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BY COURIER

May 30, 2008

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 - OEB Review of Electricity Rate Design – Hydro One Networks' Submissions on OEB Staff Discussion Paper**

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Hydro One Networks Inc. (“Hydro One”) welcomes the opportunity to provide comments to Ontario Energy Board (“Board”) Staff’s Discussion Paper on Rate Design for Recovery of Electricity Distribution Costs, as part of Proceeding EB-2007-0031 which was issued for comment on March 31, 2008. Hydro One’s commentary is provided in terms of (i) general comments, and (ii) specific comments and responses to questions raised by Board Staff in the discussion paper.

General Comments

Hydro One is of the view that there are many considerations that should be taken into account when implementing changes to rate design to recover distribution related costs. The considerations are:

1. Any changes to rate design must ensure that the distributor is still able to recover it’s OEB approved revenue requirement. If some rate design change increases risks to the distributor, the increased risk should be reflected in higher allowed return on equity to fully compensate the distributor in that respect
2. Customer acceptability of rate design changes is paramount to ensure that the changes will achieve their intended objectives. If customers do not understand or accept the rate design changes, the intended objectives will not be achieved and any price signals intended to be provided to customers will be lost. The OEB may consider holding customer focus groups, to get general comments on what key principles or factors should drive electricity distribution pricing.
3. Any rate design change should provide for stable price signals to customers.

4. Any rate design change proposed should be practical and economic to implement. The rate design change should not impose higher costs on the distributor to implement because of additional data requirements or changes needed to current billing systems without identified benefits.
5. Any rate design change should also take into account what customers will be paying in other jurisdictions. Many customers have multiple locations in North America and similarity in rate design will minimize customer confusion when comparing distribution costs across jurisdictions.
6. Besides considering asset utilization, in certain circumstances length of distribution feeders should also be a consideration in establishing customer classes and designing cost based rates, especially for rural distributors like Hydro One since costs are driven also by length of distribution feeders.
7. Any rate design change should also consider initiatives in other related fields. For example, Measurement Canada is currently evaluating what the legal units of measure should be for electricity billing. Any changes proposed by the OEB should be consistent with what will be allowed by Measurement Canada.

### Specific Comments

#### *1. Reference: 4.2 Options for Customer Classes. Role for interruptible rates:*

- *Should they be offered and if so, in what circumstances should they be available?*
- *If interruptible rates are available, what rate classes should qualify for them?*
- *Should separate interruptible rate classes be established, or should they be a rate option within other rate classes?*

Hydro One's view: Interruptible rates are appropriate when considering commodity costs. Distribution assets are available on a continuous basis even if the customer reduces consumption for a period of time since the assets are designed to meet the customer's maximum consumption, regardless of when it occurs. Customers currently have the option of reducing consumption and deriving benefits in the form of lower commodity prices if consumption is reduced at times of high commodity prices, or customers can participate in IESO initiated demand reduction programs. Offering interruptible distribution rates to customers will have no significant impact on expanding the availability of interruptible loads.

If the Board decides to include guidelines with respect to interruptible rates for distributors in the future, due to the incremental administration costs involved, it should be limited only to larger customers and a separate class would not be warranted, since there would be few customers that would probably take advantage of interruptible distribution rates.

#### *2 Reference: 4.3.1 Connection Voltage. Whether such a distinction is practical and such a classification is logical for distribution systems*

Hydro One's view: Level of Transformation is a more logical differentiation for grouping customers than connection voltage. In the case of Hydro One, customers can be supplied at different voltages e.g. 44 kV, 27.6 kV, 13.8 kV but in all cases they utilize similar assets. Applying cost causality principles,

these customers should all be grouped in the same customer class and levels of transformation used would better achieve the objective of customer classification than would voltage differentiation.

A significant effort would be required to implement such a connection voltage classification approach as this would entail ‘connectivity’ information in the Customer Service System, so each individual customer account could be classified correctly and billed appropriately.

*3 Reference 4.3.1 Connection Voltage. Appropriate levels of division and whether these are more appropriate as distinct classes or sub-classes, (volume usage).*

Hydro One’s view: Applying cost causality principle, volume differentiation is not needed as the number of levels of transformation used would better categorize asset utilization and customer classification and further differentiation by volume would not be required.

*4 Reference 4.3.2 Proxies for Voltage. If not the connection voltage, what is the best approximation to it: the demand, the amperage or a combination of the demand volume and service voltage?*

Hydro One’s view: Demand volume is a better approximation to voltage. Amperage and service voltage are parameters that are not readily available for most customers, while demand volume is readily available as it is shown on customers bill and is a measure with which customers are familiar.

*5 Reference 4.3.2 Proxies for Voltage. If proxies are to be used, what are the appropriate thresholds?*

Hydro One’s view: The appropriate threshold should be 500 kW. All customers below that threshold could be grouped in one customer class and all other customers could be grouped in another customer class. The proposal to use 500 kW is a threshold at or above which customers would have to provide their own transformation facilities and is also the threshold above which customers have to be supplied at a higher voltage.

