

1 **HARMONIZATION OF ACQUIRED LDC CUSTOMERS AND**
2 **CONSOLIDATION OF LEGACY CUSTOMER CLASSES**

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4 This exhibit discusses the proposal to harmonize the rate classes for the customers of the
5 Acquired Utilities and to consolidate the rate classes for Hydro One Distribution's
6 Legacy customers with the 12 new proposed customer classes.

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8 Terrace Bay, whose purchase by Hydro One has been approved by the OEB is also
9 included in this harmonization plan for a total of 88 Acquired utilities to be harmonized.
10 Brampton Hydro is a separate business, and not part of Hydro One Distribution
11 submission for distribution rates. Since the initial unbundling of distribution rates, each
12 of the 88 Acquired Utilities have maintained their own individual distribution rates as
13 developed via the Board's Rate Unbundling Design (RUD) Model.

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15 The purpose of the plan presented herein for both Legacy and Acquired customers is to
16 reduce the numerous existing rate classes to a more manageable level in order to
17 minimize the degree of customer confusion over the numerous rates and to improve
18 administrative efficiencies.

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20 **1.0 INTRODUCTION TO HARMONIZATION**

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22 Hydro One Distribution proposed to harmonize the rates for its Acquired LDCs as part of
23 the 2006 Distribution Rate submission RP-2005-0020/EB-2005-0378. The 2006 proposal
24 was intended to harmonize rates only amongst the Acquired LDCs, The Board Decision
25 with Reasons dated April 12, 2006, indicated that the then proposed harmonization was
26 premature and that there was no evidence to determine that the proposed rate would be
27 fair and reasonable because the proposed harmonized rates were not based on a cost
28 allocation study.

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Hydro One believes that the concerns raised by the Board in the 2006 proposal have been addressed in the current harmonization plan.

1. A Cost Allocation Study Methodology has been recommended by the Board and the results of this cost allocation study now provide support for the target distribution rates that are the basis of the harmonization plan. Given the impact on customer bills resulting from the harmonization plan a multiple year phased-in approach is being proposed by Hydro One. The relevant statistics for the Acquired LDC customer groups in terms of current rates and customer numbers are provided in Tables 1 to 3 in Exhibit G2, Tab 2, Schedule 1.
2. The current plan entails harmonization of all of the Acquired LDCs residential rate classes into the two new Residential rate classes proposed by Hydro One: Urban or R1. Density for each Acquired LDC customer determines if the Acquired LDC's Residential customer is to be harmonized with the Urban or the R1 residential group.
3. Three of Caledon's Residential customer classes, OH 01, OH 06 and OH 07 are being harmonized with the Urban (UR), Rural (R2) and Seasonal customer class respectively. Caledon Residential OH 01 was based on the previous Ontario Hydro Urban Residential customer class, Caledon Residential OH 06 was based on the previous Ontario Hydro Residential R2 customer class and Caledon Residential OH 07 was based on the previous Ontario Hydro R4 Seasonal customer class.
4. The Acquired General Service customer classes are proposed to be harmonized into the four new General Service classes: Urban General Service energy billed, Urban General Service demand billed, General Service energy billed, or General Service demand billed. Density for each Acquired LDC customer determines if the Acquired

1 LDC's General Service customer is to be harmonized with the Urban General Service
2 or the General Service group.

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4 5. Acquired Large Users are proposed to be grouped as part of the new Sub-
5 Transmission customer class which is described in Exhibit G1, Tab 2, Schedule 3.

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7 **2.0 HARMONIZATION OF RESIDENTIAL AND GENERAL SERVICE**
8 **RATES**

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10 The proposed harmonization plan entails merging some of the customers in Acquired
11 Residential classes with the Urban Residential customer class. All the remaining
12 residential customers of the 88 Acquired LDCs will be merged with the R1 Residential
13 customer class. Similarly, some of the Acquired General Service customers are proposed
14 to be harmonized into either Urban General Service, or General Service, depending on
15 meeting the Urban Density criteria, and further grouped into energy, or demand billed
16 customer classes. As stated in Exhibit G1, Tab 2, Schedule 1, one of the benefit of
17 harmonizing the customer classes would be the elimination of over 270 Acquired rate
18 classes.

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20 The proposed harmonization plan would entail combining all Residential and General
21 Service Acquired customers into six new customer classes that include Hydro One's
22 Legacy customers. The results in terms of the number of customers in the Acquired
23 LDCs moving to the six new rate classes are shown in Table 1 below.

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Table 1
Acquired Rate Classes

Customer class	Number of Acquired customers affected based on 2006 data	Number of Acquired LDCs affected
Urban Residential	61,147	12
R1 Residential	72,682	88
Urban General Service energy billed	6,243	11
Urban General Service demand billed	655	11
General Service energy billed	12,632	88
General Service demand billed	1,167	88

The plan proposed to harmonize Acquired customer rates is described in section 2.1 below. The plan was presented at the second Stakeholder session on September 5th, 2007 and Stakeholders generally supported the proposed approach as noted in Exhibit A, Tab 16, Schedule 1. The starting point of the harmonization plan is the current service charge in the Acquired LDCs and the target of the harmonization plan is the corresponding service charge in the proposed rate class. The two principles applied are to group Acquired LDCs customers according to the proposed service charges and to ensure that the distribution revenues allocated to the group are recovered from all customers in the groups. An example on how these two principles are applied is provided in the following section.

2.1 Description of Process to Harmonize Acquired Rates

Starting with the harmonization of Residential customer classes of Acquired LDCs that moved to the new Urban Residential customer class, the proposed harmonization plan would entail the following steps:

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2 1. Current Acquired fixed service charges are truncated downward into rounded dollar
3 amounts, (e.g. \$3.60 becomes \$3.00). This serves to rapidly reduce the number of
4 rates

5 2. Determine the target fixed and volumetric rates that would be applicable to the
6 Acquired Residential customers. The target rates would be the new Urban
7 Residential distribution rates

8 3. Determine the incremental increase, or reduction required to bring the truncated
9 service charge to the target service charge

10 4. Divide the increment into four, (based on a four year phase-in plan)

11 5. Apply the increment calculated in step 4 above to the truncated service charge to
12 determine year one service charge

13 6. Year two service charge is the service charge for year one calculated in step 5 above
14 plus the increment calculated in step 4 above

15 7. Year three service charge is the service charge for year two calculated in step 6 above
16 plus the increment calculated in step 4 above

17 8. Year four service charge is the target service charge for the new Urban Residential
18 class

19 9. A common volumetric charge is determined for all customers in the group to recover
20 the balance of Distribution revenue not collected through fixed charges in each year
21 of the four year-plan

22 10. Three of Caledon's Residential rate classes would be moved to Urban, R2
23 Residential, and Seasonal residential classes since they are similar to the Legacy
24 Urban, R2 Residential, and Seasonal rate classes proposed.

25

1 A numerical example of the above steps is provided in Table 2 below.
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3 **Table 2**
 4 **Development of Harmonized group rates for the Residential Urban Customer**
 5 **Class**
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Residential Urban	LDC 1	LDC 2
Target rates (fixed and volumetric)	\$9.45/month & 0.89 ¢/kWh	\$9.45/month & 0.89 ¢/kWh
May 2007 Rates (fixed and volumetric)	\$3.94/month & 0.62 ¢/kWh	\$11.46/month & 1.17 ¢/kWh
LDC truncated fixed service charge	\$3.00/month	\$11.00/month
LDC increase/(decrease) to achieve target fixed service charge	\$6.45/month	\$(1.55)/month
LDC year 1 rates	$\$3.00 + \$6.45/4 =$ \$4.61/month & 0.92*¢/kWh	$\$11.00 - \$1.55/4 =$ \$10.61/month & 0.92* ¢/kWh
LDC year 2 rates	$\$4.61 + \$6.45/4 =$ \$6.22/month & 0.91*¢/kWh	$\$10.61 - \$1.55/4 =$ \$10.23/month & 0.91* ¢/kWh
LDC year 3 rates	$\$6.22 + \$6.45/4 =$ \$7.84/month & 0.90*¢/kWh	$\$10.23 - \$1.55/4 =$ \$9.84/month & 0.90* ¢/kWh
LDC year 4 rates	\$9.45 & 0.89 ¢/kWh	\$9.45 & 0.89 ¢/kWh

7 *Calculation of the volumetric charge is not shown, but it is adjusted to ensure recovery of the required distribution revenue from
 8 customers in the group.

