



EB-2004-0451

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 of the Board authorizing an
amendment to a rate schedule

BEFORE: Cynthia Chaplin
Presiding Member

Pamela Nowina
Member

DECISION AND ORDER

Hydro One Networks Inc. ("Hydro One") filed an application dated September 27, 2004, related to its distribution business, for an order of the Board amending the retail transmission rate schedule. The Minister of Energy granted Hydro One his approval to file the application by way of a letter dated September 9, 2004. Hydro One amended the application on December 17, 2004 to change the requested implementation date from January 1, 2005 to March 1, 2005. The Board assigned the application Board file number EB-2004-0451.

The Board issued a Notice of Application and Written Hearing on December 8, 2004. Hydro One served and published the Notice in accordance with the Board's letter of direction. The Board issued two Procedural Orders in connection with this matter: one, dated January 6, 2005, that provided an interrogatory process and the other, dated January 26, 2005, that provided dates for filing submissions.

Hydro One provides low voltage service to a number of embedded distributors and two embedded large use customers. Each is connected to one or more transformer stations and pays retail transmission charges. The rates for retail transmission service at these voltages, and the applicable charge parameter, were established by an order of the Board dated August 30, 2002 (RP-2000-0023/EB-2001-0016 Appendix F-2).

The current Board-approved charge parameter is monthly non-coincident peak demand by feeder. Some retail transmission customers are served by multiple feeders emanating from one transformer station. In order to determine the amount to bill these customers, Hydro One determines the peak demand on each feeder serving the customer, adds these individual peaks to determine the monthly peak demand and multiplies this sum by the Board approved rates. In a month when Hydro One takes a feeder out of service (for maintenance for example) and transfers that feeder's load to another feeder, the peak on the feeder that remains in service is often higher than it would otherwise be, and the peak on the feeder taken out of service is unaffected. From the customer's perspective, this appears to be "double" billing. In an effort to control their bills and to avoid this seeming double billing, some customers refuse Hydro One's requests for outages.

By this application, Hydro One seeks to overcome this apparent "double" billing by changing the charge parameter from monthly peak demand by feeder to monthly peak demand aggregated among feeders. Hydro One estimated that the change in charge parameter will reduce the annual revenues recovered through this rate by approximately \$8 million. This variance would be captured in Retail Settlement Variance Accounts 1584 and 1586. Hydro One did not seek an order altering the rate at this time because doing so would affect all parties who are charged this rate and because of concerns with data availability.

Barrie Hydro supported Hydro One's application. Several other utilities echoed Barrie Hydro's comments. Veridian Connections also supported the application in its written comments. However, it noted that while the proposed charge parameter reflects cost causality better, the recording of the deferred revenue in the Retail Settlement Variance Accounts in turn defers the associated rate impact and causes uncertainty as to the ultimate allocation of these costs. Veridian took the position that the level of the rate should be adjusted at this time also, despite the data limitations, so that customers could enjoy certainty with respect to the costs they incur.

In its Reply submission, Hydro One pointed out that it is difficult to adjust the retail transmission rate, as suggested by Veridian, because fewer LDCs are connected to Hydro One's transformer stations than at the time the rate was originally determined, and therefore data is not available to calculate a reasonable estimate. Hydro One stated that the deferred recovery of approximately \$8 million would reduce the credit balances recorded in the Retail Settlement Variance Accounts and would therefore not result in an additional increase in rates.

Board Findings

The proposed change to the charge parameter is approved.

The Board notes that among Hydro One's objectives in filing this application is its desire to reduce the number of requested outages that are denied by customers. Hydro One is responsible for operating and maintaining a safe and reliable distribution system and is responsible for taking the appropriate steps to do so, regardless of the rates in force or their design. Therefore, the Board does not find this motivation an adequate reason to approve the application.

However, the Board agrees with Hydro One, Veridian Connections and Barrie Hydro that it is inappropriate for a customer's bill to increase as a result of a request by Hydro One for an outage. The Board has addressed three considerations in determining that the proposed change is appropriate:

- the original approval of the retail transmission service rates;
- transmission rates charged by the Independent Electricity System Operator (IESO); and
- the Board's decision regarding load aggregation in RP-1999-0044.

The retail transmission charges, including the charge parameter, were approved in RP-2000-0023/EB-2001-0016. However, that proceeding, and the proceedings leading up to that final approval did not address aggregation of customer load across multiple feeders emanating from the same transformer station. The decision, therefore, does not provide specific guidance on this issue.

The IESO's charge parameter for transmission rates is a relevant analogous situation. The Board notes that the IESO uses aggregated demand as the charge parameter when computing the transmission charges for customers directly connected to the low voltage side of a transmission station via one or more feeders. This IESO service is similar to the service Hydro One provides to the customers who are directly affected by this application. The Board considers it desirable to use a consistent charge parameter for these similar services.

