

Exhibit K 5.6

EB-2007-0681

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act*, 1998;
S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an Application by Hydro One
Networks Inc. for an order approving or fixing just and
reasonable rates and other charges for the distribution of
electricity.

EVIDENTIARY MATERIALS

ENERGY PROBE CROSS OF PANEL # 4

July 17, 2008

Interrogatory

Ref:

Exh. G1/T 2/S 5, p. 2

Exh. G1/T2/S 5, p.9

Issue 7.8:

Are the customer bill impacts resulting from the proposed rate impact mitigation plan reasonable?

Please explain why the Applicant chooses a *four-year* phase-in approach for harmonization; why specifically four years?

Response

A four year phase-in approach will result in the target distribution rates being fully implemented in May 2011. The May 2011 time frame for harmonization was selected for the following reasons:

- Limits acquired customers' bill impacts to less than 10% of total bill per year based on average consumption;

- Is the expected end date for the Board's 3rd Generation IRM and would coincide with the establishment of rates based upon a new cost of service application; and

- Would coincide with the implementation of our new billing system and the anticipated date for full implementation of time-of-use rates.

HARMONIZATION OF ACQUIRED LDC CUSTOMERS AND CONSOLIDATION OF LEGACY CUSTOMER CLASSES

This exhibit discusses the proposal to harmonize the rate classes for the customers of the Acquired Utilities and to consolidate the rate classes for Hydro One Distribution's Legacy customers with the 12 new proposed customer classes.

Terrace Bay, whose purchase by Hydro One has been approved by the OEB is also included in this harmonization plan for a total of 88 Acquired utilities to be harmonized. Brampton Hydro is a separate business, and not part of Hydro One Distribution submission for distribution rates. Since the initial unbundling of distribution rates, each of the 88 Acquired Utilities have maintained their own individual distribution rates as developed via the Board's Rate Unbundling Design (RUD) Model.

The purpose of the plan presented herein for both Legacy and Acquired customers is to reduce the numerous existing rate classes to a more manageable level in order to minimize the degree of customer confusion over the numerous rates and to improve administrative efficiencies.

1.0 INTRODUCTION TO HARMONIZATION

Hydro One Distribution proposed to harmonize the rates for its Acquired LDCs as part of the 2006 Distribution Rate submission RP-2005-0020/EB-2005-0378. The 2006 proposal was intended to harmonize rates only amongst the Acquired LDCs. The Board Decision with Reasons dated April 12, 2006, indicated that the then proposed harmonization was premature and that there was no evidence to determine that the proposed rate would be fair and reasonable because the proposed harmonized rates were not based on a cost allocation study.

Hydro One believes that the concerns raised by the Board in the 2006 proposal have been addressed in the current harmonization plan.

1. A Cost Allocation Study Methodology has been recommended by the Board and the results of this cost allocation study now provide support for the target distribution rates that are the basis of the harmonization plan. Given the impact on customer bills resulting from the harmonization plan a multiple year phased-in approach is being proposed by Hydro One. The relevant statistics for the Acquired LDC customer groups in terms of current rates and customer numbers are provided in Tables 1 to 3 in Exhibit G2, Tab 2, Schedule 1.

2. The current plan entails harmonization of all of the Acquired LDCs residential rate classes into the two new Residential rate classes proposed by Hydro One: Urban or R1. Density for each Acquired LDC customer determines if the Acquired LDC's Residential customer is to be harmonized with the Urban or the R1 residential group.

3. Three of Caledon's Residential customer classes, OH 01, OH 06 and OH 07 are being harmonized with the Urban (UR), Rural (R2) and Seasonal customer class respectively. Caledon Residential OH 01 was based on the previous Ontario Hydro Urban Residential customer class, Caledon Residential OH 06 was based on the previous Ontario Hydro Residential R2 customer class and Caledon Residential OH 07 was based on the previous Ontario Hydro R4 Seasonal customer class.

4. The Acquired General Service customer classes are proposed to be harmonized into the four new General Service classes: Urban General Service energy billed, Urban General Service demand billed, General Service energy billed, or General Service demand billed. Density for each Acquired LDC customer determines if the Acquired

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1 LDC's General Service customer is to be harmonized with the Urban General Service
2 or the General Service group.

3
4 5. Acquired Large Users are proposed to be grouped as part of the new Sub-
5 Transmission customer class which is described in Exhibit G1, Tab 2, Schedule 3.

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7 **2.0 HARMONIZATION OF RESIDENTIAL AND GENERAL SERVICE**
8 **RATES**

9
10 The proposed harmonization plan entails merging some of the customers in Acquired
11 Residential classes with the Urban Residential customer class. All the remaining
12 residential customers of the 88 Acquired LDCs will be merged with the R1 Residential
13 customer class. Similarly, some of the Acquired General Service customers are proposed
14 to be harmonized into either Urban General Service, or General Service, depending on
15 meeting the Urban Density criteria, and further grouped into energy, or demand billed
16 customer classes. As stated in Exhibit G1, Tab 2, Schedule 1, one of the benefit of
17 harmonizing the customer classes would be the elimination of over 270 Acquired rate
18 classes.

19
20 The proposed harmonization plan would entail combining all Residential and General
21 Service Acquired customers into six new customer classes that include Hydro One's
22 Legacy customers. The results in terms of the number of customers in the Acquired
23 LDCs moving to the six new rate classes are shown in Table 1 below.

