

1 **REGULATORY ASSET RECOVERY ALLOCATION TO**
2 **CUSTOMER GROUPS**

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4 This exhibit describes Hydro One Distribution proposed methodology to allocate the
5 costs in respect of the Regulatory Assets identified in Exhibit F1, Tab 1, Schedule 1, to
6 the various customer classes.

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8 **1.0 METHODOLOGY**

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10 The methodology proposed to allocate the Regulatory Asset balances to the various
11 customer classes follows the methodology principles reviewed and approved by the
12 Board in proceeding RP-2004-0117/RP-2004-0118.

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14 The five new Regulatory Asset accounts, described in Exhibit F1, Tab 1, Schedule 1, are:

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16 • OEB Costs
17 • Tax Change
18 • Smart Meter Minimum Functionality Under-recovery to May 31, 2007
19 • Smart Meter Exceeding Minimum Functionality Under-recovery
20 • Smart Meter Minimum Functionality Under-recovery between June 1, 2007 and April
21 30, 2008

22
23 The four current Regulatory Asset account balances that are also proposed to be cleared
24 as of April 30, 2008 are:

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26 ○ RSVA Wholesale Market Service Charge
27 ○ RSVA Retail Transmission Network Charges
28 ○ RSVA Retail Transmission Connection Charges

- 1 ○ RSVA Low Voltage Charges

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3 **2.0 ALLOCATION PRINCIPLES**

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5 Cost causality is the basic principle applied in determining how costs should be allocated
6 to customer groups. There are three main mechanisms by which Regulatory Asset costs
7 may be allocated and which Hydro One Distribution has used in the context of this
8 submission. These are as follows:

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- 10 • If costs were incurred for the benefit of all customers irrespective of their energy
11 consumption, number of customers would be the recommended allocator for this
12 group of costs.
- 13 • If costs have been included in the Revenue Requirement, for example as OM&A
14 costs, now that Hydro One conducted a Cost Allocation Study, these costs can be
15 allocated to the various customer groups based on the results of the Cost Allocation
16 Study, and in particular how OM&A costs are allocated to customer groups.
- 17 • If costs are allocated in the Cost Allocation Study based on a specific composite
18 allocator, for example Net Fixed Assets, then these costs can be allocated to the
19 various customer groups based on the results of the Cost Allocation Study, and in
20 particular how Net Fixed Assets are allocated to customer groups.

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22 **3.0 PROPOSED ALLOCATION OF REGULATORY ASSET ACCOUNTS TO**
23 **CUSTOMER GROUPS**

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25 The amounts accumulated in the Regulatory Asset accounts are described in Exhibit F1,
26 Tab 1, Schedule 1. The proposed method of recovering these costs from customer groups
27 is consistent with the OEB decision in RP-2004-0017/RP-2004-0018 and the following
28 sub-sections describe the approach taken.

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3.1 OEB costs (\$(0.9) million)

OEB costs are included in Hydro One Distribution revenue requirement as OM&A costs. Exhibit C1, Tab 2, Schedule 6 describes these costs. The amount in the Regulatory Asset variance account, were originally included as OM&A costs. Using the Cost Allocation Study, OM&A costs is the proposed allocator amongst customer classes.

3.2 Tax Change (\$(5.0) million)

Tax costs are included in Hydro One Distribution revenue requirement. In the Cost Allocation Study, Tax costs are allocated to the customer groups based on allocation of Net Fixed Assets, therefore, Net Fixed Assets is the proposed allocator amongst customer classes.

3.3 Smart Meters Minimum Functionality Expenditures incurred before May 31, 2007 (\$6.9 million)

Smart meter costs are included in Hydro One Distribution revenue requirement as OM&A costs and are related to customers, regardless of customer consumption. Number of customers is the proposed allocator for this account amongst customer classes.

3.4 Smart Meter Expenditures Exceeding Minimum Functionality (\$5.7 million)

Smart meter costs are included in Hydro One Distribution revenue requirement as OM&A costs and are related to customers, regardless of customer consumption. Number of customers is the proposed allocator for this account amongst customer classes.

1 **3.5 Smart Meter Minimum Functionality Expenditures between June 1, 2007**
2 **and April 30, 2008 (\$9.4 million)**

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4 Smart meter costs are included in Hydro One Distribution revenue requirement as
5 OM&A costs and are related to customers, regardless of customer consumption. Number
6 of customers is the proposed allocator for this account amongst customer classes.

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8 **3.6 RSVA Wholesale Market Service Charge (\$72.6 million)**

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10 Wholesale Market Service charges are billed by Hydro One to customers that are not
11 market participants. Energy for non-market participants is the allocator proposed for this
12 account amongst customer classes.

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14 **3.7 RSVA Retail Transmission Service Charges Network (\$1.4 million)**

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16 Hydro One proposes to use energy consumed as an allocator of this variance account
17 amongst customer classes.

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19 **3.8 RSVA Retail Transmission Service Charges Connections (\$2.5 million)**

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21 Hydro One proposes to use energy consumed as an allocator of this variance account
22 amongst customer classes.

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24 **3.9 RSVA Low Voltage (\$3.8 million)**

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26 Hydro One proposes to use energy consumed as an allocator of this variance account
27 amongst customer classes.

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2 **4.0 DETAILS OF ALLOCATION OF COSTS**
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4 Table 1 below shows the details of the allocation of Regulatory Asset account costs to the
5 various customer classes. Columns show the various customer groups and rows show
6 each individual Regulatory Asset account. The top part of Table 1 shows the various
7 allocators to be used for the different accounts. The last rows show the amount that will
8 need to be recovered for the various customer classes and the average class total bill
9 impact.

10
11 **Table 1**

12 See attachment
13

14 **5.0 CUSTOMER CLASS AMOUNTS**
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16 As shown in Table 1, based on balances to April 30, 2008 of the Regulatory Asset
17 accounts, using cost causality principles, and 2008 data, the estimated amounts allocated
18 to the various customer groups are as follows:
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Customer Class	Amount (\$ million)
UR	(1.49)
R1	(6.55)
R2	(10.98)
Seasonal	0.48
Urban General Service energy	(1.0)
Urban General Service demand	(2.40)
General Service energy	(5.22)
General Service demand	(9.58)

Customer Class	Amount (\$ million)
Distributed Generator	(0.01)
Street Light	(0.39)
Sentinel Light	(0.07)
Sub-Transmission	(11.47)
Total	(48.68)

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2 Exhibit G1, Tab 5, Schedule 2, provides the allocators and charge determinants to be
3 used to derive the Regulatory Asset Rate Rider # 3 and Exhibit G1, Tab 5, Schedule 3,
4 calculates the Rate Riders # 3 proposed for the period May 2008 to April 2012 by
5 customer class.

