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BY COURIER

May 15, 2007

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON.
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Dear Ms. Walli:

EB-2007-0031 – Staff Discussion Paper Rate Design for Electricity Distributors: Overview and Scoping – Hydro One Networks' Comments

Hydro One welcomes the opportunity and is pleased to offer comments and responses to questions posed by Board Staff in its Discussion Paper on Rate Design for Electricity Distributors: Overview and Scoping dated March 30, 2007.

Generally, Hydro One is supportive of the Board's Staff discussion paper as it thoroughly presents the main concepts associated with Rate Design. In this respect the Paper is a good start for a discussion on Rate Design issues.

Hydro One's comments on the Questions raised in the Paper are presented below.

Are there any principles, beyond the generally accepted, traditional principles of rate design listed above, that the Board should consider in designing distribution rates? What is the new principle's importance relative to the others?

Board Staff has identified an appropriate list of principles for rate design that should be considered by the Board from a distributor's perspective. These are well known and have been tested in various proceedings. As mentioned in the Paper, the principles presented are usually in conflict and priorities will need to be assigned to the Principles to achieve the appropriate balance for effective Rate Design outcomes. Adding more Principles will only make the prioritization and selection process more difficult without adding significantly to improve the outcome.

What is the most appropriate basis for determining the service classifications for Ontario distribution customers?

Hydro One is of the view that a number of approaches can be used to classify customers, for example consumption, density, or voltage. There isn't necessarily only one basis by which classification can be achieved. Classifying customers based on amperage could add other level of complexity and does not necessarily translate into level of service. This would introduce greater volatility to rate classes. Voltage differentiation may provide a more stable basis to classify customers, especially larger commercial customers that result in rate stability.

Should sub-classifications be maintained? If so, what is the most appropriate method to allocate diversity benefits?

Sub-classifications should be eliminated since it only adds more complications to cost allocation amongst customer classes by having to deal with the issue of how to fairly allocated diversity benefits amongst customer classes and sub-classes. Eliminating sub-classifications will correct for the situation where some customers derive a benefit of diversity and keep it within their own class, while other customers groups are forced to share the diversity benefits with other customer classes.

Are there other rate design components or options that the Board should consider as it moves forward?

Hydro One believes that the components identified in the Paper are generally sufficient for the purposes of Rate Design for electricity distributors in Ontario and as such are appropriate components that the Board should take into account as it moves forward.

Nevertheless, Hydro One is of the view that there are two other additional issues that the Board may want to consider: 1) Harmonization of rates after an LDC has acquired customers, what is the methodology to be followed by distributors to harmonize rates across an LDC's new service territory and 2) Impact of having smart meters available providing information that could enable to have rate design that could promote energy conservation.

Rate Design components can be used by the Board to deal with particular situations instead of adding new customer classifications. For example, an appropriate credit applicable to Unmetered Scattered Load is preferable than creating a separate customer classification for these type of customers

What are the principles that should inform the decision on fixed and/or variable rates?

The principles that should inform the decision on fixed and/or variable rates are, in order of priority:

Cost Causality
Customer Impacts
Revenue Stability for Distributors

Cost Causality is the most important principle that should be used for Rate Design because it will ensure that costs are recovered in a Fair and Equitable manner from Distributor's customers, avoid undue discrimination, and provide the proper price signal. Customer Impacts is another important consideration, but is should not come at the expense of cost causality. Finally, Revenue Stability for Distributors is an important consideration to ensure the financial viability of distributors.

Should the billing determinants be consistent for all customer classifications?

Not necessarily. Larger use customers are generally more knowledgeable and can react to more complicated billing determinants to change their behaviour, while smaller use customers may not understand more complicated billing determinants and therefore any price signal that is sent to small use customers will largely not be understood and therefore opportunities will be lost in getting small use customers to change their behaviour.

What are the most appropriate billing determinants for each customer classification?

Smaller use customers should be billed based on energy as is currently done, complemented by a fixed charge. Energy charges could be time-differentiated to complement commodity price signals, but not to reflect distributors' costs given the fixed nature of distributors' costs. Most small use customers are homogeneous in the consumption of electricity and billing determinants can and should be kept relatively simple.

Large use customers, above certain demand threshold (kW), are more unique in their consumption of electricity with wider variations and therefore, a more complex billing determinants should be used, for example, demand. Larger use customers can have wider variations in their load factors and therefore, a demand billing determinant, (kW, or kVA if appropriate to reflect poor power factor), is more appropriate to send the correct price signal to larger use customers.

Should the Board pursue an analysis of use-of-system rates for distributed generation to investigate rates and determinants?

The Board can initiate an analysis, but the Board should keep in mind that Distributed generators are very diverse and an analysis, to be representative, would have to be very detailed to take into account the wide variations in operations and unique characteristics of the many different types of distributed generators. Many subjective assumptions may need to be made in the analysis. Any deviation from the current principle that only load pays will also have implications for generators connected to the transmission system.

How important is consistency of the rate design model across the province?

Hydro One is of the view that all distributors in the province should be subject to consistency in rate design model principles to eliminate unnecessary confusion on the part of customers, but that flexibility should be allowed to deal with unique circumstances that may be applicable to only a selected group of customers, or specific distributors. Additionally, to be able to maintain consistent treatment in the

province and perform proper comparison across distributors, steps must be undertaken to ensure that costs are recorded properly and cost allocation studies are executed consistently by all distributors.

Is one single rate order (or a few regional rate orders) to be used by all distributors a desirable outcome?

Regional rates could be explored and considered. This would have the advantage of sending the same proper consistent price signals to customers in the same region. This approach would add additional complexity in setting distribution rates, as is the case in setting a province wide Transmission rate.

Should distributors offer various levels of service?

Different levels of service may be appropriate based on power quality, for example, to encourage attraction, or keeping in the province certain type of customers, especially larger customers. These larger customers may have higher level, or quality of service, compared to other customers. This would add complexity in establishing distribution rates, but the additional complexity may be considered worthwhile.

Should distributors be able to buy (offer credit for) services from customers?

Buying and/or selling of services are more appropriate for the generation side of the electricity system than the distribution side. Given that most distributors' costs are fixed, there are not many instances where a distributor could buy, or offer credit for services from customers.

Should the Board investigate a rate design model based on long run marginal costs?

No. Most, if not all distributors' costs are fixed and distribution costs are a relative small proportion of the customers' total bill. If rate design is to be based on long run marginal costs, for consistency it should be done for all components of the electricity bill: generation, transmission and distribution. Having only one small component of the total electricity bill reflect long run marginal costs does not provide enough of a price signal to customers.

Should the Board investigate locational rates for any customers connected to a distribution system?

Consistency with commodity and Transmission charges is important. If locational rates are to be considered for customers, it should reflect all costs, including generation and transmission and not just distribution costs.

Given the simplified bill, can a conservation and/or demand management effect be achieved through distribution rate design?

The Board should determine the proper Rate Design and subsequently determine the corresponding billing practice. The current billing practice is difficult to understand for smaller customers and to send conservation and/or demand management price signals to customers, billing practice will have to be

modified to provide the customer with enough simple information that will enable them to respond to price signal and modify their consumption patterns appropriately.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank