PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DEFENSE DE L'INTERET PUBLIC
ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7
Tel: (613) 562-4002. Fax: (613) 562-0007. e-mail: piac@piac.ca. http://www.piac.ca

Michael Buonaguro
Counsel for VECC
(416) 767-1666

January 19, 2009

VIA E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Hydro One Networks' 2008 Distribution Rate Application
Draft Rate Order (EB-2007-0681)

As Counsel to the Vulnerable Energy Consumers Coalition, I writing with respect to the Draft Rate Order circulated by Hydro One Networks on January 12, 2009. VECC comments are with respect to the cost allocation implicit in the Rate Order.

In its draft Rate Order[1], Hydro One Networks has determined that the approved basic distribution revenue requirement ($985.8 M) is 96.2% of the basic distribution revenue requirement proposed in its original application. It has therefore determined the final rates set out its draft Rate Order by multiplying the 2008 rates proposed in its original application by a factor of 96.2%.

VECC notes that most of the reduction in the basic distribution revenue requirement is due to the removal of smart related costs (i.e., OM&A, fixed assets as of December 2007 and capital spending for 2008). The following table compares the percentage of the overall revenue requirement allocated to each customer class using Hydro One Networks cost allocation methodology along with each class' share of the weighted meter capital;

1 Draft Rate Order, page 2

Cost Responsibility

	Revenue Requiremt	Meter Capital
UR	6.28%	11.9%
R1	22.69%	28.4%
R2	36.69%	29.4%
Seasonal	7.82%	12.7%
GSe	10.42%	8.7%
GSd	9.89%	1.5%
Str Lgt	0.76%	0.0%
Sent. Lgt	0.37%	0.0%
Dgen	0.04%	0.0%
ST	2.55%	5.9%
UGe	0.91%	1.2%
UGd	1.58%	0.3%
Total	100.0%	100.0%

Sources:
1) Exhibit G2/Tab 1/Schedule 1/Attachment A
- Sheet O1 - Revenue Requiremt
- Sheet I6 - Weighted Meter Capial

VECC notes that in some instances there is a material difference between the percentages. As result, Hydro One Networks' approach cannot be considered to yield the revenue to cost ratios as proposed its application and adopted by the Board. At best the proposed rates produce a rough approximation for some customer classes of the results that would be obtained if Hydro One Networks had re-run its cost allocation model.

VECC also notes that, given the above percentages, re-running Hydro One Networks' cost allocation model and establishing rates based on the subsequent results may reduce the amount required to be accrued to the Bill Impact Mitigation Account.

On a broader note, in the section of OEB's Decision dealing with Hydro One Networks' cost allocation methodology (pages 28-31) the Board specifically addresses concerns raised by parties regarding the Applicant's use of density factors. However, the Decision does not address the other methodological concerns raised by VECC (see VECC's Final Argument, paragraphs 229-239). Furthermore, while the Decision makes findings regarding Hydro One Networks' proposed revenue to cost ratios it does not contain a specific finding regarding the appropriateness of Hydro One Networks' proposed cost allocation methodology overall. This issue is compounded by the fact that Hydro One Networks, in its Reply Argument, did not express any objections to VECC's concerns or its proposed alternative methodology.

In VECC's view this creates some uncertainty regarding the cost allocation methodology to be used as the benchmark in establishing the 2008 Rate Order.

Please contact me if there are any questions and thank you for the opportunity to comment.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC