

# STAKEHOLDER CONSULTATION REPORT

## 1.0 OVERVIEW

In mid 2007, Hydro One designed a process for consultation and two-way dialogue with stakeholders to assist in its preparation of the 2008 Distribution Rate Application. This Exhibit reports on the stakeholder consultation process and provides a summary of the discussions held during three interactive sessions. Based on previous experience with such applications, the involvement of stakeholders was recognized as critical to developing a submission that reflected the broad interests and concerns of Hydro One distribution customers and stakeholder constituencies. Stakeholder consultation is also integral to satisfying the Ontario Energy Board (OEB) directive to be mindful of, and guided by, concerns raised by intervenors when preparing rate applications.

To assist in developing, implementing and facilitating this process, Hydro One retained Haussmann Consulting Inc. (HCI). This firm was selected through a competitive Request For Proposals process held in spring 2007. The stakeholder consultation process was subsequently implemented, with sessions being held in July, September and October 2007.

The purpose of the consultation process was to inform stakeholders and customers about Hydro One's application, the key issues and challenges facing its distribution business, and to learn about stakeholder issues. This was achieved through a series of interactive forums that allowed Hydro One and stakeholders to discuss and explore questions and potential areas of agreement and concern around key application-related issues. The goal was to improve the quality and completeness of the pre-filed evidence and to minimize the issues to be addressed at the OEB hearing.

1 Based on the potentially large number of interested stakeholders and their diverse range of  
2 resources and interest levels, two consultation approaches were chosen to meet the needs  
3 of various audiences. The consultation program consisted of: (1) stakeholder discussion  
4 sessions and (2) Web/Email Information. In addition, informal dialogue (e.g., email,  
5 telephone conversations) continued throughout the process between Hydro One staff and  
6 the stakeholders.

7  
8 An initial list of stakeholders was developed based on previous participation in Hydro One  
9 rate proceedings. In total, twenty stakeholder organizations were represented at one or  
10 more of the discussion sessions. These included several local distribution companies;  
11 energy industry associations and unions; consumer and environmental advocacy groups;  
12 First Nations and one municipality. Groups advised about the Web site included Hydro  
13 One's large distribution customers and local distribution companies (LDCs).

14  
15 Input received during the consultation sessions was documented, analyzed and addressed,  
16 where possible, at the discussion session, in notes of meeting, and through commitments to  
17 consider addressing or providing specific information in the application. Stakeholder input  
18 had a direct influence on the content of Hydro One's application with respect to the  
19 application approach, types of information provided and the level of detail.

20  
21 Overall, Hydro One believes the stakeholder consultation process was effective in  
22 achieving many of its stated objectives. This belief is supported by the evaluation  
23 comments submitted by stakeholders who participated in the process. Their evaluations  
24 indicated that the process met their expectations and was well documented. A complete  
25 summary of the stakeholder evaluation comment sheets is found in Attachment 2 of  
26 Appendix G.

1    **2.0    CONSULTATION PRINCIPLES AND OBJECTIVES**

2  
3    The following principles and objectives were developed at the outset of the process to  
4    guide the consultation design and implementation. These were reviewed with the Hydro  
5    One Customer Advisory Board (CAB), which provides advice and counsel to Hydro One  
6    management on how best to provide service to customers while meeting shareholder and  
7    regulatory requirements. The CAB consists of Hydro One distribution and transmission  
8    customers and energy industry groups. The principles and objectives were also reviewed  
9    with stakeholders at the outset of the first consultation session, and were posted on the  
10   Hydro One Web site.

11  
12   **2.1    Principles**

- 13  
14    • Hydro One engaged in the stakeholder consultation process in good faith with a view  
15    to facilitating and streamlining the upcoming OEB proceeding associated with this  
16    application.  
17    • Hydro One received and considered all submissions and comments made by  
18    stakeholders, but retained control over the process of developing its application.  
19    • All consultations were carried out on a without-prejudice basis.  
20    • The facilitator documented and reported the discussions and any agreements reached  
21    with stakeholders.  
22    • Agreements reached were to be submitted to the OEB as part of Hydro One's evidence.

23  
24   **2.2    Objectives**

- 25  
26    • Build on the stakeholder understanding of Hydro One distribution's business created  
27    through the stakeholder consultation processes for the recent Distribution and  
28    Transmission rate applications.

- 1 • Ensure stakeholder concerns and views are identified, understood and considered in the  
2 preparation of Hydro One's rate application.
- 3 • Provide insight, advice, and feedback to Hydro One on any concerns, values,  
4 information and preferences regarding all aspects of Hydro One distribution's  
5 operations.
- 6 • Act as a forum for the exchange of information and views.
- 7 • Assist Hydro One to anticipate and respond to stakeholder and customer views and  
8 preferences.
- 9 • Resolve as many issues as possible prior to the Hydro One submission to the OEB.
- 10 • Minimize the distribution business issues to be heard by the OEB.
- 11 • Reduce the time and cost associated with the OEB hearings.

### 12 13 **3.0 CONSULTATION PROCESS**

14  
15 Building on these principles and objectives, a consultation plan was developed that  
16 included stakeholder sessions, and a communications strategy. The communications  
17 strategy included the use of e-mail and the company's web site to provide information to  
18 Hydro One stakeholders and to invite input at key points throughout the process.

19  
20 Hydro One worked with Haussmann Consulting Inc. to design a process that would  
21 provide maximum opportunity to educate stakeholders about Hydro One's business and  
22 receive feedback on key areas of the application. For stakeholders, the plan allowed  
23 flexibility so that they could obtain information on the topics of most interest to them, and  
24 participate in a full discussion of issues of concern. The proposed approach was discussed  
25 with the Hydro One CAB on June 25, 2007. Overall, the CAB was supportive of the  
26 proposed approach.

1 **3.1 Participants**

2  
3 Key stakeholder groups including intervenors from previous Hydro One rate proceedings,  
4 LDCs and large distribution customers were invited to participate in the first two  
5 stakeholder sessions via an invitation letter (Appendix A) and a follow-up e-mail. For the  
6 third session, an email invitation was sent to stakeholders. Approximately, forty groups  
7 were invited to participate in the stakeholdering sessions. Hydro One believes that those  
8 invited were representative of the interests of the majority of its distribution stakeholders.

9  
10 First Nations political and treaty organizations were invited to participate in the  
11 consultation process. Hydro One did not propose a separate consultation process  
12 specifically designed for the First Nations, because the nature of the proceeding, which  
13 focused on Revenue Requirement, Cost Allocation and Rate Design, did not warrant such  
14 an approach. As this is a distribution rate proceeding, there are no land issues or treaty  
15 rights that would be affected by Hydro One's proposal for adjustment to its distribution  
16 rates.

17  
18 Those who were not able to attend were invited to monitor the process through the  
19 company's web site and to provide input at key points throughout the process.

20  
21 Stakeholder participation was guided by a Terms of Reference (see Appendix B). Funding  
22 guidelines were also developed to assist eligible intervenors (see Appendix C). The  
23 funding guidelines were based upon the Ontario Energy Board's Practice Direction on  
24 Cost Awards (October 2005) document.

25

1    **3.2    Stakeholder Consultation Sessions**

2  
3    Three consultation sessions were held in July, September and October 2007. These  
4    sessions were timed to coincide with key milestones in the development of the distribution  
5    application. The first session focused on the Hydro One revenue requirement. Sessions 2  
6    and 3 addressed cost allocation and rate design.

7  
8    **Session #1** was held on July 18, 2007 at the Metropolitan Hotel in Toronto. Thirteen  
9    people attended representing twelve stakeholder organizations (see Appendix D for list of  
10   participants). The session consisted of presentations describing Hydro One’s business  
11   strategy, an overview of the revenue requirement application, Hydro One performance  
12   relative to comparable utilities, the most recent three-year trend, the 2006 actual OM&A  
13   and capital expenditures, and future needs and expectations, all of which support the  
14   rationale for the revenue requirement in the Hydro One application. Each presentation was  
15   followed by a discussion period, which provided stakeholders an opportunity to ask  
16   questions, comment on the presentations and proposed approach to the revenue  
17   requirement calculation, and to identify issues and information that were most important to  
18   them.

19  
20   **Session #2** was held on September 5, 2007 at the Metropolitan Hotel in Toronto. Twelve  
21   people attended representing eleven stakeholder organizations (see Appendix F for list of  
22   participants). Hydro One presented a summary of its August revenue requirement filing  
23   including its total revenue requirement and the average total bill impact, an overview of the  
24   OEB cost allocation methodology adapted to suit Hydro One distribution system  
25   characteristics, and a review of its current customer classes with some proposed principles  
26   for reducing the existing 281 classes to a more manageable number. This presentation was  
27   followed by an exercise in which stakeholders indicated how the existing classes might  
28   best fit into ten new customer classes. The remainder of the session was devoted to a

1 presentation on the steps involved in rate harmonization and a workshop discussing  
2 principles and practices of rate harmonization.

3  
4 **Session #3** was held on October 15, 2007 at the Metropolitan Hotel in Toronto. Fourteen  
5 people attended representing twelve stakeholder organizations (see Appendix G for list of  
6 participants). Hydro One presented its proposals with respect to new customer rate classes  
7 and mapping from existing rate classes, the cost allocation results, rate harmonization and  
8 customer bill impacts.

### 9 10 **3.3 Web/E-Mail Information**

11  
12 Recognizing the vast geographic area served by Hydro One and the large number of  
13 potentially interested stakeholders spread over this area, Hydro One launched a 2008  
14 Distribution Rate Application Web site. The intent was to provide interested stakeholders  
15 the opportunity to monitor the consultation process and to provide input at key points  
16 throughout the consultation.

17  
18 The 2008 Distribution Rate Application Web site  
19 (<http://www.hydroonenetworks.com/en/regulatory/>) was launched on July 13, 2007. The  
20 Web page was updated regularly and contained background information, documents and  
21 presentations made available at the stakeholder discussion sessions and the meeting notes.

22  
23 An invitation to participate in the Web consultation activities was sent to large distribution  
24 customers, LDCs, as well as intervenors not able to participate in the discussion sessions.

1    **4.0    SUMMARY OF DISCUSSIONS**

2  
3    Hydro One developed an agenda for the first stakeholder consultation session based on  
4    areas of interest expressed at previous distribution rate consultation sessions, and topics on  
5    which Hydro One was seeking direct input from stakeholders to enhance the application.  
6    The topics discussed at the July session are outlined below. Detailed Notes of Session #1  
7    are attached as Appendix D.

8  
9    Topics presented and discussed at the first stakeholder session included:

- 10  
11       •   **Hydro One Business Strategy:** Laura Formusa, President and Chief Executive  
12       Officer (Acting), Hydro One Inc., presented the company's overall business  
13       strategy and engaged in a discussion with stakeholders about Hydro One values and  
14       priorities.  
15  
16       •   **Rate Application Overview:** Joe Toneguzzo, Director, Major Applications,  
17       presented an overview of the two-step process Hydro One is following in preparing  
18       its Distribution Rate Application.  
19  
20       •   **Benchmarking, Reliability and Service Quality:** Carm Altomare, Manager,  
21       Performance Analysis, described benchmarking studies currently underway; major  
22       performance measurement drivers; and customer service indicators and  
23       performance. Barb Allen, Manager, Customer Care assisted by responding to some  
24       stakeholder questions about Hydro One customer satisfaction survey methods.  
25  
26       •   **Distribution Incentive Regulation Proposal:** Andy Poray (Director, Regulatory  
27       Policy) and John Todd (Elenchus Research Associates) described and solicited

1 participation in a Hydro One Distribution Incentive Regulation Working Group  
2 (IRWG) to help design an incentive regulation specifically to meet Hydro One  
3 distribution needs.

4  
5 • **Major Investment Programs and Key Drivers (OM&A and Capital):**

- 6 ➤ Rick Stevens, Director, Smart Meter Project described the Smart Meter  
7 Program and the implementation plan to 2010; and  
8 ➤ George Juhn, Manager of Distribution Development and Lines Sustainment,  
9 presented an overview of the remaining investment programs required by  
10 Hydro One and included in the revenue requirement.

11  
12 • **Shared Services:** Ian Innis, Director, Corporate Planning and Regulatory Finance  
13 (Acting), provided an overview of OM&A and Capital expenditures associated  
14 with the Shared Services and Other category of Hydro One's business.

15  
16 • **Revenue Requirement:** Ian Innis also presented an overview of the 2008  
17 Distribution Revenue Requirement. Specific financial data were not available at the  
18 time, but financial parameters and assumptions in the 2008 filing, compared to the  
19 2006 approved values were presented, and factors identified that would contribute  
20 to an increase or provide an offset to the Distribution rate change.

21  
22 Stakeholder input at the first session assisted Hydro One to anticipate areas of interest that  
23 would be addressed during stakeholder Session #2. These included:

- 24  
25 • Cost allocation methodology; and  
26 • Rate harmonization methodology and impacts.

1 In addition, stakeholders showed interest in participating in a Hydro One Incentive  
2 Regulation Working Group (IRWG), which would assist in the development of an  
3 incentive regulation mechanism suitable for Hydro One and possibly other distributors.  
4 Prior to the first meeting of the IRWG, the Ontario Energy Board launched a similar  
5 consultation initiative. Therefore, the Hydro One IRWG was disbanded so that participants  
6 could devote their time and energy to participate in the OEB process.

7  
8 At the second stakeholder session, discussion focused on the cost allocation methodology,  
9 the principles relevant to reducing the number of Hydro One customer classes to a  
10 manageable number, and principles and practices of rate harmonization. Using a template  
11 provided, stakeholders mapped how they proposed customer classes should be transitioned  
12 from the existing classes to a smaller number of new classes. For the rate harmonization  
13 discussion, stakeholders were asked to answer six questions regarding the OEB guidelines  
14 for rate harmonization, bill impacts, timelines, loss factors, mitigation, equity  
15 considerations, and rate structure considerations (see Appendix E for Rate Harmonization  
16 Design Process Questions).

17  
18 Stakeholder feedback received at Session #2 suggested that the parameters and principles  
19 for delineating customer classes should include (see Session #2 Notes, page 10):

- 20 • Energy consumption levels
- 21 • Value of assets used
- 22 • Types of assets used
- 23 • Type of service provided at user gate
- 24 • Similarity with other LDC classes / fairness
- 25 • Ease of understanding
- 26 • Management simplicity.

1 When transitioning existing customer classes to new rate classes, most stakeholders (see  
2 Session #2 Notes, page 14):

- 3 • Favoured the elimination of the Seasonal class;
- 4 • Proposed applying a density delineation to the General Service customer class;
- 5 • Supported renaming Urban Residential, Residential High Density and Residential  
6 Normal Density to better describe the categories, e.g., Residential High, Medium and  
7 Low;
- 8 • Proposed moving the existing classes General Service (energy billed) and General  
9 Service (demand billed) into the new classes, General Service (primary) and General  
10 Service (secondary);
- 11 • Urged Hydro One to consider the impacts associated with creating new customer  
12 classes and propose appropriate mitigation where required; and,
- 13 • Agreed that new customer classes should be phased-in with minimal disruption to  
14 customers.

15  
16 There were also a number of divergent views expressed regarding the Farm Classes. Some saw  
17 a need to retain the Farm classes; others supported migrating them to the General Service and/or  
18 Residential Normal Density classes. In addition, the need to maintain Rural Rate Assistance  
19 was debated by some stakeholders and there was some discussion of changing the 50 kW  
20 threshold for the General Service class.

21  
22 The specific stakeholder comments, and questions raised through this process and Hydro  
23 One responses are reflected in the Detailed Notes of Session #2 attached as Appendix F.

24  
25 The third stakeholder session was focused on presenting Hydro One's proposals with  
26 respect to new customer rate classes and mapping from existing rate classes, the cost  
27 allocation results, rate harmonization and customer bill impacts.

28

1 Much of the dialogue following the presentations related to clarification of the information  
2 presented. With respect to customer classes and cost allocation methodology, comments  
3 from stakeholders covered the following:

- 4
- 5 • Clarification of the process related to defining density classes and moving  
6 customers from lower to higher density classes (see Session #3 Notes, pages 5, 6  
7 and 21);
- 8 • The revenue-to-cost ratio target of 1.2 for Urban General Service energy-billed  
9 (UGe) class and the target ratio of 1.08 for the General Service energy-billed (GSe)  
10 class were viewed as too high. (see Session #3 Notes pages 8, 14 and 22);
- 11 • The Sub-transmission (ST) class revenue-to-cost target ratio of 1.8 was still seen as  
12 too high (see Session #3 Notes pages 10 and 22); and,
- 13 • Hydro One was urged to consider setting rural rates at a level consistent with the  
14 original Rural Rate Assistance legislation that once specified rural rates should not  
15 exceed 115% of the provincial average for residential rates (see Session #3 Notes  
16 page 10).

17

18 The presentation on rate harmonization and customer bill impacts prompted the greatest  
19 amount of discussion. The presentation slides illustrated impacts at average consumption  
20 levels with maximum and minimum total bill impacts. Customers with higher and lower  
21 usage patterns could face different bill impacts, and stakeholders wanted to understand the  
22 range of impacts within each class for various consumption levels and the elements  
23 contributing to rate impacts (see Session #3 Notes pages 15, 16, 19, 21 and 22). There was  
24 concern expressed that more consideration should be given to customers who may be faced  
25 with high bill increases because they fall outside the average consumption range (see  
26 Session #3 Notes pages 11-13).

1  
2 Effectively communicating these changes to customers who will see a significant increase  
3 in the distribution component of their electricity bill was discussed at length. It was noted  
4 that the rationale should include references to the need to achieve equity with other  
5 customers, historic underpayment for services relative to cost, OEB directive to apply the  
6 cost allocation methodology and phasing-in of increases to mitigate bill impacts. However,  
7 one stakeholder noted that, while the rate increases may be equitable within the Hydro One  
8 customer base, some customers would find their rates rising well above those for  
9 comparable users in nearby areas served by other LDCs.

10  
11 The various methods, which could be used to notify customers were also discussed. Hydro  
12 One indicated there was an urgency to provide this information early, in order to allow  
13 affected customers an opportunity to participate at the OEB process should they wish.  
14 Notification options and pros/cons were discussed at length (see Session #3 Notes pages  
15 11-13).

16  
17 The specific stakeholder comments and questions raised through this process, and Hydro  
18 One responses, are reflected in the Detailed Notes of Session #3 attached as Appendix G.

19  
20 **5.0 CONCLUSION**

21  
22 Hydro One initiated the stakeholder consultation process to meet the objectives described  
23 in Section 2.2. Based on the discussions that took place, the consultation process met these  
24 objectives. Hydro One believes that the enhanced understanding by stakeholders of Hydro  
25 One operations and business practices resulting from the dialogue at these sessions should  
26 significantly reduce the effort required by Hydro One to explain its distribution business  
27 during the OEB proceeding. Hydro One also obtained a good understanding of stakeholder  
28 issues and concerns through the consultation process.

1 Stakeholder input assisted Hydro One to better understand and address stakeholder  
2 concerns in the following areas:

- 3 • The prioritization of investments;
- 4 • Rationale for demand capital and sustaining requirements;
- 5 • Customer satisfaction and reliability benchmarking, including identification of  
6 comparator utilities;
- 7 • Performance versus increases in expenditures, including effect of 2006 storm  
8 activity on Hydro One reliability measures;
- 9 • Investment justification documentation for capital projects equal to or greater than  
10 \$1 million, including summaries of project needs and results; and
- 11 • Identification of new standards, codes or compliance requirements that affect  
12 Hydro One's distribution operations.

13  
14 With respect to rate harmonization and impact management, Hydro One concluded from its  
15 dialogue with stakeholders that:

- 16 • The 10% total bill impact is a key guideline to follow, but consideration could be given  
17 to adding a maximum dollar impact if the 10% rule hindered achievement of  
18 harmonization within a reasonable period. It was noted that a rate increase between \$3  
19 and \$5 per month is used by other utilities as a guideline to ensure low-income  
20 customers are not unduly affected.
- 21 • Rates should be harmonized as quickly as possible being mindful of customer impacts  
22 and ensuring bill impact guidelines are met.
- 23 • The number of customer classes should be simplified taking into consideration the  
24 principles discussed, including consistency with the class structure of other LDCs but  
25 expanded to accommodate Hydro One's unique customer characteristics.
- 26 • All customer classes should have a common fixed + variable rate structure.

- 1       • A weighted average probably should be used to determine a new class loss factor when  
2       combining different classes and loss factors into a new class.
- 3       • There is a need to present bill impacts at various levels of consumption for each  
4       customer class and to explain what drives the impacts.

5  
6       Stakeholder input helped Hydro One to refine and shape the elements of its distribution  
7       rate application and helped to ensure that customer and stakeholder concerns were  
8       understood and addressed.

## 9 10   **6.0    LIST OF APPENDICES**

11  
12   APPENDIX A – Stakeholder Invitation Letters

13   APPENDIX B – Participant Terms of Reference

14   APPENDIX C – Funding Guidelines

15   APPENDIX D - Session #1 Meeting Notes – July 18, 2007

16   APPENDIX E – Designing the Rate Harmonization Process (worksheet)

17   APPENDIX F – Session #2 Meeting Notes – September 5, 2007

18   APPENDIX G - Session #3 Meeting Notes – October 15, 2007

19

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Filed: August 15, 2007

EB-2007-0681

Exhibit A-16-1

Appendix A, Page 1 of 3

**Susan Frank**

Vice President and Chief Regulatory Officer  
Regulatory Affairs

June 25, 2007

Sample Stakeholder Invitation Letter

**Re: Hydro One Networks 2008 Distribution Rate Application**

Hydro One Networks has begun to prepare its 2008 Distribution Rate Application for submission to the Ontario Energy Board (OEB) for implementing approved rates in mid-2008. The application will be developed and filed in two stages. The portion seeking approval for the revenue requirement will be submitted on August 15, 2007 and the cost allocation and rate design portion will be filed in October 2007.

In July, Hydro One will be initiating a stakeholder consultation program to assist us in the development of the application. Important aspects of the application include determining the work program spending that underlies the 2008 revenue requirement, as well as Hydro One's proposal to simplify its rate structure and harmonize the rates for customers of acquired utilities. The purpose of this letter is to invite you to participate in this process.

The goal for the consultation program is to create a forum for key stakeholders and Hydro One to discuss issues related to the Distribution Rate Application, and to identify areas of agreement and concern to assist in shaping the pre-filed evidence. Many stakeholders will have participated in the 2006 distribution rate consultation process. Hydro One intends to build on the experience gained during those sessions and subsequent OEB proceedings. The main objectives for this consultation program are to:

- inform key stakeholders about the approach and methodology used to determine revenue requirement, cost allocation and rate design;
- provide a preview of the application, including the numbers;
- provide stakeholders a range of opportunities to identify concerns on all aspects of the application;
- ensure stakeholder concerns and views are identified, understood and considered in the preparation of the application.

A report summarizing the key areas of discussion, agreement and concern raised through the consultation process will be included in the application.

**Stakeholder Representation:**

Hydro One will hold a series of discussion sessions with key stakeholders, including but not limited to groups who have participated in previous Hydro One Networks distribution rate proceedings. Stakeholders invited to participate will represent a diverse range of interests including consumer advocacy

and environmental groups, energy industry associations; Aboriginal organizations, local distribution companies and large distribution customers.

### **Consultation Sessions:**

The stakeholder process will consist of a minimum of three formal stakeholder sessions between July and October 2007 in the Toronto area. The preliminary topics for the three consultation sessions are as follows:

1. Hydro One business strategy and the revenue requirement (RR) components;
2. Principles of cost allocation (CA) and rate design (RD); and
3. CA/RD application and impacts.

The first stakeholder session is scheduled for July 18, 2007 at the Metropolitan Hotel, 108 Chestnut Street, Toronto, 8:30 a.m. to 4:30 p.m. (a continental breakfast will be available at 8:00 am). During this one-day session we will present and discuss:

- Hydro One business strategy;
- application development process;
- major investment programs and key drivers;
- benchmarking;
- overall 2008 revenue requirement;
- stakeholder issues and concerns.

This is the only planned meeting at which stakeholders can provide input to the revenue requirement portion of the application before it is submitted on August 15. Subsequent sessions are planned for mid-September and October, and Hydro One will consider holding additional sessions if warranted. Stakeholders will be able to follow the consultation process by visiting the Hydro One web site ([www.HydroOneNetworks.com](http://www.HydroOneNetworks.com)) and provide their comments by email or direct mail. All presentation materials will be posted on our web site. Comments received through these avenues will be considered fully and integrated into the stakeholder meetings, as well as in the final reporting.

### **Background Information:**

This letter is accompanied by a Participant Terms of Reference and Funding Guidelines. The final agenda and presentation materials will be forwarded to participants in advance of the session. Please note that, if you were qualified to receive funding for the 2006 Distribution Rate Application or the 2007/2008 Transmission Rate Application stakeholder consultation processes, you are not required to apply again. It will be sufficient to indicate that you will be participating and submitting funding requests at the time you register to participate in this process.

If you have any additional questions about this process please contact Ms. Enza Cancilla, Manager, Public Affairs at 416-345-5892 or by email: [Enza.Cancilla@HydroOne.com](mailto:Enza.Cancilla@HydroOne.com). ***Please confirm your attendance at Session #1 by contacting Jessica Pontone by email at [Jessica.Pontone@HydroOne.com](mailto:Jessica.Pontone@HydroOne.com) or at 416-345-5938 by July 13, 2007.***

Sincerely,

Susan Frank  
Vice President and Chief Regulatory Officer

Enc.



