

Meeting Notes #1
Cost Allocation Working Group

Thursday, November 7, 2002

9:30 a.m. - 3:00 p.m.

1. Introductions

Introduction of Board staff and stakeholder participants.

2. Presentation on October 28th, 2002 Board letter

Review of proposed procedure to be followed re establishment of “going-in rates” methodology. Explained that present working group would focus on how to start the cost allocation studies.

3. Presentation on Cost Allocation

a) Review of comments on cost allocation in the RP-1999-0034 decision and Distribution Rates Handbook. It was noted that the Board distinguished between setting the total revenue requirement, determining what share each class was to contribute (“cost allocation” proper), and deciding how rates should be set within a class.

b) Suggestions for background reading (all available at Board library):

- Electric Utility Cost Allocation Manual, January 1992 (published by NARUC; copies can be ordered at 202-898-2200);
- Principles of Public Utility Rates, Bonbright, 1988 (2nd ed);
- Cost of Service for public power systems - A Cost Allocation Manual, Van Scoyoc (American Public Power Association, 1973)
- OEB, Report to the Minister of Energy on Principles of Electricity Costing and Pricing for Ontario Hydro, December 1979.

Also note:

- Cost of Service Methods: A Guide for Ontario Utilities, October 1996 (issued to all Ontario MEU’s and the MEA by Ontario Hydro).

c) Review of history of cost allocation in Ontario. The average cost approach was the method generally used in this jurisdiction. It was noted earlier cost allocation models dealt with the bundled cost of power, while the present task was to allocate distribution rates only.

4. Agreement on Agenda for Working Group

The working group agreed on the need to address the following issues:

- i) merits of average v. marginal cost approaches;
- ii) merits of coincident peak, non-coincident peak, and average & excess techniques;
- iii) how to collect a reliable load data sample;
- iv) additional metering that may be necessary to collect load data;
- v) length of time to collect load data, and should data should be normalized;
- vi) joint collection and/or sharing of load data
- vii) interaction of rate classes and cost allocation.

In light of feedback received, the following additional topics were added to the agenda:

- viii) what year's financial data should be used;
- viii) what information aside from load data needs to be collected to start the studies;
- x) consider special circumstances of certain users (street lights, sentinel); and
- xi) clarify the policy goals sought to be advanced by completing the cost allocation studies (fairness was acknowledged to be a key goal, but some asked precisely what cost causality meant; the importance of efficiency was also raised, but it was commented that rate design could better address this).

5. Merits of average cost v. marginal approaches to cost allocation

The theoretical argument for use of a marginal approach to cost allocation was acknowledged. However, it was also observed: i) marginal cost rates tend to be less stable, which conflicts with another important goal; ii) there was less experience with marginal cost approaches in Ontario, so this approach would be harder to implement; and iii) the prior local experience with marginal costing dealt with the commodity cost of power (e.g. time of use rates) and not distribution costs.

The working or preliminary consensus of the working group was that Ontario industry should continue to use an average cost approach to cost allocation. It was noted that rate design was a separate issue, and that greater use of marginal cost principles at that level (as is presently the case) may be more appropriate. It was observed this would lead to a hybrid system (which is also followed in some U.S. states).

Attendance

Bluewater Power (Ron LaPier; Kathy Gadsby)
Brantford Power (Heather Wyatt)
Canadian Niagara Power Inc. (Doug Bradbury)
Chatham-Kent Hydro (Jim Hogan)
Enersource (Ralph Amar)
Guelph Hydro (Jim Fallis)
Hamilton Hydro (Cameron McKenzie; Terry Karp)
Hydro One (Mike Rodger)
London Hydro (Ken Walsh; Dave Williams)
Markham Hydro (Gaye-Donna Young)
Milton Hydro (Don Thorne)
Ottawa Hydro (Lynne Anderson)
Toronto Hydro (Anthony Lam)
Thunder Bay Hydro (Cynthia Domjancic)
Veridian (Laurie Stickwood)
Waterloo North Hydro (Chris Amos)
Woodstock Hydro (Ken Quesnelle)

Econalysis (Bruce Bacon)
ECMI (Roger White)
EDA (Maurice Tucci; John Wong)
RDII (Jim Hopeson)
RCS (Mike McLead; Peter Ioannou)
Upper Canada Energy Alliance (Jim Richardson)

Board Staff:

Kirsten Walli
John Vrantsidis
Keith Ritchie
Martin Davies
Harold Thiessen