9 Table 6 in Exhibit G2, Tab 2, Schedule 1, provides the derivation of rates for all the
 10 residential rate groups of the Acquired LDCs. As shown in that exhibit, the proposed
 11 harmonization plan would reduce the number of Acquired residential classes from 88 to
 12 24 in the first year and would eliminate the Acquired Residential classes in year four.
 13 However, if a rate mitigation plan is required, the number of required customer classes
 14 during the phase-in period may be higher than 24,
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1 The same process as described above is followed for Acquired Residential classes that
2 are being moved to the R1 Residential customer class and for General Service customers
3 of Acquired LDCs that are being moved to Urban General Service energy billed, Urban
4 General Service demand billed, General Service energy billed, or General Service
5 demand billed classes.

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7 Table 7 in Exhibit G2, Tab 2, Schedule 1, provides the derivation of rates for all the
8 General Service rate groups of the Acquired LDCs. As shown in that exhibit, the
9 proposed harmonization plan would reduce the 176 current Acquired General Service
10 customer classes to 64 in the first year, prior to any mitigation plan, and would eliminate
11 the Acquired General Service classes in year four.

12
13 The Large users of the Acquired LDCs are being mapped to the new Sub-Transmission
14 class in 2008.

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16 **2.2 Impacts due to Harmonization of Acquired Residential and General Service**
17 **Customer Rates**

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19 The range of impacts on total bill resulting from the harmonization of Acquired
20 Residential and General Service customer rates before bill impact mitigation are
21 summarized in Table 3 below, where percentage changes compared to approved 2007
22 rates are shown. The complete set of impacts can be found in Tables 8, 9, and 10 of
23 Exhibit G2, Tab 2, Schedule 1. Commodity, Wholesale Market Service and Debt
24 Retirement charges are based on current, 2007 applicable charges and kept constant
25 before and after harmonization. Retail Transmission Service Rates (RTSR) for 2008 are
26 based on the new proposed RTSR, as described in Exhibit G1, Tab 6, Schedule 1. Losses
27 for 2008 are based on the proposed loss factors described in Exhibit G1, Tab 10,
28 Schedule 1.

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Table 3
Range of impacts for Acquired Residential and General Service customers of Harmonization

Customer Class	Number of customers in 2006	Range of impacts on total bill (percent)
Residential	141,305	1.6 to 30.9
General Service	20,697	-3.0 to 36.2

Impacts are being mitigated to all Acquired Residential and General Service customers by phasing-in the harmonization plan over four years.

3.0 MAPPING OF LEGACY CUSTOMER CLASSES

Currently, Hydro One Distribution has 15 rate classes for Residential, General Service and Embedded LDCs and Direct customers. The proposed consolidation plan results in 12 new customer classes into which the Acquired LDC customer classes will be harmonized.

A similar process as described in Section 2 above is also used to consolidate Hydro One existing Legacy customer classes to the 12 new proposed customer classes.

As described in Exhibit G1, Tab 8, Schedule 1, a four-year plan can be implemented such that all Legacy customers would, on average have a total yearly bill impact of less than 10 percent, including the impact of the 2008 revenue requirement increase.

1 **4.0 CONCLUSION**

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3 Currently, Hydro One Distribution has 88 Acquired LDCs and each LDC has 3 or 4
4 individual rate classes for Residential, General Service energy billed, General Service
5 demand billed, and in some cases Large User rates.

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7 The Hydro One Distribution harmonization plan for the Acquired LDCs ensures that the
8 resultant bill impact for Acquired LDC customers are kept within prescribed thresholds in
9 accordance with the 2006 Electricity Distribution Rate Handbook.

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11 The harmonization plan covers a four year period at the end of which Acquired LDC
12 customers will be part of the Urban, R1 Residential, Urban General Service energy billed,
13 Urban General Service demand billed, General Service energy billed or General Service
14 demand billed customer classes.

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16 As described in Exhibit G1, Tab 8, Schedule 2, a four-year plan can be implemented such
17 that all Acquired customers would, on average, have a total yearly bill impact of less than
18 10 percent, including the impact of the 2008 revenue requirement increase.

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20 At the end of the four-year harmonization plan, rates for Acquired and legacy customers
21 would be harmonized into the 12 new proposed customer classes.

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