## **Stakeholder Consultation**

### 2008 Distribution Rate Application

#### **Participant Terms of Reference**

##### **Background**

Hydro One Networks Inc. (Hydro One) is a company committed to business excellence. Building positive and lasting relationships with stakeholders is key to our success. To continue to build these relationships, Hydro One is undertaking a stakeholder consultation process to assist in the preparation of its 2008 Distribution Rate Application to the Ontario Energy Board (OEB). This process will involve a number of consultation sessions and a project website. The purpose of the consultation sessions is to provide a forum for dialogue between Hydro One and key stakeholders and customers to discuss, clarify and prioritize key topics related to the application. These consultation sessions, along with any submissions received through the website, will be considered in the development of the content of Hydro One's submission to the OEB.

##### **Stakeholder Consultation Principles**

- Hydro One is entering into the stakeholder consultation process in good faith with a view to facilitating and streamlining future OEB proceedings related to the application;
- Hydro One will receive and consider all submissions made by stakeholders, but will retain control over the process of developing its application;
- All consultations are carried out on a without-prejudice basis;
- A neutral facilitator will document and report the discussions and any agreements reached with all or some stakeholders;
- Agreements reached will be submitted to the OEB as part of its evidence.
- This process will build upon stakeholder consultation sessions held in 2005 and 2006 for Hydro One's most recent Distribution and Transmission Rate applications.

##### **Goal**

The goal for the stakeholder sessions is to create a forum for key stakeholders and Hydro One to discuss issues related to Hydro One's 2008 Distribution Rate Application and to identify areas of agreement and concern to shape the pre-filed evidence. To further this mandate, participants are asked to:

- Represent the various views of their customers/constituencies;
- Assist Hydro One to understand their goals and issues through participation in a process of open dialogue and submissions.

## **Objectives**

- Inform and update key stakeholders about our distribution business, and the approaches and methodology used to determine revenue requirement, cost allocation and rate design;
- Give stakeholders a range of opportunities to provide input and feedback on all aspects of the application;
- Ensure stakeholder concerns and views are identified, understood and considered in the preparation of the application;
- Act as a forum for the exchange of information and views;
- Assist Hydro One to anticipate and respond to stakeholder and customer views and preferences; and
- Clarify and scope as many issues as possible prior to the Hydro One submission to the OEB.

## **Membership**

Participants have been invited from key stakeholder groups, namely: intervenors from previous Hydro One rate proceedings, energy and environmental associations, Local Distribution Companies, major customers and Aboriginal political organizations.

Hydro One believes that those invited are representative of the interests of the majority of its stakeholders. Stakeholder discussion sessions may be limited in size to ensure adequate time to fully explore issues.

## **Alternate Members**

It is Hydro One's intention that the same stakeholder representatives be actively involved throughout the process. This continuity will aid in the effectiveness of the process. In the event a participant is unable to attend one or more meetings, one designated alternate may be assigned to take their place. In the event that a participant and their alternate are both unable to attend a meeting, input may be submitted to Hydro One in writing.

## **Roles and Responsibilities**

### *Hydro One*

- Provide adequate background information to enable participation;
- Provide overview/presentations of key discussion topics;
- Act as a resource for main discussion and breakout sessions;
- Inform stakeholder how consultation has influenced Hydro One application.

### *Stakeholder Representatives*

- Review Hydro One material presented;
- Identify key issues;
- Provide and present input, advice and feedback on issues relating to Hydro One's transmission rate application;

### **Stakeholder Discussion Session Details**

- Meetings are to be convened at the request of Hydro One;
- At least three 1 or 2-day sessions (July, September and October) are envisioned;
- All meetings will be held in the Greater Toronto Area;
- The input received during the Hydro One consultation will be used solely for the purpose of developing the 2008 Hydro One Distribution Rate Application.

### **Working Group Meetings/Subcommittees**

If, during the course of the consultation sessions, it is apparent that additional time to explore an issue(s) would be of benefit, subcommittees may be convened to discuss a specific issue/topic for a predetermined period of time. If required, facilitation and reporting resources will be provided for subcommittee meetings.

### **Consultation Process Support**

Hausmann Consulting Inc. (HCI) has been retained to provide third party facilitation and reporting of consultation sessions. Assistance in identifying issues where discussion will be of benefit, exploring stakeholder views, and identifying any common ground are key parts of the facilitation role.

HCI will prepare meeting notes that document discussions and stakeholder submissions received during this process, as well as any areas of agreement that are reached between Hydro One and stakeholders. Where stakeholders take firm positions on an issue, this will be recorded if the stakeholder is willing to be identified in the notes. If an organization wishes to go on the record with a detailed position, this should be confirmed in writing to Hydro One. These formal responses, along with stated positions will be reflected in the final consultation report that will form part of the Hydro One submission to the OEB.

### **Participant Funding**

Funding may be provided for participants who qualify for funding under the *Funding Guidelines* attached. No other participant funding will be offered. Those who have qualified for funding during previous consultation processes (2005 Distribution and

2007/2008 Transmission Rate Applications) do not need to re-qualify if their circumstances remain the same. In these cases, a short statement of intent to participate and a request for funding should be forwarded to the contact below.

### **Duration of the Consultation Period**

The purpose of this consultation is to provide an opportunity for Hydro One-stakeholder dialogue during the time in which Hydro One is preparing its 2008 Distribution Rate Application. The Application will be developed and filed two stages: Revenue Requirement in August 2007 and Cost Allocation / Rate Design in October 2007.

### **Additional Consultation Opportunities**

Parties who are not available to attend or cannot be accommodated in the stakeholder consultation sessions are encouraged to follow the process and submit comments through the Hydro One Web site ([www.hydroonenetworks.com](http://www.hydroonenetworks.com)).

### **Accountability:**

- Responsibility for the stakeholder consultation program rests with Susan Frank, Vice President and Chief Regulatory Officer, Hydro One Networks Inc.
- Participants are to be governed according to the policies/procedures of their respective organizations. In the event that agreements are reached during the consultation process, they must be consistent with relevant policies of the respective organizations and must be supported by written documentation from the organization.

### **Hydro One Contact**

Should you have any questions about this document or the consultation program, please contact:

Ms. Enza Cancilla

Manager, Public Affairs

Tel: 416-345-5892

Fax: 416-345-6984

Email: [enza.cancilla@HydroOne.com](mailto:enza.cancilla@HydroOne.com)



**Stakeholder Consultation**  
2008 Distribution Rate Application

**Funding Guidelines**

In order to facilitate dialogue with its stakeholders, Hydro One Networks Inc. (Hydro One) will provide funding to assist qualifying stakeholders to participate in its 2008 Distribution Rate Application stakeholder consultation process. The funding criteria that will be used are based upon those found in the Ontario Energy Board's (OEB) most recent Practice Direction on Cost Awards (October 2005).

**Eligibility**

- Hydro One will determine which stakeholders are eligible for funding. This will normally be limited to intervenors who have participated in past Hydro One distribution or transmission rate proceedings.
- Transmitters, wholesalers, generators, distributors, electricity retailers and marketers of natural gas and gas storage companies (either individually or in a group), parties with a direct commercial or business interest, the Ontario Power Authority and the Independent Electricity System Operator are not eligible for funding.
- Municipal or provincial government staff or representatives are not eligible for funding.
- Funding will be provided only to stakeholders participating in the discussion sessions.
- The burden of establishing eligibility for funding is on the party applying for support. Interested parties must provide Hydro One with a statement justifying their eligibility.
- Stakeholders who have previously qualified to receive funding for the 2006 Distribution Rate Application or the 2007/2008 Transmission Rate Application stakeholder consultation processes, are not required to apply again. It will be sufficient to indicate in writing to Hydro One that your organization will be participating and submitting claim forms.

## **Funding Principles**

- Only one representative from each stakeholder organization will be funded. Alternates must be designated in advance and Hydro One notified.
- Groups with common interests are encouraged to combine their participation, or show cause as to why separate funding is justified.
- Funding will be provided for meeting preparation, attendance, travel to and from meetings, reasonable out-of-pocket expenses, and follow-up, as necessary, based upon the rates outlined in the OEB's Cost Award Tariff, with an agreed upon cap for preparation time not to exceed an amount equal to the meeting time. See OEB Cost Award Tariff at: [http://www.oeb.gov.on.ca/documents/practice\\_directions\\_costawards\\_appa.pdf](http://www.oeb.gov.on.ca/documents/practice_directions_costawards_appa.pdf)
- Preparation time will not be reimbursed unless the stakeholder attends the discussion session for which preparation time was spent.

## **Funding Process**

- Reimbursement for costs claimed will require the use of a Hydro One-approved form (see Attachment 2: Hydro One Disbursement Claim Sheet and the Preparation/Attendance sheet.)
- Requests should be submitted not later than 30 days following the completion of each meeting/workshop.
- Parties should submit their request for financial support to:  
Glen MacDonald, Senior Advisor – Regulatory Review  
Regulatory Affairs  
Hydro One Networks Inc.  
8<sup>th</sup> Floor, South Tower  
483 Bay Street  
Toronto, ON M5G 2P5  
Fax: 416-345-5913

## **Hydro One Contact**

Should you have any questions about this document, please contact:

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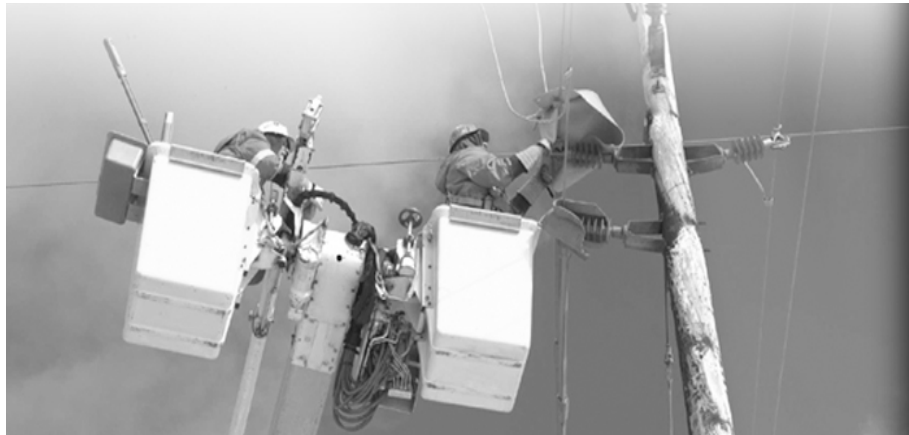


## **Stakeholder Consultation 2008 Distribution Rate Application**

### **Stakeholder Session #1 Meeting Notes**

Metropolitan Hotel  
Mandarin Ballroom, Lower Level  
108 Chestnut Street, Toronto

July 18, 2007



Prepared for:  
Hydro One Networks Inc.  
483 Bay Street  
Toronto, Ontario  
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Prepared by:  
Hausmann Consulting Inc.  
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**Attachments:**

- 1. Agenda and Participant List

## 1. BACKGROUND

Hydro One Networks Inc. has begun to prepare its 2008 Distribution Rate Application for submission to the Ontario Energy Board (OEB) for rates effective mid- 2008. There will be one application that consists of two parts: a revenue requirement component which will be submitted on August 15, 2007, followed by a cost allocation and rate design component, which will be submitted in October 2007.

In July 2007, Hydro One initiated a stakeholder consultation program to assist in the development of this application. The main objectives of the consultation program are to develop a shared understanding and prioritization of the key issues affecting the application, with an aim to resolving or reducing the scope of as many issues as possible prior to the OEB process. All consultation activities are carried out on a without prejudice basis.

Hydro One invited key stakeholders who have participated in previous Hydro One Networks rate proceedings to participate in a series of discussion sessions. Additional information about the consultation process is posted on the Hydro One distribution rate application Web site at: [http://www.hydroonenetworks.com/en/regulatory/2008\\_distribution\\_rate\\_application](http://www.hydroonenetworks.com/en/regulatory/2008_distribution_rate_application). This document reports on the first of these discussion sessions, which took place on July 18, 2007.

### 1.1 Welcome and Introductions

Chris Haussmann of Haussmann Consulting Inc. (HCI) welcomed participants, thanked them for their attendance and introduced himself as facilitator for the workshop. In attendance were representatives from the City of Timmins, Energy Probe, Essex Power, Federation of Ontario Cottagers' Associations, Grimsby Power, Innisfil Hydro Distribution Systems, Ontario Power Generation, Power Workers Union, Pollution Probe, Society of Energy Professionals, the Union of Ontario Indians and the Vulnerable Energy Consumers Coalition. Also present were Hydro One staff, and their consultants, Elenchus Research Associates and the HCI facilitation team.

The full list of participants, together with the agenda, is provided in Attachment #1.

### 1.2 Process Overview

Chris reviewed the proposed agenda, which was structured to enable Hydro One to provide participants with information and an opportunity to discuss various aspects of Hydro One's business that relate to the Distribution Revenue Requirement. Stakeholder Session 1 was comprised of a series of presentations, which delivered this information in an interactive manner. The entire session was conducted in plenary. There were two changes to the agenda:

- Barb Allen (Manager, Customer Care) responded immediately after lunch to questions that stakeholders posed in the morning relating to the manner in which customer satisfaction is measured; and

- 
- Rick Stevens (Director, Smart Meter Project) made his presentation on the Smart Meter Program before George Juhn (Manager, Distribution Development and Lines Sustainment) made his presentation on Major Investment Programs.

The objectives for Stakeholder Session 1 were to:

- Inform key stakeholders on the approach and methodology Hydro One is using to determine the revenue requirement;
- Preview the application;
- Afford stakeholders with a range of opportunities to identify any concerns relating to the key issues driving revenue requirement; and,
- Ensure stakeholder concerns and views are identified, understood and considered in the preparation of the application.

Chris then introduced Susan Frank (Vice President & Chief Regulatory Officer), who welcomed participants and thanked them for taking the time to attend the session. Susan encouraged participants to raise their concerns and questions. Hydro One sees the session as a dialogue and views stakeholder input as an opportunity to improve the application. She indicated that Hydro One staff also will be available for further discussion “offline”.

## 2. PRESENTATIONS AND DISCUSSION

The following sections provide brief descriptions of the presentations made by Hydro One staff. Questions of clarification and discussion following each presentation are summarized in bullet form. Points in *italics* represent responses or comments from Hydro One or its consultants. All session 1 presentation slides are available on the Hydro One distribution rate application Web site at: [http://www.hydroonenetworks.com/en/regulatory/2008\\_distribution\\_rate\\_application](http://www.hydroonenetworks.com/en/regulatory/2008_distribution_rate_application).

### 2.1 Hydro One Business Strategy

Laura Formusa (Acting President & Chief Executive Officer) reiterated that stakeholder consultation is an important part of the rate application process. Hydro One is committed to supporting open and transparent discussion on the issues. Laura provided an overview of the current direction of Hydro One and its key accomplishments:

- Hydro One’s mission is to be the best transmission and distribution company in North America measured in terms of safety, customer service and reliability, while focusing on the development and retention of its employees and creating shareholder value. Hydro One is committed to achieving customer satisfaction ratings of 90% across all segments and first quartile status with respect to reliability relative to comparable utilities. Restoring employee pride and respecting the public’s trust is also a top priority.
- Hydro One is proud to have received the Edison Electric Institute Emergency Recovery Award for the restoration of service to customers after three major storm events in the summer of 2006. Such events underscore the need for rigorous and proactive vegetation management.
- Hydro One’s initiatives associated with conservation and smart meters are important because they support provincial energy and environmental goals, help Hydro One customers meet these goals,

and provide Hydro One with a new opportunity to speak to customers. Hydro One's Conservation and Demand Management (CDM) program has resulted in energy savings of 100 million kWh since 2005 and demand for electricity during peak periods has been reduced by almost 11 MW. Hydro one is on track to install 1.3 million smart meters by 2010. The CDM and smart meter programs have resulted in Hydro One being ranked 26<sup>th</sup> of 50 corporations (and third among Canadian utilities) by Corporate Knights magazine based on environmental, social and governance indicators.

- Hydro One supports the Province of Ontario's Renewable Energy Standard Offer Program (RESOP) through the Ontario Power Authority's (OPA's) initiative for small projects (under 10MW) using renewable sources, such as solar, wind, biomass and water power. Hydro One has received over 700 requests for assessments. Hydro One has been unable to respond to all requests in a timely manner due to limited availability of the required expertise to conduct these assessments. Hydro One is improving its ability to respond to applications more quickly through training of additional staff and accessing external consulting service providers.
- Hydro One is listening to customers in all forums, and wants to sustain or increase the level of service, while changing some services to meet government policy objectives and environmental obligations.
- Hydro One understands that it must be a good steward of the assets with which it has been entrusted and the natural environment within which it operates; it must maintain the public trust; and, its customers must feel that they are getting value for money.

***The following questions were asked/points were clarified in ensuing discussion:***

- Is it Hydro One's objective to be the number one Ontario LDC in terms of CDM over the next three years?

*We probably are number one, and if not, are in the lead in terms of our program achievements to date. It is not absolute targets but the way we operate the business which will lead us to be number one. All our LDC colleagues are striving towards that goal and this competition will benefit all Ontarians.*

- In terms of targets over the next three years, is it Hydro One's goal to achieve an absolute reduction in your LDC customers' peak day demands? Do you have a target to achieve an absolute reduction in their electricity consumption?

*We are not targeting a definitive number. Despite population growth, overall load growth is flat in the province. That means that average consumption per customer has been decreasing as a result of our CDM programs. Targets are nice, but CDM should become a way of life and a way of doing business.*

- Over the next three years, what is your CDM budget? How much of it will be financed through rates and how much do you hope to get from the OPA?

*The OPA is taking the lead in terms of the programs they manage and finance. Hydro One takes guidance from the OPA with respect to developing budgets for CDM programs, and is taking the*

*lead in terms of what we think our customers want and need. It is important for the OPA to listen to the LDCs, who know their customers best, when designing their programs. We have to be as innovative as possible. Each of us has something to bring to the table over the next three years. We are not simply relying on the OPA to tell us what programs to roll out and deliver.*

- Is Hydro One independently funding CDM initiatives through their own rates and, if so, from what part of the rates will that be derived? How do you justify double charging customers by receiving funds on CDM initiatives from rates and from the OPA? What are you planning on doing with the Lost Revenue Adjustment Mechanism (LRAM)? Are you just looking at re-basing and foregoing any lost revenue?

*We are working through the OPA only. We are not proposing that separate CDM projects go into the rate base for this application. Our programs will be delivered through the funds that the OPA is managing. We do take into account in our load forecasts the conservation targets set by the OPA. That will continue.*

*We are not applying for an LRAM because we do take into account the conservation that we anticipate our customers will achieve in our load forecast.*

- Hydro One has done a great job with CDM. Why is Hydro One not participating in the 10/10 program?

*Hydro One is participating in the 10/10 program.*

- Can you speak to your philosophy on consolidation of rates and harmonization related to the utilities you acquired in 1999-2000?

The major storms that Hydro One had to cope with last year, and the associated forestry and restoration costs incurred, took place in the heavily treed areas of Northeastern Ontario. In southern Ontario we have 3-5% tree coverage so there is not a lot of that cost burden across the customer base. In southern Ontario we are worried about jobs, reliability and affordable rates for primary homes and businesses, not supplying power to million dollar cottages in “recreational” areas. Hydro One still carries a line rate that is 20% higher than the average for all the other LDCs in Ontario. How are you looking at managing increasing forestry/vegetation costs across the customer base?

*Both the harmonization question and the second question (which is about whether there should be regional rates based on the user pay principle rather than uniform rates across the province) are rate design issues. These issues will be addressed in the September and October stakeholder sessions. We believe these are critical issues and we want to get your views before we go to our Board and the OEB. The OEB is doing a great deal of work in the area of cost allocation and rate design. Hydro One must work within the governance structure the OEB provides to develop regional rates.*

- We talk about achieving greater efficiencies through consolidation and regionalization, but

everybody keeps going to the OEB for more money. We have a rate base in which customers in one area are subsidizing customers in another; for example, the rate base in southern Ontario likely includes a 30% OM&A on forestry in northern Ontario. There are still many efficiencies to be achieved through further consolidation and regionalization, but this is inhibited by the current rate making process which creates artificial rate bases across different sectors of the province with different service requirements. Rates for some service areas should not subsidize rates in other service areas.

*This is a rate design issue that will be addressed in the September stakeholder session. Hydro One agrees that there are further efficiencies to be obtained across the entire distribution sector. We are all trying to do that.*

*We hear your viewpoint, but do not necessarily share it. The regional issues of north versus south, east versus west or farmers versus cottagers have been debated for decades. We have a diverse province, and serve a diverse customer base and communities that all make a contribution to the province.*

- Rural rates have a much bigger impact on rates and the cost of power for ordinary customers across the province than storm restoration. Where should load-serving entities (LSE) go from Hydro One's point of view?

*This has not been a key focus in the company. As the debate grows, we will certainly be involved. Our general view is that this is not the right time for LSEs. The market has not evolved to the extent that customers would benefit from an LSE approach. Andy Poray is the expert on this within Hydro One and would be glad to talk to you.*

## 2.2 Application Overview

Joe Toneguzzo (Director, Major Applications) provided an overview of the application and its time-line. Hydro One will identify where there are increasing work and cost pressures and where other factors are contributing to cost reductions. Joe described the key cost drivers for the revenue requirement and rates filing. He also described Hydro One's approach to the planned rates filing submissions. The filing will be structured and include information consistent with the 2005 Distribution submission.

The 2008 Distribution rate application to the OEB will be filed in two parts. The revenue requirement will be filed on August 15, 2007. Hydro One has not yet completed the internal approvals process for its business plan and a meeting with the Hydro One Board is scheduled for August 10. This is a key step in finalizing the application and meeting the August 15 OEB filing deadline for the Revenue Requirement submission. Given this challenging time-line, specific Revenue Requirement figures will not be available for this meeting or before the filing date. The rates portion of the application will be filed in the latter part of October 2007. Rate design and cost allocation will be discussed during Stakeholder Session 2 in September before going to Hydro One's Board of Directors on October 3, 2007. There will be a final stakeholder session in mid October to discuss customer impacts of the rate design. Our intention is to move towards harmonization and consolidation of the 270 rates Hydro One

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currently has, and to ensure that rates more accurately reflect the costs of providing distribution service to specific customer groups. The target Distribution rate reset date is mid-2008.

***The following questions were asked/points were clarified in ensuing discussion:***

- Given your two-part filing, when do you anticipate that the OEB will be starting the clock on their guidelines/processes: between the two filings or after the second filing?

*Hydro One hopes that the clock will start on August 15, 2007. However, Hydro One and the OEB have not finalized those details yet. We do not think that we can meet the May reset date and think a June or July 2008 reset date is more likely. The issue is complicated by the fact that the OEB also has to deal with many other LDCs who may be submitting 1-part or 2-part filings.*

- Did you receive OEB approval for the list of the consolidated LDCs that you purchased and that you will be re-basing to the harmonized rates?

*No, there was no criterion established by the OEB for deciding which utilities would be re-based in 2008.*

- Regarding harmonization, the OEB has traditionally indicated that there should not be a rate increase greater than 10% to a specific customer group or level. Will it be difficult for Hydro One to limit the rate increase to no more than 10% when harmonizing the rates?

*Yes, for some groups it will be a challenge. Hydro One will have to stage the increase over time. With harmonization of rates, the overall revenue requirement remains the same. Rates in one area will increase while they decrease in another area. The issue is, "Who is paying what rates?" Hydro One is not asking for more revenue due to harmonization. Hydro One recognizes that there are customers and communities who are paying too much today and their rates must be brought down. Other customers and communities are not paying enough. Susan Frank asked the stakeholders how long the harmonization of rates should take. She also asked stakeholders to suggest (by the September Stakeholder Session) alternate approaches or rules that could be considered other than the 10% rule.*

- If rates are increasing even after Hydro One has acquired 87 utilities in order to achieve increased efficiencies, what efficiencies have really been achieved?

*The increased efficiencies are at a higher level. We would have to determine what the total cost was of running those utilities plus Hydro One versus the cost of running Hydro One now that these utilities have been integrated into our system. Early estimates from industry working groups suggested an overall benefit in the order of \$200M could be achieved depending on scenarios assumed.*

- When it acquired other LDCs with lower rate bases, Hydro One effectively blended those rate bases into its own, which has the effect of lowering the overall blended rate base. The OEB and the

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provincial government must consider the over-riding principles of harmonization and ask whether this is what they want.

*We must look at overall efficiencies and we agree that the cost profiles will change. Through cost allocation and rate design, we can address these changes by making rates more cost reflective. This question can be better addressed during Stakeholder Session 2 in September.*

- Will Hydro One identify only the total corporate revenue requirement in the August filing; or, will there be a breakdown of the revenue requirement by categories such as shared facilities, shared distribution lines, and the associated revenue required to serve individual customer segments? For example, right now we are paying \$0.63/KW for shared low voltage (LV) lines. Is that going to be separated out in your revenue requirement or will you only show the corporate total?

*Only the total revenue requirement will be filed on August 15. However, once the revenue requirement is established, we can describe the allocation of costs to the various rate classes.*

- If customer satisfaction does not meet objectives (e.g., in the call centre), will you increase staff to achieve the objectives?

*Hydro One would not necessarily increase staff. We would look at changing a business process or introducing new technology, such as an Interactive Voice Response system, or looking for other low cost options that may not result in an immediate increase in staff or cost. Depending on the options, there may be an increased cost to improve customer satisfaction ratings.*

- With respect to distributed generation, most of these connections are or will be in Hydro One's service territory. The OEB is struggling with the issue of standby rates for distributed generation. You probably know more about the cost characteristics than the OEB since you have the lion's share of distributed generation.

