



Association of Major Power Consumers in Ontario

July 13, 2004

Mr. Peter H. O'Dell
Acting Board Secretary
Ontario Energy Board
P.O. Box 2319
26th. Floor, 2300 Yonge Street
Toronto ON M4P 1E4

Dear Mr. O'Dell:

Re: Process For Establishing 2006 Electricity Distribution Rates

This letter is a response to your June 16th letter to All Licensed Electricity Distribution Companies and Other Stakeholders regarding the process to establish electricity distribution rates to be effective May 1, 2006. In this letter you state:

“The Board has decided that it is best that the required new cost allocation studies be filed in 2006, as part of rate applications for 2007 distribution rates. Such scheduling will allow a smoother flow of work by all parties, accommodate difficulties experienced by utilities in starting load data collection, allow fuller consideration of issues such as sub-functionalization, and will enable new developments (such as in the area of metering) to be fully taken into account.”

AMPCO finds it unacceptable that the application of distribution rates based on cost allocation is once again being delayed. The second generation Performance Based Rates based on cost allocation which were originally planned to be in effect in 2003 are now delayed to 2007. By that time, distribution customers will therefore be paying distribution rates with no basis in cost allocation for more than six years from the implementation of rate unbundling on March 1, 2001, to the new target date of May 1, 2007, or later if the Board further delays the implementation of cost allocation.

The initial rate unbundling was based on the implied distribution revenues collected in 1999. This was accepted as a second best expedient until rates could be rebased using cost allocation studies. The Distribution Rate Handbook acknowledged that the cost allocation factors had not been updated since the 1980s.

For Large User customers the situation is worse than other customer groups since the Large User rates in effect in 1999 were not based on cost allocation within each utility but were set administratively by the utilities within a guideline set by Ontario Hydro.

Most utilities calculated the implied 1999 distribution revenues using a spreadsheet model developed by the Board. This model was not designed to handle special rates that some Large Users had and could lead to large discrepancies. The case of the single Large User of West Coast Huron (formerly Goderich Hydro) is an example where the application of the model is a cause of dispute that has not yet been resolved. There may be other utilities where the initial rate unbundling was similarly unsatisfactory.

The result of the unbundling process has been to cause a large variation in Large User distribution rates between utilities. AMPCO submitted evidence in the hearing on Hydro One Low Voltage Rates (RP-2000-0023 EB-2001-0016 Exhibit J Tab 1 Schedule 1) which showed the variation in distribution bills among LDCs. I have attached to this letter Table 5 from that exhibit which shows the monthly distribution bills for a 10 MW Large User. The monthly bill varies from a low of \$1,983 for Kingston to a high of \$32,823 for Oakville with a weighted average of \$16,753. This is an enormous range of rates for a similar service.

The Table shows a bill for a Hydro One Embedded Direct of \$1,700 based on Hydro One's proposed LV Rate of \$0.17/kW/month. With the Board approved Hydro One LV Rate of \$0.56/kW/month this rises to \$5,600/kW/month. This is still only one third of the weighted average of the LDC Large User rates and the Hydro One LV rate is based on a cost allocation study that was reviewed by the Board in the referenced hearing.

We also note that the Hydro One service provided to Embedded Direct Customers through its LV system is a similar service to that provided by LDCs to their Large Users except that the Hydro One service territory is much larger and usually has higher costs because of the increased distances over which power must be carried. Therefore, one could conclude that the rate for similar service provided by other LDCs to their large users should be lower.

Instead, the net effect of the unbundling process on Large Users has been distribution rates:

- that are on average larger than the Hydro One LV rates for similar service
- that have a large variation between utilities, with no confidence that this reflects differences in the cost of service
- Annual rate increases that have factored up the original unbundled revenue requirements and thereby magnified the effect of inappropriate initial allocations.

AMPCO therefore requests that the Board reconsider its decision to delay the implementation of cost allocation based rates to 2007. It is unreasonable to ask customers to bear the cost of inappropriate initial cost allocations for more than six years from rate unbundling.

