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RATE DESIGN CONSIDERATIONS

This exhibit presents the rate design structure that Hydro One Distribution proposes for 2008 distribution rates. More details are provided in Exhibits G1, Tab 4, Schedule 2 to Schedule 6.

1.0 RETAIL RATE CONSIDERATIONS

Hydro One Distribution proposes to follow the direction in the 2006 EDR Handbook with respect to the design of its retail distribution rate structure. This means continuing with the use of a combination of a monthly service charge and a volumetric charge.

The cost allocation methodology determines the revenue requirement by customer class that is fixed and variable. These results provide the basis for determining the proposed fixed and variable distribution charges. The OEB Cost Allocation Methodology also determines the fixed charges based on three methods: a) Avoided costs, b) Directly Related customer costs and c) Minimum System with PLCC Adjustment. The Board recommended that the fixed charge be set at a range between the Avoided costs and method c). Hydro One is proposing fixed charges that are consistent with the Board's recommended range with the exception for the gross fixed charge for R2 Residential customers.. The proposed fixed charges are the service charge determined by method c) using the cost allocation methodology, or the service charge of the predominant class in the new customer groups, whichever is the lower. For customers in the R2 Residential class that receive Rural or Remote Electricity Rate Protection, (RRRP), the gross service charge before RRRP has been set at 10% above method c. The service charge for R2 customers net of RRRP falls within the Board's recommended range for setting service charges. In cases were the service charge is proposed to be set at the level of the current service charge of the predominant customer class in the new groups, the lower service

1 charge is chosen to mitigate bill impacts on low use consumers as a result of being
2 mapped into the new groups. For Street Lights and Sentinel Lights, Hydro One
3 Distribution proposes to introduce a nominal fixed charge of \$1 per account per month
4 consistent to how other LDCs charge for this type of service.

6 **2.0 SUB-TRANSMISSION (ST) RATE CONSIDERATIONS**

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8 As recommended by Hydro One and supported by Stakeholder feedback received at the
9 session on September 5th, 2007, Hydro One Distribution proposes to expand its current
10 Low Voltage (LV) rates from a volumetric charge to a fixed and volumetric charge. This
11 new rate structure will be applicable to all customers in the new ST customer group that
12 includes Embedded customers currently being billed based on LV rates. The cost
13 allocation study provides a basis for determining a fixed charge by delivery point that
14 will recover the fixed costs that Hydro One incurs in delivering electricity to ST
15 customers. The proposed ST rates include:

- 16
- 17 • Fixed monthly charge by delivery point
- 18 • Meter Charge if Hydro One, rather than the customer, owns the meters
- 19 • Volumetric charge for the use of common lines
- 20 • Volumetric charges for the use of High Voltage Distribution Stations (provides
21 transformation service from above 50 kV to under 50 kV)
- 22 • Volumetric charge for the use of Low Voltage Distribution Stations (provides
23 transformation service from above 50 kV to 13.8 kV, or lower voltage)
- 24 • Volumetric charge for the use of Low Voltage Distribution Stations (provides
25 transformation service from above 44 kV to 12.5 kV or lower voltages)
- 26 • Specific ST line – ST line section (44kv to 13.8 kV) used by solely one embedded
27 customer and located in their territory

- 1 • Specific Primary line – Primary line section (below 13.8 kV) used by solely one
- 2 embedded customer and located in their territory.

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