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BY COURIER

June 6, 2006

Mr. Peter O'Dell
Assistant Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON.
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Dear Mr. O'Dell:

EB-2005-0317 – Cost Allocation Review: Staff Proposal Regarding Rate Classifications and Associated Load Data Requirements – Hydro One Networks Comments

Hydro One Networks Inc., (Hydro One), appreciates being given the opportunity to provide a few comments regarding the OEB Staff Proposal on Rate Classifications and Associated Load data Requirements distributed on May 26, 2006.

In general, Hydro One is pleased with the progress achieved to date in developing a Cost Allocation Methodology to be used by all LDCs in Ontario. OEB staff has done an excellent job on such a challenging topic in trying to achieve consensus and in allowing all points of view to be discussed at the Technical Work Groups. This will provide for a common starting basis in the process for establishing cost-based rates. Hydro One sees this project as essential in starting to address issues of cost causality and fairness in determining how costs should be allocated to the various customer groups and how distribution rates amongst customer classes should be established in the future.

While Hydro One is generally supportive of the direction being established, there are some instances where information is being required that the LDCs do not have and further, have no ability to compel the customers to provide such information. A compromise will be needed between the nice to have information and efficiency of process.

In particular, Hydro One would like to make the following observations concerning certain specific issues presented in the staff proposal.

1. Proposed replacement classification for current legacy “TOU” rates

As OEB staff is aware, Hydro One Distribution received OEB approval to offer interim TOU rates to a few customers as part of its Conservation and Demand Management programs approved by the Board in November 2004. Hydro One does not consider this limited program to be a legacy TOU rate and therefore plans to continue to offer this program as part of its Conservation and Demand Management programs.

2. Run 3 Optional Rate Classification Changes

In the Board decision on EB-2005-0528 proceeding released April 17, 2006, the Board directed Hydro One to properly identify the costs to serve Distributed Generators as a separate rate classification, as part of the upcoming cost allocation review filing. Hydro One intends to do so as part of Run 3 of the Cost Allocation information filing model.

3. Load Data Requirements for Merging Distributors

Hydro One in its 2006 Distribution Rate filing specifically applied to Harmonize the rates of its 87 Acquired LDCs. Hydro One proposed in its evidence to group together all Acquired Residential customers in one customer group and all Acquired General Service customers in another customer group. Since Hydro One had made this specific commitment, for purposes of the Cost Allocation information filing in Run 1 it will create a new customer class for all its Acquired Residential customers and another new customer class for all its Acquired General Service customers. Separate load profiles for each of its 87 Acquired LDCs will not be provided.

4. Treatment of CATV Battery Mats for Upcoming Filings

As Hydro One filed its 2006 Distribution rates on a forward test year basis, Hydro One will endeavour to contact all of its Cable TV company customers and ask them to provide the necessary information to identify the numbers and installed capacity of Battery Mats. Hydro One will rely exclusively on the accuracy of the information received from Cable companies to develop the load profile for the new separate customer class for USL.

5. Potential Load Data Options for Separate Standby Rates Classes

Hydro One notes the various alternatives proposed by OEB staff to model a separate customer class for customers with Load Displacement generation. Hydro One supports the Government initiatives to promote the development of new alternative sources of generation, including Distributed generation and Hydro One is in favour of developing a methodology to assign costs fairly to distinct customer groups. However, Hydro One is of the opinion that alternative 2 proposed may not be practical. Another option to alternative 1 is a Rate Design approach to fairly assign costs to this group of customers.

Hydro One does not have the information needed to identify which customers or Embedded Distributors have Load Displacement generation. This is likely the case for all other LDCs in Ontario. Hydro One suspects that there are many customers that have had for many years Load Displacement generation but Hydro One does not have any specific meter data on these situations. Alternatives 1, and 2a and 2b in the staff proposal would specifically require Hydro One to identify which customers have Load Displacement generation. In addition, under alternative 2 Hydro One would have to obtain or estimate the meter data for the generator. In order to collect this information, Hydro One would need to contact all of its customers and ask them to self-declare if they have Load Displacement generation in their premises and provide access to meter data for the generator. In the case of Embedded Distributors in Hydro One's service areas, a Merchant Generator located in the Embedded Distributors' territory is a Load Displacement generation from Hydro One's perspective. A specific example is the GTAA generator located in Enersource Hydro Mississauga's territory.

There would be no incentive for customers to freely admit to Hydro One that they have Load displacement generation in their territory, especially if it will result in a specific new standby charge being established that would affect them. The Board would need to provide LDCs with the necessary authority to be able to require customers to provide the necessary information to their respective LDCs.

An alternative solution to assign customers with Load Displacement generation their fair share of costs is to apply a Rate Design approach to establish Standby charges. LDCs have to provide distribution facilities ready to serve customers with Load Displacement generation in instances when their generators fail. The costs of having facilities ready to serve can be recovered from customers by way of establishing a contract for capacity, or reservation charge for facilities provided by the LDC. The customer with Load Displacement generation would pay the standard distribution rates applied to a specified contract capacity. This alternative would ensure that customers that require standby facilities pay their fair share of the costs they impose on LDCs and are not being subsidized by all other customers of the LDC.

Hydro One looks forward to continuing its participation in the development and implementation of a cost allocation methodology for all LDCs in Ontario.

Sincerely,

Susan Frank