

4 November 2005

Mr. John Vrantsidis  
Ontario Energy Board

By e-mail

Dear Sir:

**Re: EB-2005-0317 Cost Allocation Review - Phase One**

At the workshop this week you suggested that participants need not await the formal submission stage to provide comments. In that spirit I provide these comments on behalf of the GEC.

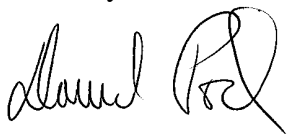
GEC's primary interests in this process are with respect to the categorization of costs as fixed (customer) versus variable (demand) and the corresponding rate implications, as well as with respect to the allocation of C&DM costs. The workshop dealt with the categorization aspect of the first of these. GEC is concerned that LDCs have an incentive to consider most costs fixed as this reduces their rate revenue risk. GEC also notes that the split of joint customer and demand costs based on the minimum system approach is highly assumption laden, as is the PLCC adjustment which could mitigate the impact of the minimum system split.

We note that the current recommendation is for relatively high categorization of costs to the fixed customer category and a relative low offsetting PLCC factor. Inevitably this will lead to rate design with a higher fixed customer charge component. Given that fixed charges offer no price signal for energy efficiency we submit that such categorization be done with caution and it is appropriate to err on the low side when categorizing costs as fixed. However we see as much as 60% of these costs being categorized as fixed for low density situations and in that case the decision seems to be based on a single Ontario Hydro study that we have not been able to test. We see a choice of a 0.4 kW/customer PLCC credit despite examples such as Hydro Quebec choosing 1 kW/customer.

We are concerned that the current process relies on limited and dated data that cannot effectively be evaluated by intervenors or Board Staff given the nature of the process and that the interim results may reflect a bias of most participants toward fixed charges in rates.

Thank you for the opportunity to comment.

Sincerely,



David Poch, Counsel to the GEC