



OEB COST ALLOCATION REVIEW

CATEGORIZATION

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SUMMARY

- Objective of Categorization Step
- 100% demand & 100% customer
- Joint Costs
- Zero-intercept Method
- Minimum System Method
- Generic Results
- Basic Customer Method
- Categorization and R/C Ratios
- Modified Minimum System Approach

Objective: Classify Customer and Demand Costs

- Goal is to determine which distribution costs can be classified as:
 - Customer-related, or
 - Demand-related

100% Demand

- Some distribution costs can be classified as 100% demand related
 - for example, land and building (accounts 1805,6,8 and 1810), transformers (account 1815), distribution station equipment and storage battery (1820 and 1825)

100% Customer

- Some distribution costs can be classified as 100% customer related
 - for example, services & meters (accounts 1855, 1860)

Splitting Joint Costs

- The OEB and other Canadian utility regulators have widely accepted two categorization methodologies to subdivide joint costs:
 - 1) minimum system
 - 2) zero-intercept

Zero-Intercept Method

- Uses a statistical calculation to determine the amount of distribution costs that should be categorized as customer-related versus demand-related
- Present advisory team disinclined to recommend for upcoming filings because results can be hard to interpret sometimes

Minimum System Method

Assumption:

“Classifying distribution plant with the minimum-size method assumes that a minimum size distribution system can be built to serve the minimum loading requirements of the customer.” (NARUC Manual)

- for example, 100 Watts minimum load

Minimum System Method

General approach (NARUC Manual):

“The minimum-size method involves determining the minimum size pole, conductor, cable, transformer, and service that is currently installed by the utility.”

The cost of the minimum size distribution system is then classified as customer-related costs.

“Modified” Minimum System Approach

- Staff’s Paper proposes to follow a “traditional” minimum system approach, whereby no share of distribution costs are categorized as energy-related
- This is in line with common practice elsewhere

Generic Categorization Results

Advisory team generally agrees with proposal in Staff Paper that generic categorization results be adopted for the Ontario filings

- saves the time and expense of over 90 utility-specific minimum system studies

Basis of Proposed Generic Figures

- Staff, consultants, and advisory team reviewed prior minimum system results
 - see accompanying presentation for details

Basic Customer Method

“This approach categorizes as customer-related only those capital and operating costs that are directly associated with adding another customer. Examples of such costs are the capital and operating cost associated with meters and service drops.” (Staff Paper)

Use of Basic Customer Method

Research by Staff's consultants EES confirms this approach used as categorization option in many U.S. cost of service studies

- advisory team suggested this could confuse process to have two categorization approaches
- current Staff view is to add Basic Customer calculation at rate design step in the cost allocation filing model (common methodology to be discussed later)

Categorization and R/C Ratios

Staff's present view is to incorporate generic minimum system results in the OEB model

- thus only one categorization method will be used when calculating revenue-to-cost ratios for each distribution rate class