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February 16, 2007

Ms. K. Walli, Board Secretary
Ontario Energy Board
P. O. Box 2319
2300 Yonge Street, Suite 2700
Toronto, ON 0
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Dear Ms. Walli,

Please be aware that Enersource Hydro Mississauga Inc. intends to file for rebased electricity distribution rates based on a 2008 Future Test Year for the 12 month period from May 1, 2008 to April 30, 2009. This proposal is motivated by:

- The need to recover the ongoing costs of providing distribution service through rates; and
- The need to have a traditional cost of service rate application publicly tested and adjudicated by the Board in advance of refinancing debt.

This position was formed well over 2 years ago when the OEB indicated that it planned to rebase electricity distribution rates in 2008. Finally, I note that the timing and details of any adjustments to the OEB's 2GIRM are not available at this time.

Enersource's existing rates are based on its 2004 actual financial results. Since market opening the authorized rates have consistently yielded a return on equity well below the level authorized by the Board. In the next 5 years Enersource will incur incremental costs (e.g., to provide System Impact Assessments to distributed generators), will experience throughput erosion (e.g., due to CDM) and will continue to invest capital (e.g., to commission a replacement Customer Information System during the 2008 rate year and to implement Smart Meters and related systems capable of charging Time of Use rates). Individually these pressures will perpetuate the inability to recover the costs incurred to provide distribution service. It appears that the only course of action is to seek rebased distribution rates for the 2008 rate year that recover all ongoing costs of providing service and provide Enersource's shareholders an opportunity to earn the authorized rate of return.

Enersource's publicly traded debt matures in 2011. One of the considerations in preparing for the re-financing of the debt is the need to mitigate risk in order to achieve the lowest cost of borrowing possible. As a result, Enersource will seek to have many of the components of a

traditional Cost of Service rate application (e.g., determination of rate base, establishing the allowed rate of return, determination of load forecast) publicly tested and formally adjudicated by the Board, and as early as possible. It is important for Enersource to rebase its rates as early as possible so that more than one year of financial results is available for market, investor and rating agency analysis. Enersource is keenly aware that bond and credit rating agencies consider all forms of risk, including regulatory risk, when rating credit worthiness.

At this time Enersource, like all distributors, lacks information about the Board's adjustments to the Second Generation Incentive Rates Mechanism. As a result, the concerns identified previously over the ability of existing rates to recover the ongoing costs of providing distribution service cannot be sufficiently identified or analyzed to support any choice other than to seek rebased electricity distribution rates as early as possible.

Sincerely,

K. Litt
Manager, Rates and Regulatory

cc. R. Herman, Chief Operating Officer, Enersource Hydro Mississauga Inc.