

Hydro One Networks Inc.

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Brian Gabel

Vice-President and Chief Regulatory Officer
Regulatory Affairs



BY COURIER

September 27, 2004

Mr. John Zych
Secretary
Ontario Energy Board
Suite 2601, 2300 Yonge Street
P.O. Box 2319
Toronto, ON.
M4P 1E4

Dear Mr. Zych:

Hydro One Networks' Application for Amendment of Existing Rate Schedule in Respect of Retail Transmission Rates for Customers Connected to Hydro One Networks' Low Voltage System

I am attaching five (5) copies of the Application and supporting evidence filed by Hydro One Networks' in the matter of an Application for Amendment of Existing Rate Schedule in respect of Retail Transmission Rates for Customers Connected to Hydro One Networks' Low Voltage System.

I have also attached electronic versions of the filed evidence in Acrobat format.

Yours truly,

Brian Gabel

Attach.

1 The intent of the amendment is to make the basis of charging Retail Transmission
2 rates to those customers similar to that employed by the IMO in charging
3 Transmission rates to wholesale Transmission Customers supplied from multiple
4 delivery points at a single Transformation Station.

5

6 4. The written evidence, as filed with the Board, may be amended from time to time
7 prior to the Board's final decision on the Application. Further, the Applicant may
8 seek meetings with Board staff and intervenors in an attempt to identify and reach
9 agreements to settle issues arising out of this Application.

10

11 5. The persons affected by this Application are the embedded ratepayers of Hydro One
12 Distribution. It is impractical to set out their names and addresses because they are
13 too numerous.

14

15 6. Hydro One Distribution requests that a copy of all documents filed with the Board by
16 each party to this Application be served on the Applicant and the Applicant's counsel
17 as follows:

18

19 a) The Applicant:
20 Mr. Glen MacDonald
21 Senior Advisor - Regulatory Affairs
22 Hydro One Networks Inc.

23

24 Address for personal service: 13th Floor, North Tower
25 483 Bay Street
26 Toronto, Ontario
27 M5G 2P5

28

29

1 Mailing Address 13th Floor, North Tower
2 483 Bay Street
3 Toronto, Ontario
4 M5G 2P5

5
6 Telephone: (416) 345-5913
7 Fax: (416) 345-5866

8
9 Electronic access: glen.e.macdonald@HydroOne.com

10
11 b) The Applicant's counsel:
12 Ms. Mary Anne Aldred
13 Assistant General Counsel - Regulatory
14 Hydro One Networks Inc.

15
16 Address for personal service: 8th Floor, South Tower
17 483 Bay Street,
18 Toronto, Ontario
19 M5G 2P5

20
21 Mailing Address: 8th Floor, South Tower
22 483 Bay Street,
23 Toronto, Ontario
24 M5H 3M7

25
26 Telephone: (416) 345-6302
27 Fax: (416) 345-6972

28
29 Electronic access: m.a.aldred@HydroOne.com

1

2

DATED at Toronto, Ontario, this 27th day of September 2004.

3

4

HYDRO ONE NETWORKS INC.

5

By its counsel,

6

7

8

Mary Anne Aldred

EXHIBIT LIST

1

2

Exh	Tab	Schedule	Contents
A			Administration
	1	1	Application
	2	1	Exhibit List
	3	1	Hydro One Request for Approval from the Minister of Energy
	4	1	Letter of Approval from the Minister of Energy
	5	1	Proposed Aggregation of Load for Retail Transmission Rates
	6	1	Proposed Amended Rate Schedule: Appendix F-2

3

Hydro One Inc.
483 Bay Street
10th Floor South Tower
Toronto, Ontario M5G 2P5

Tel: (416) 345 6001
Fax: (416) 345 6054

Tom Parkinson
President and Chief Executive Officer



August 10, 2004

The Honourable Dwight Duncan
Minister of Energy
Hearst Block, 4th Floor
900 Bay Street
Toronto, Ontario
M7A 2B1

Dear Minister:

**Hydro One Networks Inc. Distribution Business –
Approval to Seek OEB Approval of Change in Charges for Embedded Customers**

I am writing to seek your approval to make an application to the Ontario Energy Board (“OEB”) pursuant to section 79.6(2) of the Ontario Energy Board Act, 1998. With your approval, the distribution business of Hydro One Networks Inc. will seek approval to change the way in which Retail Transmission Services (RTS) charges are applied for embedded customers designated as Direct (industrial or commercial customers with average monthly demand in excess of 5 MW) and embedded distribution utilities. This proposal and the circumstances leading to our submission of this proposal have been discussed with Ministry of Energy staff.

This proposal will align the methodology used to bill customers that are embedded within the distribution system of Hydro One, with that which is used to bill transmission-connected customers.

Currently, RTS charges are applied based on the highest demand that is recorded at each embedded distribution delivery point on a monthly basis. By contrast, the IMO bills transmission customers that have multiple delivery points connected to a single Transformer Station on the basis of aggregated peak demand, and not the highest demand at each transmission delivery point.

Embedded customers have expressed concerns that the existing methodology results in excessive charges at those times when repairs to the system are undertaken. In these cases, the customer could experience monthly RTS charges that are greater than normal because deliveries have been “shifted” away from the portion of the system that is being repaired, resulting in a higher peak demand for the other delivery points that serve the customer for that month.

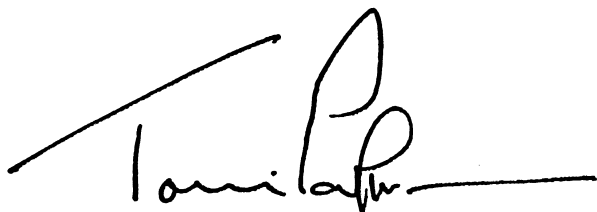
If our proposal is accepted, RTS rates would not change, but the corresponding RTS charges would be calculated based on the aggregate peak demand for all delivery points supplied from a single Transformer Station. Since charges would now be determined based on the aggregate load, rather than

the load at each connection, customers would no longer be penalized when particular delivery assets are removed from service for maintenance.

The reduction in RTS charges resulting from this change is estimated to be about \$8 million annually. This reduction will not impact Hydro One's distribution earnings because the reduction in billing amounts will be captured in the RSVA Network and RSVA Connection deferred accounts.

Hydro One Networks would be pleased to provide any further information that might assist you in facilitating this request.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Parkinson", with a long horizontal line extending to the right.

Tom Parkinson
President & CEO
Hydro One Inc.

c.c.: Laura Formusa
Brian Gabel

Minister of Energy

Hearst Block, 4th Floor
900 Bay Street
Toronto ON M7A 2E1
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Ministre de l'Énergie

Édifice Hearst, 4^e étage
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Toronto ON M7A 2E1
Tél.: 416-327-6715
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SEP - 9 2004

Mr. Tom Parkinson
President and Chief Executive Officer
Hydro One Inc.
483 Bay Street
10th Floor, South Tower
Toronto, Ontario
M5G 2P5

Dear Mr. Parkinson:

Thank you for your letter seeking approval pursuant to section 79.6(2) of the Ontario Energy Board Act, 1998 to make an application addressing customers' concerns with respect to Hydro One Networks' application of charges for retail transmission service.

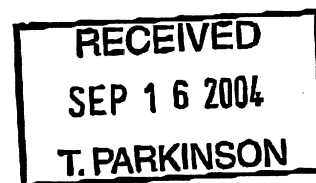
After assessing your request, I am prepared to grant my approval to submit an application to the Ontario Energy Board that proposes the aggregation of peak demands for all delivery points supplied from a single transformer station, when assessing charges for retail transmission service to embedded customers. It is my understanding that Hydro One's application would not only address customers' concerns with respect to the method currently used, but would also align with the method used by the Independent Electricity Market Operator in the wholesale market.

I am pleased that Hydro One is addressing concerns and finding solutions that are in the best interests of Ontario's electricity consumers.

Sincerely,

A handwritten signature in black ink, appearing to read "Duncan", with a horizontal line underneath.

Dwight Duncan
Minister



c: Howard Wetston, Chair, Ontario Energy Board

1 **AGGREGATION OF LOAD FOR RETAIL TRANSMISSION RATES**

2
3 In response to a Hydro One Distribution request (Exhibit A, Tab 3, Schedule 1), the Minister of
4 Energy has granted approval for Hydro One Distribution to make an application to the Ontario
5 Energy Board (Board) to allow for aggregation of loads in the application of Retail Transmission
6 rates by Hydro One Distribution (Exhibit A, Tab 4, Schedule 1).

7
8 This Exhibit sets out Hydro One Distribution's proposal to allow for aggregation of loads in the
9 application of Retail Transmission rates for Hydro One Distribution's Embedded Customers
10 supplied by multiple feeders emanating from the same Transformation Station.

11
12 **1.0 BACKGROUND**

13
14 The Retail Transmission (RT) rates approved by the OEB for customers connected to Hydro One
15 Distribution Low Voltage System are currently applied to each delivery point utilized by the
16 customer. For customers served by multiple feeders emanating from the same Transformation
17 Station, the application of rates by delivery point can result in higher RT charges when load is
18 transferred from one feeder to another feeder to accommodate feeder outages and to avoid
19 customer interruption. These higher charges have become a customer irritant and have caused
20 some LDCs to refuse requests from Hydro One Distribution for outages to perform feeder
21 maintenance on Hydro One Distribution assets that result in load being transferred from one
22 feeder to another feeder serving the same LDC.

23
24 The methodology that has been approved for applying the Wholesale Transmission tariff differs
25 from how RT charges are applied in those cases where the customer is not directly connected to
26 the Transmission system. In the case of customers that are connected directly to Transmission
27 assets, Transmission Service charges are calculated by the IMO on the basis of the aggregate
28 demand established by the customer at the low voltage side of a Transformer Station, in cases
29 where the said customer utilizes multiple feeders connected to the same Transformer Station.

1 The application of Transmission tariff methodology was discussed at length in the Transmission
2 Rate Proceedings RP-1999-0044 and ultimately approved by the Board in April 2002¹. The
3 application of RT charges by Hydro One Distribution to Embedded customers was approved as
4 part of the RP-2000-0023 Hydro One Distribution rate approval,² but did not receive the benefit
5 of discussion during the proceeding leading to that decision or during the RP-1999-0044
6 proceedings.

7
8 Allowing for aggregation of demand when applying RT charges for customers with multiple
9 feeders served from the same Transformation Station would align the application of these
10 charges by Hydro One Distribution with the application of Transmission Service charges by the
11 IMO.

12
13 RT charges are pass-through charges for Hydro One Distribution business. Any over- or under-
14 collections resulting from the application of these charges are recorded in the corresponding
15 Transmission Network and/or Transmission Connection deferral accounts approved by the
16 Board. The same approach is followed by the embedded LDCs when they have to pay higher
17 than anticipated charges. These higher charges would be reflected in the embedded LDCs' own
18 deferral accounts.

19 20 **2.0 PROPOSAL**

21
22 Hydro One Distribution proposes in this submission that the calculation of RT charges be done
23 on the basis of charge determinants that aggregate demand for customers with multiple delivery
24 point connected to the same Transformation Station. The aggregated demand will be as
25 established at the low voltage side of the Transformation Station stepping down voltage from
26 above 50 kV to below 50 kV. Hydro One Distribution does not propose to change the numerical

¹ Ontario Transmission Rate Schedules: April 30, 2002, Section C, Page 2.

² Hydro One Networks Inc. - Distribution Rate Order Board File No. RP-2000-0023/EB-2001-0016 August 30, 2002.

1 value of the currently approved RT rates. Rather the proposed change is to the terms and
2 conditions under which the rates may be applied.

