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Vice President and Chief Regulatory Officer
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BY COURIER

June 06, 2006

Mr. Peter O'Dell
Assistant Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON.
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Dear Mr. O'Dell:

EB-2005-0371 – Cost Allocation Review: Staff Proposal Regarding Rate Classifications and Associated Load Data Requirements – Hydro One Remote Communities Comments

Hydro One Remotes Communities, (Remotes), appreciates being given the opportunity to comment on the OEB Staff Proposal on Rate Classifications and Associated Load data Requirements distributed on May 26, 2006.

Remotes is an integrated generation and distribution company, and is licensed to serve 20 isolated, off-grid, communities in Northern Ontario. The company is 100% debt financed and is operated on a break-even basis.

Due to the lack of grid connection in Remotes service territory, Remotes generates electricity to meet its obligations under Section 29 of the Electricity Act, 1998. Diesel generation is the prime source of electricity within the communities. To reduce the cost of electricity to end-use customers in these northern communities, the federal and provincial governments have put in place a number of operating and capital subsidies, that are outlined in Regulations and in legal contracts.

As a result of these subsidies and its responsibility to generate electricity, Remotes' operations are very different from those of other Ontario distributors. Therefore, the Cost Allocation Model being developed by the Board is not applicable to its circumstances. If Remotes was to attempt to use the model being developed by the Board, Remotes would be required to exercise a high degree of judgment in order to functionalize, categorize, and allocate its generation costs to the various customer classes as the principles to do so have not yet been developed by the Board.

Finally, the cost to undertake this study and the required load research are high, due to distance and the lack of communications infrastructure in the communities. The rules for setting rates for customers in Remote Communities are established by provincial regulation, and result in some customers paying rates that are subsidized, while others pay rates above cost. Therefore, the results of this study would be of very limited value since changes to cost allocation could not be implemented without a change in Government Regulation. Remotes notes that there is a high degree of risk that the costs related to undertaking a Cost Allocation study would only increase the amount of subsidy that Remotes requires to operate its system on a not-for profit basis.

In light of these factors, Remotes does not support carrying out a cost allocation study for its operations.

Remotes is available to discuss this issue further with the Board at the Board's convenience.

Sincerely,

Susan Frank