Table 1
 Acquired Rate Classes

Customer class	Number of Acquired customers affected based on 2006 data	Number of Acquired LDCs affected
Urban Residential	61,147	12
R1 Residential	72,682	88
Urban General Service energy billed	6,243	11
Urban General Service demand billed	655	11
General Service energy billed	12,632	88
General Service demand billed	1,167	88

The plan proposed to harmonize Acquired customer rates is described in section 2.1 below. The plan was presented at the second Stakeholder session on September 5th, 2007 and Stakeholders generally supported the proposed approach as noted in Exhibit A, Tab 16, Schedule 1. The starting point of the harmonization plan is the current service charge in the Acquired LDCs and the target of the harmonization plan is the corresponding service charge in the proposed rate class. The two principles applied are to group Acquired LDCs customers according to the proposed service charges and to ensure that the distribution revenues allocated to the group are recovered from all customers in the groups. An example on how these two principles are applied is provided in the following section.

2.1 Description of Process to Harmonize Acquired Rates

Starting with the harmonization of Residential customer classes of Acquired LDCs that moved to the new Urban Residential customer class, the proposed harmonization plan would entail the following steps:

1. Current Acquired fixed service charges are truncated downward into rounded dollar amounts, (e.g. \$3.60 becomes \$3.00). This serves to rapidly reduce the number of rates
2. Determine the target fixed and volumetric rates that would be applicable to the Acquired Residential customers. The target rates would be the new Urban Residential distribution rates
3. Determine the incremental increase, or reduction required to bring the truncated service charge to the target service charge
4. Divide the increment into four, (based on a four year phase-in plan)
5. Apply the increment calculated in step 4 above to the truncated service charge to determine year one service charge
6. Year two service charge is the service charge for year one calculated in step 5 above plus the increment calculated in step 4 above
7. Year three service charge is the service charge for year two calculated in step 6 above plus the increment calculated in step 4 above
8. Year four service charge is the target service charge for the new Urban Residential class
9. A common volumetric charge is determined for all customers in the group to recover the balance of Distribution revenue not collected through fixed charges in each year of the four year-plan
10. Three of Caledon's Residential rate classes would be moved to Urban, R2 Residential, and Seasonal residential classes since they are similar to the Legacy Urban, R2 Residential, and Seasonal rate classes proposed.

A numerical example of the above steps is provided in Table 2 below.

Table 2
Development of Harmonized group rates for the Residential Urban Customer Class

Residential Urban	LDC 1	LDC 2
Target rates (fixed and volumetric)	\$9.45/month & 0.89 ¢/kWh	\$9.45/month & 0.89 ¢/kWh
May 2007 Rates (fixed and volumetric)	\$3.94/month & 0.62 ¢/kWh	\$11.46/month & 1.17 ¢/kWh
LDC truncated fixed service charge	\$3.00/month	\$11.00/month
LDC increase/(decrease) to achieve target fixed service charge	\$6.45/month	\$(1.55)/month
LDC year 1 rates	\$3.00 + \$6.45/4 = \$4.61/month & 0.92 ¢/kWh	\$11.00 - \$1.55/4 = \$10.61/month & 0.92 ¢/kWh
LDC year 2 rates	\$4.61 + \$6.45/4 = \$6.22/month & 0.91 ¢/kWh	\$10.61 - \$1.55/4 = \$10.23/month & 0.91 ¢/kWh
LDC year 3 rates	\$6.22 + \$6.45/4 = \$7.84/month & 0.90 ¢/kWh	\$10.23 - \$1.55/4 = \$9.84/month & 0.90 ¢/kWh
LDC year 4 rates	\$7.84/month & 0.90 ¢/kWh	\$9.45 & 0.89 ¢/kWh

*Calculation of the volumetric charge is not shown, but it is adjusted to ensure recovery of the required distribution revenue from customers in the group.

Table 6 in Exhibit G2, Tab 2, Schedule 1, provides the derivation of rates for all the residential rate groups of the Acquired LDCs. As shown in that exhibit, the proposed harmonization plan would reduce the number of Acquired residential classes from 88 to 24 in the first year and would eliminate the Acquired Residential classes in year four. However, if a rate mitigation plan is required, the number of required customer classes during the phase-in period may be higher than 24.

1 The same process as described above is followed for Acquired Residential classes that
2 are being moved to the R1 Residential customer class and for General Service customers
3 of Acquired LDCs that are being moved to Urban General Service energy billed, Urban
4 General Service demand billed, General Service energy billed, or General Service
5 demand billed classes.

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7 Table 7 in Exhibit G2, Tab 2, Schedule 1, provides the derivation of rates for all the
8 General Service rate groups of the Acquired LDCs. As shown in that exhibit, the
9 proposed harmonization plan would reduce the 176 current Acquired General Service
10 customer classes to 64 in the first year, prior to any mitigation plan, and would eliminate
11 the Acquired General Service classes in year four.

12
13 The Large users of the Acquired LDCs are being mapped to the new Sub-Transmission
14 class in 2008.

15 2.2 Impacts due to Harmonization of Acquired Residential and General Service 16 Customer Rates

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18
19 The range of impacts on total bill resulting from the harmonization of Acquired
20 Residential and General Service customer rates before bill impact mitigation are
21 summarized in Table 3 below, where percentage changes compared to approved 2007
22 rates are shown. The complete set of impacts can be found in Tables 8, 9, and 10 of
23 Exhibit G2, Tab 2, Schedule 1. Commodity, Wholesale Market Service and Debt
24 Retirement charges are based on current, 2007 applicable charges and kept constant
25 before and after harmonization. Retail Transmission Service Rates (RTSR) for 2008 are
26 based on the new proposed RTSR, as described in Exhibit G1, Tab 6, Schedule 1. Losses
27 for 2008 are based on the proposed loss factors described in Exhibit G1, Tab 10,
28 Schedule 1.