*6 Reference 5.2.1. Price Signals in the Rate-setting Context.*

- *whether there is a necessary connection between long run variable costs and variable rates;*
- *whether variable charges are an effective means of controlling long –run variable costs in the rate-setting context; and*
- *whether customers respond to variable rates.*

Hydro One’s view: There are no significant variable costs for distributors since most distribution costs are fixed. If distribution variable prices (rates) could be determined based on long run variable costs this would mean moving away from the philosophy of setting distribution rates using a postage stamp approach and could result in geographically differentiated rates, since long run marginal distribution costs should reflect geographical differences. The time-of-use pilots being conducted by various distributors in Ontario would be a good source for information on how customers react to price signals.

Generally distribution costs also represent a relatively small portion of the customers' total electricity bill, typically between 15-30%. Basing only distribution costs on incremental costs and not generation and transmission costs would provide little or no benefit as a proper price signal to customers.

*7 Reference 5.3 Revenue Stability mechanisms.*

Hydro One's view: Fluctuation in distribution sales is a normal risk associated with the distribution sales. Appropriate Sales Forecast techniques can be used to better understand underlying reasons for increased fluctuations in sales resulting from different price signals. Revenue Stabilization Adjustment Mechanism, (RSAM), introduces a level of complexity into distribution rates that is not warranted. Higher return on equity is another option to compensate distributors for higher risks, instead of RSAM.

*8 Reference 6.6 Single Phase Secondary Customer Rate Changes. Should distribution customers pay rates that are more reflective of the costs they cause due to load factor difference based on each distributor's cost allocation study?*

*Should the revenue-to-cost ratio for the new Single Phase Secondary Class be constrained in any way by the prior revenue-to-cost ratios of the existing Residential and GS classes?*

Hydro One's view: Load Factor differentiation should not be used to differentiate rates. Contribution to asset utilization by applying cost causality principles will ensure that customers with different load factor are allocated and pay their fair share of costs.

Revenue to cost ratio should not be constrained in any way by the previously established revenue to cost ratio of the existing Residential and General Service classes. Any impact resulting from new revenue to cost ratio applicable to customers on a going forward basis can be dealt by an appropriate implementation mitigation plan, for example, a multiple year phase-in implementation plan.

*9 Reference 6.7 Residential Sub-Class. Is it sufficient to maintain a residential sub-class as a means of identifying residential customers for purpose of billing treatment that is available only to residential customers under current legislation?*

Hydro One's view: The Rural and Remote Electricity Rate Protection plan is available to eligible customers in designated rate classes, as established today by the applicable regulations. As the existing Hydro One rate classes reflect geographic density, Hydro One can meet the intent of Rural Rate Protection legislation and identify customers in rural locations. This approach may have to be revised should a new rate classification approach be developed. The preference is to have an element of geographic location within the rate structure so that Hydro One can appropriately identify customers qualifying for Rural Rate Protection.

*10 Reference: Rate Design for the Primary Class. Board staff invites comment as to the appropriateness of these options.*

Hydro One's view: For smaller customers a fixed charge and a charge based on actual demand is the recommended rate design. Due to practical limitations related to the costs of administration, contract

demand would not be feasible for small customers. In addition, only very large customers are knowledgeable about their demand and how to forecast their demand requirements to make effective use of contract demand for billing purposes.

*11 Reference: Rate Design for the Sub-transmission Class. Sub-transmission customers will generally be wholesale market participants; hence, they cause less commodity risk for distributors (lower prudential requirement).*

Hydro One's view: The assumption noted by Board Staff and the resulting conclusion are not correct. Hydro One has many sub-transmission customers that are not wholesale market participants and for whom Hydro One holds the commodity risks. Due to their consumption volumes the commodity risks can be quite significant for Hydro One.

*12 Reference: 9 Board staff invites comment as to the appropriateness of each option and the advantages of using the same rate design for the Primary and Sub-transmission Classes.*

Hydro One's view: For the Sub-Transmission class, fixed charge and customer contract demand would be the appropriate rate design. For Primary and Secondary customers contract demand should be replaced by actual demand. Larger customers impose more costs on distributors and contract demand with related penalty clauses for exceeding contract demand would assist distributors in better asset planning, though the use of contract demand creates greater administrative and legal costs and imposes additional liabilities on customers. Consistency of rate design is achieved by using a fixed and a variable charge rate design for Bulk, Primary and Secondary class customers. Having the variable charge based on actual or contract demand is consistent; it just reflects the fact that larger customers impose more costs on distributors.

