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VIA E-MAIL AND COURIER

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 Inc. – 2010 & 2011 Distribution Rate Application
Board File: EB-2009-0096

Please find enclosed the interrogatories for SEC submitted by VECC.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

**HYDRO ONE NETWORKS
2010-2011 DISTRIBUTION RATE APPLICATION
(EB-2009-0096)**

**VECC INTERROGATORIES REGARDING
EVIDENCE FILED BY SCHOOL ENERGY COALITION**

**EXPERT REPORT ON HYDRO ONE DISTRIBUTION'S DENSITY-BASED
RATES**

Question #1

Reference: Pages 3, 4, 7 and 15

Preamble: Dr. C. K. Woo recommends that Hydro One Networks develop an urban/rural cost allocation and establish urban/rural rates if a sufficient cost difference is found. On page 15, Dr. Woo indicates that the urban/rural definition should be based on municipal boundaries.

- a) In Ontario there are different types of municipalities as can be seen from the Ontario Ministry of Municipal Affairs and Housing's list of Ontario Municipalities (Source: <http://www.mah.gov.on.ca/Page1591.aspx>). For purposes of establishing the urban/rural split what types of municipalities (e.g., cities, towns, townships, etc) should be considered as "urban" and why?
- b) Hydro One Networks serves a number of First Nation Communities from its grid-connected distribution system, which are typically not incorporated as "municipalities". Would Dr. Woo classify all of these communities as "rural"?

Question #2

Reference: Pages 4 and 9

Preamble: Dr. C. K. Woo recommends that Hydro One Networks develop an urban/rural cost allocation and establish urban/rural rates if a sufficient cost difference is found

- a) Based on his experience, what is Dr. Woo's view as to the reasons why one would expect there to be "cost difference" between serving customers in urban versus rural areas (as defined by Dr. Woo)? Please list separately those reasons/factors that are likely to increase the cost of service in rural area and those that are likely to decrease the cost of service in rural areas relative to urban areas.

b) Is it the fact that an area is incorporated as municipality that leads to a cost difference relative to other geographic areas or is the fact that “municipalities” generally have certain characteristics (such as being more densely populated) that are like to give rise to cost differences?

c) If later, wouldn't a more direct approach to identifying areas with cost of service differences be to focus not on the urban/rural split but to directly distinguish areas based on the factors that give rise to such cost of service differences?

Question #3

Reference: Pages 5-6

a) On page 5 Dr. Woo identifies three utilities with urban/rural rates. How does each of these utilities establish the rate differential between their urban and rural service areas?

b) If any of these utilities use their cost allocation methodology to establish this rate differential, how does their cost allocation methodology establish the cost of serving rural vs. urban areas?

c) On page 6, it is noted that Maritime Electric and NB Power define “urban” as incorporated cities, towns and villages with population over 2,000. In each case, what was the rationale for selecting 2,000 as the cut off?

Question #4

Reference: Page 7

a) Please provide any available evidence that would demonstrate that Hydro One Networks' customers have difficulty understanding its density based rate classification.

Question #5

Reference: Pages 8 and 10

Preamble: As noted on page 10, one of the issues with Hydro One Networks' density-based rates was whether the current class definitions (in terms of number of and density of customers) provide the best demarcation of customer classes from a cost of service perspective. (See also ERB-2007-0681, SEC's Final Argument, paragraphs 7.7.24 to 7.7.26)

a) Why won't similar concerns arise with a definition of urban/rural based on municipal boundaries? For example, could issue be taken with the inclusion of very small municipalities and, alternatively with the basis for any arbitrary population cut-offs (such as used by Maritime Electric)? If not, why not?

Question #6

Reference: Pages 13-15

Preamble: The Lowry, Getachew and Fenrick report states (page 54):
"Our research suggests that scale economies generally confer on the larger Ontario utilities a material unit cost advantage over smaller utilities. The potential of each company to realize scale economies should therefore be recognized in responsible benchmarking work."

a) Assuming the "urban" area has higher volumes and customers than the rural area, the approach suggested on page 15 would incorporate the resulting cost reductions due to economies of scale into the OM&A expense differential. Is this an appropriate result and, if so, why?

b) In applying the model (per Step 4) would Dr. Woo include urban/rural differences for all the variables listed in Table 3? Please provide the rationale for including/excluding each variable.

Question #7

Reference: Pages 18-19

Preamble: The Report suggests methods for allocating capital costs between urban and rural.

a) In the event that the same substation serves both urban and rural areas, how should the costs be allocated between urban and rural?

b) In Dr. Woo's experience is the type of information required to undertake the "age-adjusted allocation" discussed on page 19 generally available? Is Dr. Woo aware of whether or not the information is available for Hydro One Networks?