*Last week, the OEB published a series of discussion papers on distributed generation and impacts to rates. Hydro One recognizes that standby rates certainly are a key issue.*

## 2.3 Benchmarking, Reliability and Service Quality

Carm Altomare (Manager, Performance Analysis) described the two benchmarking studies that the OEB has directed Hydro One to conduct. Benchmarking is primarily a vehicle to identify best practices in order to enable process improvement. Distribution benchmarking studies are being conducted currently by P.A. Consulting and results are not yet available. Carm also discussed Hydro One's two major performance measurement drivers: OEB performance standards; and, customer expectations and performance goals identified in the Hydro One Five Year Plan. There are six customer service metrics and three customer reliability metrics. Since the last Hydro One Distribution filing, there have been no changes to the OEB's service quality indicators for customer service and reliability.

Carm provided an overview of the customer service indicators, illustrating the OEB minimum targets and Hydro One's performance over the past three years (2004 – 2006). In most cases Hydro One meets or exceeds OEB targets.

Hydro One's performance for System Average Interruption Frequency Index (SAIFI) and System Average Interruption Duration Index (SAIDI) are consistently stable year-over-year when excluding *force majeure* events. *Force majeure* events have a significant effect on service quality and emergency response. Carm also provided detailed overviews of system reliability and related trends, including new distance-based metrics and comparisons to similar utilities.

Hydro One's Five-Year Plan is to improve customer satisfaction to 90% or better in all segments, to meet or exceed the OEB's Service Quality targets (where this helps achieve the 90% customer satisfaction level), and to achieve top quartile reliability in Distribution when compared against similar utilities.

***The following questions were asked/points were clarified in ensuing discussion:***

- At what point do you start planning for and “building in” *force majeure* events?

*Hydro one has always planned for an average number of force majeure events. As Laura Formusa indicated, Hydro One was honoured with an Edison Electric Institute award for its storm restoration work in 2006. Hydro One has a great deal of experience planning for and responding to these types of events. We monitor weather patterns and place staff on call if a force majeure event is anticipated. Our service staff also communicate and cooperate with staff from other utilities when major storms are imminent. Most of these storm events are the result of strong winds and extreme weather that come from the southwest and cross Ontario between Georgian Bay and the Ottawa Valley. This weather pattern has recently tended to move a little further south, so impacts may be different in the future. Our revenue requirement does include some costs to respond to storms.*

- Do you exchange information or have a comparison with Florida in terms of storm restoration?

*The P.A. Consulting benchmarking study will include information on reliability in Florida. Hydro One liaises with Florida to explore what they do, and sometimes our lines people do assist them to restore their system. Hydro One is trailing Florida's reliability performance but there are some regional differences that also need to be considered (e.g., tree density in Ontario is greater than in Florida).*

- What were the comparator utilities that were included in the benchmarking studies?

*This is part of the P.A. consulting study. The comparable utilities they are looking at are those that have a similar business model and the same geographic issues we have, so that we are comparing similar companies. The P.A. consulting study will include a list of the utilities.*

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- It looks like some of the OEB customer service targets are below customer expectations. Are there particular areas where this happens?

*Yes, for example, customers want Hydro One to respond faster with respect to telephone accessibility than OEB targets. With effort in this area, overall customer satisfaction numbers are expected to improve. We can negotiate appointments during force majeure events but customers understand that it will take time to restore power. Technical questions to the call centre now get redirected to technical operators. For example, land developers now have a direct number they can call to ask technical questions. This improves satisfaction and efficiency.*

- When comparing SAIFI and SAIDI measures, are Hydro One numbers included in the composite of utilities that you compare against and therefore affecting the trends?

*No, there are no composites used in these SAIFI and SAIDI comparisons. These trends relate to quartile performance of all industry participants.*

- Do you consider Canadian utilities outside of Ontario as “comparable utilities” in the benchmarking studies?

*Yes, utilities operating in British Columbia, Québec, New Brunswick, Nova Scotia, and parts of Alberta, Saskatchewan and Manitoba with service areas that have trees are considered to be comparable. Furthermore, we are trying to break down all provincial utilities into regional data. By doing this, we can compare different regions within Canada, to regions within Ontario.*

- How long have you been tracking urban LDC reliability performance data (slides 17, 18)? Can we access these data?

*Hydro One has been tracking urban LDC performance for several years. We started to do so when we began working on the OEB’s second generation Service Quality Regulation initiative. Hydro One does not create the data itself. It comes from the data the LDCs file with the OEB. Hydro One then gets the data from the OEB website where it is publicly available.*

*It was also noted that there is no uniform definition of urban and that the definition Hydro One uses is “an area where there are at least 3,000 customers and a density of at least 60 customers/km.” Hydro One believes that it should respond to urban customers more quickly than rural customers and that this may become a regulatory requirement in the future. About 50% of the reliability problems experienced in urban pockets are “loss of supply” problems stemming from the system (e.g., a rural feeder line outside the urban area, a station or a transmission problem). If loss of supply situations were removed from the data, Hydro One’s reliability performance would be higher. Loss of supply data is not consistently reported in LDC data, although this is an OEB requirement. The OEB is considering requiring LDCs to report reliability both with and without loss of supply data.*

- When you exclude *force majeure* in the Hydro One data, do you also exclude *force majeure* for the comparators?

*Yes, but the problem is that no two utilities use exactly the same definition for force majeure. The Canadian Standards Association uses the term “prominent event” which is similar to our definition of force majeure. In any event, variations in definitions do not change the numbers significantly.*

- Given the changing climate, and the trend to move towards more of a user-pay model, have you considered changing your conditions of service by requiring the use of underground lines in high vegetation areas? This might increase capital costs but reduce ongoing maintenance costs. For retrofits the cost may be quite high, but for new installations the cost might not be as high as one would think.

*Underground lines have been installed in some locations, but this is a very expensive and a technically difficult option. There are other options. For example, in areas prone to lightning strikes, we can put surge arrestors on the primary line or erect sky wire to improve reliability.*

The Federation of Ontario Cottagers’ Associations noted that constructing underground lines on the Canadian Shield would be very expensive.

*Hydro One has a policy that describes standards and requirements for the underground lines. It has not been looked at for a while.*

## **2.4 Hydro One Distribution Incentive Regulation Proposal for 2009/2010**

Andy Poray (Director, Regulatory Policy) and John Todd (President, Elenchus Research Associates) discussed the proposal to establish a stakeholder Incentive Regulation Working Group (IRWG) to enable a collaborative approach on incentive regulation that is appropriate for Hydro One. Hydro One and stakeholders need to think through and identify the issues early, before the OEB comes out with its policy paper on third generation incentive regulation. It is expected soon and the program will move quickly towards implementation. Participating in the IRWG would allow stakeholders to take the lead in policy development, identify options for incentive regulation in the electricity Distribution sector and proactively contribute to the OEB’s thinking and direction.

Hydro One is not seeking consensus; rather, it is looking for input via the IRWG from stakeholders regarding issues, and options. Issues to be addressed include: principles of incentive regulation, design alternatives, and evaluation criteria. John Todd requested that:

- Stakeholders who want to participate in the IRWG identify themselves; and,
- Stakeholders who were not present today but who may be interested in participating in the IRWG be identified.

The proposed process includes: a process meeting in late July, where interested stakeholders meet and agree on the terms of reference and other items; three or four options development meetings in August

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and September; and, preparation of a working group report to be included in the October filing. Hydro One will provide the usual participant funding for this consultation process.<sup>1</sup>

***The following questions were asked/points were clarified in ensuing discussion:***

- Will Hydro One file its own Distribution Incentive Regulation proposal (as opposed to the IRWG report) as part of its 2008 OEB application or will this come as a separate application to the OEB at a later time?

*Given the time constraints, we will likely submit both the IRWG report (which will contain options) and our recommendations as part of the October filing. Our hope is that the methodology would be agreed to, so that we could apply that methodology for 2009 without having another separate hearing. We are open to ideas about a more efficient path.*

- The time constraint is due to how late the OEB got started on thinking about 3<sup>rd</sup>-generation incentive regulation mechanisms (3GIRM). The OEB seems to think that 3GIRM may not necessarily meet all Hydro One requirements. It would be advantageous to have as much commonality as possible between what the OEB is doing and Hydro One's approach.

*Hydro One is concerned that it may not hear from the OEB until late in the process. We should be proactive and provide input to them via the IRWG before the OEB begins to develop fixed ideas.*

- Could you review the price cap index that Dr. Mark Lowry is thinking about?

*He is taking a classic price cap approach using comparators to come up with productivity factors. Price adjustments are made for cost driver inflation and offset by productivity. The approach does take into account that electric utilities face largely fixed costs not necessarily related to volume throughput fluctuations (e.g., resulting from weather conditions) or even long term trends. It is dependent on a United States database of comparators, which may not be appropriate for Ontario or Hydro One.*

*The model is not clear on how long the period of adjustment will be – is it a three-year or five-year performance-based regulation (PBR)? Will we start off with a cost of service in the first year with adjustments in every year based on that first year's cost of service, or will there be a requirement to file information on projected expenditures for each year of the period (i.e., the English and Australian models)? So we are not clear as to what the model will be and which model would be preferable to Hydro One, given what we envision happening down the road.*

- What do you mean in slide 3 by “process to be included in the August 15 filing”?

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<sup>1</sup> A number of stakeholder groups expressed interest in participating in the IRWG and an initial meeting was held. However, Hydro One cancelled this initiative on August 3, 2007 after the OEB announced a consultation process to develop the 3<sup>rd</sup> Generation Incentive Regulation for all LDCs that is very similar to the IRWG process proposed by Hydro One.

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*We will simply inform the OEB in the August 15 filing that this IRWG process is in place and that they can expect a report in late October when the cost allocation and rate design portion of the Application is filed.*

At this point in the discussion, the presenters asked stakeholders whether, given that the OEB is committed to incentive regulation, this IRWG process is worth engaging in or whether it would be better to await the outcome of the OEB's 3GIRM process? They urged stakeholders to provide proactive input to the OEB so that the industry is not simply reacting to OEB discussion papers.

- It was noted that when the first Distribution Rates Handbook was produced, it was called the PBR Handbook. There was more consideration put into developing the PBR side of the rates, which turned out to be a disaster. It never went anywhere. In the second generation PBR, the Consumers Association brought in a United States expert who stated that PBR schemes all eventually turn into cost of service regulations. This initiative will be challenging and its success will likely be minimal.

*Yes, but the OEB has indicated its intent to develop an incentive regulation for electric distribution companies.*

- The IRWG process seems like a worthwhile exercise because it is always better to shape your future, if possible. What level of familiarity or expertise is Hydro One looking for to serve on the IRWG?

*It was explained that stakeholders do not need a great deal of expertise to join the IRWG. If needed, Hydro One can provide background material. The key criterion is whether stakeholders think this is a good process and have the interest to be engaged. It would also be helpful to have some diversity on the IRWG in order to get as many points of view as possible.*

*This initiative has the potential to be a demonstration case for stakeholders taking a proactive approach. It may change the way the industry does things in the regulatory environment. Stakeholders were asked to express their interest or identify others who may be interested to John Todd or Andy Poray.*

## 2.5 Customer Satisfaction Survey

Barb Allen (Manager, Customer Care) addressed questions initially raised by stakeholders during the morning session relating to customer satisfaction. She was responsible for implementing the customer satisfaction survey, which asked customers how satisfied they were with Hydro One service. The survey was conducted in 2003 and then repeated in 2006. Customers had the opportunity to complete the survey over the telephone or online.

***The following questions were asked/points were clarified in ensuing discussion:***

- What comparator utilities were used in the customer satisfaction survey?

*Researchers contacted people in every province of Canada with the same survey that was used with Hydro One customers. Respondents were asked to rank overall satisfaction with their utility. Hydro One discovered there was a best practice satisfaction level of 89%. This helped us set our goal of 90% customer satisfaction for 2010.*

- How are responses weighted in the customer satisfaction survey?

*In customer satisfaction surveys, traditional survey research techniques are used to weight the survey sample to reflect the makeup of the Hydro One customer base (e.g., residential, small business, seasonal, agricultural). But there is no weighting of the final survey result; they are simply a consolidation of responses to the top two boxes in the questionnaire (satisfied or very satisfied).*

- Has the OEB provided specific guidelines or methodology concerning customer satisfaction surveys? Are the formats for the customer satisfaction survey available?

*The OEB has provided no specific guidelines. However, Hydro One follows standard research practices and methodologies (e.g., sample size, statistical analysis, etc.).*

## 2.6 Smart Meter Program

Rick Stevens (Director, Smart Meter Project) provided information on the Smart Meter Program. He described how the initiative is designed to work and the implementation plan to 2010; 1.3 million smart meters will be installed by the end of 2010. The meters are called “smart” because they collect time-of-use data and can transmit these data via an Advanced Metering Communication Device and a local area network (LAN) to an Advanced Metering Regional Collector, and then to the Meter Data Management/Repository Company (MDMR). As a result, manual meter reading will be eliminated. Rick provided a regulatory update and program implementation status report on Hydro One’s smart meter program. He also described the 2008 deliverables. He described some of the numerous challenges that are unique to Hydro One’s implementation program (e.g., the need to use enhanced technologies in rural areas because of the distances and limited availability of communications infrastructure, and the resulting higher cost).

Rick also described various elements of the program: Capital expenditures, OM&A expenditures, and anticipated savings. Expenditures to May 2008 will be handled through three proposed variance accounts that would be settled as part of the 2008 application. Capital and operating costs are to be included in the 2008 revenue requirement.

***The following questions were asked/points were clarified in ensuing discussion:***

- Do you have any concerns about whether your meter data management system will meet your needs from an operational perspective, as opposed to the billing and customer information aspects (slide 2)?

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*The focus is on time-of-use billing but there will be potential operational benefits to having all that data. It will be archived and contracts will be developed with the Independent Electricity System Operator (IESO) and the MDMR provider. Another option is that the data stored in the Advanced Metering Communications Device can be streamed off for Hydro One use, if a business case shows merit.*

- When will the first time-of-use bills go out?

*This will happen in the second and third quarters of 2008. By then we will have 500,000 to 600,000 customers on-line. Rather than doing them all at once, we may have to stage the billing implementation to make sure that all the bills are accurate.*

- The MDMR will involve costs and it appears that the OEB currently has no plans to regulate the MDMR. How will Hydro One deal with these costs in its submission (slide 3)?

*We expect there will be more direction on this from the OEB, and quite possibly another variance account to track costs that cannot be forecasted.*

- Perhaps Hydro One should proactively suggest this to the OEB (slide 3).

*That is a good idea. Hydro One could ask the OEB for an MDMR variance account. The proposed incremental functionality variance account (last slide) may cover this item.*

- What are the anticipated total smart meter Capital costs and annual OM&A costs to 2010?

*We have not evaluated that yet. There are regulatory standards on minimum meter functionality for the residential and small commercial sectors (i.e., less than 50 KW). Standards for the greater than 50 KW segments, in which we have a much smaller number of customers, have not yet been developed.*

*We are currently implementing smart meters in urban and semi urban areas where we have a good understanding of costs. When we get to more rural and remote areas, there may be technology limitations and issues around the economics. Implementing in these areas will be a sizable program. Rural territory requires use of enhanced equipment and multiple technologies that would increase costs. Deployment costs increase with expansion into lower density areas. We are running a rural pilot north of Peterborough this summer to get a better handle on costs.*

- What does the outage detection capability plug into?

*There are two super capacitors in the collector (slide 5) that allow four to six minutes to clear the network. The collector communicates with the meter and has backup battery power. The modems also have backup battery power. So as long as the cellular tower does not go down, information about an outage occurrence will be transmitted.*

*No data is lost in the event of an outage. The data are stored in both the meter and in the collector.*

## 2.7 Major Investment Programs and Key Drivers (OM&A and Capital)

George Juhn (Manager, Distribution Development & Lines Sustainment) described the investment programs required by Hydro One. These programs are determined by business drivers (e.g., meeting company objectives, public and employee safety, meeting regulatory requirements, etc.), as well as the need to improve performance, as described by metrics for reliability (e.g., SAIDI, SAIFI) and customer satisfaction. George outlined the key customer base segments of the Distribution business and the principal assets used to service these segments. He described the asset categories, actual 2006 expenditures, and associated programs for OM&A program and Capital program elements. Information on expenditures was also provided for OM&A sustaining programs, and Capital sustaining and development programs.

Additional funds are required to address various challenges associated with OM&A and Capital programs:

### OM&A Programs

- Demand Sustaining OM&A – projected increases in trouble calls resulting from storm damage, expect more cable locate and disconnect/reconnect requests based on recent experience (there is a greater public awareness of “call before you dig”), and increased economic activity;
- Vegetation management – increased vegetation management is required to improve reliability and reduce storm-related damage costs (55% of unreliability is associated with trees); and,
- Development – more generation connections, more stringent safety standards and additional Long Term Load Transfer assessments.

### Capital Programs

- Asset replacement – cost escalation for equipment and material such as wood poles, transformers, and conductors;
- Trouble call & storm damage – 2006 storm damage is considered a worst-year scenario for expenditure planning purposes;
- New connections and system reinforcement; and,
- Generation connections.

### *The following questions were asked/points were clarified in ensuing discussion:*

- How did the OM&A Sustaining 2006 actual spending (\$253M) track against the OEB-approved spending, and what caused the differential (slides 4 and 5)?

*The OEB-approved spending was about \$230M. The differential was caused primarily by the unusually high level of trouble calls and storm restoration we experienced in 2006. This information will be provided in the filing.*

- Assuming that 2006 was an aberration and that in future years trouble calls will track closer to the historical average, is the 2006 \$253M actual spending number too high to base your forecast on?

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*There is no doubt that the 2006 storm damage was unusually high, and this has been appropriately factored into the calculation of our forecast for future years.*

- Are you segregating the cost of low voltage (LV) facilities into OM&A and Capital costs in order to come up with the revenue requirement? In other words, are you tracking LV charges separately in order to come up with a rate or are LV costs simply consolidated with all the other costs? At the end of the day, how do I know that \$0.63/KW for LV assets is the rate I should be paying based on your projected Capital and OM&A costs for LVs?

*It would be a very onerous task to track costs at this level of detail. We run an integrated operation with one total revenue requirement. In accordance with the Board's requirements, we use cost allocation to tie costs to the various rate groups.<sup>2</sup> The September stakeholder session will focus on cost allocation. The rates were originally set using cost allocation and they will be set the same way again.*

- Did increased trouble calls and storm damage in 2006 impact net income?  
*Yes, and the impact was significant, as indicated in our Annual Report.*
- Were some programs (e.g., asset replacement) negatively impacted because you had to transfer staff/resources from other activities to respond to trouble calls and storm damage in 2006?

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<sup>2</sup> Hydro One uses the Cost Allocation Methodology issued by the Board on September 29, 2006 to separate Capital and OM&A Sub-transmission, Primary and Secondary costs (Section 6.3.1), and to allocate those costs to the various rate classes (Section 6.3.2). The methodology states:

#### **6.3.1 Direction – Identifying Bulk, Primary and Secondary Costs**

Once the bulk, primary and secondary assets have been identified based on the above tests and guidance, it is necessary to break out the associated costs. As the accounting granularity is presently not available to do such a breakout, the distributor must provide an estimate of the percentage of costs of the assets in each of the bulk, primary and secondary buckets. This percentage will be applied to the total cost in the asset account. For contributed capital see below.

The Filing Summary must explain how the distributor broke out its costs between bulk, primary and secondary assets. The following approach is to be used:

The distributor should determine the unit cost of installing bulk, primary and secondary assets and then apply the kilometres of line for the bulk, primary and secondary assets to these unit costs. The result from each type of asset should be divided by the total for all assets and this percentage should be used to determine costs by asset type.

#### **6.3.2 Direction - Breakout of Bulk, Primary and Secondary Sub-accounts**

The bulk, primary and secondary sub-accounts should be broken out to the corresponding rate classifications that use those assets. In particular:

- Secondary costs will only be allocated to those rate classifications that use secondary assets.
- Primary costs will only be allocated to those rate classifications that use primary assets.
- Bulk costs will be allocated to those rate classifications that use bulk assets. For many distributors, bulk costs will be allocated to all classifications since the bulk assets deliver power to the primary and secondary assets.

*There is some flexibility. Additional resources were recruited through the Hiring Hall and via overtime. However, some programs were negatively affected. Some LDCs also offered assistance but at a cost.*

- With respect to your benchmarking, Hydro One appears to do it one way while other utilities applied for a Z-factor to compensate for storm damage. In your rate application, are you trying to recover the costs for potential storms, rather than requesting a Z-factor?

*Other LDCs requested a Z-factor because of the force majeure events. Hydro One also had force majeure events but does not believe they triggered a Z-factor. So for 2007, Hydro One asked for no additional money for storms even though other LDCs did so. We will not try to recover the incremental costs we spent in 2006 on damage resulting from higher than usual storm activity. We have a normal budget allocated for dealing with storms. We will continue to budget for storms in the future; however, the large amount of storm activity in 2006 does not mean a lot more resources will be allocated for storms in the next filing. We use a four-year history to project future budgets for storm damage, and discount abnormal years such as 2006. It is not our objective to inflate the budget, as can be seen in our last rate filing.*

- With respect to asset replacement, how much of your capital is planned versus unplanned (i.e. “assumed reactive” related to storms) in a normal year?

*Replacement of assets is funded primarily by Sustaining Capital, but some assets are also replaced under Development. Development Capital funds additions and changes to the system and, during the course of this work, some assets may be replaced. The breakdown for 2006 was as follows:*

<b>Capital Program</b>	<b>2006 Demand</b>	<b>2006 Planned</b>
<b>Sustaining:</b> <i>Trouble Calls, Storm Damage, Joint Use and Relocations</i>	68%	32%
<b>Development:</b> <i>New Customer Connections and Upgrades</i>	71%	29%

- With respect to new customer connections, do your numbers include capital contributions from developers or are they net (slide 8)?

*The numbers are net.*

- The storms of 2006 are going to contribute to reliability in 2007 and 2008 because many of the dangerous trees have fallen, been cut, or been removed. This will be a future benefit. Why is more forestry and vegetation management required?

*We cannot assume that the 2006 storms have taken out all of the danger trees. About 1,500 km of lines have been rebuilt. This is a small amount when compared to the 119,000 circuit km in the Hydro One Distribution system. Also, some trees may have been weakened by the storms but not fallen, and we don't know which ones they are. Therefore, we cannot assume a future benefit as a result of the 2006 expenditures.*

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- The Federation of Ontario Cottagers' Associations believes that vegetation management should be a priority. We would also like to see improved communication with townships, local community organizations and individual customers and notification before work begins, especially if herbicides are going to be used. The public is more likely to accept the judicious use of herbicides if they understand there are no serious environmental consequences.

*Agreed and noted. There is always room for improvement, especially better information and education regarding herbicide use.*

- Hydro One has spent a lot of money since 2004 to improve reliability and you will be asking for more in this filing. We need to see some evidence in the filing that this money was well spent, given that reliability since 2004 has, in fact, not increased.

*Agreed and noted. Reliability is significantly influenced by weather. The increased storm activity in 2006 skewed our reliability results. Major system changes would be required to make significant reliability improvements if such storms were to become routine events. Excluding force majeure events, Hydro One's reliability has remained consistent. If we had not received the rate adjustment in 2005, we would be in a worse position now.*

- Where does the capital come from to offset load transfers (slide 14)?

*This capital comes from the new customer connections budget. However, the amounts involved are not large.*

- There seems to be a discrepancy between the 8,000 poles referred to in slide 18 and the 6,000-7,000 poles in slide 17. What is the timeframe to replace 8,000 poles and in which years will this take place? Is pole replacement accounted for under Capital or in OM&A?

*Some poles will be replaced this year and some next year. There is always a 2,000 to 3,000-pole carryover from the previous year because we coordinate pole replacement with line refurbishment when this is most cost effective. Some poles may be replaced on a "one for one" basis (i.e. the 6,000-7,000 poles in slide 17), while others may be replaced when a line is being refurbished i.e. the 2,000 to 3,000-pole carryover which is not included in the slide 17 figure. Pole replacement therefore takes place under several work programs. Pole replacement is captured in our Capital budget.<sup>3</sup>*

- How will the new rules concerning ground voltage in the agricultural community impact Hydro One? You will be more affected than any other utility and this will be a very technically complex area involving significant amounts of analysis time.

*This is very new. The government has directed the OEB to examine this issue. To date no new standards have been announced so it is difficult to gauge the impact on us or be precise about how we should modify existing programs. Hydro One is working closely with the Ontario Federation of*

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<sup>3</sup> George Juhn provided further detail to this stakeholder after the session was adjourned.

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*Agriculture on this, and we both expect to work with the OEB and Electrical Safety Authority (ESA) on this issue.*

- We have seen quartile benchmarking on reliability. Can you benchmark reliability spending in the same way, so that we could compare money spent against results achieved with respect to reliability?

*Some high level cost studies have been done but inconsistencies (e.g., in cost accounting and reliability definitions) make it difficult to draw conclusions about the relationship between spending and reliability across the industry.*

## **2.8 Shared Services and Other (OM&A and Capital)**

Ian Innis (Acting Director, Corporate Planning and Regulatory Finance) provided an overview of OM&A and Capital expenditures associated with the Shared Services and Other category of Hydro One's business. These are common costs that relate to the asset management function and shared services (Common Corporate and Information Management) that support both Transmission and Distribution. There are economies of scale and efficiencies associated with the sharing of expertise and resources by both Transmission and Distribution. Three key factors will drive the Shared Services OM&A and Capital requirements. These include the cascading effect of increased work programs as outlined earlier by George Juhn, new policy-based processes (such as Bill 198 and Regulatory Compliance) and the end-of-life of common infrastructure. Ian provided a cost breakdown using actual 2006 expenditures. Increases needed in the Common and Other Capital category are due to end-of-life common infrastructure replacement, in particular the Cornerstone project which is required to address the replacement of core business systems.

*The following questions were asked/points were clarified in ensuing discussion:*

- Make clear in your filing exactly which and how the increased standards, codes and compliance requirements referred to in slides 2, 4 and 5 affect Distribution.

