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**FOCA's Comments on Discussion Paper re Cost Allocation Filings**
**EB-2007-0667**

These are FOCA's comments on the above, dealing with the questions asked and other matters.

## General Comments

There appears to be overlap between the Cost Allocation filings and the Rate Design work now being undertaken by the Board. For example, the fixed variable split has a major influence on how costs are distributed within a class, but appears to have no bearing on the total revenue required from each class. That is, the fixed variable split is a rate design issue.

While 65 LDCs filed cost allocation studies, they were not identified. It is unclear if Hydro One was one of the 65. Further, the sensitivity analysis was based on a sub-set of the 65 which begs the question about whether the results would have been different if all LDCs had been analyzed, including acquired LDCs whose rates are not yet harmonized with those of the acquiring LDC.

LDCs were given a number of options in the Cost Allocation Guidelines. Much of the "scatter" in the results may be due to similar LDCs choosing different options. Another source of scatter may be the different ways costs are allocated to certain accounts. Also, cost characteristics of LDCs do vary with Hydro One being clearly unique with its numerous rate classes, low density, numerous acquired LDCs whose rates are not yet harmonized and its role as LV supplier to many LDCs.

With any Cost Allocation process, there are many subjective judgments to be made both in the overall process and by individual LDCs. These can result in costs being shifted among classes. If there are major cost shifts, consumers have the right to know the efficacy of these subjective judgments. The extent of use of direct allocation is an example of subjectivity.

## Appropriate Range for Revenue to Cost Ratio for Customer Classes

Given the uncertainties outlined above it is not appropriate to move quickly to unity and there are good reasons for the bandwidths proposed. Since residential and GS <50kw cluster most tightly around unity, these classes should have a fairly tight band.

I would suggest that more study is required before assuming for example that GS> 50 kw and Large Users are overpaying. Large user costs can be established fairly readily by means of direct allocation of sub-transmission line and metering costs. Also, there is a fairly high risk that these larger customers could disappear leaving other smaller customers to pick up the cost of stranded assets. Therefore a substantial risk premium is in order

The GS > 50 kw is the residual class for which there is little load data and may be picking up demand related costs that should have gone to others. Smart or interval meters on all customers in that class would readily establish their demand related costs.

The under recovery from street lighting and sentinel lighting is a puzzle. The scatter may be due to the fact that some LDCs group all SLs as a single customer having a mythical single supply point, while others count and apply a fixed charge to each supply point. There is little to distinguish street lighting from other unmetered scattered loads. These could all be combined in a single class with rates based on GS<50 with an appropriate meter discount from the fixed charge. The wide variation in meter costs may be due to the various stages LDCs are at in their smart meter programs. Those with lots of smart meters will have high meter costs.

All factors considered, the board staff recommendations for class specific revenue to cost ratios outlined in 3.7 appear to be reasonable short term targets.

## Sensitivity Scenarios

It is difficult to comment on the sensitivity analysis without further explanation.
It appears that certain components of the “minimum system” were removed from the fixed charge and reallocated to other classes rather than rolling them into the variable demand component for the class.

The minimum system concept is a very weak basis for allocating costs because there is no minimum system that fits all customer classes. That is, a minimum system for a sentinel light or USL would be of very different capacity than one for a large user or residential customer. Also, the % of line and transformer costs to be allocated to the minimum system is a very arbitrary decision.

## FIXED MONTHLY CHARGES

Fixed charges remain a very contentious issue especially for smaller customers in each class. Fixed charges for the residential and small business customers are a particularly high % of the total bill. High fixed charges are certainly out of tune with current conservation efforts.

Given the very generous range permitted by policy, it is rather surprising that so many LDCs have fixed charges above the range, especially in the GS>50 and LU classes. Perhaps the minimum system defined for the GS>50 and LU classes is too small.

If the minimum system concept is to survive, perhaps a different minimum system should be defined for each class, based on a small % of the average demand for the class. As mentioned earlier, this is more a rate design issue and is a key component of the Rate Design discussion paper. The fixed/variable rate structure is not well suited to solving the co-ordination or boundary issues that exist in the GS and LU classes.

The floor range for fixed charges is defensible. The upper end of the range is not defensible for reasons of weakness in the minimum system concept and conservation efforts.

### Meter Credit for USLs

Contrary to the staff suggestion, I think a standard meter credit could be established for USLs. If metered, a conventional kwh meter would be used, the cost of which would not vary significantly across the province. Indeed, a number of LDCs meter all USLs so there should be some relationship between their rates and those who estimate consumption.

### Transformer Ownership Credit

Under this item on page 37, there is an observation that “The observed range for metering costs did not show a trend.” I believe this should read “transformer costs”.
The avoided cost for customer transformer ownership is Distribution Station costs. These are generally in the 5,000 kva and higher range and are less expensive on a per kva basis that smaller overhead and pad mounted “line” transformers.
If all line and distribution station transformers are included in the calculation of the credit, it will be somewhat higher than it should be.
That said, there will be variations in Distribution Station costs among LDCs. Some are required by municipal by-law to place them in structures that look like homes. Others use less expensive open type Distribution Statons.

## Standby Rates

Given the wide variety of types, size, capacity factors and location and affect on the distribution system, there is no basis for uniform standby rates even with a given LDC's territory. They practically need to be customized for each situation. There may be cases where no standby charge or even a credit is appropriate. Most are in Hydro One's service territory, so their analysis should be given heavy consideration.

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