

1                   **THIRD OF FOUR STEPS IN THE HARMONIZATION OF**  
2                   **ACQUIRED LDC CUSTOMERS AND CONSOLIDATION OF**  
3                   **LEGACY CUSTOMER CLASSES**

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5       This exhibit discusses the Board approved process as part of Proceeding EB-2007-0681  
6       to harmonize the rate classes for the customers of the Acquired Utilities and to  
7       consolidate the rate classes for Hydro One Distribution's Legacy customers with the 12  
8       approved customer classes.

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10      The first step of the approved four year harmonization plan started in February 2009  
11      when the rates approved by the Board in Proceeding EB-2007-0681 were implemented.  
12      The second step was implemented in June 2009 at the same time as the 2009 Distribution  
13      rates approved by the Board in Proceeding EB-2008-0187 were implemented. The third  
14      step of the harmonization plan is to be implemented January 2010, at the same time as the  
15      distribution rates in Proceeding EB-2009-0096 are expected to be implemented. The  
16      fourth and last step of the harmonization plan is to be implemented January 2011.

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18      **1.0 INTRODUCTION TO HARMONIZATION**

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20      Hydro One Distribution Board approved harmonization plan consists of:

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22           1. Harmonization of all of the Acquired LDCs residential rate classes into two  
23           Residential rate classes: Urban or R1. Density for each Acquired LDC customer  
24           determines if the Acquired LDC's Residential customer is to be harmonized with  
25           the Urban or the R1 residential group.  
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27           2. Three of Caledon's Residential customer classes, OH 01, OH 06 and OH 07 are  
28           being harmonized with the Urban (UR), Rural (R2) and Seasonal customer class

1           respectively. Caledon Residential OH 01 was based on the previous Ontario  
2           Hydro Urban Residential customer class, Caledon Residential OH 06 was based  
3           on the previous Ontario Hydro Residential R2 customer class and Caledon  
4           Residential OH 07 was based on the previous Ontario Hydro R4 Seasonal  
5           customer class.

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7           3. The Acquired General Service customer classes are harmonized into the four  
8           General Service classes: Urban General Service energy billed, Urban General  
9           Service demand billed, General Service energy billed, or General Service demand  
10          billed. Density for each Acquired LDC customer determines if the Acquired  
11          LDC's General Service customer is to be harmonized with the Urban General  
12          Service or the General Service group.

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14          **2.0 HARMONIZATION OF RESIDENTIAL AND GENERAL SERVICE**  
15          **RATES**

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17          The harmonization plan entails merging some of the customers in Acquired Residential  
18          classes with the Urban Residential customer class. All the remaining residential  
19          customers of the 88 Acquired LDCs will be merged with the R1 Residential customer  
20          class. Similarly, some of the Acquired General Service customers are proposed to be  
21          harmonized into either Urban General Service, or General Service, depending on meeting  
22          the Urban Density criteria, and further grouped into energy, or demand billed customer  
23          classes.

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25          The harmonization plan entails combining all Residential and General Service Acquired  
26          customers into six customer classes that include Hydro One's Legacy customers. The  
27          results in terms of the number of customers in the Acquired LDCs moving to the six rate  
28          classes are shown in Table 1.

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**Table 1**  
**Acquired Rate Classes**

<b>Customer class</b>	<b>Number of Acquired Customers</b>	<b>Number of Acquired LDCs</b>
Urban Residential	54,132	11
R1 Residential	85,859	88
Urban General Service energy billed	5,397	10
Urban General Service demand billed	537	10
General Service energy billed	14,330	88
General Service demand billed	1,220	88

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The plan approved to harmonize Acquired customer rates is described in section 2.1 below. The starting point of the harmonization plan is the current (2009) 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.

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**2.1 Description of Approved Process to Harmonize Acquired Rates**

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

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1. Current Acquired fixed service charges are truncated downward into rounded dollar amounts, (e.g. \$3.60 becomes \$3.00).

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- 1           2. Determine the target fixed and volumetric rates that would be applicable to the
- 2           Acquired Residential customers. The target rates would be the Urban Residential
- 3           distribution rates
- 4           3. Determine the incremental increase, or reduction required to bring the service
- 5           charge to the target service charge
- 6           4. Divide the increment into two, (based on the remaining two years of the four year
- 7           phase-in plan)
- 8           5. Apply the increment calculated in step 4 above to the truncated service charge to
- 9           determine year one service charge
- 10          6. Year two service charge is the target service charge for the Urban Residential
- 11          class
- 12          7. A common volumetric charge is determined for all customers in the group to
- 13          recover the balance of Distribution revenue not collected through fixed charges in
- 14          each year of the two year-plan
- 15          8. Three of Caledon's Residential rate classes would be moved to Urban, R2
- 16          Residential, and Seasonal residential classes since they are similar to the Legacy
- 17          Urban, R2 Residential, and Seasonal rate classes.