*Agreed. Hydro One will identify standards that affect Distribution.*

- The IESO has just sent out a regulatory compliance notification to all transmission and distribution companies in the province. The majority of these requirements impact Transmission, but the IESO also identifies the compliance standards it believes Distribution companies are accountable for and asks for feedback.

## **2.9 Rate Change Overview**

Ian Innis (Acting Director, Corporate Planning and Regulatory Finance) provided a summary of the 2008 Distribution Revenue Requirement. Hydro One is not conducting new "special" studies for the filing; rather the methodologies from studies previously accepted by the OEB are being applied with current data. While specific financial data are not yet available, the structure and information to be

provided will be consistent with the previous Distribution filing. Ian discussed the financial parameters and assumptions in the 2008 filing, and compared their values to the 2006 approved values. Finally, he identified the factors that will contribute to an increase or provide an offset to the Distribution rate change.

***The following questions were asked/points were clarified in ensuing discussion:***

- With respect to the common corporate costs methodology (slide 2), will you be updating the cost drivers that actually do the allocation?

*Some drivers will be updated where relevant and appropriate, but for the most part they will be the same.*

- Was it the OEB or the government that told you to get rid of the preferred equity (slide 3)?

*Our actual capital structure still contains a preferred equity component. However, for the purpose of determining our revenue requirement, we apply the deemed regulatory capital structure that is approved by the OEB, which no longer includes return on preferred equity.*

## 2.10 Final Comments

A final discussion period followed the conclusion of the presentations. The following questions were asked:

- With respect to the capital program and work prioritization, please provide a justification in the Distribution filing for the programs that you are proposing to undertake. In the Transmission submission, there were a few large projects, which were undertaken because the IESO or the OPA said they were needed. On the distribution side, if a project is demand-driven (e.g., a subdivision or other new connects) the need is understandable. But there will likely be many more potential projects that you will have to prioritize. Explain why you chose one portfolio of projects over another.

*The pre-filed evidence will provide individual Investment Justification documentation for capital projects equal to or greater than \$1M, which include summaries of project needs and results.*

- How do you decide whether a generation connection point goes into the distribution or transmission system?

*There are many variables but size is the key determinant. Typically, if above 20 MW it will be connected directly to the Transmission system.*

- It would be helpful for us to know if Hydro One did the work, which was approved as part of the last Distribution filing.

*Hydro One will provide actual 2006 expenditures within its pre-filed evidence thereby enabling comparisons to the OEB approved 2006 revenue requirement.*

### 3. NEXT STEPS

The following next steps were agreed to at the conclusion of the session.

- The report on this stakeholder consultation session will be posted on Hydro One's 2008 Distribution rate application website. There is a web consultation that parallels the stakeholder sessions. Stakeholders can go to the website to download the notes and the presentations, and to submit feedback.
- Hydro One requested any additional comments be forwarded by email to Enza Cancilla (Manager, Public Affairs) at [enza.cancilla@HydroOne.com](mailto:enza.cancilla@HydroOne.com). Stakeholders may also forward comments to other Hydro One staff present at the stakeholder sessions, or provide comments via the website.
- There will be two more stakeholder sessions:
  - Stakeholder Session 2 will be a one or two-day session planned for early September 2007. At the session, the principles of Cost Allocation and Rate Design will be discussed, but the specific rates will not be available. However, stakeholders will have the Revenue Requirement numbers submitted to the OEB on August 15, 2007; and,
  - Stakeholder Session 3 will be the final 1-day session planned for mid-October 2007. The meeting topics will include the numbers on Cost Allocation and Rate Design.

Susan Frank thanked all participants for attending the session and providing their input. Hydro One has received many good comments that will help it submit a better filing. She invited all participants to attend Stakeholder Session 2 in September and reminded them that Hydro One would like their help with incentive regulation through participation in the stakeholder Incentive Regulation Working Group over the next few months.

Chris Haussmann then adjourned Stakeholder Session 1.

**Stakeholder Consultation**  
2008 Distribution Rate Application



**Stakeholder Session #1**  
**Metropolitan Hotel**  
**Mandarin Ballroom, Lower Level**  
**108 Chestnut Street, Toronto**  
**July 18, 2007**

**Registration and Continental Breakfast start at 8:00 a.m.**

**AGENDA**

8:30 a.m.	Introductions and Process Overview	Chris Haussmann, Facilitator, Haussmann Consulting Inc.
8:45	Welcome	Susan Frank, Vice President & Chief Regulatory Officer
9:00	Hydro One Business Strategy / Q&A	Laura Formusa, President & CEO (Acting)
9:45	Application Overview	Joe Toneguzzo, Director, Distribution Rate Filing
<b>10:15</b>	<b>BREAK</b>	
10:30	Benchmarking, Reliability and Service Quality	Carm Altomare, Manager, Performance Analysis
11:30	Hydro One Distribution Incentive Regulation Proposal for 2009/2010	Andy Poray, Director, Regulatory Policy <u>AND</u> John Todd, President, Elenchus Research Associates
<b>12:00 p.m.</b>	<b>LUNCH</b>	
1:00 p.m.	Major Investment Programs and Key Drivers (OM&A and Capital)	George Juhn, Manager, Distribution Development & Lines Sustainment <u>AND</u> Rick Stevens, Director, Smart Meter Project
2:30 p.m.	Shared Services 2008 Revenue Requirement Summary	Ian Innis, Director, Corporate Planning & Regulatory Finance
3:00	Discussion	All
3:30	Next Steps and Wrap-up	Chris Haussmann
3:45	Thank you & Adjourn	Susan Frank



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**Appendix E**

**DESIGNING THE RATE HARMONIZATION PROCESS**

**WORKSHEET**

**SEPTEMBER 5, 2007 STAKEHOLDER WORKSHOP**

**METROPOLITAN HOTEL  
TORONTO ROOM, SECOND FLOOR  
108 CHESTNUT STREET, TORONTO**

## **DESIGNING THE RATE HARMONIZATION PROCESS**

**IN DESIGNING THE RATE  
HARMONIZATION PROCESS, IT IS A  
BASIC REQUIREMENT THAT THE TOTAL  
OEB APPROVED 2008 DISTRIBUTION  
REVENUE SHALL BE COLLECTED FROM  
THE COMBINED CUSTOMER CLASSES  
EACH YEAR.**

## DESIGNING THE RATE HARMONIZATION PROCESS

### 1.

THE OEB HAS SET OUT CERTAIN GUIDELINES THAT AFFECT HOW RATE HARMONIZATION IS TO OCCUR:

- a. A CUSTOMER'S TOTAL BILL SHOULD NOT BE AFFECTED MORE THAN 10% IN ANY GIVEN YEAR;
- b. RATES SHOULD BE HARMONIZED WITHIN FIVE YEARS OF AN LDC ACQUISITION;

**ARE THESE GUIDELINES SUFFICIENT? WHAT PRINCIPLES SHOULD GUIDE THE RATE HARMONIZATION PROCESS?**

## DESIGNING THE RATE HARMONIZATION PROCESS

### 2.

NOT ALL CUSTOMER RATES ARE EQUIDISTANT FROM THEIR POINT OF COST RECOVERY. APPLYING A TEN PER CENT INCREASE OR DECREASE MAY BRING SOME CLASSES TO WITHIN THE COST RECOVERY TARGET RANGE IN ONE YEAR, WHILE OTHER CLASSES WILL TAKE LONGER.

**SHOULD THE INCREASE/DECREASE BE ADJUSTED FOR EACH CLASS SO THE TARGET RATES ARE ACHIEVED IN THE SAME NUMBER OF YEARS FOR ALL CLASSES, OR IS IT PREFERRED THAT ALL RATE CLASSES ACHIEVE THEIR TARGET RATE AS QUICKLY AS POSSIBLE PROVIDED BILL IMPACTS REMAIN WITHIN THE ACCEPTABLE RANGE?**

## DESIGNING THE RATE HARMONIZATION PROCESS

### 3.

TODAY, SOME PEOPLE PAY MORE THAN THE COST OF SERVICE THEY RECEIVE WHILE OTHERS PAY LESS. IN FAIRNESS, THIS INEQUITY SHOULD BE REDRESSED.

IN CORRECTING THIS INEQUITY:

**WHAT IS AN ACCEPTABLE LEVEL OF CUSTOMER BILL IMPACT IN ANY GIVEN YEAR? SHOULD IT BE MEASURED AS:**

- **A MAXIMUM PER CENT INCREASE PER YEAR? WHAT SHOULD IT BE?**
- **A MAXIMUM DOLLAR INCREASE PER YEAR? WHAT SHOULD IT BE?**
- **WHICHEVER OF THE ABOVE IS GREATER IN ANY GIVEN YEAR?**

## **DESIGNING THE RATE HARMONIZATION PROCESS**

**4.**

**WHAT MITIGATION STRATEGIES ARE AVAILABLE TO EASE CUSTOMER BILL IMPACTS:**

- A TRANSITION PERIOD? HOW LONG SHOULD IT BE?**
- CONTINUED INEQUITIES? FOR HOW LONG AND BY HOW MUCH?**
- OTHER?**

## DESIGNING THE RATE HARMONIZATION PROCESS

### 5.

LOSS FACTORS VARY CONSIDERABLY AMONG CURRENT CUSTOMER CLASSES, E.G. 5.45% VS. 9.2% FOR RESIDENTIAL RATES.

**WHEN A NEW CUSTOMER CLASS IS CREATED COMPRISED OF MORE THAN ONE CUSTOMER CLASS, HOW SHOULD THE LOSS FACTORS BE HARMONIZED?**

- **SHOULD A NEW LOSS FACTOR BE DEVELOPED, E.G. BASED ON A WEIGHTED AVERAGE OF THE CURRENT CUSTOMER CLASS LOSS FACTORS?**
- **SHOULD ALL CUSTOMER CLASSES HAVE A COMMON LOSS FACTOR?**
- **OTHER OPTIONS?**

## DESIGNING THE RATE HARMONIZATION PROCESS

6.

CURRENTLY, THE HYDRO ONE LOW VOLTAGE CUSTOMERS' RATE IS BASED ENTIRELY ON THE VOLUME OF ELECTRICITY USED (VOLUMETRIC OR VARIABLE RATE). TYPICALLY, CUSTOMERS' RATE STRUCTURE IS COMPRISED OF A FIXED RATE PLUS A VARIABLE RATE.

**SHOULD ALL CUSTOMERS HAVE A COMMON FIXED + VARIABLE RATE STRUCTURE, OR IS IT PREFERRED TO MAINTAIN THE DIFFERENTIATION IN RATE STRUCTURES?**

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**Appendix F**

**STAKEHOLDER SESSION #2**  
**NOTES**



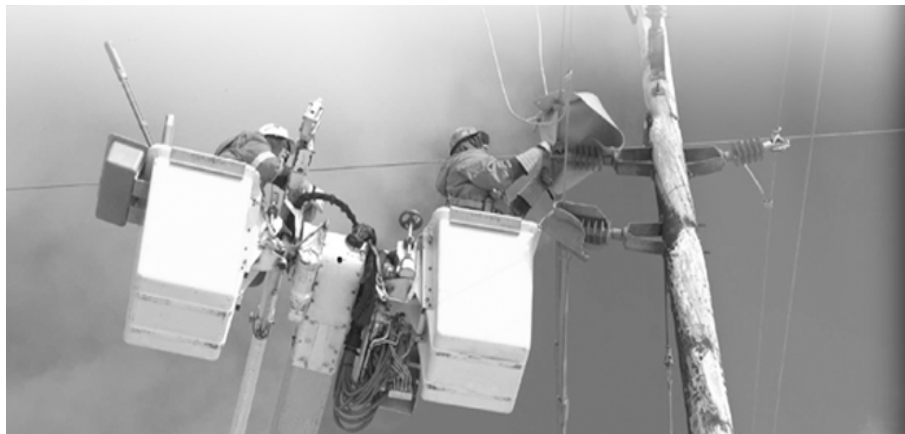
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CONSULTING

## **Stakeholder Consultation 2008 Distribution Rate Application**

### **Stakeholder Session #2 Meeting Notes**

Metropolitan Hotel  
Toronto Room, Second Floor  
108 Chestnut Street, Toronto

September 5, 2007



Prepared for:  
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### **Attachments:**

1. Agenda and Participant List
2. September 7<sup>th</sup> Email from Ontario Federation of Agriculture to Hydro One

## 1. BACKGROUND

Hydro One Networks Inc. is in the process of preparing its 2008 Distribution Rate Application for submission to the Ontario Energy Board (OEB) for rates effective mid-2008. The application consists of two parts: a revenue requirement component, which was submitted on August 15, 2007, followed by a cost allocation and rate design component, which will be submitted in late October 2007.

In July 2007, Hydro One initiated a stakeholder consultation program to assist in the development of this application. The main objectives of the consultation program are to develop a shared understanding and prioritization of the key issues affecting the application, with an aim to resolving or reducing the scope of as many issues as possible prior to the OEB process. All consultation activities are carried out on a without prejudice basis.

Hydro One invited key stakeholders who have participated in previous Hydro One Networks rate proceedings to participate in a series of discussion sessions. Additional information about the consultation process is posted on the Hydro One distribution rate application Web site at: [http://www.hydroonenetworks.com/en/regulatory/2008\\_distribution\\_rate\\_application](http://www.hydroonenetworks.com/en/regulatory/2008_distribution_rate_application).

This document reports on the second of these discussion sessions, which took place on September 5, 2007.

### 1.1 Welcome and Introductions

Chris Haussmann of Haussmann Consulting Inc. (HCI) welcomed participants, thanked them for their attendance and introduced himself as facilitator for the workshop. In attendance were representatives from the Consumers Council of Canada, Energy Probe, Goldcorp Inc., Ontario Federation of Agriculture, Federation of Ontario Cottagers' Associations, Ontario Power Generation, Power Workers Union, School Energy Coalition, Society of Energy Professionals, Union Gas, and the Vulnerable Energy Consumers Coalition. Also present were Hydro One staff and the HCI facilitation team.

The full list of participants, together with the agenda, is provided in Attachment #1.

### 1.2 Process Overview

Chris reviewed the proposed agenda, which was structured to provide participants with information about the Revenue Requirement portion of the Application filed in August, the OEB Cost Allocation model, and the existing customer classes. The agenda also provided participants an opportunity to work individually or in groups to consider how the existing customer classes should be assigned to a new, simplified customer class structure. In the afternoon, participants were tasked with helping to design the rate harmonization process by considering six key questions.

The objectives for Stakeholder Session 2 were to:

- Provide a summary of the August 15 filing;

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- Inform key stakeholders about the approach and methodology Hydro One is using to determine cost allocation;
  - Discuss principles to guide the reorganization of nearly 300 customer classes to a more manageable number;
  - Obtain input from stakeholders on the principles and procedures that should apply when harmonizing the distribution rate structure; and
  - Ensure stakeholder concerns and views are identified and understood so they can be properly considered in the preparation of the second part of the Hydro One Distribution Rate application.

Chris then introduced Susan Frank (Vice President & Chief Regulatory Officer), who welcomed participants and thanked them for taking the time to attend the session. Susan emphasized that this was the opportunity for stakeholders to make input to the Distribution Rate Application, particularly with respect to determining the customer classes and harmonizing Hydro One distribution rates, and that Hydro One was keen to hear from them. She encouraged participants to raise their concerns and questions and to present new ideas. Hydro One sees the session as a dialogue with stakeholders to improve the application.

## 2. PRESENTATIONS AND DISCUSSION

The following sections provide brief descriptions of the presentations made by Hydro One staff. Questions of clarification and discussion following each presentation are summarized in bullet form. Points in *italics* represent responses or comments from Hydro One. All Stakeholder Session 2 presentation slides and the Customer Classes Mapping exercise are available on the Hydro One distribution rate application Web site at:

[http://www.hydroonenetworks.com/en/regulatory/2008\\_distribution\\_rate\\_application](http://www.hydroonenetworks.com/en/regulatory/2008_distribution_rate_application) .

### 2.1 Summary of Revenue Requirement Filing

Joe Toneguzzo (Director, Major Applications) provided a high-level summary of the August 15, 2007 filing to the OEB. This represents the first part of a two-part application. Input from participants at Stakeholder Sessions 2 and 3 (mid-October) will be applied to the rate design and cost allocation evidence, which is the second part of the application to be filed in late October. Hydro One is working to streamline the process with the OEB to meet the target Distribution rate reset date in May 2008.

Joe noted that the filing takes into consideration the decision on smart meters. There has been an increase in the revenue requirement of \$102M since 2006, resulting from increases in OM&A, depreciation, capital taxes, and return on capital, with some offsetting decrease in income taxes. This will result in a less than 2% average increase in the total bill of the average Hydro One Distribution customer. Joe provided more detailed information on the key factors affecting the revenue requirement that result in increases and partial offsets, as well as changes in regulatory assets.

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***The following questions were asked/points were clarified in ensuing discussion:***

- Does the calculation of less than 2% average increase on total bill include the impacts of all the rate riders?

*Yes.*

- How many smart meters are included in the \$22M increase of the revenue requirement?

*In 2008, there is a plan to install 370,000 smart meters at a cost of \$165M, half of which will be in the 2008 rate base. In 2007, 212,000 smart meters were installed at a cost of \$122M, all of which is already in the 2008 rate base.*

- So does this mean that in three years, when you cease to install meters, there will be a reduction in costs of \$150M/year?

*The capital budget will go down by about \$150M but the revenue requirement will not, due to carrying costs and ongoing OM&A for 1.3M smart meters.*

- What is the carrying cost for 1.3M meters? You are showing only installation costs. There seem to be no offsets in savings as a result of smart meter use.

*By 2010, the total cost of all smart meters will be \$500M. The annual carrying cost associated with that is 10% to 15%. There are some offsetting cost savings, such as automatic meter reading (i.e., no longer a need for meter readers). The offsets have been factored into the numbers for Hydro One's 2008 submission, to the extent that they take effect. This effect is very small as smart meters are still being phased in and the large majority has not yet been utilized as smart meters with the communications and bill processing aspects enabled. For example, the \$45M for increased maintenance costs includes benefits associated with smart meters (slide 4).*

- The decision to install 1.3 million smart meters was not Hydro One's. Nevertheless, \$500 million in capital will be in the rate base even though most of the smart meters are not functioning yet. Is there any guarantee that these will be "smart" by 2010?

*The smart meters installed to date are working but not yet fully functional (i.e., not yet "smart"). Pilot programs are under way in which the "smart" functions of smart meters are being tested and phased in. Therefore, there are few savings to date. Since the "smart" functions are also dependant on the centralized processing function for billing, the degree of full functionality is not all under Hydro One control, so we do not have full answers in this area.*

- How will the old meters that are being removed be treated in these numbers?

*Based on a depreciation study Hydro One commissioned for the 2006 Distribution application, these meters will be decommissioned before they reach the end of their service life, so they will be depreciated more quickly and fully depreciated by 2010. This depreciation is included in the depreciation numbers for 2006 in slide 3.*

- What is the \$6M decrease noted under “New Regulatory Assets in 2008 Application” (slide 5)?

*There are lower taxes relative to the previous filing and lower OEB costs*

- Is it just coincidental that the \$22M in slide 4 (impact of smart meters on maintenance and depreciation costs and return on rate base) is the same number as in slide 5 (smart meter regulatory assets)?

*Yes.*

- Are the rate riders being requested to clear out the \$22M regulatory asset?

*Yes.*

## 2.2 Cost Allocation

Mike Roger (Manager, Distribution Pricing) provided a comprehensive overview of the cost allocation methodology that Hydro One will be using for the 2008 filing. The intent of this methodology is to fairly apportion revenue requirement among the various customer classes. Hydro One has adapted the recommended OEB methodology to reflect its unique circumstances and is maintaining OEB’s intent (i.e., to reflect cost causality). Mike described the three traditional cost allocation steps (functionalization, categorization and allocation) in determining cost allocation and the role of the Minimum System method in the OEB methodology. He described how a revenue-to-cost ratio is used to indicate whether customer classes are over- or under-recovering costs. Cost allocation allows for movement towards cost-based distribution rates for each customer class. The OEB recommends that residential, small commercial and large customers have a revenue-to-cost ratio between 0.8 and 1.8. Mike provided illustrative examples of how the revenue-to-cost ratio would be used to determine changes in rates to customer classes.

***The following questions were asked/points were clarified in ensuing discussion:***

- In slide 3, you make reference to density weights for overhead lines. There are three types of lines at different voltages. Do the density weights apply to all three types of lines?

*No, the density weights apply only to primary lines.*

- How many customers are involved in the low voltage (LV) system?

*The current LV system applies to all embedded local distribution companies (LDCs) of which there are about 75, with approximately 300-400 delivery points, and to direct customers (above 5 MW of demand), of which there are about 35 with approximately 40 delivery points.*

- What about your T-class customers? Are they part of the LV system?

*They are not part of the LV system right now. LV rates do not apply to them. They are still part of what we call “core legacy customer class”. They are served by the same system as a*

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*direct customer. They provide their own transformation.*

- Where do the residential classes fall in comparison to the OEB staff-recommended revenue/cost ratio of 0.8 to 1.2 (slide 6)?

*We have not yet finalized the results for the 2008 Revenue Requirement. In the information filing, some residential classes were under and some were over, based on the 2006 Revenue Requirement.*

- Will you use the methodology you used in the information filing for the 2008 calculations?

*The density weights and the minimum system are slightly different. The peak load carrying capability of the minimum system for lines and transformers is also different.*

- Is Hydro One accepting the OEB staff-recommended revenue/cost ranges as a target (slide 6)?

*We are using them as a guide. We could have some customer classes above and some below the ranges. We are seeking stakeholder input today as to how we move towards rates that are more cost-reflective and whether these ratios are acceptable, or whether we should move towards a ratio of 1.*

- What is the status of the OEB staff discussion paper on revenue/cost ranges? Are you taking it as a final position? The OEB also has another initiative underway on rate design, which gets into issues such as fixed-variable split. If you go ahead with these ranges, you may have to change them later if the OEB decides on a different methodology for fixed-variable split.

*These are separate issues. First we need to determine the revenue requirement responsibility by customer class. Then we look at rate design to recover those revenues from each customer class. The OEB rate design initiative is looking ahead beyond 2010 and the full implementation of smart meters. We will not be proposing any changes to the fixed-variable rate structure in 2008. What we want to do is use cost allocation to determine revenue responsibility by customer class.*

- Are all LDCs required to submit their 2008 rates using the OEB staff discussion paper on revenue/cost ranges, or is it voluntary?

*We are not necessarily bound by the OEB's discussion paper. We see the ranges as a guide in moving toward more cost-reflective rates. The LDCs must file a cost allocation study for 2008, without which a submission will be considered incomplete by the OEB. But we are not sure how the OEB will interpret or implement the results.*

- Slide 6 talks about three broad customer classes and associated revenue/cost ratios? Is it your perspective that these ranges will be applied to the more detailed customer classes? What level of disaggregation are you thinking of applying?

*There will likely be three or four customer classes within residential, each in the 0.8 to 1.2 range. Street and sentinel lighting is not on the slide. The OEB is recommending a range of 0.7 to 1.2.*

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- When Hydro One acquired LDCs, did you give price or class allocation guarantees?  
*Any guarantees have long expired.*
  - Could a benefit/cost ratio by customer class be an alternative to the revenue/cost ratio? You would have to figure out what the benefit is, or what people are willing to pay?  
*The OEB cost allocation methodology is based on the principle of cost causality and does not consider benefits.*
  - The 10% total bill impact principle seems to be firmly established in the OEB's mind, whereas the revenue/cost ratio still does not have OEB approval. The 10% principle should therefore take precedence. In fact, the OEB rejected your harmonization plan because some customers would have been impacted by more than 10%. The 10% principle has more credibility with the Board than the ratio.  
*The OEB rejected our harmonization plan because we did not have a cost allocation study to show what the end state would be. No customers would have been impacted by more than 10%.*  
*We will talk about mitigation later, but one option is to set end state targets and honour the 10% principle by not doing it in one year. Another option is to ignore the 10% and do it in one year.*
  - Doing it in one year would result in government intervention.  
*Our bottom line is the same in either scenario. But in the first scenario, some customers continue to underpay compared to their costs, while others overpay.*
  - An investigation of the benefits would give you a better idea of who is overpaying. For example, you could compare the cost-benefit to a farmer of a pump in the middle of the field or electricity in a barn versus the farmer installing a windmill or solar cell. You could also do this type of assessment for residential or small businesses. This would help you come to an upper band that is fair.
  - Assuming you have the cost allocation right, you should be moving to a revenue/cost ratio of 1, taking into account the bill impact on customers. There might be some anomalies that need to be taken into account. The 0.8 to 1.2 range allows for enough flexibility to do this.  
*All of our methodology assumptions are as per OEB recommendations, except where we have unique customer class circumstances, such as our LV system.*
  - It is important to remember that customers do not care why their bill is going up. They care about how much it is going up. So when you start to collapse customer classes or do rate harmonization or other changes, remember that these will all contribute to customer bill impacts and that we are talking about the same 10% of total bill in each case. You may have to make trade-offs across these changes.

Changes to customer classes will also affect how you redistribute rural rate assistance. This

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will impact customer bills and will have to be taken into account in the same 10%.

- Does the overall 10% include transmission and generation too?

*Yes. The OEB's requirement is a total customer bill impact of no more than 10%. If it is higher than this, a mitigation plan must be included in the submission. The assumption is that there is no change in the commodity portion of the bill.*

- Your commodity price assumption may not be correct. For example, a change in loss rate can affect commodity prices.

*We will check this assumption.*

- There are three cost-related consumption thresholds for customers – summer (600 kWh), fall (800 kWh) and winter (1000 kWh). Are these taken into account in the 10%?

*Yes. At 1000 kWh the impact of all the changes should not exceed 10%.*

- What percentage of the customer bill is for distribution charges?

*It varies. For the acquired urban LDCs it is about 20% of the total bill. For rural low density LDCs it is about 30%.*

- Will your evidence begin by assuming a revenue/cost ratio of 1 for all customer classes and then introducing your proposal? Or will you start with your proposal as it emerges from this consultation? A reality check is needed to identify where a proposal could go, rather than just being given these general ranges, because people will not understand until they see the impact of a proposal. A ratio of 1 might be the worst-case scenario for a number of customer classes.

*We could show what the impact would be on the customer class if we were to move to a revenue/cost ratio of 1 or some other target. We will bring this information back to the next session. Targets, mitigation measures and how long it will take to get there are issues to be discussed in the afternoon.*

- AMPCO is not here today and should be part of this discussion.

*Agreed. Every effort was made to have them here today. We will try to have them here for the next session in October.*

- If you want to apply the 10% total bill impact principle, you need to look at what else is going on across all of the other elements, including commodity prices. If you think that you cannot forecast these other elements, you should manage your portion of the bill and apply the 10% rule to it, and hopefully others will do the same (i.e., the change in each component of the bill should be no more than 10%). In other words, if you are uncomfortable forecasting increases in other elements of the customer's bill, manage the distribution bill impact at 10%, rather than the total bill impact at 10%.

This could be a harmonization killer. A dollar value could be added to the 10% rule.

*Taking other elements, such as transmission, into account is understandable. But forecasting*

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*commodities would be difficult.*

- You cannot forecast commodities, but you can consider mitigation measures that are triggered if commodity price increases take total bill increases over 10%.

*Since this would significantly complicate the approach, Hydro One would prefer the continued use of the OEB 10% total bill impact guideline, unless it is changed by the OEB.*

- Someone must be able to forecast commodity prices accurately – the IESO, OPG, OEB.

*Past experience shows that this is very difficult to do. The OEB issues monthly variances reports.*

- If you are going to use the 10% total bill impact rule, you need a firm commodity price number upon which to base your calculations.

*We use the current price for commodities.*

- A 10% increase in commodity prices requires a 25% average increase in spot prices and an 8% increase in OPG production costs. No one is forecasting such increases for this year. So if transmission and distribution cost increases are kept below 10%, there should be no problem with the total bill impact. It will also be below 10%.

The only place we see a particular inequity in cost allocation is small customers on demand meters. They are over-paying. This is a small fraction of the total customer base, perhaps 1500 farmers and perhaps several thousand small commercial customers – less than 1% of all Hydro One customers. You should fix this inequity first.

*If we accept that this group is overpaying, and you apply the 10% maximum increase to only the distribution portion of the bill, this group will continue to overpay for a much longer time. The trade off is that we can only reduce rates for some customers as quickly as we increase them for others.*

- If you had a rule that limited the cost/kWh for demand meter customers to the 0.8 to 1.2 ratio, you could stay within the 10% rule because this is such a small group. You would not be giving an advantage to this group, but rather removing an inequity. There is a great deal of room to manage this within the 10% rule.

- *Hydro One posed the question: should we try to get to a user pay principle of 1:1 revenue/cost ratio or do we use the 0.8 to 1.2 range as a target end state and overlay that with a concern about the impact on customers? Should the 10% be a dollar value rather than a percentage, given the issue of what part of the bill the 10% applies to?*

- The accuracy of the cost allocation study by customer group is very important, especially for the majority of customers who are in the middle of each class in terms of the proposed revenue/cost ratio ranges. The ranges are wide enough so that those who are currently significantly under or over paying will be dealt with in a reasonable way. Do not try to get too precise by setting the ratio to 1. Setting reasonable revenue/cost ratio ranges will limit the

impact for those who will make large upward moves and also deal with the inevitable cost allocation errors.

- One of the reasons the OEB recommended the revenue/cost ratio ranges was because it recognized that there is a degree of uncertainty in the cost allocation studies. Cost allocation studies may be more accurate when smart meters are operational.

*One aspect of cost allocation studies, the load profile, will be more accurate with the advent of smart meters. But the costing data could still entail discrepancies across LDCs, depending on how they record costs.*

## 2.3 Customer Classes Overview

Steven Low (Senior Advisor, Pricing) asked for participant feedback on how to consolidate nearly 300 customer classes to a manageable number. He described some basic principles of delineating customer classes, and the need to achieve efficient class management. Steven provided an overview of the current Hydro One customer classes. Currently, Hydro One customer classes include: 15 Legacy classes and 266 Acquired LDC classes, for a total of 281 classes. Other LDCs typically have about five customer classes.

There are several reasons why Hydro One wants to reduce the number of customer classes: fairness; to simplify understanding and administration; and, to be more consistent with other LDC class groupings. Steven provided illustrative examples of how the current classes could be merged into new and fewer customer classes.

Steven requested feedback from participants by asking the following questions:

- Are there other principles, guidelines or criteria that should be considered to identify and define customer classes?
- Is there an ideal number of customer classes?
- Should there be other considerations/criteria applied when creating customer classes?

*The following questions were asked/points were clarified in ensuing discussion:*

**QUESTION: Are there other principles, guidelines or criteria that should be considered to identify and define customer class?**

- What are the rate implications for a customer class?

*Each customer class would have its own rate.*

- The principles for creating classes and rate making should include cost causality, fairness, rate stability/revenue certainty, similarity of classes with other LDCs (this would help with comparisons), ease of understanding, and simplicity of management.
- Customers with similar load profiles belong in the same class (e.g., street lighting, large users).

- Group customers so that the value of the assets used per customer in each class is similar (e.g., less than \$20K, \$20K to \$50K, \$50K to \$250K, etc.) rather than how they use the assets. This is consistent with cost causality – classes will reflect cost allocation. This would create more fairness and would also be easier for customers to understand. Simplicity should be another principle.
- Given the OEB’s cost allocation methodology, how would Hydro One approach the development of customer classes based on similar value of assets used?

*It is not clear how this could be done. We would need to make some assumptions because the same assets are used by different types of customers. Then we would have to develop a methodology to assign assets to different customer classes*

- Some of these principles overlap. The type of customer is almost a proxy for consumption level, and consumption level is almost a proxy for how a customer would use the asset. The type of asset used is largely based on Hydro One’s decision as to how to deliver the power a customer wants (e.g., 3-phase, voltage) in the most cost effective and reliable way. The type of service provided at the entrance should be a principle.

In summary, the principles relevant to customer class delineation that were enunciated include (in no particular order):<sup>1</sup>

1. Consumption level
2. Value of assets used
3. Types of assets used
4. Type of service provided at user gate
5. Similarity with other LDC classes / fairness
6. Ease of understanding
7. Management simplicity.

#### **QUESTION: Is there an ideal number of customer classes?**

- Are you saying there are 87 different residential classes in the Acquired LDCs (slide 3) because they have different rates from your residential rates? You could map the LDCs residential classes to your Legacy residential classes.

*Yes, that is what we are proposing.*

- Are you treating the customer class issues as separate from the harmonization issue? [Bill Harper] There is a difference between changing definitions of customer classes and harmonizing rates between customer classes that have exactly the same definition.

*Agreed. There are currently too many classes. First we want to create a manageable number of new classes (rationalize current Legacy and Acquired classes) and then map customers to these new classes. Then we would do rate harmonization.*

<sup>1</sup> Editor’s note: Of the other principles mentioned, cost causality is the fundamental principle applied through the cost allocation process; rate stability is applied through the rate design, rate harmonization and impact mitigation process; and revenue certainty is the core principle applied in the rate harmonization process, i.e. whatever changes are made, the entire revenue requirement must be collected in each year.

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- If you were to use the existing 15 classes and map the LDCs back to those classes, would anyone be hard-treated? If yes, just figure out who they are and provide appropriate consideration. You could get rid of all the classes and go with some new principles or you could go with simplicity. It seems that simplicity is your guiding principle.

*If we were to use the existing 15 Legacy classes, there could be some customers that are hard-treated but we are not assuming that using the Legacy classes is necessarily the right way to go.*

- The five general classes used by other utilities is a starting point, but density is an issue for Hydro One in setting customer classes. Are you asking the OEB to set customer classes for all provincial LDCs, or just Hydro One?

*We are doing this just for Hydro One, but we are cognizant that we are being benchmarked against other LDCs using these five classes. There are no farm or cottage (seasonal) classes in our Acquired LDC customer classes. But unlike other LDCs, we currently have these classes in our Legacy customers. Therefore, when we do our metrics for the OEB, we have to merge the farm and seasonal classes into other classes.*

- In Toronto, in the residential class, there are huge high-rise condominiums with extremely high density. The cost of service is very low yet the utility charges the same rates as for lower density suburban customers. One could argue that LDCs should have more classes than now to take this kind of thing into account.
  - If the OEB were going to take a numerical approach to testing classes, it would have to look at the standard deviation of the mean in each class for the value of assets in that class for each customer. It would also need to ensure that the class is truly representative of the people within it. Hydro One would still need to determine the value of the assets in each class to ensure fairness. The fairness principle would be to keep that standard deviation small. This would require a significantly large number of customer classes to reflect the grouping of like customers.
  - There is an inequity in the General Service above 50 kW for farmers. Neither the size of the wire nor the size of the transformer change at 50 kW. But the rate does change and becomes the demand meter rate. This affects almost all farms and indicates that there is inequity in that classification.
  - How would eliminating the farm and cottage rate classes affect other rate classes?
- That would depend on where the farm and cottage rate classes are pooled. Rates would increase for some customers but would decrease for others. We will show this impact at the next session.*
- Rural Rate Assistance (RRA) is applied to some but not necessarily all customers within a class. In creating a new class structure, you may need to create separate classes to take RRA into account.

*We agree that RRA is an issue. In the case of farms, 90% receive RRA now.*

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- Is the only difference between cottage and rural low-density customers, that only the rural low-density customers get RRA?<sup>2</sup>
  - From a cost allocation perspective, if you demand-meter both cottage and rural low density customers, the only difference between the cost allocated to each group of customers would be that some customers would have their meters read less frequently and therefore have less cost allocated to them. So if the costs are different, then they can be in two different classes. But, if there are two classes with costs that are within 98% of each other, then they could be rolled into one customer class for sake of simplicity.
  - To eliminate classes that have been in place for a long time (e.g., cottage class), Hydro One would have to consider the political implications.
  - Many cottages are being converted to year round permanent residences. The costs of serving permanent residents and seasonal residents are identical. The rates are also not that far apart. The distinction between seasonal and year round classes is shrinking over time. So there may be a justification for eliminating the seasonal residential class. The losers in this case would be seasonal customers.
  - Can you review the RRA? What drives it, and what is the authority under which it is provided?

*Rural Rate Assistance (RRA) is legislated and sets the total and individual amounts received by customers. The original purpose when introduced in 1981 was to not exceed a maximum differential between rates for residential customers in urban areas versus rural areas. Those who received it prior to 1999, when electricity restructuring began, continue to get it but the amount was locked in at 1999 rates. This is a Legacy issue.*

- The principle behind RRA was that residential rates for rural and remote year round customers were not to be more than 15% higher than average provincial year round residential rates, based on consumption of 11,000 kWh/year. If they were more than 15% higher, RRA provides a subsidy.

*This principle is now outdated.*

**QUESTION: Should there be other considerations/criteria applied when creating customer classes?**

- The primary driver for Hydro One is simplicity.  
*It is also a key consideration for the OEB.*
- We have about 29 distributed generators connected to the Hydro One distribution system. LDCs only have a few. Although we want to reduce the number of classes, in this case, Hydro One may need to add a new customer class for distributed generators.

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<sup>2</sup> This question was not answered at the session. However, yes, RRA is one difference between cottage and low-density customers. Another is that cottagers have a far lower average consumption.

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*Agreed. We have to respond to OEB direction. Time-of-use rates may also require adding new classes.*

### **Illustrative Scenario – Customer Classes Discussion (Slide 6)**

- Why collapse the Seasonal customer class but not the Residential?

*One issue is RRA, which applies to Residential Normal Density.*

- You could maintain your normal density and collapse the other two. You said the density issue is around the cost allocation of the primary lines. So why, for example, would you not have General Service density-related classes as you do in residential? You should have consistency across all classes in terms of how you apply density.

*Agreed. If we were to look at density for Urban Residential and General Service, and find no difference in unit costs between the two groups, then there would be no need to consider density.*

- But the differential arises because you weight the primary lines in your cost allocation.

*But then there should be no difference between Urban Residential and General Service. We could start out along this path and check its merits. The proposed 10-class scenario would allow comparison to other sister LDCs because we have simple residential, General Service, lights (and distributed generation, which is an OEB direction that we have to consider).*

- What is the difference between Urban Residential and Residential High Density in the illustrative customer case (slide 6)?

*They are all based on density considerations. Hydro One's definition of Urban Residential is a cluster of 3000 customers with a line density of 60 customers/km. Residential High Density is defined as a cluster of 100 customers with line density of 15 customers/km. Residential Normal Density is the rest of the residential customers. We might use different identifiers for these residential classes, such as "high", "medium" and "low".*

- Who is included in your Larger Customers class (slide 6)?

*Directs, Acquired Large Users, any LDCs other than those served at a primary voltage. This is only one illustrative example of how the current customer classes could be mapped to new classes.*

- The General Service 50kW threshold should be removed because nothing changes at 50kW (except the rate). Why is this threshold being used?

*The OEB has directed that customers above 50 kW are to be billed at the demand meter rate.*

- When you are creating classes you should have homogeneity within classes. Some classes are dichotomous, such as street lights, sentinel lights and distributed generation. You need at least eight classes, plus these dichotomous classes, before there is a reasonable prospect for internal consistency. Ten classes will not cut it. Also, there is nothing seasonal about "Seasonal" because a

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line is there throughout the year and it will be repaired any time of year even if it is in a seasonal area. The seasonal class should be removed.

## 2.4 Customer Classes Mapping Exercise

Participants were given an opportunity to work individually or in groups to conduct the Customer Classes Mapping exercise. Participants were asked to review the customer classes and provide their feedback on how to map the current customer classes to the proposed new 10 classes. Participants could add more classes than the ten listed in Hydro One's illustrative scenario.

The following feedback on the customer class mapping was received. The information provided is a summary of the main differences between stakeholder feedback and the Hydro One Scenario (slide 12 of the Customer Classes Overview presentation):

1. Seasonal
  - a. Most participants favoured elimination of this class.
  - b. One participant proposed that there be density delineation of this class.
2. Farms
  - a. Some participants felt these classifications should be kept, while others felt they should be eliminated.
  - b. Map farms to General Service or General Service + Residential Normal Density.
3. Apply a density delineation to the General Service customer class.
4. Rename Urban Residential, Residential High Density, Residential Normal Density. Some suggested Residential High, Medium and Low.
5. Map General Service (energy billed) and General Service (demand billed) to General Service (primary) and General Service (secondary).
6. Consider the impacts associated with creating new customer classes and appropriate mitigation where required.
7. New customer classes should be phased in with minimal disruption to customers.
8. Urban General Service and Farms need to be added to the proposed 10 classes.
9. Actions taken at Stakeholder Session 2 may be an interim step towards developing new customer classes.
10. Do not forget the RRA in the mapping exercise.
11. The 50 kW threshold for General Service needs to be changed, because there is no additional service provided above that threshold. This is a serious problem for industry in rural Ontario.

*Hydro One will review and consider the feedback resulting from the mapping exercise, run some scenarios based on this input and see what the impacts are. This is exactly the kind of guidance we were looking for.*

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## 2.5 Hydro One Stakeholder Engagement: Looking Ahead

Susan Frank made a number of comments on stakeholder engagement and asked for input with respect to how Hydro One should work with stakeholders going forward.

In the past, Hydro One's practice has been to wait until close to filing an application to the OEB before share its thinking with stakeholders, addressing questions and issues, and modifying evidence in response to input received. However, in its decision on the Hydro One Transmission Rate filing, the OEB indicated that Hydro One should start stakeholdering much earlier in the process. This has important implications for our next Transmission application.

The OEB indicated that Hydro One should do more work with its interveners in two areas:

- First with respect to asset information (methodology to assess the state of the assets and its relationship to investments). Hydro One is to provide a status report on this work to the OEB within six months.
- And second, with respect to performance and compensation benchmarking information. Hydro One is to consult stakeholders in developing the terms of reference for the studies, as well as the specific information needs and the benchmark utilities to be used.

The OEB also expects Hydro One to come back in 2008 for 2009 Transmission rates. This implies that we would have to go back to the OEB in January 2008 in order to reset rates in January 2009. We have concluded that if we are to do the asset information and benchmarking studies properly, involve stakeholders earlier and more intensively, and change the level of detail provided in our submission as directed by the OEB, we will not be able to file in January 2008. However, we will still file at a later date in 2008. In order to complete a 2008 filing, we need to start stakeholdering right away.

Hydro One is proposing to have the third Distribution session on October 15 in order to file the second part of the Distribution rates application in late October. Since the stakeholder group will be together, we propose to hold a full-day session on October 16 to begin consulting stakeholders on Transmission, specifically on the two studies we need to undertake.

Hydro One wants to involve stakeholders, as directed by the OEB, in the RFPs for these two studies. We are proposing that we invite the consultants who did the previous studies (Hatch/Acres on asset condition and P.A. Consulting on benchmarking) to talk about what they did the last time, the difficulties they may have had etc. There would be no commitment to engage these same consultants to do the new studies, and new RFPs will be required. However, our discussions with them would allow us to have a more meaningful dialogue about where we go from here.

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***The following questions were asked/points were clarified in ensuing discussion:***

- Municipal Electric Association (MEA) and Association of Major Power Consumers in Ontario (AMPCO) were major intervenors at the last Transmission filing. They are not represented here today and they need to be involved in your proposed consultation approach.

*The MEA was not a big intervenor, but AMPCO certainly was. We tried very hard to have AMPCO here today. Perhaps an alternative to stakeholdering for Transmission with this group would be to form a small working group representing the various parties.*

- This group is already small.
- We are only a few days past the summer holiday season. Hydro One will probably pick up a few more representatives from other groups now. A meeting on October 15-16 including Transmission is a good idea. It is up to Hydro One whether or not you want the past consultants there.

*We would have the consultants there to answer questions about what they did the last time, why that was not adequate, what the limitations were in gathering information, and what interfered in their doing a better job. They may not be the consultants we use for the new studies. We will have to do RFPs. It is very difficult to find benchmarking consultants. Many will not even bid, especially if the study is part of a regulatory rather than a business improvement process, thereby resulting in public disclosure of data.*

- The previous asset condition assessment study was one input to a broader framework that was then used to determine OM&A and Capital expenditures. How are you going to ensure the new study takes a broader approach?

*Agreed. There were a number of other factors, such as failure rates and trends and asset criticality, which were used to project our OM&A and Capital expenditures. The asset condition study had a narrow focus, and was helpful in getting us up the curve from 2000 by gathering data and having it audited by a third party. The problem may be broader and we may have to widen the scope in the new study.*

*The OEB direction was to assess the state of the assets and its relationship to investments rather than only focusing on asset condition. We will first have to decide what “assess the state of the assets” means and then what we need to do to accomplish this. This will be a challenge. A half-day on each of these issues in October would be very helpful in getting us started. We will then have to decide on an approach, issue an RFP, engage a consultant who would come back with some preliminary work for our consideration, and complete the study with that input. This will all take a considerable amount of time so there is some urgency to get started.*

- Can OEB staff help?

*The OEB staff was invited to attend at this session. We continue to invite them. How much they want to participate is their choice. The direction was not to use OEB staff to do these studies, but to work with our stakeholders.*

- With respect to the asset study, how open and flexible are Hydro One and the consultants to doing things differently?

*We are open to doing things differently, except where something is hypothetically a good idea but not feasible because of limited data availability.*

- In general, are you open to doing things that you do not currently do?

*Our priority is to satisfy the OEB requirements and then we can move on to improving our future direction. There has to be some assessment of the state of the assets with supporting data to submit with our 2009 rate application. We have to focus on meeting the OEB deadline for a six-month status report. For example, we cannot get involved with brand new thinking that would require two years of data gathering to complete. The constraints are – can it be done and is it consistent with good industry practice.*

- Why do you need consultants to look at the state of your assets? You know your assets better than they do. They would just get the information from you and report it back to you.

*You are right in that they would have to get into our systems and talk to our people. But they also bring external industry experience and help us determine whether what we do is consistent with industry best practices. The consultants bring third party objectivity and credibility.*

*However, please tell us if you think that we should not spend our customers' money on this and that Hydro One should do it if there is a well-documented methodology and we have the needed data.*

- For your benchmarking study, would it be more cost-effective and efficient to use the consultant (Mark Lowry) that did the OEB's benchmarking study?

*We have used Mark Lowry in the past but when he went to the OEB we had to release him as our benchmarking witness. He probably is not available. We would have to check with the OEB to see if they would allow us to use him. It is unlikely because of his other commitments. We would not be able to sole-source and would have to do an RFP.*

- Lowry would have access to most of the data from other utilities.

*The OEB would hopefully provide other utility data to us, to the extent that it is available and applicable. The data they have are Distribution related and this discussion involves transmission; such data are very hard to obtain.*

- It would be a good idea for both consultants to come in October as a resource and to answer questions. Obviously, the OEB did not think they did a thorough enough job.

- We may want a fresh start.

*Assuming they are available, they will be paid only for the day. There is no commitment to use them in the future.*

- **Hydro One would like participant thoughts on changing the consultation process and how we can work together more effectively and efficiently to improve the Transmission application.** For example, should we have more frequent meetings with this group (e.g., every two months or more frequently)? Do you want us to use the Customer Advisory Board (CAB)? We recognize that this is a very busy time for all participants.

*Engaging stakeholders early will make a difference as long as we continue to receive ideas that we can work with. We can work together as partners in even more constructive ways.*

- Do you have any sense for the upcoming regulatory schedule?

*We expect to get formal notice that our Distribution rate application is incomplete because we have not finished the cost allocation. We have to finish this work before the process will start. We cannot hold the session sooner than October 15 because it will take us until then to do the cost allocation.*

- The OEB has a natural gas incentive regulation process (alternative dispute resolution and potentially a hearing) that will involve some of the participants from mid-November to Christmas. This does not necessarily preclude our attendance in meetings but you should be aware of this.

Can we discuss any potential problems associated with the 2008 Distribution rate application evidence?

*Once the application is filed, all conversations should only be with registered interveners. So we can do that only for the pieces we have not filed yet.*

- Perhaps you should consider an airport location for meetings.

*We tried that in a previous consultation, but it did not make much difference.*

- The CAB process could be used in stakeholdering. The big customer groups always show up for CAB, as do individual customers. CAB seems to get a broader representation than we have here today.

*There may be some merit in this. CAB has regularly scheduled meetings so they know further in advance. We did make every effort to get large customers such as AMPCO here today, knowing that we were going to discuss rate design issues.*

- Stay with the stakeholdering process that is tied to individual applications, rather than planning more regularly scheduled meetings. CAB tends to look at more general issues, whereas this process is concerned with how to guide a specific application. With respect to

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the studies for October 15 and 16, I think we have lots of time for planning. Ontario Federation of Agriculture will be there.

- ***Please hold October 15-16 in your calendars. Let us know by September 7 whether October 15-16 works for you. Also, please advise as to whether you would like the consultants to attend. We would like to focus on the two studies, but would also like your thoughts on other agenda items for the Transmission session. Please send email to joe.toneguzzo@hydroone.com.***

*The Bruce to Milton Technical conference is scheduled for October 15-16.*

*The Distribution consultation session must happen October 15. Perhaps the Transmission session could be delayed by a couple of days, but that is not our preference.*

## 2.6 Rate Harmonization – One Approach

Mike Roger (Manager, Distribution Pricing) discussed Hydro One's proposed approach to harmonizing rates for Legacy and Acquired LDCs and outlined the harmonization steps that need to be taken (slides 2 to 5). Mike concurrently worked through a comprehensive numerical example showing how these steps would be applied (slides 6 to 12).

***The following questions were asked/points were clarified in ensuing discussion:***

- Are the overall rates generally lower for the Acquired LDCs? When their service charge is less, is their energy charge (overall rate) also less or is it quite a bit higher?

*Both the fixed and volumetric charges are typically lower for the Acquired LDCs than they are for our Legacy customers.*

- The proposal described goes a long way to address some of the issues around the distinction between dollar and percentage impacts because you are harmonizing the variable charge in the first year. It is really just the fixed charge that you are adjusting.<sup>3</sup>

*The truncation benefits the utilities because the fixed charge is being brought down and it reduces the number of fixed charges. Then Hydro One will harmonize the fixed charges, which would take care of the low-use customers and let the volumetric charge pick up the remainder of the revenue requirement, which would affect high-use customers. We will still do this at the class average while making sure that the rate change is within the 10% rule.*

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<sup>3</sup> Editor's Note: Adjusting the fixed charge every year helps low use customers, for whom the fixed charge is a large portion of the bill. Large percentage impacts, (higher than 10%) are likely when consumption is low. At 250 kWh consumption, the size of the service charge is important when calculating bill impacts. Hence, harmonizing based on service charges helps low use customers. The variable charge is based on consumption and therefore affects high use customers more than low use customers.

- Your transmission charges and line loss factors for residential high and low density customers are different for your Acquired and Legacy LDCs. How are you going to adjust these components?

*We have been discussing harmonizing distribution rates. Your question relates to harmonizing other charges, such as losses and pass-throughs, which we will discuss next.*

## 2.7 Designing the Rate Harmonization Process

Participants also took part in an exercise that provided their feedback to help Hydro One design the rate harmonization process. Participants were given an opportunity to consider six questions and then provide their feedback to the group.