Table 3
Range of impacts for Acquired Residential and General Service customers of
Harmonization

Customer Class	Number of customers in 2006	Range of impacts on total bill (percent)
Residential	141,305	1.6 to 30.9
General Service	20,697	-3.0 to 36.2

Impacts are being mitigated to all Acquired Residential and General Service customers by phasing-in the harmonization plan over four years.

3.0 MAPPING OF LEGACY CUSTOMER CLASSES

Currently, Hydro One Distribution has 15 rate classes for Residential, General Service and Embedded LDCs and Direct customers. The proposed consolidation plan results in 12 new customer classes into which the Acquired LDC customer classes will be harmonized.

A similar process as described in Section 2 above is also used to consolidate Hydro One existing Legacy customer classes to the 12 new proposed customer classes.

As described in Exhibit G1, Tab 8, Schedule 1, a four-year plan can be implemented such that all Legacy customers would, on average have a total yearly bill impact of less than 10 percent, including the impact of the 2008 revenue requirement increase.

4.0 CONCLUSION

Currently, Hydro One Distribution has 88 Acquired LDCs and each LDC has 3 or 4 individual rate classes for Residential, General Service energy billed, General Service demand billed, and in some cases Large User rates.

The Hydro One Distribution harmonization plan for the Acquired LDCs ensures that the resultant bill impact for Acquired LDC customers are kept within prescribed thresholds in accordance with the 2006 Electricity Distribution Rate Handbook.

The harmonization plan covers a four year period at the end of which Acquired LDC customers will be part of the Urban, R1 Residential, Urban General Service energy billed, Urban General Service demand billed, General Service energy billed or General Service demand billed customer classes.

As described in Exhibit G1, Tab 8, Schedule 2, a four-year plan can be implemented such that all Acquired customers would, on average, have a total yearly bill impact of less than 10 percent, including the impact of the 2008 revenue requirement increase.

At the end of the four-year harmonization plan, rates for Acquired and legacy customers would be harmonized into the 12 new proposed customer classes.

Interrogatory

Ref:

Exh. G1/T 3/S 1, p. 5, Table 3

Exh. G1/T 5/S 1, p. 5, Table 1

Exh. G1/T 7/S 1, p. 6, Table 4

Issue 7.8:

Are the customer bill impacts resulting from the proposed rate impact mitigation plan reasonable?

a) Please explain why the Applicant is placing such a significant bill impact burden on seasonal class customers (154,000 Ontario residents) compared to other proposed classes. Moreover, why is the Applicant placing such an extraordinary burden on the existing R3 customer class with a total bill impact of 23.3% for 2008 -- notwithstanding mitigation efforts?

b) Why are new seasonal class customers subsidizing every other new customer class except "street lighting and "sentinel lighting"?

Response

a. The total bill impact for Seasonal customers is not 23.3% in 2008.

As shown in Exhibit G1, Tab 8, Schedule 1, page 4, Table 2, the impact to seasonal customers for 2008 ranges between 7% and 9.8% of total bill, based on average consumption. At the end of the 4 year phase-in approach, the total bill impact for R3 customers is 21.3% and for R4 customers is a bill reduction of 0.1%, as shown in Exhibit G1, Tab 7, Schedule 1, page 6, Table 4. The bill impact to R3 customers is less than the bill impact that some Acquired customers would see. The proposed Seasonal customer class is composed of 70,750 R3 customers, 84,477 R4 customers and 210 Caledon customers, as shown in Exhibit G1, Tab 2, Schedule 3, page 4, Table 4.

Hydro One is proposing to reduce the number of customer classes and combining the two existing seasonal customer classes into one class results in the impacts to R3 customers mentioned above.

b. The new Seasonal customer class is not subsidizing any other customer class. The proposed revenue to cost ratio for this class is 1, as shown in Exhibit G1, Tab 3, Schedule 1, page 4, Table 2.

Hydro One used the OEB Cost Allocation Methodology to allocate the proposed \$1,067 million revenue requirement to customer classes. The allocated revenue requirement was compared to the revenues that would be collected from customers at adjusted 2007 Distribution rates. The adjustment consisted of increasing the 2007 approved rates proportionally to recover the 2008 Revenue Requirement of \$1,067 million. Revenue to cost ratios were then calculated. Revenue to cost ratios above 1 mean that the customer class is over-contributing and revenue to cost ratios below 1 mean that the customer class

2.0 APPORTIONMENT OF REVENUE REQUIREMENT

2007 as part of Proceeding RP-2007-0001. The modifications applied in Hydro One's Cost Allocation Information Filing of January 15, 2007 are detailed in Exhibit G2, Tab 1, Schedule 1, and are similar to the circumstances related to the provision of an LV system and a very large number of rates. Hydro One modified the OEB methodology to reflect its unique Allocation methodology issued by the OEB on September 29, 2006 in the RP-2005-0317. This revenue requirement is allocated to the proposed customer groups using the Cost and Sub-Transmission customers.

The 2008 revenue requirement of \$1,067 million for Hydro One Distribution was derived in Exhibit E1, Tab 1, Schedule 1, and is attributed to the Retail, (Legacy and Acquired),

1.0 INTRODUCTION

This exhibit presents an overview of the process to allocate Hydro One Distribution related revenue requirement costs to Legacy, Acquired, and Sub-Transmission customer groups (including current Embedded LV customers).

COST ALLOCATION OF REVENUE REQUIREMENT

1 is under-contributing. The results of the cost allocation study are summarized in the
 2 Table below.

