

1 **INTRODUCTION TO COST ALLOCATION AND RATE DESIGN**

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3 This exhibit provides a road map to the evidence associated with cost allocation and rate
4 design, which Hydro One Distribution proposes in this submission in respect of its
5 Legacy, Acquired LDCs and Embedded (Low Voltage) customers.

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7 The G1 exhibits describe Hydro One's proposal in a number of cost allocation and rate
8 design areas, including: establishing new customer classes into which all current
9 customer classes will be mapped; use of the OEB-recommended cost allocation
10 methodology to allocate costs to the new customer classes; the harmonization process
11 that is used to integrate existing customers into the new rate classes; use of the OEB-
12 approved rate design methodology for setting the rates for the new customer classes; the
13 proposals for mitigating customer bill impacts; and a number of other cost allocation and
14 rate design issues as detailed in the following Sections of this Exhibit.

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16 The G2 exhibits provide the 2008 rate schedules for all customers, including: rate
17 schedules for the Legacy customers, which can be found in Exhibit G2, Tab 5, Schedule
18 1; rate schedules for the Acquired LDCs , which are provided in Schedule 1 of Exhibits
19 G2, Tab 6, through Exhibit G2, Tab 93; and finally, the rate schedule for the Sub-
20 Transmission customers, including current Embedded customers, which can be found in
21 Exhibit G2, Tab 94, Schedule 1. The G2 exhibits also provide some miscellaneous
22 exhibits (e.g. Miscellaneous rates, Conditions of Service) as detailed in the following
23 Sections of this Exhibit.

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25 **1.0 COST ALLOCATION STUDY**

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27 Hydro One is using the Cost Allocation methodology recommended by the Board in its
28 September 29, 2006 report, Proceeding EB-2005-0317, to allocate the revenue

1 requirement by customer group. Hydro One modified the methodology to deal with its
2 unique circumstances, such as the provision of Sub-Transmission service to Embedded
3 customers and the numerous number of customer classes. The modifications are
4 described in Exhibit G2, Tab 1, Schedule 1.

6 **2.0 CUSTOMER CLASSIFICATION**

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8 The current customer classification is presented in Exhibit G1, Tab 2, Schedule 2. Hydro
9 One is proposing to adopt 12 new customer classes into which all of its Legacy and
10 Acquired customers will be mapped. The proposed 12 customer classes are shown
11 below.

- 13 1. Urban Residential (High Density)
- 14 2. R1 Residential (Medium Density)
- 15 3. R2 Residential (Low Density)
- 16 4. Seasonal
- 17 5. Urban General Service energy billed
- 18 6. Urban General Service demand billed
- 19 7. General Service energy billed
- 20 8. General Service demand billed
- 21 9. Sub-Transmission
- 22 10. Street Light
- 23 11. Sentinel Light
- 24 12. Distributed Generation

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26 More details on the proposed new 12 customer classes are presented in Exhibit G1, Tab
27 2, Schedule 3.

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29 As part of the process for mapping Acquired customers to the 12 new customer classes
30 Hydro One undertook a review of customers that meet the Urban Density criteria. The
31 results of the review are presented in Exhibit G1, Tab 2, Schedule 4 and Exhibit G2, Tab
32 3, Schedule 1.

1 **3.0 HARMONIZATION OF RATE CLASSES**

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3 Hydro One proposes to harmonize the rate classes for the customers of the 88 Acquired
4 Utilities, including Terrace Bay, into six of the 12 new customer classes: Urban
5 Residential, R1 Residential, Urban General Service energy billed, Urban General Service
6 demand billed, General Service energy billed, and General Service demand billed
7 customer classes. Hydro One also proposes to map and harmonize the rate classes for
8 existing Legacy customers to the 12 new proposed classes. The purpose of the mapping
9 and harmonization processes is to reduce the current 281 rate classes to a more
10 manageable level in order to simplify the rate structures, facilitate customer
11 understanding and achieve administrative efficiencies.

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13 The evidence in support of this proposal is provided in Exhibit G1, Tab 2, Schedule 5 and
14 Exhibit G2, Tab 2, Schedule 1.

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16 **4.0 APPORTIONMENT OF REVENUE REQUIREMENT**

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18 The revenue requirement by customer class and corresponding revenue to cost ratios that
19 result from the application of the cost allocation methodology provide a guide on over or
20 under-contribution by rate group. The allocated revenue requirement for each of the new
21 12 customer classes is shown in Exhibit G1, Tab 3, Schedule 1.