### QUESTION 1

**The OEB has set out certain guidelines that affect how rate harmonization is to occur:**

- a. A customer's total bill should not be affected by more than 10% in any given year;**
- b. Rates should be harmonized within 5 years of an LDC acquisition.**

**Are these guidelines sufficient? What principles should guide the rate harmonization process?**

*The following comments were made in ensuing discussion:*

- We agree with the two guidelines and believe that rate harmonization should follow the rate-making and customer class principles identified this morning. With respect to guideline (a), the 10% total bill impact, commodity increases should be frozen and not considered since commodity prices cannot be forecast.

Add "or within 5 years after the rate harmonization plan is approved by the OEB" to guideline (b).

- The total revenue requirement should stay the same, and this is a zero-sum game.
- We are assuming that 10% is the total change and that harmonization is part of the process. We presume from the wording that "customer bill" means individual bills as opposed to average for a class. If you do that, it may mean 10% with some caveats for very small bills. For example, if the bill increase is less than \$5, the \$5 increase prevails rather than the percentage increase. Also, guideline (a) should not always supercede guideline (b) and *vice versa*. You would have to look at those two lines on an individual case-by-case basis.

*Agreed. These are not hard criteria and have to be considered with the overall impact and how many people are being impacted. Five years may not be reasonable if you take the 10% rule and vice versa.*

- Perhaps we should move faster. Think in terms of three rather than five years. Five years spreads it past an election and over multiple rate hearings, so you will never catch up.

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- Consider 10% or a \$200/year maximum for residential. Complete the harmonization in three years.
  - The 10% guideline should take precedence no matter how long it takes. It would be acceptable if it took more than 5 years to harmonize the rates. For large users, total distribution costs are typically less than 5%, so they will never see a 10% drop in their bill. But for small users, distribution costs are 50% of the total bill. So the impacts are very different depending on the customer class. The two guidelines could be in conflict if more than a 50% correction is needed, since you can only do 10% a year.

In summary, there appeared to be general agreement that the 10% total bill impact was a key guideline to follow, and that consideration could be given to adding a maximum dollar impact if the 10% rule hindered achievement of harmonization within a reasonable period. It was also noted that a rate increase between \$3 and \$5 per month was used by other utilities as a guideline to ensure low-income customers are not unduly affected.

## QUESTION 2

**Not all customer rates are equidistant from their point of cost recovery. Applying a 10% increase or decrease may bring some classes to within the cost recovery target range in one year, while other classes will take longer.**

**Should the increase/decrease be adjusted for each class so the target rates are achieved in the same number of years for all classes, or is it preferred that all rate classes achieve their target rates as quickly as possible provided bill impacts remain within the acceptable range?**

*The following comments were made in ensuing discussion:*

- Get to the target rates as soon as possible, staying within the 10% rule.
- Also, recognize that if you have the same harmonization timeframe for all customers, the harmonization may be easier to understand and administer.
- The OEB has said it wants Hydro One to harmonize rates, so that is the starting point.

*Given the current rate structure and 281 customer classes, we cannot do cost allocation without some degree of harmonization. Doing nothing is not an option.*

- We need to clarify harmonization. We appear to be talking about more than mapping the rates of the acquired utilities into those of your legacy customers. We are also talking about all these other class changes. Every customer is going to be affected. This is a major change.

*That is correct. They are all being harmonized. The main criterion is to maintain the revenue requirement every year. We still need to collect the same amount of dollars every year. So if it takes a number of years to take somebody who is underpaying up to the target rate, someone who is overpaying will also not go down right away, or we will be short on the revenue requirement.*

- It is a zero sum game. The idea that all the rates must be the same is an OEB-ordered mistake. Since we all have to live with it, make sure it gets done quickly so we can move on and it does not drag out over more than one rate hearing. Otherwise, we will never get there, which might be a good thing, but we could be stuck in a worse place than we are now.

In summary, while there was one suggestion that all classes should be harmonized over the same time period, there appeared to be a broad consensus to move to the harmonized rate as quickly as possible as long as the bill impact guidelines are met.

### QUESTION 3

**Today, some people pay more than the cost of service they receive while others pay less. In fairness, this inequity should be redressed. In correcting this inequity:**

**What is an acceptable level of customer bill impact in any given year? Should it be measured as?**

- **A maximum percent increase per year? What should it be?**
- **A maximum dollar increase per year? What should it be?**
- **Whichever of the above is greater in any given year?**

*The following comments were made in ensuing discussion:*

- *Everyone seems to agree with the 10% rule, although there are some variations as to how to apply it – within each category or collectively to the total bill.*
- *There was an earlier suggestion that the 10% bill impact should be at all levels of consumption, not just at the class average. What if we had a dollar as well as a percentage threshold for low-use customers? What would the dollar threshold be?*
- \$200/year.
- *The OEB 2006 guideline is 10% of the total bill at the average, which is 1000 kWh for residential customers.*
- *The difficulty with that criterion is that it may create problems in the next round of rate design changes. Rate design changes at the class level based on average past consumption will have zero impact. But for individual customers within a class, it could have a substantial impact.*  
*For the class average, the revenue/cost ratio is critical. Within a class, the fixed versus variable split is key.*
- *But even harmonization does both because it is harmonization not just on the rate level. You do not have the same fixed/variable split in the 87 acquired LDCs. You are also effectively doing rate design changes within each of those utilities as you harmonize their rates.*
- *What should the dollar threshold be? A dollar a day?*

- What if your bill is \$30 a month? That would mean some bills could double.

- Some utilities use \$3 to \$5, \$3 on residential and \$5 for general service.

*The total bill for all our customers currently ranges from \$100/month to \$140/month. The only variable in these bills is the distribution rate and the loss factor for legacy customers. For the same level of consumption, there is roughly a \$20/month difference in the distribution part of a bill between Legacy and Acquired customers. With a \$3/month to \$5/ month threshold, we will never get there.*

- There needs to be more consideration given to the smaller customers in a class. Someone using 250 kWh a month could be going up by 100% or much more, even though the class average is only 10%.

*When rates were initially unbundled in 2000/2001, we had to look at the bill impact on low-use customers, but this was not required in the 2006 EDR.*

- I believe that the Distribution Rates Handbook allows utilities to play with the fixed/variable split to mitigate impacts on low-use customers by putting more on the variable side. Can you still do that?

*That was one of the mitigation measures that the OEB identified in 2006. It was still at the average. They were not looking at the impact on low-use customers.*

- With the magnitude of the changes you are talking about, you could get some wild swings within classes.
- The definition of “significant impact” varies by customer. An increase considered acceptable for a middle or high-income earner may be unaffordable for a low-income person.
- The problem is that we are trying to run a business and a social program at the same time. If there is an adverse social impact, it should be addressed in other ways (i.e., social programs).
- Adverse impacts vary with the customer.
- We should keep rates as low as we can, commensurate with keeping the company running and fair treatment of customers. If someone cannot pay their bill, we should deal with this as a society and arrange for their bill to be paid, rather than doing it through Hydro One.
- A \$200/year increase has a different impact on a small farmer than a large agri-corporation. Both dollar value and percentage impacts vary by customer.
- Agreed. But we should not back off the \$200 to subsidize those who cannot pay, thereby bankrupting Hydro One. We can juggle the 10%, the dollar threshold and the monthly service fee, but we should not cut service in order to avoid bill increases over \$10.

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- Customers generally only look at the total amount on their bills, so they are not aware of whether they are paying more or less than their cost of service. Some may compare percentage as well as dollar amount changes to their bill. Could customer bills show the changes to the distribution component of the bill? Also, could Hydro One provide data on the number of customers for each of the acquired LDCs?

*We believe that was part of our 2006 submission. We will provide the data.<sup>4</sup>*

- ***Can we have a show of hands for who is in favour of only a percentage threshold versus who would like to see a percentage and a dollar threshold?***

- That is hard to do without real data.

*We should look at it from a principle point of view, rather how it affects a particular customer.*

- At some point you have to look at the dollar amount.
- You have to consider the impact on the individual customer as well as the class. Therefore, a percentage increase applied to individual customers basically hamstring you entirely. So you almost require the greater of the 10% or the dollar amount. If the dollar amount means that it is a 30% increase, that is fine because the dollar amount is the constraint. It is the greater of, rather than the lesser of the two that is the constraint. This is applicable only if you are also looking at individual customers. The other way to do it is the way the OEB used to do it, in which we were not looking at all customers, but stopped at small customers below 250 kWh.
- I agree. You need both a dollar and a percentage threshold. You should look at the 10% impact on someone using 250 kWh and maybe that is your dollar amount.
- Worrying about the cost impact on the 250kWh customer is not that consequential. You should be more concerned about the residential customer between 600 kWh/month and 1500 kWh/month. This is the group who will feel some pain.

In summary, two schools of thought emerged. There was wide agreement that the 10% limit on bill impacts is appropriate and that a maximum dollar amount also was needed to achieve harmonization; whichever limit is the greater should apply. However, there was no consensus as to what the dollar amount should be or how it should be determined. Some felt it should be based on a low-volume user profile and what these users could afford, others felt the maximum dollar figure should be based on the mainstream residential users' affordability. As noted earlier, a rate increase between \$3 and \$5 per month is used by some utilities as a guideline to ensure low-income customers are not unduly affected. There was also some divergence of opinion on whether the 10% limit should be on the total bill, or should be applied to only the distribution portion of the bill.

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<sup>4</sup> Mike Roger provided these data in an email to Rachel Chen on September 6, 2007.

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**QUESTION 4**

**What mitigation strategies are available to ease customer bill impacts?**

- **A transition period? How long should it be?**
- **Continued inequities? For how long and by how much?**
- **Other?**

There was a suggestion that for a low use customer the dollar threshold is more important than the percentage (e.g., \$3 to 5\$ might be acceptable).

*The following comments were made in ensuing discussion:*

- The fixed versus variable split can also change the impact within a class.
- The cost/revenue ratio can also work like a mitigation mechanism.  
*Yes, setting a wider range is another form of mitigation, and also means that it will take longer to get there.*
- Whatever the mitigation strategy is, it should be revenue neutral.

**QUESTION 5**

**Loss factors vary considerably among current customer classes (e.g., 5.45% vs. 9.2% for residential rates).**

**When a new customer class is created comprised of more than one customer class, how should the loss factors be harmonized?**

- **Should a new Loss Factor be developed (e.g., based on a weighted average of the current customer class loss factors)?**
- **Should all customer classes have a common loss factor?**
- **Other options?**

*The following comments were made in ensuing discussion:*

- The loss rates you cite are all estimates. Only transmission loss rates are really measured at around 1% to 1.5%.  
*Hydro One recently filed a study as part of the Distribution rate application indicating that secondary loss rates are around 10%.*
- Loss rates are more a function of peak than distance. Farmers are off-peak users. The class peak, rather than distance, has a substantial influence on the loss rate. Cottages have no peak so they should not be paying much of a loss rate. This is a cost allocation issue: how to allocate losses. Peaking by customer class should be the number one issue with respect to losses, assuming that

customers have similar use patterns. This is a good reason to group customers based on how they behave.

*There is no cost allocation methodology for dealing with loss factors. The cost allocation methodology that the OEB recommended uses the approved loss factors by customer class and does not take into account the impact of new customer classes. The 5.45% was a default value the OEB set for secondary losses. The 9.2% loss rate is based on a Hydro One study and is supported by updated filed evidence based on theoretical studies done by Kinectrics. We cannot measure actual losses because it would require that all customers be measured at the same time as when we get the bill from the Independent Electricity System Operator (IESO). The IESO bills us on an hourly basis.*

- Even though losses are in the order of \$100M/year, there has been no effort to measure actual losses. Only theoretical losses have been studied, suggesting 10% losses, the highest on the continent. There should be a statistical measurement that gives some indication of the loss within \$10M. Install high quality meters on a temporary basis, for a year, to measure what power is actually getting from one part of the line to the next.
- There are two loss components: loss in transformers that is always there independent of load; and, loss proportional to the square of the load. The only practical way to handle this is to use a percentage on consumption. Customers do not have the same loss factors. When a new class is developed, you probably should use the weighted average of the loss factors of customers coming into the new class from previous classes. Hydro One losses are picked up in rates. So it is a zero-sum game.
- It is a zero-sum game for Hydro One but not for the customers who pay for the losses.

*Other utilities (e.g., PowerStream, Horizon) have harmonized losses, using the above approach.*

- The loss factor does not impact distribution rates, only how they are applied.

*When we calculate the total bill, the affected distribution charges are not uplifted for losses. The loss factor is not applied to the Distribution portion of the bill; it is applied to the Commodity, Transmission and Wholesale Market service charges only.*

- For PowerStream, the harmonization dealt with using a weighted average of rates that were much closer to begin with than they are for Hydro One.

*Yes.*

- The OPA is proud that we are conserving power. However, this increase in losses from 9.2% to 10% will negate any conservation gains. It should be possible to do something about losses over 3%.
- Look at other jurisdictions and utilities outside Ontario for insight that may be applied to harmonization of loss factors.

- The commitment at the last hearing was to actually measure losses. It is not too late to do so.

In summary, the suggestions put forward were to use weighted averages when combining different classes and loss factors into a new class, see what other utilities are doing in this regard, and develop loss factor metrics based on actual meter readings.

## QUESTION 6

**Currently, the Hydro One Low Voltage customers' rate is based entirely on the volume of electricity used (volumetric or variable rate). Typically, customers' rate structure is comprised of a fixed rate plus a variable rate.**

**Should all customers have common fixed + variable rate structure, or is it preferred to maintain the differentiation in rate structures?**

*The following comments were made in ensuing discussion:*

- Your large customers do not have fixed rates. Small customers have combined fixed and variable rates. Everyone should be treated the same. Either eliminate or apply the fixed charge for everyone.

*Our Acquired LDCs serving similar (direct or large customers) have a fixed and volumetric charge.*

- Hydro One is an anomaly in this regard. There should be a fixed charge for the LDCs or large users you serve. You need metering for LDCs as you do for your large users.
- Part of the problem is that we are dealing with a Legacy issue. When Hydro One first took over the LDCs, OPG was doing all the billing of these customers and was responsible for all the customer costs (i.e., typically in the fixed charge). However, they were only charging for the lines, which is typically in the volumetric portion. When the LDCs were transferred over, they did not have the cost allocation and rate design mechanisms that would have allowed them to deal with the fact that the LDCs were now doing the billing and customer service. All the costs are fixed costs so they should be charging a fixed rate. We have not caught up with all of the changes that have taken place in the industry. This is the opportunity to fix this.

After some discussion, the consensus was that everyone should have a fixed plus variable rate, applied uniformly to all customers.

- Get rid of the LV category, which basically consists of the 44kV lines. They are transmission not distribution lines.

*When the OEB did the cost allocation methodology, they looked at what they called bulk primary and secondary lines.*

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We have created a third category for no particular purpose: transmission, distribution and low-voltage transmission. Low-voltage transmission is still transmission and it happens to have been included in the distribution system. This creates various anomalies for the customer.

### 3. NEXT STEPS

The following next steps were agreed to at the conclusion of the session.

- The report on this stakeholder consultation session will be posted on Hydro One's 2008 Distribution rate application website. There is a web consultation that parallels the stakeholder sessions. Stakeholders can go to the website to download the notes and the presentations, and to submit feedback.
- Any additional comments may be forwarded by email to Enza Cancilla (Manager, Public Affairs) at [enza.cancilla@HydroOne.com](mailto:enza.cancilla@HydroOne.com). Stakeholders may also forward comments to other Hydro One staff present at the stakeholder sessions, or provide comments via the website. An email was received from the Ontario Federation of Agriculture on September 7 (see Attachment #2).
- There will be one more stakeholder session. Stakeholder Session 3 will be a two-day session planned for October 15 and 16, 2007. Reminders and notices will be distributed.
  - Day 1 of the session will deal with Distribution issues, specifically the numbers associated with the Cost Allocation and Rate Design component (part 2) of the 2008 Distribution rate application to be submitted in late October 2007.
  - Day 2 of the session will deal with stakeholdering the special studies required for the 2009 Transmission rate application.

Joe Toneguzzo thanked all participants for attending the session and providing their input. Hydro One has received excellent feedback that it can now use to run scenarios. In Stakeholder Session 3, Hydro One will show participants what the implications would be for the different customer classes it chose, and may review specific scenarios for customer classes based on the input it has heard.

Chris Haussmann then adjourned Stakeholder Session 2.

**Stakeholder Consultation**  
2008 Distribution Rate Application



**Stakeholder Session #2**  
**Metropolitan Hotel**  
**Toronto Room, Second Floor**  
**108 Chestnut Street, Toronto**  
**Wednesday September 5, 2007**

**Registration and Continental Breakfast start at 8:00 a.m.**

**AGENDA**

8:30 a.m.	Introductions and Process Overview	Chris Haussmann, Facilitator, Haussmann Consulting Inc.
8:45	Welcome	Susan Frank, Vice President & Chief Regulatory Officer
9:00	Summary of Revenue Requirement Filing	Joe Toneguzzo Director, Major Applications
9:30	Cost Allocation	Mike Roger Manager, Distribution Pricing
<b>10:15</b>	<b>BREAK</b>	
10:30	Customer Classes Overview	Steven Low Senior Advisor, Pricing
11:00	Customer Classes Mapping	All
11:30	Hydro One Stakeholder Engagement: Looking Ahead	Susan Frank
<b>12:00 p.m.</b>	<b>LUNCH</b>	
1:00	Designing the Rate Harmonization Process – 4 Questions	All
2:15	Rate Harmonization – One Approach	Mike Roger
3:00	Designing the Rate Harmonization Process – 2 Questions	All
3:30	Next Steps and Wrap-up	Chris Haussmann
3:45	Thank you & Adjourn	Joe Toneguzzo



## Attachment #2

**From:** Ted Cowan [mailto:ted.cowan@ofa.on.ca]  
**Sent:** Friday, September 07, 2007 4:27 PM  
**To:** FRANK Susan; CANCELLA Enza; TONEGUZZO Joe  
**Cc:** Neil Currie; don.mccabe@ofa.on.ca; don.mccabe@excelco.on.ca  
**Subject:** Dx Info & Stakeholder Sessions

Susan & Enza & Joe

Thank you very kindly for inviting me to the info session. Enza's note was very timely as I'd been away for some time.

Several questions arise from Wednesday's session –

Line losses – the thought that line loss estimates are increasing seems counter intuitive given the efforts HO has made to improve line quality. I strongly suggest a series of actual measures of losses be made, rather than relying on a theoretical study. Line losses are also more a question of value than volume. As losses occur more at peak hours than off peak, it is 12 cent power not 4 cent power that tends to be lost. This may somewhat alter the line loss factor on bills from a volumetric to a value based percentage. Most seriously – the last time line losses were discussed, a rate rule that would require HO to invest some amount in reducing line losses was mooted. Please include in your expenditure plan a program of investments to reduce line losses. Twelve years of losses amount to more than \$ 1 billion. This could be cut by a third or more with an effective plan and that effective plan should cost less than a quarter and the benefits would continue well past the 12 year period. Absent a plan for reducing line losses, there should be a rate rule that reduces HO net revenue for some fraction of the losses in excess of approx. 5%. Line losses are a major impact on rates and they are a serious loss of peak period power at a time when Ontario is thought to be short of peak power. Your rate submission should make it clear that line losses will no longer be a straight pass through of costs without any effort to reduce those costs. In my opinion – set a target - There is room to trim line losses by about \$ 5 million a year for 8 years for an ongoing saving of \$ 40 million a year.

Demand meters – there was a time not so long ago when demand rates applied after 100kva in a month. Now they apply at 50 kva. Joe was fair enough to allow that the actual service (wires and transformer) do not change until 150 or 200 kva. Demand rates should not apply until 150 kva. Farms and small business with demand meters typically pay 15 to 18 cents a kwh on an all in basis, compared to 11 for volumetric customers. This is a punitive charge that is not associated with any additional cost of service to HO. HO should ask the OEB to change the 50 kva threshold for demand metering to a threshold of 150 kva that relates to the size of transformer required. The low demand threshold rates are a serious impediment on business investment in rural areas and are not related to any actual cost. They kill jobs and stagnate your customer base. This would save about 1500 farms \$ 500 a month and do the same for about 3000 other businesses. This would increase returns to farms and small business by \$ 27 million a year in the HO area and quickly be seen in new investment and jobs. Yes the revenue has to be recovered elsewhere, but it is clear that the 15 to 18 cent a kwh cost these people are paying is unfair.

Customer Classes – Just to repeat – HO needs some dichotomous or absolute classes to cover distrib. generators, sentinel lights, street lights, etc. and it needs between 10 and 16 classes for other customers. To the greatest extent possible like customers should be grouped with like customers where the features of comparison include density, kind of line and transformer used, and to some extent the purpose of power use (residential, farm, business etc.) I feel you should opt for class names that reflect the uses that predominate. Thus rather than a low density general service title a name like rural business and farms 3 phase would make it clear who is in the group. Please do not have any seasonal class as there is no such thing in practice – customers, even cottagers expect the lines to be repaired 12 months of the year.

## Attachment #2

Rate adjustments with harmonization – The 10% annual increase for a group of customers rule can ordinarily only be dealt with by spreading a change over more years, and perhaps with changes to the monthly service charge. An additional adjustment mechanism is possible – for residential and business you might create an extra class or two that would allow you to group some low rate customers from one former LDC with higher rate customers from elsewhere. The other parallel classes could group the mid range cost groups. The average changes in the first amalgamated group could be 10% but it would move the low payers up, and the average change in the second amalgamated group would be less. Between the two amalgamations you could move to harmonization across customer groups somewhat more quickly and possibly merge the two amalgamated groups once they were rate equalized. The reason for grouping people in this way is that it maximizes the fairness in pricing and price adjustments so it is a legitimate criterion for creating extra rate classes.

Next meeting – the 15 and 16 of Oct. should be OK

Rural Rate Assistance – the RRA is meant to ensure that residential customers in rural and remote areas pay no more than 115% of the provincial average rate for their first 11000 kwh of power in a year. The rate proposal should provide documentation that these customers are in fact paying that and that the \$ 135 million is used to meet that aim. At almost 15% of HO Dx revenues, RRA should be thoroughly accounted for.

Interest – There is some evidence that interest rates are on the decline. HO's capital spending should take advantage of this and be somewhat accelerated.

Idle capital due to smart meters – In the rate proposal HO should voluntarily waive any return on capital tied up in smart meters that are not smart. (not yet working as intended) Customers should not have to pay a ROR on such idle capital and the government that owns HO should not collect a profit on capital that it mandated but has not been able to coordinate its own efforts to make those assets useful to the public and the ratepayers. This will involve waiving a return on roughly \$ 400 million and growing until the things work as intended. (reduces the revenue request by about \$ 30 million a year)

Benchmarking and Asset Information – Personnel benchmarking – comparisons do not have to be made only with other Dx utilities. Any firm and/or government department with a large complement of similar employees (engineers, service, repair, construction ops) with customer contact and billing etc. will provide a basis for some useful comparisons. Thus gas and water utilities, highway dep't. or phone company, as well as other utilities provide insightful comparisons.

Any comparison with Bell's customer contact system will be inappropriate – it is too awful for words and no human system should ever be compared to it.

I have yet to formulate any other thoughts in these areas and will get back to you – hopefully before the next mtg.

Wednesday's meeting was well run and I enjoyed the presentations. They were helpful. I hope that in turn my input and this note provide some help as well.

All the very best,

Ted C.

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**Appendix G**

**STAKEHOLDER SESSION #3**  
**NOTES**



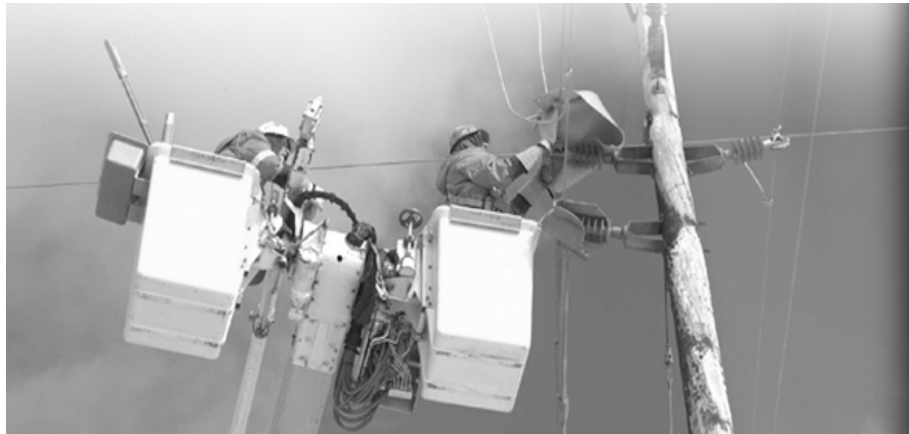
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## **Stakeholder Consultation 2008 Distribution Rate Application**

### **Stakeholder Session #3 Meeting Notes**

Metropolitan Hotel  
Mandarin Ballroom, Lower Level  
108 Chestnut Street, Toronto

October 15, 2007



Prepared for:  
Hydro One Networks Inc.  
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### **Attachments:**

1. Agenda and Participant List
2. Consultation Evaluation Summary

## 1. BACKGROUND

Hydro One Networks Inc. is in the process of preparing its 2008 Distribution Rate Application for submission to the Ontario Energy Board (OEB) for rates effective mid-2008. The application consists of two parts: a revenue requirement component, which was submitted on August 15, 2007, followed by a Cost Allocation and Rate Design component, which will be submitted in late October or November 2007.

In July 2007, Hydro One initiated a stakeholder consultation program to assist in the development of this application. The main objectives of the consultation program are to develop a shared understanding and prioritization of the key issues affecting the application, with an aim to resolving or reducing the scope of as many issues as possible prior to the OEB process. All consultation activities are carried out on a without prejudice basis.

