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hydro one

BY COURIER

November 3, 2006

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

Dear Ms. Walli:

2008 Electricity Distribution Rate Group – Hydro One Networks

Hydro One Networks Inc. (Networks) is requesting to be included in the 2008 Distribution Rate Group for a cost of service review.

Earlier this year, the Chair of the Ontario Energy Board announced that the Board has established a multi-year electricity distribution rate setting plan (the "Rate Plan") for the years 2007 to 2010. From the OEB's Staff Discussion Paper on the Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors - July 25, 2006,"*In 2007, all distributors will be subject to a formulaic adjustment for cost of capital and the incentive mechanism. Beginning in 2008, the Board will divide distributor rate rebasing reviews into three yearly tranches (i.e., ~30 distributors per year starting in 2008). The rates of 1/3 of the distributors will be subject to the 2nd Generation IRM for three years (2007 to 2009), the rates of 1/3 of the distributors will be subject to it for two years (2007 and 2008), and the rates of 1/3 of the distributors will be subject to it for one year (2007).*"

Several significant factors are driving Networks' request to be included in the first 1/3 tranche cost of service review. One such factor is the need to adjust rates in 2008 in order to recover additional investments. Networks is proceeding with substantial investments in the Smart Meter program which will need to be recovered through adjusted distribution rates beginning in 2008. Networks is also undertaking a significant investment in replacing its corporate Work Management System which is at its end of life. Increased capital investments and expense costs are being driven by a further ageing of the distribution infrastructure requiring incremental recovery. In addition, Networks is increasing its efforts in vegetation management which is resulting in a projected increase in expenditures.

Another factor supporting the 2008 filing is Networks' continuing effort to harmonize rates schedules associated with the 87 utilities it acquired in 2000 and 2001. Achieving substantial progress by 2008 would yield the improved efficiency that Networks has not been able to realize during this intervening time period.

Networks is also sensitive to intervenors' input respecting their desire to review Networks' cost of service for a distribution and transmission with the same rate year; 2008 presents such an opportunity. This would also facilitate Networks to prepare a consolidated transmission and distribution cost of service application for 2011.

Networks has taken significant steps to advance and integrate its regulatory and business planning process and as such is prepared to submit a 2008 distribution rates application in 3rd quarter 2007.

Sincerely,

Susan Frank

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