Table 1

Hydro One Cost Allocation Study Results

	UR	R1	R2	Seasonal	UGSe	UGSd	GS e	GS d	ST	DG	Street Light	Sent. Light	Total
Rev Reg \$M	66.0	240.2	390.3	83.6	9.3	16.8	111.1	105.4	27.4	0.4	8.1	8.0	1,066.6
Revenue at current rates \$M	57.7	197.1	404.6	77.0	12.1	16.0	119.6	107.9	64.2	0.6	4.9	4.9	1,066.6
Rev/cost ratio	0.87	0.82	1.04	0.92	1.29	0.95	1.08	1.02	2.35	1.63	0.60	0.62	1.00

7 More details on the results of the cost allocation study can be found in Exhibit G2, Tab 1,
 8 Schedule 1.

3.0 TARGET REVENUE TO COST RATIO

12 Hydro One is proposing to use the revenue to cost ratio ranges recommended in the
 13 Board's report issued November 28, 2007 under proceeding EB-2007-0667, "Application
 14 of Cost Allocation for Electricity Distributors". The Board recommended revenue to cost
 15 ratios range from 0.7 for street lights to 1.8 for large commercial customers. Given that
 16 this is the first time that the OEB's cost allocation methodology is being used as a basis
 17 for determining distribution rates, the wider range of revenue to cost ratios proposed by
 18 the Board will reduce the potential bill impacts on customers whose distribution rates
 19 have to increase to closer reflect cost causality. The proposed range of revenue to cost
 20 ratios will result in those customer classes with a revenue to cost ratio above 1 continuing
 21 to cross-subsidize those customer classes with a revenue to cost ratio below 1.

Hydro One is proposing the following revenue to cost ratios for the various new proposed customer classes.

For the R2 Residential, General Service energy billed, and General Service demand billed customer classes, the current revenue to cost ratio is proposed to be maintained:

For the Distributed Generation customer class, the revenue to cost ratio is proposed to be set at 1.0 rather than the current 1.63 in support of Government policy to promote Distributed Generation in Ontario.

For Street Light and Sentinel Light classes it is proposed to increase the revenue to cost ratio from about 0.6 to 0.7. This is the lower end of the revenue to cost ratio proposed by the Board for this class of customers.

For the Urban General Service energy billed class it is proposed to reduce the revenue to cost ratio from 1.29 to 1.2. This is the higher end of the revenue to cost ratio proposed by the Board for small commercial customers.

For the Sub-Transmission class it is proposed to reduce the revenue to cost ratio from 2.35 to 1.15. This is the higher end of the revenue to cost ratio proposed by the Board for large users.

In order to recover almost all of the 2008 Revenue Requirement based on the revenue to cost ratios described above, the revenue to cost ratio for Urban Residential, R1 Residential, Seasonal Residential and Urban General Service demand billed customer classes will have to increase. The revenue to cost ratios for the Urban Residential, Seasonal Residential, and Urban General Service demand billed customer classes are proposed to be set to 1.0. For the R1 Residential customer class, the proposed revenue to

cost ratio is 0.88, which results in bill impacts that are considered to be the maximum that Acquired residential customers being harmonized to this customer class can sustain.

The proposed revenue to cost ratios result in Hydro One not being able to fully recover its 2008 proposed Revenue Requirement. The shortfall is estimated to be \$2.5 million per year, which is the difference in the total proposed revenue requirement shown in Table 2 as compared to Table 1. Hydro One proposes to establish a variance account, as described in Exhibit F1, Tab 3, Schedule 1 to record this revenue shortfall for recovery at a future date from all customers.

Table 2
Proposed Revenue/Cost Ratio by Customer Class

	UR	R1	R2	Seasonal	UGSe	UGSd	GS e	GS d	ST	DG	Street Light	Sen. Light	Total
Proposed Revenue Requirement \$M	66.0	211.4	404.6	83.6	11.2	16.8	119.6	107.9	31.5	0.4	5.7	5.6	1,064.
Proposed revenue to cost ratio	1.0	0.88	1.04	1.0	1.2	1.0	1.08	1.02	1.15	1.00	0.7	0.7	1.0

* Revenue to cost ratios in bold show the proposed change

4.0 REVENUE TO COST RATIO EQUAL TO ONE

In response to feedback received during the stakeholdering process, Hydro One explored the impact of moving all customer classes to a revenue to cost ratio of 1. Table 3 shows the average impacts that would result from making this change. As shown in Table 3, the resulting average total bill impacts under a revenue to cost ratio of 1 is generally greater and could be as much as three times the impact under the proposed revenue to cost ratios. As a result, using a revenue to cost ratio of 1 for all customer classes would result in either unacceptable bill impacts or the need for an excessively long impact mitigation period.

Table 3
Impact to Customer Classes of Revenue/Cost Ratios

	Proposed R/C	Average Impact %	R/C = 1	Average Impact %
UR	1.0	3.4	1	3.4
R1	0.88	3.0	1	8.3
R2	1.04	1.0	1	(0.8)
Seasonal	1.0	9.7	1	9.7
UGe	1.2	(2.3)	1	(6.3)
UGd	1.0	0.3	1	0.3
GSe	1.08	0.5	1	(2.2)
Gsd	1.02	(2.1)	1	(2.7)
DG	1	(29.0)	1	(29.0)
Street Light	0.7	5.0	1	21.7
Sentinel Light	0.7	25.0	1	118.1
ST	1.15	(4.7)	1	(5.0)

REGULATORY ASSET RECOVERY ALLOCATION TO

CUSTOMER GROUPS

This exhibit describes Hydro One Distribution proposed methodology to allocate the costs in respect of the Regulatory Assets identified in Exhibit F1, Tab 1, Schedule 1, to the various customer classes.