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19       A numerical example of the above steps is provided in Table 2.

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**Table 2**  
**Development of Harmonized group rates for the Residential Urban Customer Class**

<b>Residential Urban</b>	<b>LDC 1</b>	<b>LDC 2</b>
Target rates (fixed and volumetric)	\$9.45/month & 0.89 ¢/kWh	\$9.45/month & 0.89 ¢/kWh
June 2009 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	\$5.51/month	\$(2.01)/month
LDC year 1 rates	\$3.00 + \$5.51/2 = \$5.76/month & 0.92*¢/kWh	\$11.00 - \$2.01/2 = \$10.00/month & 0.92* ¢/kWh
LDC year 2 rates	\$9.45 & 0.89 ¢/kWh	\$9.45 & 0.89 ¢/kWh

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

The same process as described above is followed for Acquired Residential classes that are being moved to the R1 Residential customer class and for General Service customers of Acquired LDCs that are being moved to Urban General Service energy billed, Urban General Service demand billed, General Service energy billed, or General Service demand billed classes.

Tables 2 and 3 in Exhibit G2, Tab 2, Schedule 1, provide examples of the derivation of rates for acquired customers that have the lowest and highest service charges in Urban Residential, R1 Residential, General Service energy billed, General Service demand billed, Urban General Service energy billed and Urban General Service demand billed.

1 **2.2 Impacts due to Harmonization of Acquired Residential and General Service**  
2 **Customer Rates**

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4 The range of impacts on total bill resulting from the harmonization of Acquired  
5 Residential and General Service customer rates before bill impact mitigation are  
6 summarized in Table 3, where percentage changes compared to approved 2009 rates are  
7 shown. The complete set of impacts can be found in Tables 4, 5, and 6 of Exhibit G2, Tab  
8 2, Schedule 1. Commodity, Wholesale Market Service and Debt Retirement charges are  
9 based on current, 2009 applicable charges and kept constant before and after  
10 harmonization. Retail Transmission Service Rates reflect the currently approved and the  
11 proposed rates. Smart Meter funding adders used are \$1.65 per customer for 2009 and  
12 \$2.17 per customer for 2010. Losses for 2010 are based on the loss factors described in  
13 Exhibit G1, Tab 10, Schedule 1.

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15 **Table 3**  
16 **Range of impacts for Acquired Residential and General Service customers of**  
17 **Harmonization**

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<b>Customer Class</b>	<b>Number of customers</b>	<b>Range of impacts on total bill (percent)</b>
Residential	139,991	-1.0 to 13.9
General Service	21,484	-1.7 to 19.5

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

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23 **3.0 MAPPING OF LEGACY CUSTOMER CLASSES**

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25 Previously, Hydro One Distribution had 15 rate classes for Residential, General Service  
26 and Embedded LDCs and Direct customers. The approved consolidation plan results in  
27 12 customer classes into which the Acquired LDC customer classes will be harmonized.

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A similar process as described in Section 2 above is also used to consolidate Hydro One Distribution's previous Legacy customer classes to the 12 customer classes.

As shown in Exhibit G1, Tab 7, Schedule 1, the bill impact is below 10% for all Legacy customer classes being harmonized, except for Seasonal R3 and Sentinel Lights including the impact of the 2010 revenue requirement increase. For Seasonal R3 customers, the implementation over two years of the target rates will result in impacts below 10% each year. For Sentinel Light the percentage increase is above 10%, but it is a low dollar value, \$1.08 per account.

**4.0 CONCLUSION**

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

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

As described in Exhibit G1, Tab 7, Schedule 2, the remaining two-year plan can be implemented such that all Acquired customers would, on average, have a total yearly bill impact of less than 10 percent, including the impact of the 2010 revenue requirement increases. Should there be any Acquired customer class for whom the 2011 bill impact

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Exhibit G1

Tab 2

Schedule 4

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1 on total bill may exceed 10% once the 2011 revenue requirement is determined, Hydro  
2 One Distribution will provide mitigation proposals for these customers.

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4 At the end of the harmonization plan, rates for Acquired and legacy customers would be  
5 harmonized into the 12 customer classes.