Hydro One invited key stakeholders who have participated in previous Hydro One Networks rate proceedings to participate in a series of discussion sessions. Additional information about the consultation process is posted on the Hydro One Distribution Rate Application Web site at: [http://www.hydroonenetworks.com/en/regulatory/2008\\_distribution\\_rate\\_application](http://www.hydroonenetworks.com/en/regulatory/2008_distribution_rate_application).

This document reports on the third discussion sessions, which took place on the morning of October 15, 2007.

### 1.1 Welcome and Introductions

Chris Haussmann of Haussmann Consulting Inc. (HCI) welcomed participants, thanked them for their attendance and introduced himself as facilitator for the workshop. In attendance were representatives from the OEB, Association of Major Power Consumers (AMPCO), the Consumers Council of Canada, Energy Probe, Federation of Ontario Cottagers' Associations, Independent Electricity System Operator, Michipicoten First Nation, Ontario Federation of Agriculture, Power Workers Union, School Energy Coalition (SEC), Society of Energy Professionals, Union Gas and the Vulnerable Energy Consumers Coalition. Also present were Hydro One staff and the HCI facilitation team.

The full list of participants, together with the agenda, is provided in Attachment #1.

### 1.2 Process Overview

Chris reviewed the proposed agenda, which was structured to meet the objectives for the session noted below. The session took place in the morning and Hydro One staff remained available for further individual discussions during lunch.

Chris then introduced Joe Toneguzzo, (Director, Distribution Rate Case), who welcomed participants and thanked them for taking the time to attend the final Distribution stakeholder session. Joe noted that the objectives for Stakeholder Session 3 were to:

- Respond to stakeholder input received in previous sessions;
- Provide an update of the rate filing process;

- Describe Hydro One's proposed approach to mapping the current customer classes to new customer classes;
- Discuss the results of the Cost Allocation process; and
- Describe the Harmonization of rates and associated impacts.

He also indicated that that any additional input was welcome and encouraged participants to raise their concerns and questions and to present new ideas. Hydro One sees the session as a dialogue with stakeholders to improve the application.

## 2. PRESENTATIONS AND DISCUSSION

The following sections provide brief descriptions of the presentations made by Hydro One staff. Questions of clarification and discussion following each presentation are summarized in bullet form. Points in *italics* represent responses or comments from Hydro One.

### 2.1 Overview of Stakeholder Feedback

Joe Toneguzzo (Director, Distribution Rate Case) summarized key stakeholder input received from Stakeholder Session 2 relating to customer classes, rate structure and harmonization of rates, losses, investigation of impact of a revenue-to-cost ratio of 1, and how Hydro One proposes to address these comments.

Joe also reported briefly on developments since August 15 that will require some updating of the evidence filed to date. On August 16, The OEB released a Transmission decision that required a reduction in forecast peak load by 350 MW due to the effects of Conservation and Demand Management. Results of the Cost and Performance benchmarking study and Compensation comparison study also will be added. These studies represent part of an on-going discussion with stakeholders that began during the Transmission application. During the initial discussions it was agreed that three positions typical of the electricity industry would be compared; one from management; one from the professional groups; and one from the trades area.

Joe noted that Hydro One will be including a summary of the stakeholder sessions in the Distribution filing.

#### *The following questions were asked/points were clarified in ensuing discussion:*

- How much of the 350 MW provincial peak load reduction due to conservation and demand management, as per the OEB Transmission decision of August 16, 2007, goes to Distribution? (slide 5)

*The 350 MW is the impact on summer peak demand for the entire Ontario System, not just Hydro One Networks Distribution. For Networks Distribution, since we are winter peaking and account for about one-third of the provincial total, the equivalent winter peak demand impact is 43-45 MW. The billing unit or energy revenue impact is about 110 GWh on a base of 23,000 GWh, or about 0.5%.*

- You circulated summaries of the two previous stakeholder sessions. Is that what you will file, or will you write something new? If you are filing something that summarizes what stakeholders said, we should see it first.

*The stakeholder session 1 and 2 notes will be filed without being changed. Session 3 notes will be posted for stakeholder review. Agreed, you should have an opportunity to review any stakeholder notes filed.<sup>1</sup> The stakeholder summary Hydro One produces will be based directly on the session notes.*

- Will you be filing something new that we have not seen before? Will we be able to see the new material versus the old?

*We will be doing “blue pages” to show any changes or additions.*

- Is today’s session in the public forum? Our Executive Director wants to send a summary to our members and it is not clear if stakeholders are allowed to do this. When does today’s material go into the public domain?

*The material is not in the public domain until we file. We do not have a filing date yet – hopefully before the end of the month. We will notify you. Since we are still stakeholdering, there may be changes. Our shareholder also has yet to approve our filing. What we are seeing today is our best effort, not necessarily what we are filing. Notice that all of today’s presentations have a “draft” watermark.*

## 2.2 Customer Classes Overview

Steven Low (Senior Advisor, Pricing) provided an overview of the existing Hydro One customer classes. Currently, Hydro One customer classes include: 15 Legacy classes and 266 Acquired Local Distribution Company (LDC) classes, for a total of 281 classes. Hydro One is proposing 12 customer classes, based on feedback from stakeholders in Stakeholder Session 2. He described how each of the proposed new classes is defined. Steven provided comprehensive descriptions of various current rate classes (Legacy Residential; Legacy General Service; Acquired Residential; Acquired General Service; and, Acquired Large User) and indicated how they would be mapped to the new classes.

***The following questions were asked/points were clarified in ensuing discussion:***

- Is there a reason why Sentinel Lights and Street Light are in separate classes? Was this an OEB directive?

*We decided it was better to create two classes because of cost causality. The costs associated with each class are different because Hydro One owns the Sentinel Lights and rents them to customers, but we have the cost of maintaining them.*

---

<sup>1</sup> The Notes of the stakeholder sessions are prepared and posted on the Hydro One Web site for stakeholder review and comment. Stakeholders are advised when the session notes are posted.

- For Sentinel Lights, is the rental rate separate from the distribution rate on the customer's bill?  
*Yes.*

- If there is a separate rental rate for Sentinel Lights to cover your maintenance, then the distribution costs for Sentinel and Street Lights should be the same? So why have separate Distribution rates for these two classes?
- An analogy would be the rental of a hot water heater from Direct Energy, where the monthly rental fee covers the capital and maintenance cost of the heater and the gas consumption is a separate charge.

*We separate the rates for the Sentinel and Street Light classes because the Sentinel rate includes the value of the assets Hydro One owns, while the Street Light rate does not. We believe there is one Distribution charge on the bill for Sentinel Light customers that bundles together both the rental and energy costs. We will check this.*

*After checking, Hydro One noted later that the current Sentinel Lights bill in fact has a distribution charge and a separate miscellaneous fixed charge for the rental. Going forward, Hydro One is considering maintaining separate rental and delivery charges. We are not certain if the numbers we presented have got the split down properly (i.e., when we looked at the Cost Allocation we were wondering if we included the rental revenues in both the Cost Allocation and the revenue line. So, we will go back and check to make sure we got it right).<sup>2</sup>*

*We will also maintain the separate classes for Street and Sentinel Lights. The OEB Cost Allocation model suggests these two separate classes. We will take whatever direction we receive from the OEB but will not propose something different at this time.*

- If Sentinel Lights stay as a separate class and in effect a compartmentalized line of business, it could potentially be sold off.

*Hydro Ones does not want to be in this business; but, it is a business that people who have the sentinel lights want us to be in. Hydro One would be willing to let someone else take the sentinel light business over, but there is no profit in it.*

Leave Sentinel Lights as its own class. It is kind of messy and a small class. It is a special case.

*The OEB Cost Allocation methodology treats Sentinel Lights as a separate customer class.*

- Does the Street Light class include the streetlights in small villages and isolated lights at intersections?

*Yes, those are all streetlights. Some are connected together while others are stand-alones.*

---

<sup>2</sup> Subsequent to the meeting it was confirmed that the revenues from Sentinel light rental charges are credited to the distribution rate for sentinel lights. This was done correctly in the revenue/cost ratio material presented.

- One of the big issues in the Cost Allocation proceeding was the Unmetered Scattered Load (USL). Hydro One does not seem to have that class. Where does USL fit in?

*There are 5000 USL accounts. We grouped that energy under General Service energy (GSe) and ran it through the model using a USL meter credit. So there is no separate USL class.*

- Is there a split between urban and rural for USL?

*No. Everything is harmonized in GSe.*

- With respect to USL, does Hydro One have a high level of resolution regarding the load profile?

*We think Stan But did some research and had some samples of USL load profiles. But the profile has been agreed with the cable companies and that is what we use. There are two ways to deal with USL: as a Cost Allocation issue; or, as a rate design issue. We chose to handle USL as a rate design issue by putting it in GSe and then taking calculated credits from the Cost Allocation model in lieu of not having a meter there or incurring meter reading costs. So it is a rate design solution rather than having a thirteenth customer class.*

- How much is the credit?

*Just under \$7 per month. It comes from the Cost Allocation model.*

- Is the USL in the urban General Service (GS) or all in the non-urban GS?

*This is all in the non-urban GS energy billed.*

- Who are the customers that move from R1 and R2 into urban? Are they from a particular area of the province that has become more dense?

*There are a number of areas, many of which now also include Acquired LDCs. We have about 11 Acquired LDCs that we would combine with our areas that would meet the criteria for urban. There are approximately 60,000 customers of the Acquired LDCs that meet the urban density criteria.*

- Will there be a list of these in the filing?

*Yes.*

*We think what you are asking for is: of the people (not the Acquired LDCs) who did the density move, who or what areas moved? We can provide a list that says: primarily these areas moved from R1 or R2 to urban.*

- What is the density threshold for UR, R1 and R2?

*UR is a cluster of 3000 customers with a minimum density of 60 customers/km of distribution line. R1 is a cluster of 100 customers with a density of 15 customers/km of distribution line. R2 is everything else. These are the same definitions that we have right now.*

- Are seasonal rates largely fixed rates? If so, will the impact on seasonal be significant?

*Yes, the fixed charge is a high percentage of the bill, because Seasonal customers have low volumetric charges.*

*The impact depends on the fixed charge. Percentage-wise, it could be substantial but not dollar-wise. We do it by OEB ranges. We can look at who falls in what range, but most Seasonal customers fall into the 400 kW/month range on average, with peaking occurring more in the summer time, so the annual average is a little higher than that.*

- We have not seen much information on impacts yet. Will Arkona's move to R1 see a significant impact? It is a small community.

*To the extent that the Acquired LDCs have very low current rates, when harmonized, some will have large impacts. Arkona's current residential rates are \$5.84 for the service charge and \$0.0026/kWh delivery charge. After harmonization the rates will be \$19.04 and \$0.0261 respectively.*

- Are there any Acquired LDCs where the UR is so small that it might actually be classified as R2?

*If the criterion of a cluster of 3000 customers is met, then the customer class is UR. The default is R1 and at least a dozen LDCs will be in the UR category.*

- In a few cases, had there not been a merger, there would have been some R1s that would have remained R1s but by virtue of the merger become urban.

*Yes, because when we did this clustering, we included our legacy customers too.*

- How did you decide the geographical area to cluster? It seems that you would first have to decide the area before you could determine the density.

*We know where significant urban growth has taken place, based on the experience of our asset and field people.*

- Highlight the areas on a map that have moved from an area of low cost to an area of higher cost without the benefit of having been bought out by Hydro One. Will someone who has a low cost service charge move to a customer class that has a higher cost service charge – that is, will someone in R1 be moved to R2?

*No, we do not propose to move anyone from a low service charge cost to high service charge cost customer class. However, we have proposed to move people from a high cost/ low density class to a lower cost/higher density class.*

- Would you change customer classes for communities in the north that are losing their populations?

*We have decided not to do that.*

- Is everyone on a particular distribution feeder within the same density class?

*We look at the number of customers and kilometers downstream from a switch to determine the density class. The number of customers downstream of the switch would determine if they are included in UR. Customers upstream of a switch or a long way downstream from the switch would be included in a different class. This is also true for the Acquired LDCs.*

- Is the test for Urban versus Non-urban GS the same, that is, a density test?

*Yes, it is a density test that is dependent on the type of customer. By doing this we have isolated 128 farms that we have moved from Farm into Urban.*

- In other words, it is irrelevant what class they are now in. That means that your density test is driven almost entirely by residential customers and your general service customers are along for the ride.<sup>3,4</sup>

## 2.3 Cost Allocation

Mike Roger (Manager, Distribution Pricing) provided an overview of the results of the Cost Allocation process that Hydro One is using for the 2008 filing. The cost allocation methodology is being used to reflect cost causality principles and fairly apportion revenue requirement among the various customer classes. Hydro One has adopted the OEB methodology with some modifications to deal with Hydro One's unique circumstances. As well, density weights are used to reflect the various density definitions that Hydro One proposes to use to allocate costs. The revenue-to-cost ratios used take into account Board Staff recommendations on what would be acceptable ratios for various customer classes.

Mike described how the revenues and costs are determined. He presented the current revenue-to-cost ratios for the 12 proposed customer classes, and discussed the results from applying the recommended revenue-to-cost ratios. Increases in revenue-to-cost ratios for some classes must be balanced by decreases for others so the overall shifted revenue is zero. Hydro One must always collect the approved total revenue requirement.

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<sup>3</sup> While the current customer class may not affect the urban/rural determination, it is not correct to say that General Service customers are "along for the ride". When Hydro One does the Density test, it takes into account all customers, not just Residential.

<sup>4</sup> Subsequent to the meeting a stakeholder requested if Hydro One could provide a map showing the location of other LDCs and Hydro one acquired LDCs. This information is available from Hydro One's Distribution application web site at: [http://www.hydroonenetworks.com/en/regulatory/2008\\_distribution\\_rate\\_application](http://www.hydroonenetworks.com/en/regulatory/2008_distribution_rate_application).

***The following questions were asked/points were clarified in ensuing discussion:***

- Can you provide a tracking of the changes made to the OEB Cost Allocation methodology so stakeholders can identify where the specific changes were?

*This information will be filed in the evidence. We identify every single change we made to the OEB Cost Allocation model.*

- Is it correct that the OEB Staff have not made their final recommendations concerning revenue-to-cost ratios?

*A representative from the OEB responded that this is correct.*

- So would Hydro One make further changes based on any changes to the OEB Staff's recommendations?

*If these ranges change then Hydro One will make changes. There would be no change in revenue for Hydro One; it is just an issue of who pays. Currently, the OEB Staff-recommended ratios are the only ones available to provide guidance for our submission.*

*The OEB representative noted that the current draft OEB Staff paper has a statement that says that the OEB recognizes this policy document is being released after most applicants either have filed or are well on their way towards filing. While the OEB is sympathetic to this, he could not say how that may affect future decisions.*

- Can you tell us whether the final OEB Staff paper will have different recommendations for the revenue-to-cost ratio? Is there an estimated release date for these recommendations?

*The OEB representative noted that he expects the recommended revenue-to-cost ratios would be the same. There is no official date for the release of the recommendations, but it is possible that they may be released before the end of 2007.*

- Will there be an OEB hearing before this happens? Will it be an OEB decision?

*The OEB representative noted that there will not be a hearing; it will be an OEB policy decision.*

- Has Hydro One updated the density weights, or are you using the same ones as before?

*We revised them before we provided the information filing in January 2007. The density weights we are now using have changed slightly from the information filing.*

- Urban General Service energy billed (UGe) is the obvious outlier. Given the small amount involved and that it is a small class, can you move it down so that it is closer to the other General Service categories? If this were done, the impacts to the other classes would be negligible because it is a small class.

*We tried to move UGe within this range and not further. If we moved it further someone else would have to pick up the shortfall in revenue. We do not consider UGe to be an outlier. It is still within the recommended OEB range.*

- Consider that these are not the OEB recommended ranges, which are still to come. The OEB Staff are not the OEB. You are telling a class of your customers that they are being charged 20% more than their costs. Why would you do that if you can fix the problem?

*If you look at the ST class, under the proposal they are paying 80% more than the other classes. So if any customer class received a break, it should be the ST class.*

*Cost Allocation uses the methodology that the OEB is proposing. While it is a well-stakeholdered methodology, it is not perfect. It is likely not a good idea to move to a revenue-to-cost ratio of 1 right away. Also, if these ranges change then Hydro One will make changes. There would be no change in revenue for Hydro One; it is just an issue of who pays.*

- That is not the issue. You are saying to schools (i.e., UGe) that you want them to subsidize residential customers, even though the amount is so small that it is inconsequential to residential customers, but considerable for schools. Even from a customer relations standpoint, why would you want to harm some customers in order to benefit others, especially if that benefit is small.

*Even though the average is a low impact, there could be customers with a high impact.*

- You have to set that out [i.e., identify the high impact customers].

*Yes, it is coming.*

*Hydro One is trying to move customers closer to the target revenue-to-cost ratio. We are proposing to do this in a way that is mindful of the impacts (i.e., some of the impacts would be greater than 10% if we move too quickly). That is why we are not moving to a revenue-cost ratio of 1 right away. There is still some cross-subsidization, but we are starting to address the existing cross-subsidies. This is the first time we are setting rates based on cost, so, we have a big gap to close as we harmonize rates.*

- For some customers the fixed charge will increase significantly. While the total bill might change only slightly the impact may be significant for some customers.
- Can you explain the phase-in you mentioned earlier? What are you phasing in?

*We will do that in the next presentation. Basically, we are achieving the target revenue-to-cost ratio immediately but are phasing in the rates over four years. We are not phasing in the revenue-to-cost ratio. We are phasing in the rates because not doing so would result in impacts to customers' total bills greater than the OEB's recommended 10%. With respect to an earlier question, moving costs from UGe to Residential would require more than four years to maintain bill impacts below 10%.*

- What is the difference between column A and column E?

*The total revenue is the same in both cases. Column A shows how much we would collect from each class at the current revenue-to-cost ratios; column E shows how much we would collect from each class at the proposed target revenue-to-cost ratios.*

- Is column E a steady state, or is that before phasing? If we are sitting here a year from today with the first year phasing done, and looking ahead for 2009, would column E be different at that stage then, or will it be the same?

*Within a customer class, we will have cost causality occurring to harmonize the rate in four years. But the total revenue we collect would be exactly the same.*

- Is all of the \$135M from Rural Rate Assistance located in the R2 revenue base?

*Yes. We have to recover \$404M, of which we get \$127M from Rural Rate Assistance. The remainder is recovered from the distribution rate and miscellaneous revenues from all the customer classes.*

- You do have some farms in R1, but they do not get Rural Rate Assistance?

*There are no farms in R1.*

- You do have some urban farms.

*There are some suburban farms, but they are not in R1.*

- Regarding the ST class on slide 4, are the 2.35 and 1.80 revenue-to-cost ratios part of the averages?

*Yes, these are averages. The ST class now includes the T class customers.*

- Is the average close to the mean? The OEB Staff paper says that there is an outer limit of 1.8 that is an acceptable range. You are targeting the top end of the range and are not trying to target the middle of that range. If 1.8 is close to the mean, half the customers could be at a revenue-to-cost ratio beyond 1.8. This implies there are still massive cross-subsidies occurring in a large segment of that population. AMPCO feels that this is not right. I want to be clear about our objection to this one.

*Hydro One acknowledged AMPCO's objection to the revenue-to-cost ratio target of 1.8 for the ST class.*

- With respect to the Rural Rate Assistance within the R2 class, will the rate be within 115% or less of the provincial average for Residential? This is a legislative requirement. Remember that 11,000 kWh/year must be provided at a cost that is within 115% of the provincial average.

*The legislative requirement is the amount, not how we calculate it. The legislation says that we receive \$127M for Rural Rate Assistance and this amount has been frozen since 1992 or 1993. The legislation has been amended. It now specifies only the amount we receive and not the differential between urban and rural.*

You do not get all of it. Doesn't a lot of it go to remote communities?

*That is on top of the \$127M. Great Lakes Power and a transmission line that was built to service*

*communities that were formerly remote communities get some of the \$127M.<sup>5</sup>*

- Even if there is no legislative requirement for the 115% cap, there is still a moral reason to have a 115% cap. How do R2 rates compare with other residential rates in Ontario?

*We do not have the information to do that. We would need to collect the information from other LDCs to compare to our Residential rates.<sup>6</sup>*

- The purpose of Rural Rate Assistance was to keep rural rates to within 115% of urban.

*That purpose is long gone. This is old legislation – it was already gone by 1999. The \$127 M has been frozen since 1992 or 1993.*

- Does that mean that Hydro One no longer thinks that the \$127 M has to be used to subsidize rural rates?

*No. We will continue to use it. But we have to maintain a certain ratio between the rate we are charging versus everyone else. The question is whether the \$127 M is enough to keep rural rates within 15% of urban rates assuming 11,000 kWh consumption. The \$127 M likely is not enough.*

- Is there a possibility that you may still find out what Rural Rate Assistance has achieved?

*No. We are not proposing to ask for more Rural Rate Assistance money, beyond the frozen amount.*

## 2.4 Rate Harmonization and Customer Benefits/Impacts

Mike Roger (Manager, Distribution Pricing) presented a comprehensive description of the impact of applying the proposed revenue-to-cost ratios for each of the 12 proposed customer classes. He then proceeded to describe how customer bill impacts would be limited to less than 10% of total bill per year, by harmonizing rates over a period of four years. He showed the rate impact in each of four years for Urban, R1 and General Service Energy classes, and the rate reductions achieved for the ST (sub-transmission) classes. In response to feedback from Session #2, he also demonstrated the impact of moving to a revenue-to-cost ratio of 1 for all classes.

***The following questions were asked/points were clarified in ensuing discussion:***

- Can you explain the high end of the end-state range of 30.8% for R1 (slide 2)?

*This is an Acquired LDC (slide 4) that is moving from a very low rate, a \$5.84 service charge and \$0.0026/kWh volumetric charge, to a \$19.04 customer charge and \$0.0261/kWh volumetric charge over four years.*

<sup>5</sup> Editor's Note: It was subsequently determined that the rural rate assistance money granted to Great Lakes Power does not come out of the \$127M. It comes out of the total amount collected by the IESO.

<sup>6</sup> Comparison among Ontario utilities is being addressed through the OEB's benchmarking proceeding.

- How are you planning to explain this to customers? What would you say to them?

*It will be a challenge. In this case there are about 200 customers involved. We would tell them that they have been getting the same service as other customers, but have not been paying their fair share of the cost, based on the OEB's cost allocation methodology. Other customers have been paying higher rates to subsidize them and we are now trying to remedy this inequity.*

- These customers might say that they would have been better off if Hydro One had not acquired their LDC.

*That LDC would have had to make significant investments to get ready for the market and to stay viable as a separate utility. This would have been reflected in higher rates.*

- Is the far right column on slide 2 total bill impacts?

*Yes.*

- So Distribution rate impacts could be 2.5 to three times that?

*Yes. The OEB guidelines require that the total bill impact be no higher than 10%. If it is higher, the utility is required to propose mitigation measures.*

- It would be difficult to explain to a school that its Distribution bill will double.
- The municipalities who sold utilities received a benefit when Hydro One bought them five or six years ago. Property taxes in those municipalities likely went down, or perhaps they built public facilities such as hockey arenas with the money.

*Hydro One has also been struggling with how to explain these increases and whether they are fair and equitable. The municipalities did get value for their local utilities when Hydro One acquired them around 2001. Since then, they have been getting the same service Hydro One provides to all its customers, but have not been paying for it. There is no attempt to recover costs retroactively. We are saying that everyone should pay their fair share of the costs to serve our customers. That is all we can do. We are not sure how best to explain this to customers. Your ideas would be appreciated.*

*We are also struggling with how we should notify customers in the 87 acquired utilities. We do not think running newspaper ads saying that rates for residential customers will change over the next four years in a range from -14.9% to +30.8% would be enough. What would be appropriate? Again, your ideas would be appreciated.*

- The gas industry gives notice to customers who will experience a significant increase through letters, so they are not surprised when they get their bill.

*Our normal practice would be to notify customers once we have OEB approval. In this case we think that customers with significant impacts should have the opportunity to participate in the OEB hearings. That requires adequate notice such that they can make their desire to intervene known before the OEB's official period of notice is up. How do we do this and reach customers in 87 utilities in what will be a relatively short window?*

- You know who the customers are that will be at the high end of the range. Notify them with their bill.

*Bill notices will not be timely enough, given the billing cycle. We are looking at newspaper ads and perhaps letters. However, we also do not want to create panic, considering that the OEB may not approve or may change our approach to harmonization. If we use community newspapers, we will have to specify the LDC involved, since community papers often have circulation areas that include several LDCs. This could be quite confusing to customers.*

- You will also have to explain the impact based on various customer consumption levels.
- Tell the customers that the bottom line is that these changes are happening because the OEB has directed you to implement the cost allocation model.

*Yes, agreed.*

- The end-state range for Distributed Generators is -37.7% to 29.0% but the average total bill impact is (29.0) (slide 2). How can the average be equal to the maximum? Please clarify.

*Only three customer groups are involved in the Dgen class. One of these is an Acquired LDC that requires only station service and that is coming from a very low rate. The average total bill impact and the high end of the end-state range appear inconsistent because this LDC is a very low consumption customer and we use weighted averages to quantify bill impacts.*

- With respect to notification, I think your biggest challenge will be in the Rural General Service (GSe) class (slide 2), where the end-state range will be -43.7% to 35.9%, the latter figure most likely involving small commercial or industrial businesses in small communities. These businesses and communities will take a severe hit.

*That is why we are proposing a 4-year phase-in to mitigate the impacts.*

- I think you will have to identify these communities and deal with their Councils and economic development people up front. The GSe customer class in fact has the largest end-state range and the most severe potential impacts. Jobs may be lost. GSe is also the class that is most likely to become political.