1.0 METHODOLOGY

The methodology proposed to allocate the Regulatory Asset balances to the various customer classes follows the methodology principles reviewed and approved by the Board in proceeding RP-2004-0117/RP-2004-0118.

The five new Regulatory Asset accounts, described in Exhibit F1, Tab 1, Schedule 1, are:

- OEB Costs
- Tax Change
- Smart Meter Minimum Functionality Under-recovery to May 31, 2007
- Smart Meter Exceeding Minimum Functionality Under-recovery
- Smart Meter Minimum Functionality Under-recovery between June 1, 2007 and April 30, 2008

The four current Regulatory Asset account balances that are also proposed to be cleared as of April 30, 2008 are:

- RSVA Wholesale Market Service Charge
- RSVA Retail Transmission Network Charges
- RSVA Retail Transmission Connection Charges

○ RSVA Low Voltage Charges

2.0 ALLOCATION PRINCIPLES

Cost causality is the basic principle applied in determining how costs should be allocated to customer groups. There are three main mechanisms by which Regulatory Asset costs may be allocated and which Hydro One Distribution has used in the context of this submission. These are as follows:

- If costs were incurred for the benefit of all customers irrespective of their energy consumption, number of customers would be the recommended allocator for this group of costs.
- If costs have been included in the Revenue Requirement, for example as OM&A costs, now that Hydro One conducted a Cost Allocation Study, these costs can be allocated to the various customer groups based on the results of the Cost Allocation Study, and in particular how OM&A costs are allocated to customer groups.
- If costs are allocated in the Cost Allocation Study based on a specific composite allocator, for example Net Fixed Assets, then these costs can be allocated to the various customer groups based on the results of the Cost Allocation Study, and in particular how Net Fixed Assets are allocated to customer groups.

3.0 PROPOSED ALLOCATION OF REGULATORY ASSET ACCOUNTS TO CUSTOMER GROUPS

The amounts accumulated in the Regulatory Asset accounts are described in Exhibit F1, Tab 1, Schedule 1. The proposed method of recovering these costs from customer groups is consistent with the OEB decision in RP-2004-0017/RP-2004-0018 and the following sub-sections describe the approach taken.

Smart meter costs are included in Hydro One Distribution revenue requirement as O&A costs and are related to customers, regardless of customer consumption. Number of customers is the proposed allocator for this account amongst customer classes.

3.4 Smart Meter Expenditures Exceeding Minimum Functionality (\$5.7 million)

Smart meter costs are included in Hydro One Distribution revenue requirement as O&A costs and are related to customers, regardless of customer consumption. Number of customers is the proposed allocator for this account amongst customer classes.

3.3 Smart Meters Minimum Functionality Expenditures incurred before May 31, 2007 (\$6.9 million)

Tax costs are included in Hydro One Distribution revenue requirement. In the Cost Allocation Study, Tax costs are allocated to the customer groups based on allocation of Net Fixed Assets, therefore, Net Fixed Assets is the proposed allocator amongst customer classes.

3.2 Tax Change (\$5.0 million)

OEB costs are included in Hydro One Distribution revenue requirement as O&A costs. Exhibit C1, Tab 2, Schedule 6 describes these costs. The amount in the Regulatory Asset variance account, were originally included as O&A costs. Using the Cost Allocation Study, O&A costs is the proposed allocator amongst customer classes.

3.1 OEB costs (\$0.9 million)

1 **3.5 Smart Meter Minimum Functionality Expenditures between June 1, 2007**
2 **and April 30, 2008 (\$9.4 million)**

3
4 Smart meter costs are included in Hydro One Distribution revenue requirement as
5 OM&A costs and are related to customers, regardless of customer consumption. Number
6 of customers is the proposed allocator for this account amongst customer classes.

7
8 **3.6 RSVA Wholesale Market Service Charge (\$72.6) million)**

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10 Wholesale Market Service charges are billed by Hydro One to customers that are not
11 market participants. Energy for non-market participants is the allocator proposed for this
12 account amongst customer classes.

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14 **3.7 RSVA Retail Transmission Service Charges Network (\$1.4 million)**

15
16 Hydro One proposes to use energy consumed as an allocator of this variance account
17 amongst customer classes.

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19 **3.8 RSVA Retail Transmission Service Charges Connections (\$2.5 million)**

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21 Hydro One proposes to use energy consumed as an allocator of this variance account
22 amongst customer classes.

23
24 **3.9 RSVA Low Voltage (\$3.8 million)**

25
26 Hydro One proposes to use energy consumed as an allocator of this variance account
27 amongst customer classes.
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4.0 DETAILS OF ALLOCATION OF COSTS

Table 1 below shows the details of the allocation of Regulatory Asset account costs to the various customer classes. Columns show the various customer groups and rows show each individual Regulatory Asset account. The top part of Table 1 shows the various allocators to be used for the different accounts. The last rows show the amount that will need to be recovered for the various customer classes and the average class total bill impact.