*13 Reference 10 Rate Design for Embedded Distributors Is there any need to maintain a separate class for embedded distributors?*

Hydro One's view: Applying cost causality principles, embedded distributors utilize similar assets as do larger customers, therefore, a separate rate class would not be warranted. From a host distributor's perspective an embedded distributor imposes similar costs as do other end-use customers served by the distributor.

*14 Reference 10 Rate Design for Embedded Distributors Board staff invites comment as to the appropriateness of these options.*

Hydro One's view: Embedded distributors' rate design should be similar the Sub-Transmission customer's rate design. The rate design should consist of a fixed charge and a variable charge based on contract demand.

*15 Reference 11 Rate Design for Load Displacement Generation Board staff invites comment as to the appropriateness of these options. Is it advisable to assume the targeted end-state diversity in setting rates in order to stimulate projects?*

Hydro One's view: The rate design for customers with generation behind the meter should be similar to the rate design for Sub-Transmission customers. The rate design should include a fixed charge and a variable charge based on contract demand. The contract demand should reflect the size of the load displacement generation and the customer's total demand for electricity.

In Hydro One's situation as a host distributor to many embedded distributors, a merchant generator located in the territory of an embedded distributor makes the embedded distributor a customer with load displacement generation from Hydro One's perspective.

Diversity benefits only occur if the load displacement generation includes different technologies and are all connected to the same distributor's assets. For example, there is no diversity benefit from wind generators, since this type of generation would likely be operating at the same time depending on wind availability. Another example would be if the generators are located far apart. In this situation, the distributor would need to provide assets to supply the loads that are far apart in case the generator is not operating and the distributor would not derive any benefits from such diversity of generation.

*16 Reference 12 Rate Design for Unmetered Scattered Load. Board Staff invites comments on whether a separate unmetered scattered load class should be mandatory and the relative merits of billing for unmetered scattered load on the basis of customers and connections.*

*Board staff is also interested in submissions on the justification for separate classes for street lighting and sentinel lighting.*

Hydro One's view: A separate class for unmetered scattered load is not needed if a proper credit is applied to this type of customers to reflect the fact that they do not utilize meters. This rate design solution can be applied to avoid creating a separate customer class. Billing should be based on connections and not customers for this type of connections as one customer may have multiple connections imposing multiple costs on distributors.

Street Lights and Sentinel Lights should be separate classes if based on a cost allocation study these classes of customers impose different costs on distributors. If the unit costs of supplying these types of loads are not materially different, Street Light and Sentinel Lights could be combined into one class. However, miscellaneous revenues collected from Sentinel Light customers would now be credited to the new combined class.

*17 Reference 13 Rate Design for Metered Scattered Load. Board staff invites comment on whether the diversity benefit associated with multiple locations should be reflected in the rates paid by customers with metered scattered loads. Board Staff also invites comment on whether customers with metered scattered loads should be able to aggregate their bills and be charged a single fixed monthly charge that reflects the reduced costs associated with the single bill.*

Hydro One's view: Considerations could be given to diversity benefits only if the multiple locations are connected to the same asset. In most instances multiple metered locations are spread out in the distributors' territory providing no diversity benefit. Since the locations may be far apart, the distributor

needs to supply each location individually and there are no diversity benefits that could be provided to the metered customer with multiple locations.

Hydro One offers customers with multiple accounts, including those with multiple Unmetered Scattered Load, the ability to consolidate the billing amounts due on individual accounts into one bill. This service is called Summary Billing. Consolidating multiple accounts to one bill does not eliminate multiple service charges, as consolidating bills does not eliminate the fixed costs for delivery to multiple locations, which can be spread over a large geographic area.

Consolidating multiple accounts into one bill can reduce administrative costs, for example reduction in paper, printing and postage, but it also increases costs in other ways. Although the Summary Billing option offered by Hydro One consolidates multiple accounts to one bill, all backup information on each individual account is still provided with the summary bill in spreadsheet format. As well, the Summary Billing option is partly automated but there are manual steps required in order to establish and create the summary bill.

Summary Billing could, in fact, be viewed as an incremental service beyond base services, and with a miscellaneous charge established.

The fixed charge also recovers more than just billing costs. The fixed charge recovers meter costs, meter reading costs, and the portion of the distribution system (i.e. the minimum system) that is installed regardless of the customer's consumption.

*18 Reference 14 Revenue Recovery of Distribution System Losses Board Staff invite comment on the most appropriate way to adjust the commodity for distribution system losses.*

Hydro One's view: The two alternatives described by Board Staff, mark-up for losses based on hourly demand with the loss factor increasing with demand and higher loss factor for peak TOU periods than for non-peak periods, introduces a substantially greater level of complexity that customers will find confusing. The current approach of mark-up for losses added to the metered quantities is already a source of frustration for customers and distributors. Adding complexity to losses will only increase customer's frustration. The current approach should be maintained or simplified in the bill presentation to not explicitly state the loss factor but include in the rate itself.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank