

1 **ARGUMENT-IN-CHIEF**

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3 **1.0 A SUMMARY OF THE PROPOSED RATE APPLICATION**

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5 On November 15, 2005, Hydro One Networks Inc. (“Hydro One” or “the Company”)
6 applied on behalf of its Distribution business for Ontario Energy Board (“Board”)
7 approval of rates applicable to eligible current and new generator customers connected to
8 its distribution system. These rates are proposed for implementation on an interim basis
9 until Hydro One’s cost allocation review is complete and any resulting new rates
10 applicable to these customers are approved for implementation.

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12 This Application proposes to create interim rate classes applicable to distributed
13 generators with a three-phase connection to Hydro One’s distribution system and with
14 interval metering in place. These rates would be offered to such eligible customers in
15 Hydro One’s existing General Service three-phase (G3) and the Sub-transmission (T)
16 classes of core customers and the General Service (GS) class of acquired customers.
17 Hydro One currently serves a total of 86 customers in these classes. Today such
18 generators are billed as any other customer connected to the distribution system and are
19 charged the appropriate monthly service charge regardless of volumetric use. This
20 Application proposes that the current distribution rates for these eligible generator
21 customers be amended to permit charging them on a volumetric basis only.

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23 The Company proposes no changes in existing distribution rates for non-participating
24 customers. Hydro One has requested permission to establish a deferral account to track
25 the estimated \$160,000 annual reduction in distribution revenues due to this proposal and
26 the one-time set-up costs of \$25,000, until they may be addressed in the next rate
27 proceeding. If this Application is approved, Hydro One would require five weeks to
28 build the new rates into the billing system, followed by another four weeks to migrate all
29 the eligible customers to the new rates.

1 **2.0 RATIONALE**

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3 Hydro One believes that removal of the monthly service charge for the rates charged to
4 distributed generators would have two main benefits:

- 5 • It would provide a financial incentive encouraging further growth of distributed
6 generation in the Province.
7 • It would provide consistent treatment of distribution-connected generators with
8 generators connected to the transmission system, who, due to the structure of the
9 transmission rates, are charged only a volumetric charge when requiring power.

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11 The purpose of this Application is to assist the Provincial Government's promotion of
12 distributed generation as a means of addressing the Province's shortage of generation
13 supply capacity. Many distributed generators obtain their back-up supply for outage
14 periods through station service connections to Hydro One's distribution system. For this
15 service, they are charged the corresponding distribution rates, which comprise both
16 volumetric and service charges. These generators have been concerned about the service
17 charge, which covers services unrelated to the volume of system use. Hydro One
18 understands that smaller generators, particularly, find such a charge to be a financial
19 burden.

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21 **3.0 HYDRO ONE'S RESPONSES TO INTERROGATORIES**

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23 Eight intervenors registered for this proceeding, as follows:

- 24 • Association of Power Producers of Ontario (APPrO)
25 • Canadian Manufacturers and Exporters (CME)
26 • Energy Cost Management Inc. (ECMI)
27 • Ontario Power Generation Inc. (OPGI)
28 • Schools Energy Coalition
29 • Sky Generation
30 • Union Gas Distribution Ltd.

- 1 • Vulnerable Energy Consumers Coalition (VECC).

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3 Of the intervenors, only VECC submitted interrogatories. Board staff also submitted
4 interrogatories. Their questions and Hydro One's responses are summarized below.

6 **3.1 Hydro One's Responses to Interrogatories from Board Staff**

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8 Board staff generally requested more detail on the Company's proposed implementation
9 timeline and treatment of the implementation cost, the rationale for the complete
10 elimination of the service charge and also the implications of any rate volatility as a result
11 of the Company's proposal.

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13 Hydro One responded that, following the Board's approval, it would take five weeks to
14 build the rates into the billing system, with an additional four weeks to migrate all
15 eligible customers to the new rates (as their billing dates occur over a four-week period).
16 The Company recommended that the one-time implementation cost of \$25,000 be
17 included in the deferral account requested to track the reduction in distribution revenues
18 resulting from this proposal. Hydro One has proposed eliminating the fixed monthly
19 charge in total, as it does not have any cost studies available at this time which would
20 help determine what portion of the charge should be removed. Hydro One acknowledged
21 that the upcoming cost allocation study could introduce a level of rate volatility which
22 must be taken into consideration when the results of the study are implemented. At this
23 time, the Company does not know whether its rates for distributed generators would
24 increase or decrease as a result of the study.

26 **3.2 Hydro One's Responses to Interrogatories from VECC**

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28 VECC asked when Hydro One expected to apply for final distributed generator rates and
29 whether these customers would be credited or charged with any differences between the
30 final and interim rates. Hydro One responded that it would file for final distributed

1 generation rates as part of its next rate application, in accordance with the Board's
2 directions and schedule. The Board's anticipated timing for that application, however, is
3 currently uncertain. Hydro One is not requesting any retroactive "true-up" for any
4 differences between final and interim rates, as the purpose of the interim rate is simply to
5 encourage more immediate distributed generation in the Province until cost allocation
6 information is available. Hydro One also clarified that the proposed rates would be
7 applicable only to licensed merchant generators, and not to load displacement generators.
8 Hydro One stated in response to a question from VECC, that it currently has no evidence
9 to suggest either that the revenues from distributed generator customers exceed their
10 service costs, or that the distribution costs to serve a distributed generator customer are
11 less than those to serve a similarly-sized GS or T-Class customer.

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13 VECC suggested an option to Hydro One's proposed removal of the service charge. This
14 would be a volumetric-only rate which incorporates the monthly service charges for
15 distributed generators in their existing volumetric rate, thereby allowing recovery of the
16 same overall level of distribution revenues. Hydro One responded that it had not
17 considered this alternative and that it would not be a simple undertaking, given the
18 variation in consumption among merchant generators. Some customers would benefit by
19 such an approach and some would be adversely impacted.

20 21 **4.0 CONCLUSIONS**

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23 Hydro One submits that its proposal is a reasonable interim approach to assist the
24 Provincial Government in encouraging the growth of distributed generation in the
25 Province.

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27 Hydro One's proposal of this rate as an interim measure (until Board-approved
28 distributed generator rates which result from a cost allocation study may be implemented)
29 will not materially impact other customers. Finally, Hydro One believes that the annual
30 reduction in distribution revenues of approximately \$160,000 and the set-up costs of

1 \$25,000 may be addressed appropriately through tracking in the appropriate variance
2 accounts. The method of disposition would be reviewed by the Board during the
3 Company's next rate proceeding on behalf of its Distribution business.