Table 1
See attachment

5.0 CUSTOMER CLASS AMOUNTS

As shown in Table 1, based on balances to April 30, 2008 of the Regulatory Asset accounts, using cost causality principles, and 2008 data, the estimated amounts allocated to the various customer groups are as follows:

Customer Class	Amount (\$ million)
UR	(1.49)
R1	(6.55)
R2	(10.98)
Seasonal	0.48
Urban General Service energy	(1.0)
Urban General Service demand	(2.40)
General Service energy	(5.22)
General Service demand	(9.58)

Customer Class	Amount (\$ million)
Distributed Generator	(0.01)
Street Light	(0.39)
Sentinel Light	(0.07)
Sub-Transmission	(11.47)
Total	(48.68)

Exhibit G1, Tab 5, Schedule 2, provides the allocators and charge determinants to be used to derive the Regulatory Asset Rate Rider # 3 and Exhibit G1, Tab 5, Schedule 3, calculates the Rate Riders # 3 proposed for the period May 2008 to April 2012 by customer class.

Table 1

Filed: December 18, 2007

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Exhibit G1

Tab 5

Schedule 1

Page 1 of 1

Regulatory Asset Recovery

Regulatory Asset Recovery

State for Allocation													
Customers	1,177,532	UR	R1	R2	Seasonal	GSP	GSD	UGS	UGd	SL Lgt	Sen Lgt	Dgen	ST
GMW	39,411	162,056	376,430	364,936	155,177	97,005	7,015	12,744	1,429	-	-	84	673
GMW excl WMP	24,267	1,494	4,407	5,624	707	2,269	3,237	424	831	121	22	3	19,240
Billing WWS	56,293,509	1,494	4,407	5,624	707	2,269	3,237	424	831	121	22	3	5,096
Dx Rev excl Riders [SM]	1,024	53.9	186.5	392.6	74.8	113.9	105.5	11.6	15.7	4.8	0.9	0.6	48,843
Est of Total Bill [SM]	3,797	181.1	527.3	700.9	129.6	276.4	360.9	48.4	122.6	14.1	2.6	1.0	43,021,924
OMA	100%	6.76%	24.04%	38.79%	8.06%	10.46%	7.19%	0.93%	0.96%	0.64%	0.18%	0.01%	1,431.8
NFA	100%	5.78%	21.57%	35.38%	7.62%	10.52%	12.37%	0.90%	2.13%	0.89%	0.19%	0.01%	1,963
Balances													
RSVA Wholesale Market Service Charges	\$ 1000s	Allocator											
RSVA TX Network	\$ (72,590)	GMW excl WMP	\$ (4,459.60)	\$ (13,184.11)	\$ (16,824.68)	\$ (2,114.04)	\$ (6,878.01)	\$ (9,684.03)	\$ (1,268.81)	\$ (2,485.24)	\$ (360.75)	\$ (67.06)	\$ (10.14)
RSVA TX Connection	\$ 1,430	GMW	\$ 55.83	\$ 184.08	\$ 209.39	\$ 26.31	\$ 65.80	\$ 120.52	\$ 15.79	\$ 30.93	\$ 4.49	\$ 0.83	\$ 0.13
RSVA LV Wheeling	\$ 2,540	GMW	\$ 98.89	\$ 291.45	\$ 371.93	\$ 46.73	\$ 152.05	\$ 214.07	\$ 28.05	\$ 54.94	\$ 7.97	\$ 1.48	\$ 0.22
CEB Costs	\$ 3,940	GMW	\$ 149.37	\$ 440.61	\$ 562.28	\$ 70.55	\$ 229.86	\$ 323.64	\$ 42.40	\$ 83.06	\$ 12.06	\$ 2.24	\$ 0.34
Tax Change	\$ (900)	OMA	\$ (60.83)	\$ (216.40)	\$ (348.11)	\$ (72.56)	\$ (94.34)	\$ (64.69)	\$ (8.34)	\$ (16.68)	\$ (5.74)	\$ (1.62)	\$ (0.05)
Smart Meter Minimum Functionality to May 31, 2007	\$ (5,900)	NFA	\$ (289.15)	\$ (1,078.38)	\$ (1,769.17)	\$ (380.87)	\$ (528.84)	\$ (618.52)	\$ (44.99)	\$ (106.59)	\$ (44.67)	\$ (9.60)	\$ (0.31)
Smart Meter Costs Exceeding Minimum Functionality	\$ 6,900	Cust #	\$ 694.80	\$ 2,205.73	\$ 2,128.39	\$ 909.28	\$ 568.41	\$ 41.10	\$ 74.68	\$ 8.37	\$ -	\$ -	\$ 0.49
Smart Meter Minimum Functionality after May 31, 2007	\$ 5,700	Cust #	\$ 794.45	\$ 1,622.13	\$ 1,768.50	\$ 751.14	\$ 469.56	\$ 33.96	\$ 61.89	\$ 6.92	\$ -	\$ -	\$ 0.40
Total Regulatory Assets for Approval	\$ (48,880)		\$ 1,293.86	\$ 3,004.91	\$ 2,913.18	\$ 1,230.73	\$ 774.36	\$ 56.00	\$ 101.73	\$ 11.40	\$ -	\$ -	\$ 0.67
Assuming a 4 year recovery													
	\$ (48,880.0)		\$ (1,488.1)	\$ (6,560.0)	\$ (10,981.3)	\$ 475.4	\$ (5,218.4)	\$ (9,577.9)	\$ (997.8)	\$ (2,404.9)	\$ (386.6)	\$ (73.7)	\$ (8.2)
	\$ (12,170.0)		\$ (372.0)	\$ (1,837.5)	\$ (2,745.3)	\$ 118.8	\$ (1,304.6)	\$ (2,394.5)	\$ (249.4)	\$ (601.2)	\$ (96.7)	\$ (18.4)	\$ (2.1)
Rider 3													
c/kWh	(0.02)		(0.04)	(0.05)	0.02	(0.06)	(0.07)	(0.08)	(0.07)	(0.08)	(0.08)	(0.06)	Note 1
\$/kWh													(0.04)
Impacts			-0.21%	-0.31%	-0.39%	0.05%	-0.47%	-0.66%	-0.52%	-0.49%	-0.89%	-0.70%	-0.22%
													-0.20%

Note 1: Rider # 3 for ST customers
Rider # 3 for all ST customers
Plus Rider # 3 for non-Market Participant customer

\$/kWh	0.92
\$/kWh	0.29

Note 1: Rider # 3 for ST customers
 Rider # 3 for all ST customers
 Plus Rider # 3 for non-Market Participant customer.

