



July 13, 2011

Mr. Terry Rees
Federation of Ontario Cottagers' Associations
201-159 King Street
Peterborough ON K9H 1C4

Dear Mr. Rees:

Thank you for your letter of June 29, 2011 to Ms. Laura Formusa, President and CEO, Hydro One Inc., outlining your Association's concerns about rates for seasonal customers. Ms Formusa has asked that I respond to you directly.

Cost Allocation and Rate Harmonization

The existing Seasonal rates were put in place as a result of our 2008 Distribution rate application with the Ontario Energy Board (OEB) under proceeding EB-2007-0681. As part of the 2008 application Hydro One sought to reduce and harmonize the large number of rate classes in place at that time in order to develop a rate structure reducing the administrative costs associated with maintaining a large number of rate classes. Before filing our application, the harmonization of our existing rate classes was discussed with stakeholder groups including FOCA, the Consumers Council of Canada, the Vulnerable Energy Consumers Coalition, and Energy Probe, among others.

The OEB approved the harmonization of our rate classes over a four year period, starting in 2008. Combining the Seasonal High Density (R3) and Seasonal Normal Density (R4) classes into one Seasonal rate class was among the rate class changes approved. The combined Seasonal rate blends the cost of serving the more rural and remote seasonal customers with those of seasonal customers located in more built-up areas. It also provides for a single Seasonal rate schedule that applies to all seasonal customers regardless of where their property is located in the province.

2011 Rate Changes

In July 2009 Hydro One filed an application with the OEB to change its 2010 and 2011 Distribution rates (proceeding EB-2009-0096). Following a rigorous regulatory review and approvals process, the OEB approved an increase in costs which resulted in higher rates for most Hydro One customers, including Seasonal customers. Hydro One is committed to ensuring our rates are an accurate and fair reflection of our costs which, as the OEB recognized, have been increasing in recent years as a result of the work required to:

- Replace and maintain equipment nearing its end-of-life or damaged by storms.
- Build or upgrade our facilities to keep up with customer growth and ensure reliability of the distribution system.
- Install smart meters for over one million customers.
- Connect renewable generation projects to our facilities as part of the government's Green Energy plan.

Issues Raised in Your Letter

It is true that the Delivery portion of the bill for Seasonal customers is typically higher than other full-time residential classes. Like all other Distribution companies in Ontario, Hydro One uses the OEB's cost allocation model to determine the costs of serving its various rate classes. We believe that the cost allocation model fairly captures the average cost of owning and maintaining the facilities required to serve Seasonal customers. These facilities must be designed to meet customers' peak demand and must be maintained in good working order year-round. Individual situations vary, but the energy usage of Seasonal customers is, on average, considerably less than that of full-time residential customers (500 kWh vs. 1000 kWh for a typical residential customer). As such, Seasonal customer rates need to be higher in order to fully recover the cost of serving them. As you may know, in accordance with government regulation, rural full-time residential customers receive a monthly subsidy of \$28.50 to offset their costs. If this subsidy was not available, the monthly Delivery charge to R2 customers would be \$83.41, which is higher than the Seasonal customer charge.

Hydro One complies with the OEB's requirements with respect to maintaining acceptable revenue to cost ratios for all its rate classes. Provided that existing rates result in a revenue to cost ratio within the OEB specified guideline, which is the case for Seasonal customers, the OEB has been reluctant in recent applications by other Distributors to allow utilities to adjust their revenue to cost ratios without having better cost allocation information to back up the proposed adjustments. Having said that, Hydro One is gathering additional information to improve the cost allocation input data and we will be re-running the Board's cost allocation model for our next rate application. Depending on the outcome of the cost allocation process, changes may be warranted to customer rates.

Mr Rees, thank you for bringing the concerns of FOCA to our attention, and for your continued participation in our stakeholder sessions for Distribution Rate applications.

If you have any questions regarding this information, I can be reached at 1-800-419-5208 extension 3335.

Sincerely,



Deborah Beltrano
Customer Consultant
Customer Relations Centre