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June 6, 2006

*via facsimile 416.440.7656 – Original to follow by mail*

Peter O'Dell, Assistant Board Secretary  
Ontario Energy Board  
P.O. Box 2319, 27th Floor  
2300 Yonge St  
Toronto ON M4P 1E4

Dear Mr. O'Dell:

**RE: Cost Allocation Review: Staff Proposal Regarding Rate Classifications  
and Associated Load data Requirements  
OEB File No. EB-2005-0317**

Enclosed are three (3) hard copies of Toronto Hydro-Electric System Limited's written submission of comment on the Board Staff Proposal regarding Rate Classifications and Associated Load Data Requirements for the Cost Allocation Review. Also enclosed is a diskette with electronic copies in MS Word and PDF formats.

Please direct any questions on this matter to Timothy Turner, Senior Advisor, Regulatory Affairs at 416.542.2708 or at [tturner@torontohydro.com](mailto:tturner@torontohydro.com).

Yours truly,

A handwritten signature in black ink, appearing to read "R. Zebrowski", written over a horizontal line.

R. Zebrowski, Vice-President  
Regulatory Services

encl.  
/tjt

***Toronto Hydro-Electric System Limited***

***Comment on the Board Staff Proposal regarding Rate  
Classifications and Associated Load Data Requirements for the  
Cost Allocation Review (the “Board Staff Proposal”)***

***Introduction***

Toronto Hydro-Electric System Limited (THESL) is responding in this document to the Board’s May 26, 2006 request for comment on its proposal regarding Rate Classifications and Associated Load Data Requirements for the Cost Allocation Review.

***General***

THESL appreciates the degree of effort that the Board staff has made thus far to involve representatives of distributors in the Cost Allocation Review task force meetings and workshops and is pleased to be an active and constructive contributor to the process.

Notwithstanding the above, THESL is very concerned at a conceptual level with the Board Staff approach of requiring a second run to create alternative load profiles and moreover the implied possibility of discretionary consideration and use of the results from these alternate scenarios for cost allocation and rate making purposes instead of applying traditional and

recognized principles of public utility rate making. It is counterintuitive to presume that the Board will use the scenario results to revise established principles to derive a preferred result and thus it is THESL's opinion that there should only be one run that is consistent with recognized and accepted cost allocation and rate making principles.

THESL is also concerned with the Board Staff Proposal to establish a load profile for a separate standby rates class. Given the uncertainty and instability of the factors that should be used to derive appropriate cost-based rates and the resulting difficulty in determining just and reasonable rates for these customers, THESL urges the Board to refrain from making rates for a separate standby rate class.

### ***Specific Comments***

The comments that follow pertain to the section entitled "Suggested Load Profile for separate Standby Rates Class" on pages 8 and 9 of the Board Staff Proposal.

For LDCs that do not have a separate Standby Rate class it is assumed that 1) the customer requires supplemental backup power when the co-generation unit is not operating due to either scheduled or un-scheduled maintenance, and 2) the sum of both the firm and supplemental standby power is less than the face plate of the co-generation unit. In other words, it has been assumed that the customer is not a merchant generator.

To derive proper allocations of distribution assets and expenses based on system coincident peak (CP) and system non-coincident peak (NCP) where backup supplemental power is required, the utility's load profile needs to be kept whole as though the co-generation unit did not exist. In order to achieve this, LDCs should add the load displaced by the co-generation unit to the utility's total system load profile.

The separation of co-generation customers into a distinct rate class unfairly subjects these customers to risks created by other customers in the same rate class. Co-generation customers rely on a variety of variables when making the decision to operate their co-generation units. Some of these variables include the availability of the fuel type (bio-waste), the price of the fuel (gas), the efficiency of their co-generation units (downtime), and the economic environment (demand). Generally, the number of customers with co-generation facilities in each rate class is few; therefore it would take only one customer in the group to alter the operating behavior of its co-generation unit to significantly impact the rest of the co-generation customers in this rate class. This can create rate and revenue instability until the cost allocation factors are reviewed and revised.

Furthermore, the entry or exit of co-generation customers into this small group of customers could also significantly alter the load shape that was initially used to derive the factors for cost allocation and rate design. This also can create rate and revenue instability until the cost allocation factors are reviewed and revised.

### ***Conclusion***

The uncertainty and complexity of maintaining stable standby rates for a separate rate class is unwarranted and does not necessarily produce just and reasonable rates for these customers.

If customers with co-generation facilities that currently belong to a class with many other customers were to be reclassified into a new separate class containing only a few co-generation customers they would lose the benefits associated with the class diversity that exists in the original class. This would unduly penalize standby customers by disassociating them from the proper allocation factors that apply to their original class of customers.

Once again, THESL urges the Board to refrain from making rates for a separate standby rate class given the uncertainty and instability of the factors that should be used to derive appropriate cost-based rates and the resulting difficulty in determining just and reasonable rates for these customers.