\$/kWh
 0.02
 -0.29

BILL IMPACTS LEGACY CUSTOMERS

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EB-2007-0681
Exhibit G1
Tab 7
Schedule 1
Page 1 of 8

This exhibit presents the results of the assessment of customer total bill impacts using average levels of consumption by customer class. As per the guidelines in the 2006 Electricity Distribution Rate Handbook, impacts are also shown for Distribution rate increases. Finally, impacts are shown including the impact of Regulatory Asset Rate Rider # 3 as derived in Exhibit G1, Tab 5, Schedule 3, changing Retail Transmission Service Rates (RTSR) as described in Exhibit G1, Tab 6, Schedule 1 and Total Loss Factors as described in Exhibit G1, Tab 10, Schedule 1.

Impacts are derived using the applicable May 1, 2007 rates, the ending of Regulatory Rate Rider # 1, and the proposed initial distribution rates, Regulatory Asset Rate Rider # 3 and 2008 RTSR.

1.0 INTRODUCTION

The total bill impacts are derived for the current average Legacy rate class customer. The rates are assessed on the basis of moving to the proposed distribution rates derived in Exhibit G1, Tab 4, Schedule 2, including Regulatory Asset Rate Rider # 3 derived in Exhibit G1, Tab 5, Schedule 3, RTSR derived in Exhibit G1, Tab 6, Schedule 1, and Total Loss Factors shown in Exhibit G1, Tab 10, Schedule 1 from their current rates as of May 1, 2007. The total bill impacts are premised on the distribution rates arising from the new revenue requirement and moving customer classes towards a target revenue to cost ratio determined by using the cost allocation study methodology and also taking into account the end of Regulatory Rate Rider # 1. All other non-distribution charges, except RTSR, are kept unchanged. Commodity price for eligible customers is based on the Regulated Price Plan for conventional meters, i.e. 5.0 ¢/kWh for the first 600 kWh and 5.9 ¢/kWh for consumption above 600 kWh for Residential customers. For General

1 Service customers, the consumption threshold is 750 kWh. For non-eligible customers,
2 commodity costs were assumed to be 5.2 ¢/kWh when calculating the class average
3 impact.

4
5 Bill impacts are calculated as a change in customer bills in relation to their existing bills
6 that are based on distribution rates and other charges in effect as of May 1, 2007.

7
8 The Legacy customers that meet the Urban density criteria will be re-classified as Urban
9 customers in 2008.

10 11 2.0 RECAP PROPOSED RETAIL CUSTOMER RATES

12
13 At the conclusion of Exhibit G1, Tab 4, Schedule 2, Hydro One Distribution summarized
14 the proposed set of distribution rates for Legacy Retail customers. Table 1 below recaps
15 the proposed rates.
16

Table 1
 Proposed Target Distribution Rates

Rate Class	Service Charge [\$/month]	Volumetric Charge [¢/kWh or \$/kW]
Urban Residential (High Density)	14.32	2.29
R1 Residential (Medium Density)	19.04	2.60
R2 Residential (Low Density)	21.41*	3.10
Seasonal	19.51	6.38
Urban General Service energy billed (UGS e)	12.33	2.09
Urban General Service demand billed (UGS d) \$/kW	29.19	7.25
General Service energy billed (GS e)	30.97	3.39
General Service demand billed (GS d) \$/kW	46.75	9.22
Distributed Generator (\$/kW)	36.66	7.07
Street Lights	1.00**	4.57
Sentinel Light	1.00**	5.30

* Net of RRRP ** Per Connection

At the conclusion of Exhibit G1, Tab 5, Schedule 3, Hydro One Distribution summarized a set of proposed Regulatory Asset Rate Rider # 3. Table 2 below recaps those riders.

Table 2
 Proposed Regulatory Asset Rate Rider # 3

Rate Rider # 3 ¢/kWh or \$/kW	
Urban Residential (High Density)	(0.02)
R1 Residential (Medium Density)	(0.04)
R2 Residential (Low Density)	(0.05)
Seasonal	0.02
Urban General Service energy billed (UGS e)	(0.06)
Urban General Service demand billed (UGS d) \$/kW	(0.27)
General Service energy billed (GS e)	(0.06)
General Service demand billed (GS d) \$/kW	(0.22)
Distributed Generator	(0.04)
Street Lights	(0.08)
Sentinel Light	(0.08)

At the conclusion of Exhibit G1, Tab 6, Schedule 1, Hydro One Distribution summarized a set of proposed RTSR for Legacy Retail customers. Table 3 below recaps those RTSR.

