



PUC Distribution Inc.  
765 QUEEN STREET EAST, P.O. Box 9000  
SAULT STE. MARIE, ONTARIO, P6A 6P2

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February 14, 2007

Ontario Energy Board  
P.O. Box 2319, 27<sup>th</sup> Floor  
2300 Yonge Street  
Toronto, ON  
M4P 1E4

Attention: Board Secretary

**Re: Multi-year Electricity Distribution Rate Setting Plan  
Selection of Electricity LDCs for Rebasing  
Board File No. EB- 2006-0330**

On December 19, 2006 the Ontario Energy Board (the “OEB”) issued a discussion paper – Screening Methodology to Establish a Rebasing Schedule for Electricity LDCs. The discussion paper provides proposed criteria for determining which LDCs will engage in rate rebasing in each of the years 2008, 2009 and 2010. The criteria listed are Financial Attributes, Special Situations and Self-Nomination. The proposed date for LDCs to express interest in a preferred rebasing year is February 16, 2007.

PUC Distribution Inc. (PUC) requests that it be included in the first group of LDCs for rate rebasing in 2008. PUC notes the following items for the Board to consider when reviewing this request:

- PUC’s return on rate base was 5% in 2005, it is estimated (pending final audited data) to be 5.5% in 2006 and budgeted at 5% in 2007 compared to the regulated return of 7.67%,
  - 2004 administrative expenses of approximately \$350,000 were not allowed in the 2006 EDR Model,
  - PUC’s reliability indices (SAIDI and SAIFI) have deteriorated significantly since 1999 and according to the most recent available data, are at the high end for medium size LDCs in the province. PUC believes this is the result, at least in part, of suppressing both operating and capital expenditures in the short term due to entering the restructured market in 2002 with rates based on a return of 2%,
  - PUC capital expenditures have increased from \$2.8 million in 2004 to \$5 million in 2007 and will continue at that level to improve system reliability and respond to new customer service requests,
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- PUC is currently undertaking a financial structure (debt to equity) review in order to move its capitalization structure more in line with the Board's deemed capitalization structure. In this regard, PUC would benefit by having rates in place in 2008 which reflect the revised structure and the PILs associated with the revised structure, and
  - PUC has a management service contract with Espanola Regional Hydro Distribution Corporation (ERHDC) and has filed a request on behalf of ERHDC to also be included in the first group of LDCs for rate rebasing. Significant synergies have been realized with PUC and ERHDC working together to file load data to Hydro One and the Cost Allocation models to the Board. It is believed it would also be cost effective for the two LDCs to file for rate rebasing in the same group of LDCs.

Signed on this 14<sup>th</sup> day of February, 2007 at Sault Ste. Marie on behalf of the Board of Directors of PUC Distribution Inc. by:

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Terry, Greco, CA  
Treasurer  
PUC Distribution Inc.