Yours truly,

Mary Ellen Richardson
President

cc. Mr. Ken Snelson, Consultant to AMPCO
Mr. Mark Rodger, Partner, Borden Ladner Gervais, Legal Counsel to AMPCO
Hon. Dwight Duncan, Minister of Energy

Table 5: Monthly Distribution Bill Comparison

	10,000 kW Customer		0.60 \$/kW/month		Total Bill	Bill x Customers	# Large Users
	Transformer credit Distribution Rates	Usage Rate \$/kW/month	Usage Charge \$	Transformer Credit \$			
Hydro One Embedded Direct	0.00	0.1700	1,700.00	0.00	1,700.00		39
Hydro One Rate Class T	225.80	6.5200	65,200.00	6,000.00	59,425.80		0
AMALCO (Markham)	2,609.63	1.9800	19,800.00	6,000.00	16,409.63	16,409.63	1
AMALCO (Vaughan)	7,009.03	0.7742	7,742.00	6,000.00	8,751.03	8,751.03	1
Barrie	6,947.06	0.4242	4,242.00	6,000.00	5,189.06	5,189.06	1
Bluewater (Sarnia)	13,666.97	0.6258	6,258.00	6,000.00	13,924.97	41,774.91	3
Cambridge& N Dumfries	2,992.48	1.1011	11,011.00	6,000.00	8,003.48	16,006.96	2
Collus (Collingwood)	6,958.25	0.7501	7,501.00	6,000.00	8,459.25	8,459.25	1
Ennersource (Mississauga)	9,134.86	1.6000	16,000.00	6,000.00	19,134.86	172,213.74	9
Enwin (Windsor)	11,673.75	1.2082	12,082.00	6,000.00	17,755.75	177,557.50	10
Erie-Thames (Ingersol)	9,808.55	0.4348	4,348.00	6,000.00	8,156.55	8,156.55	1
Festival (Stratford)	9,857.40	0.5749	5,749.20	6,000.00	9,606.60	9,606.60	1
Guelph	700.92	1.2983	12,983.00	6,000.00	7,683.92	23,051.76	3
Hamilton 13.8kV	8,927.71	0.6000	6,000.00	6,000.00	8,927.71	107,132.52	12
Hydro One - Brampton	3,828.91	2.0501	20,501.00	6,000.00	18,329.91	54,989.73	3
Kingston	3,908.19	0.4075	4,075.00	6,000.00	1,983.19	5,949.57	3
Kitchener Wilmot	10,980.11	0.8537	8,537.00	6,000.00	13,517.11	40,551.33	3
London	9,732.04	0.7938	7,938.00	6,000.00	11,670.04	46,680.16	4
Milton	3,223.56	1.6600	16,600.00	6,000.00	13,823.56	13,823.56	1
Oakville	12,526.03	2.6294	26,294.00	6,000.00	32,820.03	98,460.09	3
Oshawa	8,181.96	1.7372	17,372.00	6,000.00	19,553.96	78,215.84	4
Ottawa	9,774.25	1.3300	13,300.00	6,000.00	17,074.25	204,891.00	12
Peterborough	3,785.94	0.3685	3,685.00	6,000.00	1,470.94	1,470.94	1
St Catharines	3,235.12	0.7023	7,023.00	6,000.00	4,258.12	21,290.60	5
Thunder Bay	9,852.26	1.2093	12,093.00	6,000.00	15,945.26	47,835.78	3
Toronto	2,434.00	2.7700	27,700.00	6,000.00	24,134.00	989,494.00	41
Veridian (Belleville)	5,004.21	0.8963	8,963.00	6,000.00	7,967.21	7,967.21	1
Veridian (Port Hope)	5,835.04	0.5285	5,285.00	6,000.00	5,120.04	10,240.08	2
Waterloo North	5,452.00	1.7400	17,400.00	6,000.00	16,852.00	33,704.00	2
Welland	6,344.99	0.3463	3,463.00	6,000.00	3,807.99	7,615.98	2
W Coast Huron (Goderich)	16,574.90	0.8369	8,369.00	6,000.00	18,943.90	18,943.90	1
Woodstock	9,815.17	1.4980	14,980.00	6,000.00	18,795.17	18,795.17	1
							137
			Average		12,602.32		
			Weighted Average			16,753.49	