Table 3
 Proposed RTSR

	RTSR Network ¢/kWh or \$/kW	RTSR Connection ¢/kWh or \$/kW
Urban Residential (High Density)	0.47	0.45
R1 Residential (Medium Density)	0.47	0.46
R2 Residential (Low Density)	0.46	0.43
Seasonal	0.44	0.43
Urban General Service energy billed (UGS e)	0.36	0.33
Urban General Service demand billed (UGS d) \$/kW	1.41	1.27
General Service energy billed (GS e)	0.35	0.32
General Service demand billed (GS d) \$/kW	1.11	1.00
Distributed Generator	0.25	0.23
Lights (Street and Sentinel)	0.29	0.25

3.0 IMPACT BY CUSTOMER CLASSES

Combining the proposed Distribution rates in Table 1, Regulatory Asset Rate Rider # 3 in Table 2 and RTSR rates in Table 3 with other applicable charges including loss factors, the customer bill can be calculated for all customer classes based on average consumption. Table 4 provides the impacts of the Distribution revenue increase only on the distribution portion of the bill, total bill impacts including Rate Rider # 3 and excluding RTSR changes and the impacts of all rate changes on total bill.

The third column from the left in Table 4 shows the impact of 2008 Distribution Revenue Requirement on the distribution portion of the bill, excluding Regulatory Rate riders. The impacts reflect moving the various customer classes to cost ratios that closer reflect cost causality and the reclassification of certain customers to Urban Density. The fourth column in Table 4 shows the impact of the 2008 distribution

Revenue Requirement on the distribution portion of the bill including Regulatory Rate rider # 3. The variability in the results reflects the different amounts for regulatory rate riders recovered from each customer class. The fifth column on Table 4 shows the impact of the 2008 distribution Revenue Requirement on total customer bill. The variability in the results reflects the fact that distribution revenues and regulatory rate riders comprise a different proportion of the total bill for each customer class. The sixth column in Table 4 shows the impact of the 2008 distribution Revenue Requirement, Rate Rider # 3, total loss factors, and the new RTSR on total customer bill. The variability in the results reflects the fact that distribution revenues and RTSR comprise a different proportion of the total bill for each customer class.

Table 4
 Impacts by Customer classes

New Class	Existing Class	Basic Distribution Bill Only	Distribution Bill incl Riders	Total Bill incl Distribution and Riders	Total Bill incl Riders plus RTSR
UR	UR	14.2%	6.8%	1.3%	1.0%
R1	R1	-13.0%	-16.7%	-6.5%	-6.9%
R2	R2	-23.4%	-26.6%	-10.8%	-11.1%
F1 WRA	F1 WRA	-26.9%	-29.0%	-11.9%	-11.8%
R1	R1	5.2%	0.8%	0.0%	-0.2%
R2	R2	7.7%	4.0%	1.5%	1.1%
F1 WRA	F1 WRA	2.6%	0.1%	0.0%	0.0%
F3 WRA	F3 WRA	-11.3%	-12.5%	-4.1%	-3.3%
Seasonal	R3	47.8%	40.8%	20.9%	21.3%
R4	R4	2.3%	-0.8%	-0.5%	-0.1%
UGe	F1 nRRA	-48.8%	-51.0%	-20.0%	-21.6%
G1	G1	-45.1%	-47.6%	-18.0%	-19.2%
G3	G3	-50.0%	-51.2%	-19.2%	-20.2%
UG	UG	-22.8%	-24.9%	-7.4%	-8.9%
UGd	G1	-24.2%	-29.8%	-10.0%	-10.2%

New Class	Existing Class	Basic Distribution	Distribution Bill incl Riders	Total Bill incl Distribution and Riders	Total Bill incl Distribution and Riders plus RTSR
G3	G3	-27.2%	-30.3%	-8.9%	-9.1%
UG	UG	-12.6%	-16.6%	-5.7%	-5.9%
Gse	F1 nRRA	-6.5%	-8.7%	-3.4%	-5.2%
	F3 nRRA	-11.6%	-13.0%	-4.0%	-5.0%
	G1	0.3%	-2.6%	-1.0%	-2.5%
	G3	-8.7%	-10.0%	-2.7%	-3.8%
	T	-68.2%	-68.4%	-44.1%	-44.7%
	Ummr	54.2%	47.2%	14.6%	12.9%
Gsd	F1 nRRA	27.3%	19.5%	3.1%	0.4%
	F3 nRRA	-15.1%	-17.5%	-5.4%	-8.4%
	F1 wRRA	31.6%	23.2%	3.8%	1.1%
	F3 wRRA	-13.8%	-16.2%	-5.0%	-7.9%
	G1	-2.9%	-7.4%	-3.6%	-5.5%
	G3	-6.7%	-9.4%	-2.8%	-4.7%
	T	-5.5%	-7.9%	-2.3%	-4.4%
Dgen	G3	-27.1%	-27.5%	-10.7%	-17.8%
	T	-35.5%	-35.8%	-22.8%	-38.0%
	GS Eganville	49.7%	45.7%	39.5%	28.8%
	Street Lgts	17.1%	14.6%	4.9%	5.0%
	Terrace Bay	89.4%	48.8%	17.8%	21.9%
Sentinel Lgts	Sentinel Lgts	74.5%	70.9%	25.0%	25.0%

4.0 CONCLUSION

Based on the results shown in the tables above, to mitigate customer class impacts to less than 10% of total bill per year, using the 2006 EDR guidelines, Hydro One proposes to phase-in basing Distribution rates on the target fixed and volumetric charges calculated using the Cost Allocation Study over a period of four years. The phase-in process is similar to the harmonization plan described in Exhibit G1, Tab 2, Schedule 5.

1 The total bill impact to Sentinel Lights is estimated to be less than \$1.80 per connection
2 per month.
3
4
5 Exhibit G1, Tab 8, Schedule 1, describes the mitigation plan proposed for Legacy
6 customer classes.
7