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**Susan Frank**

Vice President and Chief Regulatory Officer  
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BY COURIER

July 18, 2006

Ms. Kirsten Walli  
Secretary  
Ontario Energy Board  
Suite 2700, 2300 Yonge Street  
P.O. Box 2319  
Toronto, ON.  
M4P 1E4

Dear Ms. Walli:

**EB-2005-0317 – OEB Electricity Distributors Cost Allocation Review – June 28, 2006 Staff Proposal on Principles and Methodologies – Hydro One Networks Comments**

Hydro One Networks Inc. (Networks) and Hydro One Remotes are pleased to provide the following comments on the Board staff Proposal for a Cost Allocation Methodology released June 28, 2006. For ease of reference, the appropriate sections of the report are referenced with our comments.

**Section 1.6 The OEB Cost Allocation Filing Model**

Networks will develop its own cost allocation model to reflect its unique circumstances. The model will be consistent with the principles outlined by the Board and explanations will be provided when Networks' model uses different principles than those outlined by the Board.

**Section 1.8 Filing Process**

Hydro One Remotes will be seeking a Board exemption from having to file a cost allocation model in March 2007. As indicated in Hydro One Remotes' submission dated June 6, 2006 on Rate Classification and Associated Load Data Requirements, Hydro One Remotes is different than other Distributors in that its operation are subsidized by both the federal and provincial governments. Since customer rates are subsidized, Remotes would need to develop its own cost allocation model to take into account the subsidies and the fact that Remotes also operates generation assets.

**Section 7.7.2 Filing Questions Re: Minimum System and Multi-unit Dwellings**

Networks will be able to provide information with respect to individually metered residential customers in multi-unit dwellings of apartments and condominiums, but does not have this type of information for General Service customers such as customers in strip-malls, or industrial parks.

**Section 11.6.1 Load Displacement Generation Rate Classification Introduction**

Networks concurs with the comments in the report that the quantification of all potential benefits on the distribution system attributable to Load Displacement Generation requires specialized studies that will not take place through the Cost Allocation information filing.

**Section 12.1.2.2 Proposal – Calculation of Lower and Upper End Customer Unit Costs in Filings**

Networks is of the opinion that a different Smart Meter Adder than the approved 2006 rate adder should be considered by the Board when determining the Distribution rates for implementation in May 2007. The currently approved adder of \$0.30/customer is not sufficient to cover the increased costs that LDCs will have to incur in 2007 as they start mass deployment of smart meters to their customer base.

**Section 12.3 Filing Questions – Customers that are Wholesale Market Participants**

Networks will be able to provide the number of customers and kW associated with Wholesale Market Participants. More relevant than number of customers is number of delivery points as many large customers that are wholesale market participants have multiple delivery points. Therefore, Networks will also provide number of delivery points. Information on kWh is not available to distributors, as wholesale market participants are billed based on kW by the distributors and not kWh, and these customers settle for commodity costs with the IESO and not the LDCs.

Networks would like to thank the Board for the opportunity to provide these comments.

Sincerely,



Susan Frank