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BY FAX

August 8, 2005

Mr. John Zych

Secretary

Ontario Energy Board

Suite 2601, 2300 Yonge Street

P.O. Box 2319

Toronto, ON.

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Dear Mr. Zych:

EB-2005-0317 Cost Allocation Review – Hydro One Networks’ Comments on the Scope of the Process

In accordance with the Board’s July 12th memo and e-mail, Hydro One Networks’ (Networks’) comments on the scope of this consultation are provided below.

Networks agrees with the scope and the issues to be covered by this process. The Board has noted its intent to carry on with the directions from its November 10, 2003 report on load data collection for cost allocation purposes. Networks strongly agrees that the issues and recommendations from this report should be relied upon and need not be re-visited. The conclusions remain valid. Furthermore, we support the proposed timetable and believe that re-opening questions which have been previously addressed will make it very difficult for the deadlines to be met.

Given the number of distributors in the Province, Networks agrees with and is supportive of the Board’s need to develop generic cost allocation models for this process. At the same time, Networks’ distribution system has unique characteristics, noted below, which may not be captured by a generic model, but which nonetheless, will have to be addressed:

- Networks has a substantial number of embedded customers, comprising 76 LDCs and 34 direct industrial customers. These customers are located all over the Province and very often, the supply (sub-transmission or low voltage) facilities serving them are shared with other customers. Networks provides a range of voltage service ranging from 8 kV to 44 kV. Each of these factors complicates the process of allocating costs to customers. (In contrast, we believe that other LDCs usually have a few embedded customers at most, for which cost identification can be considerably easier). Given this complexity, Networks will be seeking the development of average rates for its customers served from these facilities, whereas other LDCs may be able to develop specific rates for the few customers in these circumstances.

- Networks' current retail customer classification (exclusive of streetlighting and sentinel lighting classes) also tends to be more extensive than that for other LDCs. We have five residential classes, two farm classes and four General Service classes, in contrast to other utilities which may have up to only five retail customer classes in total. (For example, as far as we know, no other LDC has a farm customer class.)

As a consequence of these unique characteristics, Networks would likely need to develop appropriate models that better suit its particular circumstances. These models, nevertheless, would follow the principles agreed upon during the consultation process and would be as transparent as possible. Networks believes that these unique aspects noted above would also have an impact on the Company's reporting process. Accordingly, we may have to "manage" our data somewhat to fit in with the Board's mandatory reporting format.

As a final comment on the overall process, Networks suggests that any proposed changes in customer classifications which may arise from this consultation and review process should also include the assessment of customer bill impacts.

If you have any questions, please don't hesitate to call Carolyn Russell at (416) 345-5914, our contact for this project.

Yours truly,

Andy Poray