In RP-1999-0044, the Board found that aggregation of peak load among transformer stations was inappropriate because it "would provide an unfair advantage to those customers with diversity of demand from geographically different delivery points at the expense of other customers". The Board required that retail transmission rates be applied to the peak load by connection point. Although this decision rejected aggregation, it did so at the transformer level, not the feeder level, and therefore the situation is not directly analogous.

The remaining issue is whether the proposed charge parameter unfairly benefits customers who have more than one feeder compared to those with only one feeder. From the perspective of Hydro One requested outages, we do not find the proposed charge parameter to be unfair. From the perspective of customer driven outages, we do not find the change introduces a significant level of unfairness.

It is unusual to adjust a charge parameter without simultaneously adjusting the level of the associated rate. In this case, the change in the charge parameter would be expected to lead to an increase in the rate for all customers. The level of the impact on the rate and on customers in different situations (single versus multiple feeder) has not been considered. The Board does not believe it is appropriate to apply a changed charge parameter without promptly addressing the issue of appropriate rate level. The Board recognizes Hydro One's concerns with the data required to recalibrate the subject rate and that Hydro One's 2006 distribution rates application will be filed later this year. The Board, therefore, directs Hydro One to come forward in its 2006 distribution rate application with a proposal for an appropriate retail transmission rate. At that time, it may be appropriate to consider both the charge parameter and the level of the rate.

Hydro One indicated that the variance arising from this rate parameter change will be captured in two retail settlement variance accounts, 1584 and 1586, but did not propose to track the amounts separately. The Board directs Hydro One to track the variances separately so that a future panel of the Board can consider the appropriate recovery of this particular variance.

THE BOARD THEREFORE ORDERS THAT:

1. Appendix F-2 – Retail Transmission Rates for Customers Connected to Hydro One Networks' Low Voltage System attached to Board order RP-2000-0023/EB-2001-0016 dated August 30, 2002 is replaced by the rate schedule attached as Appendix A to this Decision and Order.
2. Hydro One Networks Inc. shall, in its next rates application, apply for Board approval of proposed retail transmission service rates and shall file evidence supporting the proposed rates.

Dated at Toronto April 26, 2005.

ONTARIO ENERGY BOARD

Original signed by

Peter O'Dell
Assistant Board Secretary

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Appendix A

PROPOSED AMENDED RATE SCHEDULE

APPENDIX F-2

HYDRO ONE NETWORKS INC. RETAIL TRANSMISSION RATES FOR CUSTOMERS CONNECTED TO HYDRO ONE NETWORKS' LOW VOLTAGE SYSTEM EFFECTIVE MAY 1, 2005

The following rates shall remain in effect until superseded by further Order or Orders of the Board.

APPLICABILITY

These rates are applicable to distribution utilities and customers designated as direct (industrial or commercial customers with average monthly demands in excess of 5 MW) who are directly connected to Hydro One Networks' LV system or distribution utilities with a delivery point embedded in Hydro One Networks' service territory.

BILLING DETERMINANTS

For distribution utilities and customers with delivery points embedded in Hydro One Networks' Distribution system and for whom Hydro One Networks acts as a host utility, the monthly billing determinant for the network service rate is the peak demand from 7 AM to 7 PM (local time) on business days. The monthly billing determinant for the line and transformation connection service rate is the non-coincident peak by delivery point. Delivery point with respect to Retail Transmission Rates is defined as the low side of the Transformation Station that steps down voltage from above 50 kV to below 50 kV. For a customer with delivery points served from multiple feeders connected to the same Transformation Station, the aggregated demand at the said delivery points on the low side of the Transformation Station will be the applicable billing determinant.

The rates below pertain to the IMO's defined point of sale; consequently, appropriate loss factors as approved by the Board and set out in Hydro One Networks' Inc. Loss Factors must be applied to the metered load of energy-metered customers. Similarly, appropriate loss factors as approved by the Board and set out in Hydro One Networks' Inc. Loss Factors must be applied to the applicable tariffs of demand-metered customers. The loss factors and the connection service options are determined based on the point at which the distribution utility or customer is connected to Networks' distribution system. Networks' connection agreements with these distribution utilities and customers will establish the appropriate loss factors from Hydro One Networks' Inc. Loss Factors and connection rates from those shown below.

Distribution Utilities with a Delivery Point Embedded in Networks' Distribution System

	Rate (\$/kW monthly)
Network Service Rate	2.61
Connection Service Options and Rates	
None	0.00
Line Only	0.78
Transformation Only	1.43
Line and Transformation	2.21

Direct Customers with a Delivery Point Embedded in Networks' Distribution System

	Rate (\$/kW monthly)
Network Service Rate	2.53
Connection Service Options and Rates	
None	0.00
Line Only	0.78
Transformation Only	1.43
Line and Transformation	2.21