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Table 1

Regulatory Asset Recovery														
Stats for Allocation		UR	R1	R2	Seasonal	GSe	GSd	UGe	UGd	St Lgt	Sen Lgt	Dgen	ST	
Customers	1,177,552	162,058	376,430	364,938	155,177	97,005	7,015	12,744	1,429	-	-	84	673	
GWh	38,411	1,494	4,407	5,624	707	2,299	3,237	424	831	121	22	3	19,240	
GWh excl WMP	24,267	1,494	4,407	5,624	707	2,299	3,237	424	831	121	22	3	5,096	
Billing kW	56,293,509						11,019,445		2,203,297			48,843	43,021,924	
Dx Rev excl Riders [\$M]	1,024	53.9	186.5	392.6	74.8	113.9	105.5	11.6	15.7	4.8	0.9	0.6	63.4	
Est of Total Bill [\$M]	3,797	181.1	527.3	700.9	129.6	276.4	360.9	48.4	122.8	14.1	2.6	1.0	1,431.8	
OMA	100%	6.76%	24.04%	38.79%	8.06%	10.48%	7.19%	0.93%	0.96%	0.64%	0.18%	0.01%	1.96%	
NFA	100%	5.78%	21.57%	35.38%	7.62%	10.52%	12.37%	0.90%	2.13%	0.89%	0.19%	0.01%	2.64%	
Balances		\$ 1000s	Allocator											
RSVA Wholesale Market Service Charges	\$ (72,590) GWh excl WMP	\$ (4,469.60)	\$ (13,184.11)	\$ (16,824.68)	\$ (2,114.04)	\$ (6,878.01)	\$ (9,684.03)	\$ (1,268.81)	\$ (2,485.24)	\$ (360.75)	\$ (67.06)	\$ (10.14)	\$ (15,243.54)	
RSVA Tx Network	1430 GWh	\$ 55.63	\$ 164.08	\$ 209.39	\$ 26.31	\$ 85.60	\$ 120.52	\$ 15.79	\$ 30.93	\$ 4.49	\$ 0.83	\$ 0.13	\$ 716.30	
RSVA Tx Connection	2540 GWh	\$ 98.80	\$ 291.45	\$ 371.93	\$ 46.73	\$ 152.05	\$ 214.07	\$ 28.05	\$ 54.94	\$ 7.97	\$ 1.48	\$ 0.22	\$ 1,272.30	
RSVA LV Wheeling	3840 GWh	\$ 149.37	\$ 440.61	\$ 562.28	\$ 70.65	\$ 229.86	\$ 323.64	\$ 42.40	\$ 83.06	\$ 12.06	\$ 2.24	\$ 0.34	\$ 1,923.48	
OEB Costs	(900) OMA	\$ (60.83)	\$ (216.40)	\$ (349.11)	\$ (72.56)	\$ (94.34)	\$ (64.69)	\$ (8.34)	\$ (8.68)	\$ (5.74)	\$ (1.62)	\$ (0.05)	\$ (17.64)	
Tax Change	(5,000) NFA	\$ (289.15)	\$ (1,078.38)	\$ (1,769.17)	\$ (380.87)	\$ (525.84)	\$ (618.52)	\$ (44.99)	\$ (106.59)	\$ (44.67)	\$ (9.60)	\$ (0.31)	\$ (131.91)	
Smart Meter Minimum Functionality to May 31, 2007	6,900 Cust #	\$ 949.60	\$ 2,205.73	\$ 2,138.39	\$ 909.28	\$ 568.41	\$ 41.10	\$ 74.68	\$ 8.37	\$ -	\$ -	\$ 0.49	\$ 3.94	
Smart Meter Costs Exceeding Minimum Functionality	5,700 Cust #	\$ 784.45	\$ 1,822.13	\$ 1,766.50	\$ 751.14	\$ 469.56	\$ 33.96	\$ 61.69	\$ 6.92	\$ -	\$ -	\$ 0.40	\$ 3.26	
Smart Meter Minimum Functionality after May 31, 2007	9,400 Cust #	\$ 1,293.66	\$ 3,004.91	\$ 2,913.18	\$ 1,238.73	\$ 774.36	\$ 56.00	\$ 101.73	\$ 11.40	\$ -	\$ -	\$ 0.67	\$ 5.37	
Total Regulatory Assets for Approval		\$ (48,680)												
		\$ (48,680.0)	\$ (1,488.1)	\$ (6,550.0)	\$ (10,981.3)	\$ 475.4	\$ (5,218.4)	\$ (9,577.9)	\$ (997.8)	\$ (2,404.9)	\$ (386.6)	\$ (73.7)	\$ (8.2)	\$ (11,468.4)
Assuming a 4 year recovery		\$ (12,170.0)	\$ (372.0)	\$ (1,637.5)	\$ (2,745.3)	\$ 118.8	\$ (1,304.6)	\$ (2,394.5)	\$ (249.4)	\$ (601.2)	\$ (96.7)	\$ (18.4)	\$ (2.1)	\$ (2,867.1)
Rider 3	c/kWh \$/kWh	(0.02)	(0.04)	(0.05)	0.02	(0.06)	(0.07)	(0.06)	(0.07)	(0.08)	(0.08)	(0.06)	Note 1 Note 1	
Impacts		-0.21%	-0.31%	-0.39%	0.09%	-0.47%	-0.66%	-0.52%	-0.49%	-0.69%	-0.70%	-0.22%	-0.20%	
Note 1: Rider # 3 for ST customers														
Rider # 3 for all ST customers												\$/kW		
Plus Rider # 3 for non-Market Participant customer												0.02		
												-0.29		