. Where a distributor has relevant additional actual data, or can reasonably estimate the same with detailed explanation to be provide in filing, then Alternative 2 a) is to be followed instead.

See ECMI comments on Standby Rates