



OEB COST ALLOCATION REVIEW

Elimination Legacy “Time Of Use” Classifications

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Background

- In 1990 the former Ontario Hydro introduced a time differential in its wholesale rates
- Main rationale was to better reflect cost causality in the generation of electricity
- Utilities had to reflect these costs at the retail level and therefore some introduced Time-of-Use (“TOU”) rates
- These TOU rates were primarily for Larger Users and some extended the offer to Residential and General Service customers

Background (continued)

- In 2000, rates were unbundled into distribution, transmission and commodity components
- Legacy “TOU” rates no longer reflect cost causality for distribution rates
- In 2006 EDR applications, some LDCs already applying to eliminate this classification

Present Situation

- Some LDCs will still have legacy “TOU” rates
 - See Handout for illustrations (from 2005 rates filings)
 - Advisory Team cautions that some LDCs may be effectively using a GS > 50 kW “TOU” subclass as a proxy for a GS Intermediate class

Key Phase 2 Proposal

- Eliminate all the legacy “TOU” rate classifications in the cost allocation filings

Phase 3 Issue

- What should utilities with significant GS > 50 TOU customers do?
 - i) Could add customers to main GS>50 subclass
 - ii) Or, where justified, could allow customers to be rolled-over into a new GS Intermediate subclass for that utility
(but see other recommendations on this issue)
- What supporting analysis should be filed to justify either of above treatments?

Phase 3 Issue (continued)

Should there be some supplementary questions in the filing to better understand the effective use of current "TOU" rates, especially GS>50 "TOU"

Future Rates Issues

Advisory Team mentioned that in some cases, utilities may want a phase-out plan if a "TOU" GS class is removed in 2007-08 rates (caution: impact could be significant for some customers)

- Such mitigation issues will be considered further after the information filings are reviewed

Other Issues

As indicated in June 24th letter, discussion of merits of newly designed Time of Use distribution rates is outside scope of these consultations, but fundamentals of distribution rate design philosophy will be discussed separately in 2006