3
4 Hydro One Distribution also proposes to record the reduction in RT-related revenues resulting
5 from allowing for aggregation of demand in the currently approved Transmission Network and
6 Transmission Connection deferral accounts, for future disposition.

7
8 Hydro One Distribution estimates that the reduction in revenues from RT charges as a result of
9 this proposal is approximately \$8 million per year.

10
11 The proposal would be applied prospectively, and no retroactive adjustments are contemplated.
12 Any past incremental charges incurred by embedded LDCs as a result of the current application
13 of RT charges to individual feeders were recorded in the LDCs' corresponding deferral accounts,
14 and the embedded LDCs have begun to collect the accumulated balances in the deferral accounts
15 from their customers as of April 1, 2004, as part of the interim recovery of Regulatory Assets
16 approved by the Board.

17
18 Hydro One Distribution proposes that the issue of aggregation of demand for the purpose of
19 collecting RT charges for customers supplied through multiple feeders emanating from the same
20 TS, be reviewed at Hydro One Distribution's next rate submission.

21 22 **3.0 IMPACT ON CUSTOMERS**

23
24 The estimated impact on customers is described below.

25 26 **3.1 Customers with multiple feeders connected to the same Transformation Station**

27
28 Customers that qualify for aggregation of demand in the application of RT charges could see
29 reductions in their RT charges when compared to the current application of these rates when load

1 is transferred from one feeder to another feeder within the same Transformation Station.

2
3 3.2 Customers with single feeders connected to a Transformation Station

4
5 Customers with single feeders connected to a Transformation station will be unaffected by this
6 proposal, since their RT rates will remain the same. There are no benefits to such customers
7 from aggregation.

8
9 3.3 Customers with feeders connected to multiple Transformation Stations

10
11 Customers connected to multiple Transformation Stations will be unaffected by this proposal.
12 The aggregation of demand would apply only to feeders emanating from a single Transformation
13 Station.

14
15 **4.0 IMPLEMENTATION DETAILS**

16
17 A number of implementation issues related to the proposal are described below.

18
19 4.1 Going Forward Charges

20
21 The proposal is to implement this change on a going forward basis for eligible embedded
22 customers who take supply from multiple feeders emanating from a single Transformation
23 Station. No adjustment should be made for differences relative to the methodology that was
24 previously employed.

25
26 4.2 Future RT Rate Design proposal

27
28 It is proposed that at the next rate setting of RT charges, the issue of allowing aggregation of
29 demand for load customers supplied from multiple feeders connected to the same Transformation

1 Station be considered. At that time, if aggregation is allowed, new RT rates would be set that
2 would likely result in higher RT rates than if aggregation would not be allowed, since the charge
3 determinants, (billing kW's), would be lower, but would have to recover the same costs.

4
5 4.3 Recording of reduction in RT revenues

6
7 The reduction in RT revenues resulting from allowing of aggregation of demand will continue to
8 be recorded in the appropriate deferral accounts and the balances would be disposed as directed
9 by the Board.

10
11 **5 AMENDED RATE SCHEDULE**

12
13 Exhibit A, Tab 6, Schedule 1 includes the proposed amendment (shown in italics and
14 underlined), to the RT rate schedule currently contained in Appendix F-2 of the Board approved
15 Rate Order for Hydro One Distribution³. RT rates will remain unchanged.

16

³ Hydro One Networks Inc. - Distribution Rate Order Board File No. RP-2000-0023/EB-2001-0016 August 30, 2002

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

2
3 **Rate**
4 **(\$/kW monthly)**

5

6 Network Service Rate	2.61
7 Connection Service Options and Rates	
8 None	0.00
9 Line Only	0.78
10 Transformation Only	1.43
11 Line and Transformation	2.21

12
13

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

15
16 **Rate**
17 **(\$/kW monthly)**

18

19 Network Service Rate	2.53
20 Connection Service Options and Rates	
21 None	0.00
22 Line Only	0.78
23 Transformation Only	1.43
24 Line and Transformation	2.21

25