*We realize this is a serious problem and that these ranges involve significant impacts. The small businesses in the GSe class will be notified and will be able to take whatever action they feel is appropriate. In addition to customer notification, we are also considering contacting the mayors in communities where we acquired LDCs.*

- You have been talking about rate impacts compared to existing Hydro One rates. In some cases, you have non-Hydro One areas nearby with customers paying similar rates. Your customers will ask why they should pay a 30% increase. What is your answer to that?

*They are not currently paying similar rates.*

- Yes they are. We have a list.

*We think if you check their bills, you will find they are not paying the \$5 service charge and 0.26 cents/kWh volumetric charge.*

*The average LDC will have to increase its rates if it is using the OEB's cost allocation methodology and if it is going to be within the OEB staff-recommended cost ratio ranges. We are moving to cost-based rates and assume all other LDCs have to do the same thing.*

- Our analysis indicates that, in a number of southern areas there are some Hydro One customers paying much higher rates than similar customers nearby serviced by non-Hydro One utilities. They are asking why they are subsidizing other Hydro One customers. Hydro One's rationalization policy says you are not going to sell a franchise area unless you can get another one back somewhere else because you want to keep the subsidy. Your harmonization means that some customers will have their rates increased and be subsidizing other customers. Why can't they move to another LDC that is nearby and get exactly the same service but pay a lot less (e.g., Guelph, Orangeville)? You have a rationalization policy that was approved last December, apparently without much consultation. This policy makes it very difficult for Hydro One to transfer a franchise to other LDCs. Are you going to rethink the rationalization policy in the context of harmonization?

*Our rationalization policy is that we will transfer an LDC at market, not book value. Our objective for rationalization is that we do not have a negative impact on our other customers if an LDC is transferred to another utility. We do not have to have a one-for-one transfer, but we want the effect on our other customers to be neutral and this is easier if we maintain a constant number of customers so that common costs can continue to be shared over the same customer base and fixed costs do not change. We want the people who leave to pay the full freight of what goes with them. That means looking at the revenue we get from those customers today and paying market value.*

- Market value (net present value) includes the subsidy so paying market value means that the subsidy will be paid forever by transferred customers. Harmonization means that there will be many more customers going to higher rates and subsidizing other customers.

*What you are really talking about is a Distribution rate design for the province (as we have for Transmission). Currently, we have common rates within a distributor for all its territory, for all distribution companies. Perhaps a Distribution rate design based on regions would be a good idea, but that is not what we have today. We are hoping that the rate design process will do something to improve this situation.*

*Not all customers will receive increases. Some will receive decreases. The Acquired LDCs are the ones that are at the high end.*

- The overall balance for schools will not be good.
- In the past, many municipalities chose to subsidize their public services by having their LDCs give low rates to hospitals and schools. Now they are not getting low rates. This is something that has to be factored in.

- In the GSe class (slide 2), there are about 100,000 people. On average, the current and target revenue-to-cost ratio stays the same at 1.08. There is no shift, and yet this class has the highest end-state range of -43.7 to 35.9 percent. There is something quite anomalous within those 100,000 customers that is not showing up here. You do not have “likes” in this class. This suggests that, in the interest of fair treatment, you look at breaking this class down into two or three consistent classes rather than one.

*The reason for the wide end-state range is that some T-class customers currently paying a fixed charge of \$250/month and volumetric charges of \$8 to \$9/kWh are moving to the GSe class where the fixed and volumetric charges are much lower. They have been over-contributing. This accounts for the -43.7%. Acquired general service LDCs have been paying extremely low rates and under-contributing. They will be paying much higher rates when they move to the GSe class. This accounts for the 35.9% end of the range. We have let the cost allocation methodology determine cost responsibility, taking into account the 10% total bill impact.*

- So you are saying that the extreme variance in the GSe group is anomalous and can be explained rationally?

*Yes.*

- What is the sensitivity of the end-state range column (slide 2) to changes in your approved revenue requirement if the OEB decides something different?

*If the revenue requirement were to come down, the high end per cent impact of the end-state range would come down a bit but not by that much, because the existing rates are so low.*

- Since a few communities have a disproportionate impact on the high end of the range, is it possible to take these out and show a more typical high end for the rest of the customers on the system? For example, right now it looks like every community in R1 will see a range of 0.4 to 30.8%, which will scare a lot of people, but is not really the case.

*In the filing we will break it down by levels, indicating the number of customers that will be impacted by various percentage ranges of increases or decreases in rates.*

- An option may be to have one harmonization policy apply to the majority of your customers, with the outliers on a different track. It would be preferable to see this without the outliers in there.

*Yes, without the outliers, we would be closer to the average of 3.5% for R1, rather than the 30.8% high end of the end-state range.*

- The range in slide 2 is based on 1000 kWh/month consumption. Sooner or later (not for the filing) you will need a billing analysis on all your customers: what their average monthly use is over the last year; what their bills will look like with the new rates; and what the frequency distribution is. Other utilities have done this for us. The high and low ends will be a lot higher and lower than what slide 2 shows because the slide is based on average consumption. This is the first time the OEB will be dealing with major rate design changes since unbundling. In

2002, the OEB did not apply the 10% to average consumption, but to “low end use”. In Hydro One’s 2002 Distribution filing you applied the 10% to customers whose consumption was 10% of the average. The average masks much of the actual impact on customers. We want to understand the impact.

*What exactly have other utilities done for you in terms of billing analysis?*

- Manitoba Hydro and Hydro Quebec, for example, apply the rate increase to billing data from the last year and identify how many customers will see an average annual bill increase of 1%, 2% etc., or a range of percentages, based on actual consumption. You do it for all customer classes (e.g., schools, general service) so people get an idea of the range of impacts. When you are talking about rate design changes, everyone within a class sees a different impact.

- You will have to do this anyway at some level for your customer notices.

*We will have to investigate what we can do.*

- The problem with this approach is that some customers will have zero usage and only a customer charge (e.g., an abandoned property). They will see a huge increase that only reflects an anomalous usage pattern.

- That is why you have “cut-offs” and frequency is useful to examine.

- Am I correct in assuming that although the end-state range on slide 2 is based on class average consumption, Hydro One has run the impacts based on various consumption levels?

*The end-state range on slide 2 is based on average class consumption. We could take all the Acquired LDCs and, based on various customer consumption ranges, identify the number of customers that will have various levels of bill impacts (distribution and total bill). We can provide this in the filing.*

- With respect to the notice issue discussed earlier, can a customer who is trying to decide whether to intervene assume that what you are seeking OEB approval for is a one-year revenue requirement increase and a 4-year rate increase phase-in period? \$1,066,575,593 is the 2008 forecast cost. By the time we get to the 30% impacts four years from now, there may have been at least one revenue requirement re-basing in the meantime.

*That is correct. There is room for potential increases due to third generation incentive regulation mechanisms. We have set maximum impact thresholds each year, taking into account potential post-2008 increases in revenue requirement.*

- Do you really have service charges today that are \$14.32 (slide 3)?

*Yes, for UR. We have not used rounding.*

- The first year impact (slide 3) is the result of three things: the average distribution rate increase; the cost allocation shift; and rate design.

*Yes, the first year impact includes the total impact of everything.*

- In subsequent years, (slide 3), the impacts should all be positive or negative because all you have is the continuing phase-in of the rate design.

*Not necessarily. As the fixed charge is heading up, the variable (volumetric) charge is coming down. So there may be a positive in one year and a negative in others.*

- Could Hydro One provide (at the time of filing or earlier) an Excel spreadsheet (not a PDF) with all the rates and their phase-in so that we can do some modeling?

*We will check to see what we can provide.*

- You have about a 4 to 4.5% overall rate increase, but the R1s (slide 4) are not picking up all of that increase in Year 1 because the Acquired LDCs are going up due to harmonization. In Year 2, in which you do not assume a revenue requirement increase, the R1s are going down because of harmonization. Is that correct? Why do the R1s get an increase in Year 1? Is it a change in the revenue-to-cost ratios? Or is it a change in revenue requirement? It cannot be harmonization, which should bring R1s down.

*Why do you say that? The R1 target revenue-to-cost ratio is 0.88. That 0.88 includes customers that are both R1 and Acquired LDCs.*

- It was noted earlier that there are several factors that are creating these rate changes – change in revenue requirement, cost allocation, loss factor and harmonization. Harmonization can only take the legacy R1s down. So what is bringing them up?

*This is because we are not recovering enough of the revenue requirement in that particular year from the Acquired LDCs, so we need to recover it from other customers in that class.*

- But the increase has to come from somewhere. Is the increase coming from an increase in the revenue requirement?

*We recover from the R1 class the revenue requirement indicated by the cost allocation for that class (slide 2).*

- Do the R1 target rates (slide 4) include the revenue requirement increase that you are applying for in 2008?

*Yes.*

- Is Arkona your worst R1 case (slide 4)?

*Yes.*

- What is an example of a T class customer (slide 5)?

*It might be a microwave repeater station or a natural gas pumping station.*

- The number of affected customers in the T class is small enough that you could contact each of them. You probably have customer representatives for each of those customers.

*Maybe we should write letters to customers affected above a certain increase. What should that number be? We probably do not need to write to customers that got decreases because they will not mind hearing later on.*

- Perhaps you should pick a number. For the ones that are receiving a 40% increase, what happens if they miss the notice in the newspaper?

*Notice has always been done in newspapers.*

- Could you just send letters to customers of the Acquired LDCs?

*That is a possibility. There are 60,000 customers; that is a large number of letters. But then other customers might complain that only the Acquired LDC customers received letters.*

- Write to any customers who have a total bill increase of 12% to 15% or more, and possibly a distribution increase over 10%.

- No one will get more than a 10% total bill increase.

*Yes, on average consumption. Also, the dollar amount will be limited to \$3 to \$5 on average consumption or less.*

- Hydro One should include known 2009 Transmission rate changes (e.g., the cessation of deferral or other accounts in 2008) in its Distribution bill impact calculations.

*Hydro One could do this. The impact would be less than 1%.<sup>7</sup>*

- Is the impact you show in slide 6 in the far right column a one-year bill impact?

*It is the average impact for customers in that class (at 1000kWh) in the 4th year of the phase-in if we were to move to a revenue-to-cost ratio of 1. The impact would be substantially higher than that resulting from the revenue-to-cost ratios we are proposing to use in the filing.*

- The Large Users (slide 7) are getting about a 4% increase on the Distribution portion of their bill, offset by some relief on Transmission rates. They buy their power directly from the IESO. What is your commodity price assumption in the (9.2%) total bill impact?

*It is 5.2 cents/kWh.*

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<sup>7</sup> The Hydro one filing will include the bill impacts of the OEB approved Transmission rate changes effective November 1, 2007. The 2009 Transmission rate has not been approved.

- Hydro One will avoid a lot of queries when you file your application if you lay out how various factors affect average rate increases/reductions (e.g., revenue requirement, cost allocation, revenue-to-cost ratios, rate riders, etc.) to help people understand what is going on so they are not comparing “apples and oranges”.

*Do you mean by class or overall?*

Both, but it is only at the class level that you start to get into some of the distinctions around the cost allocation impacts. For example, if the revenue/cost ratio is going up, people expect rates to go up, but that is not necessarily the case.

- At the end of the day this hearing is about your Distribution revenue requirement and charges. We will be looking for Distribution impacts, not things that incorporate Transmission or commodity, etc. The decision will be on Distribution costs and that is where our analysis has to take us. The more you put up front, the fewer interrogatories there will be.

*The rate impact sheet in the evidence will have four columns that start with just the impact on the Distribution portion of the bill, then the impact on Distribution plus Retail Transmission Service Rates, rate riders, etc. So the impact is not just the final number. It is transparent and will show how we built up to the final total bill impact number, starting with just the Distribution impact, for all customer classes except Sub-Transmission.*

- Part of the problem is that in some places you talk about the total, overall dollars or change in dollars. Those are bill impacts at very specific levels of consumption, as opposed to looking at things at an aggregate or class level. If you look at those specific consumption levels, some impacts are up and some are down. Also, certain things like Transmission rate changes affect the total bill, but these are givens. This hearing is about Distribution, so we should focus on how the specific changes you are proposing impact Distribution rates.

*Even in Distribution, there are many factors at play. For example, rate riders do not have a uniform impact.*

- Your rate increases are volume sensitive. Within a class you may have much higher impacts. For example, in Quinte West (slide 5) the maximum is 35% on the bill. Using your new numbers, a typical small school goes from \$2500 to \$7500 a year in distribution costs. Your G1 class currently charges only \$6600 for the same consumption. The increase would also be above the provincial median of \$3000. So we are talking about a potential 200% distribution increase, not the average maximum of 35% and that will be a problem. People do not care about the average but about what happens to their specific bill. A \$5000 increase means they will have to change their costs (e.g., reduce staff). You need to be much more concerned about these individual impacts than you seem to be. Providing notice is not the same as doing something about the problem.

- Will your application be for next year’s revenue requirement forecast and percentages or some version of phase-in for three years, or is it approval of the end-state and a number of years? For 2009 – is that going to be an across-the-board Incentive Regulation Mechanism increase

except for some pre-approved differentials?

*The application will talk about the 4-year window for harmonization. The idea would be that if in 2009 or 2010 there is a third generation of incentive regulation, we would uniformly apply that on top of these numbers. So the 4-year window actually works quite well. The earliest we could see coming back for another cost-of-service application would be 2011.*

- These anomalies and extremes we are seeing in larger classes such as General Service (slide 5) can be explained if they apply to the Acquired LDCs. Either they had a category that was a class of public service, had rates that were low to attract business, were extremely efficient, or they were way behind on their maintenance. This would all have been reflected in their purchase price, but it was not, and now they want low monthly service charges (e.g., for an arena that they may have built with the money). You will have to identify in each case why they are going up. Alternatively, you could add a thirteenth “Public Service” customer class to mitigate some of these increases. Some of the Acquired LDCs had such a class in the past. We either subsidize them via the power bill or via the tax bill.

*The Acquired LDCs do not have a General Service public utility rate now.*

- This is not a new idea. At our very first appearance for Distribution rates, the Ontario Federation of Agriculture proposed a public service class for schools, hospitals, universities, old age homes, etc.
- That is an unfair example. There was an example earlier of a school paying \$2500, and Hydro One wanting to increase it to \$7500, more than double the provincial median and more than the current G1 class. That does not sound like there are any subsidies in their favour, but subsidies the other way.
- The Ministry of Energy is not here today. That is an educational loss for them. Hydro One should provide the Ministry of Energy with the notes from today’s meeting so that they are better informed as to the outlook for these issues.
- There are some big contentious issues here. In terms of your revenue requirement and projected costs, has anything changed significantly compared to 2006?

*There are a couple of items. We are putting together a draft issues list. This is an OEB requirement. Some cost components have gone up significantly, for example vegetation and pole replacement. We are thinking of an attachment to the covering memo in our filing that proposes an issues list that will identify areas where we think there is a material change and therefore it should be on the issues list.*

*We are also thinking of proposing that some issues be oral and others written. For example, if we are not changing the depreciation methodology or if the dollar impact is not significant, we are proposing that such an issue be in written form, in which case questions could be asked but we would not have a witness prepared to speak to the issue. We could therefore focus on the items that are of an oral nature.*

- Will we be able to change written issues to oral later on if we feel that is necessary after reading the interrogatories?

*This is the first time we are trying this, so we are not sure. Our suggestion would be that the OEB do interrogatories only and not oral. These would not be major items.*

- Depreciation rates would be a perfect example of something that has a big impact.

*They have not changed significantly from the last time. Vegetation, for example is significant, so we think you should have an opportunity to look at that one. What we are trying to do is focus the hearing on areas that have a material impact. It may not work, but we think it is worth a try.*

- Are you assuming two rounds of written interrogatories?

*Perhaps – or we could have a technical conference. If the objective is to try to make the hearing more efficient and focus on issues, having two rounds of interrogatories defeats the purpose. Let's start with the issues, rather than making a distinction and waiting for the interrogatories process to finish.*

- From the OEB's point of view, a single round of interrogatories can be quite frustrating.

*We answer our questions comprehensively unless we just do not have the data or it is a massive amount of work.*

### 3. SUMMARY AND NEXT STEPS

Chris Haussmann summarized the key points from the meeting. Stakeholders asked for the following information to be included in the filing:

- A list of areas where the R1 and R2 classes are being shifted to the Urban Residential (UR) class. Hydro One indicated it could include a reference to the areas where customers were shifted to UR;
- A definition of how the clusters (UR and R1) are selected, i.e. the methodology that Hydro One uses to identify who is included in each class;
- A tracking of changes that were made to the OEB Cost Allocation methodology. Hydro One indicated that this would be shown in the filing;
- Clarification of how R2 rates compare with other residential rates in Ontario;
- A list of customer frequency distributions of bill impacts on actual energy consumption. Hydro One indicated this may not be available by customer but impact by consumption levels will be available in filing;
- A spreadsheet of existing and proposed rates (including baselines) in Excel™ format so that stakeholders could do some modeling. Hydro One will investigate what it can provide in this regard;

- Inclusion of the known changes to 2009 Transmission rates and bill increases in Hydro One's bill impact calculations. Hydro One indicated that only OEB approved rate changes will be included in the calculations;
- An explanation of what is happening in the average customer class and the effect of various inputs; and
- A new customer class for schools, universities and similar public institutions.<sup>8</sup>

Additionally, AMPCO went on record as objecting to the proposed ST class revenue-to-cost ratio of 1.80. SEC went on record as objecting to the proposed UGe class revenue-to-cost target ratio of 1.2 and the 1.08 target ratio for the GSe class.

After the session, the Federation of Ontario Cottagers' Associations requested that the R3 and R4 customer classes be retained in order to mitigate the relatively high impact on R3 that results when these classes are combined into the proposed Seasonal class.

Hydro One asked for any additional thoughts on how to best provide notification to customers. These could be provided directly to a Hydro One representative at the meeting or e-mailed to Hydro One later.

The following next steps were agreed to at the conclusion of the session.

- The report on this stakeholder consultation session will be posted on Hydro One's 2008 Distribution Rate Application website. There is a web consultation that parallels the stakeholder sessions. Stakeholders can go to the website to download the notes and the presentations, and to submit feedback.
- Any additional comments may be forwarded by email to Enza Cancilla (Manager, Public Affairs) at [enza.cancilla@HydroOne.com](mailto:enza.cancilla@HydroOne.com). Stakeholders may also forward comments to other Hydro One staff present at the stakeholder sessions, or provide comments via the website. Comments were requested by October 17, 2007.
- Stakeholders were also asked to complete evaluation forms to provide their feedback on the stakeholder consultation process. A summary of feedback received is included in Attachment 2 to these Notes.
- Stakeholder Session 3 concludes stakeholding associated with the Cost Allocation and Rate Design evidence for the 2008 Distribution rate application to be submitted in late October or November 2007.
- A two-part stakeholder session is scheduled to discuss the special studies required for the 2009 Transmission rate application. Part 1 of this session (Stakeholder Discussion of OEB Decision and Directives regarding Transmission Asset Base) will be held on the afternoon of October 15, 2007. Part 2 of the session (Stakeholder Discussion of OEB Decision and Directives regarding Transmission Performance and Compensation Costs Benchmarking) will be held on the morning of October 17.

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<sup>8</sup> This suggestion was not made by the School Energy Coalition.

- Hydro One requested that stakeholders keep track of and submit their time and costs for the Distribution and Transmission stakeholder processes separately, so that Hydro One can keep the accounting of the Distribution and Transmission processes separate.

Joe Toneguzzo thanked all participants for attending the session and providing their input. Hydro One has received excellent feedback that will assist it in preparing its Distribution Rate Application.

The meeting was adjourned at 12:15 p.m.

**Stakeholder Consultation**  
2008 Distribution Rate Application



**Stakeholder Session #3**  
**Metropolitan Hotel**  
**Mandarin Ballroom, Lower Level**  
**108 Chestnut Street, Toronto**  
**October 15, 2007**

**Registration and Continental Breakfast start at 8:00 a.m.**

**AGENDA**

8:30 a.m.	Introductions and Process Overview	Chris Haussmann, Facilitator, Haussmann Consulting Inc.
8:45	Welcome Response to Stakeholder Input & Application Update	Joe Toneguzzo, Director, Distribution Rate Filing
9:00	Customer Classes and Mapping	Steven Low, Senior Advisor, Pricing
9:30	Cost Allocation	Mike Roger, Manager, Distribution Pricing
<b>10:30</b>	<b>BREAK</b>	
10:45	Rate Harmonization and Customer Benefits/Impacts	Mike Roger
11:30	Next Steps /Thank You	Joe Toneguzzo
11:45	Adjourn Distribution Session	Chris Haussmann
<b>12:00 p.m.</b>	<b>LUNCH</b>	

# Stakeholder Consultation

## 2008 Distribution Rate Application



<b>Stakeholder Consultation 2008 Distribution Rate Application Metropolitan Hotel – October 15, 2007 PARTICIPANT LIST</b>	
<b>Stakeholder Organization</b>	<b>Name</b>
Association of Major Power Consumers	Wayne Clark
Consumers Council of Canada	Julie Girvan
Energy Probe	Tom Adams
Federation of Ontario Cottagers' Associations	John McGee
Michipicoten First Nation	Chief Buckell
Ontario Energy Board	Ted Antonopoulos
Ontario Energy Board	Neil Mather
Ontario Federation of Agriculture	Ted Cowan
Power Workers Union	Alfredo Bertolotti
School Energy Coalition	Jay Shepherd
School Energy Coalition	Rachel Chen
Society of Energy Professionals	Richard Long
Union Gas	Pat McMahon
Vulnerable Energy Consumers Coalition	Bill Harper
<b>Hydro One Networks Inc.</b>	<b>Name</b>
Vice President & Chief Regulatory Officer	Susan Frank
Director, Distribution Rate Filing	Joe Toneguzzo
Manager, Transmission Rates	Henry Andre
Manager, Distribution Pricing	Mike Roger
Manager, Public Affairs	Enza Cancilla
Senior Advisor, Pricing	Steven Low
Senior Advisor, Distribution Regulation	Bohdan Dumka
Manager, Customer Care	Barb Allen
Advisor, Pricing	Doug Hoskin
<b>Hydro One Networks Inc. Consultants</b>	<b>Name</b>
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# Stakeholder Consultation

## 2008 Distribution Rate Application



### Consultation Evaluation Summary

The third and final consultation session, in a series of sessions initiated by Hydro One to establish a dialogue with its stakeholders regarding the 2008 Distribution Rate Application, was held on October 15, 2007 in Toronto. At the conclusion of the session, stakeholders were asked to evaluate the consultation process. The feedback will be used in planning future consultation initiatives.

Ten stakeholders submitted evaluation sheets. Of these, four attended all three sessions, two attended only the September 5 and October 15 sessions, and four attended only the October 15 session. In the first 6 questions, stakeholders were asked whether they strongly agree, agree, disagree, or strongly disagree with statements provided. A not applicable response (N/A) was also available. Explanatory comments were also invited. The final two questions were open ended. The results are summarized below.

*1. Throughout these consultation sessions, information has been presented clearly.*

Strongly Agree      3 responses  
Agree                 7 responses

Comments:

- HONI information was clearly presented. The positioning of stakeholders was not as clear (too much of a shotgun complaint approach rather than focusing on specific issues)
- Too technical for the layperson

*2. I had adequate opportunity during this process to share my views with Hydro One.*

Strongly Agree      5 responses  
Agree                 5 responses

Comments:

- I did not have enough knowledge of the subjects
- Very open
- Very receptive

*3. Hydro One responded to the issues and recommendations I raised.*

Strongly Agree      2 response  
Agree                 7 responses  
N/A                    1 response

Comments:

- Participants made recommendations based on very thin data
- At least HONI agreed to follow up. There was no need to agree on approaches
- Some ideas were generated
- But HONI did not agree to change anything

*4. The notes of the meetings were thorough and captured the essence of the discussions.*

Strongly Agree      2 responses  
Agree                 5 responses  
N/A                    3 responses

Comments:

- Well documented; no issues missed
  - Can't comment. Will use the framework to address issues with Great Lakes
  - Haven't yet seen the October 15<sup>th</sup> session notes
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- Chris Haussmann and his staff have done a great job in preparing the notes of the meetings. As well, Chris has done a great job in his role as facilitator.

5. *Overall, the consultation session met my expectations.*

Strongly Agree      1 response  
Agree                9 responses

- Generally, good discussion on issues and concerns
- We could have participated more effectively with prior notice of background and presentation material

6. *I would likely participate again in future Hydro One regulatory stakeholder consultation programs.*

Strongly Agree      5 responses  
Agree                4 responses  
N/A                    1 response

Comments:

- Mainly on Distribution issues.
- Time permitting.
- PWU strongly supports stakeholder consultation meetings.

7. *What was of most value to you in the consultation process?*

- We would like to highlight the educational value of understanding HONI's application
- Receiving information requested at prior sessions and HONI's commitments to follow up with further information
- Getting an indication of intervenors' positions even though they were vague
- Having Board staff present and taking notes
- Generating ideas about economics of our (First Nations) community
- Target revenue / cost ratio information
- Multiple year impacts
- Discussion of harmonization issue

8. *How could Hydro One improve future consultation processes?*

- Circulate the presentation slides in advance (4 mentions)
- The Notice to Customers issue should have been flagged in advance so we could think about it
- Cut off discussion sooner when it gets off topic or is more appropriately discussed off-line. It's OK to finish early

*Please provide us with additional comments:*

- Use of abbreviations is excessive. Use long form instead of acronyms
  - Participant calculations of the 2008 distribution rate kept deriving about 4% (increase), but is this the best estimate?
  - Maintain a separate class for sentinel lights and move the revenue / cost ratios to 1.
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