


**Hydro One Networks  
Stakeholder Workshop**

***Recap of Expert Evidence on  
Density Based Rates***  
**EB-2009-0096**

**September 8, 2010**

 **John Todd**

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**Overview**

1. Conclusions of Todd Evidence
2. Conclusions of Woo Evidence
3. Areas of Consistency
4. Issues to be Resolved
5. Suggested Resolution

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**1. Conclusions of Todd Evidence**

- Maintaining separate Urban & Rural classes
  - Generally accepted ratemaking principles provide very limited support for maintaining separate urban and rural classes on the basis of differences in customer or demand densities that affect causal costs.
- Options for defining Urban and Rural classes
  - Explicit density-base definition is unique to HONI
  - Municipal boundaries basis is standard approach
- Options for allocating costs to U and R classes
  - Sample data or
  - Engineering analysis

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## 2. Conclusions of Woo Evidence

- Options for defining Urban and Rural classes
  - HOD's density-based rates should be simplified to urban/rural rates ... (p. 3)
- Support for Urban & Rural rates
  - HOD's density-based rates are not adequately supported by a reasonably done cost allocation analysis. (p. 4)
- Options for allocating costs to U and R classes
  - An Urban/Rural cost allocation can be developed using available information. (p. 4)
  - Seven step process (pp. 15-16)
  - Apply the model in Lowry, Getachew and Fenrick to compute the log of total OM&A expenses for urban and rural areas. (p. 15)

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## 3. Areas of Consistency

- ✓ Replace density-based classes with Urban & Rural classes
  - ✓ Base definition on municipal boundaries
- x Options for allocating costs to U and R classes
  - x Sample data
  - x Engineering analysis
  - x Econometric analysis (area-specific cost drivers)
- All methods estimate actual cost differentials (i.e., allocators not used)

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## 4. Issue to be Resolved

- Method for estimating Urban and Rural costs
  - Sample Data
    - Reflects actual HONI costs
    - Only as good as sample (representative?)
  - Engineering Method
    - Reflect actual U & R characteristics
    - Reflects future (not embedded) costs
  - Econometric (Woo) Method
    - Based on industry data (not HONI data)
    - Data may not be representative of HONI
    - Based on O&M cost; excludes capital

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### 5. Suggested Resolution

1. Adopt new Urban and Rural definitions consistent with standard practice
2. Proposed study to address details of the class definitions
3. Study to address merits of alternate methods of determining Urban and Rural class costs
4. Method adopted to be cost effective
5. If estimation method used (rather than direct cost allocation) multiple estimation methods not ruled out

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