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23 **5.0 RATE DESIGN CONSIDERATIONS**

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25 The rate design is not changing for any customer classes other than for Sentinel and
26 Street Lights, and for Sub-transmission customers, for whom a fixed service charge is
27 proposed in addition to a variable charge as supported by feedback received during

1 stakeholding. A description of Hydro One's proposal with respect to rate design issues
2 for 2008 Distribution rates is presented in Exhibit G1, Tab 4, Schedule 1.

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4 The proposed 2008 target rates for the 12 new customer classes is presented in Exhibit
5 G1, Tab 4, Schedule 2, rate considerations for Acquired customers is presented in Exhibit
6 G1, Tab 4, Schedule 3, and rate considerations for Sub-Transmission customers are
7 presented in Exhibit G1, Tab 4, Schedule 4. These exhibits provide a summary of the
8 proposed 2008, 2009, 2010 and 2011 Distribution rates. The rates for Acquired LDCs
9 are harmonized using a 4 year phase-in approach to deal with the wide variation of rates
10 in the Acquired LDCs .

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12 Hydro One's proposal with respect to Low Use Secondary Service customer rates is
13 presented in Exhibit G1, Tab 2, Schedule 6.

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15 Exhibit G1, Tab 4, Schedule 5 explains the development of the fixed service charge credit
16 for unmetered scattered load and Exhibit G1, Tab 4, Schedule 6 explains the proposal
17 with respect to the Transformer Ownership Allowance.

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19 **6.0 REGULATORY ASSET RATE RIDER # 3**

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21 Exhibit G1, Tab 5, Schedule 1, provides a description of the methodology applied by
22 Hydro One Distribution in respect to allocating the balance accrued in the five
23 Regulatory Asset accounts to April 30, 2008 to the various customer classes.

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25 Exhibit G1, Tab 5, Schedule 2 provides a description of the allocators and charge
26 determinants that Hydro One Distribution proposes to use in respect of recovering the
27 accumulated Regulatory Asset balances from the various customer classes.

1 Rate Riders # 3 that will apply in respect of the recovery of the Regulatory Asset
2 balances are derived in Exhibit G1, Tab 5, Schedule 3.

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4 **7.0 RETAIL TRANSMISSION SERVICE RATES**

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6 Hydro One Distribution proposes to revise its Retail Transmission Service Rates (RTSR)
7 for 2008, and Exhibit G1, Tab 6, Schedule 1 provides the corresponding evidence in
8 terms of the methodology used and the resultant rates that would apply for the 12 new
9 proposed rate classes. Additional supporting details are presented in Exhibit G2, Tab 4,
10 Schedule 1.

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12 The corresponding 2008 RTSR for the proposed new 12 customer classes is included in
13 Exhibits G2, Tabs 5 to 94 that contain all the applicable rates.

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15 **8.0 CUSTOMER BILL IMPACTS AND MITIGATION**

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17 An assessment of customer bill impacts is provided in Exhibit G1, Tab 7, Schedule 1 for
18 the Legacy customers, in Exhibit G1, Tab 7, Schedule 2 for Acquired LDC customers,
19 and in Exhibit G1, Tab 7, Schedule 3 for the Sub-Transmission customers.

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21 Hydro One Distribution believes it is necessary to propose an approach which mitigates
22 bill impacts for Legacy and Acquired LDCs customers. Evidence in this respect is
23 provided in Exhibit G1, Tab 8, Schedule 1 and Exhibit G1, Tab 8, Schedule 2.

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1 **9.0 PROPOSAL FOR CUSTOMERS CURRENTLY ON THE INTERIM**
2 **TIME-OF-USE RATE PILOT**

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4 Exhibit G1, Tab 9, Schedule 1 provides information on Hydro One Distribution proposal
5 for the three customers currently enrolled in the Interim Time-of-Use rate pilot.
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7 **10.0 DISTRIBUTION LOSS FACTORS**

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9 An assessment of Hydro One Distributions loss factor is included in Exhibit A, Tab 15,
10 Schedule 3. A description of the proposed Total Loss Factors are included in Exhibit G1,
11 Tab 10, Schedule 1, and are also included in the corresponding Rate Schedules for
12 Legacy, Acquired and Sub-Transmission customers in Exhibit G2, Tabs 5 to 94.
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14 **11.0 MISCELLANEOUS RATES**

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16 The proposed rates for Miscellaneous charges can be found in Exhibit G2, Tab 95,
17 Schedule 1 and in the corresponding Rate Schedules for Legacy, Acquired and Sub-
18 Transmission customers in Exhibits G2, Tabs 5 to 94.
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20 **12.0 TERMS AND CONDITIONS OF SERVICE**

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22 The Terms and Conditions of Service applicable to all Hydro One customers are provided
23 in Exhibit G2, Tab 96, Schedule 1.
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