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**Susan Frank**  
Vice President and Chief Regulatory Officer  
Regulatory Affairs

BY COURIER

December 12, 2006

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

Dear Ms. Walli:

**Draft Report of the Board on Cost of Capital (EB-2006-0088) and 2<sup>nd</sup> Generation Incentive Regulation (EB-2006-0089) for Ontario's Electricity Distributors and Associated Guidelines**

In response to the Board's memorandum to participants dated November 30, 2006, Hydro One is pleased to provide the following comments with respect to the draft report of the Board.

- Hydro One supports the Board's Decision to proceed by way of guidelines for the establishment of LDC capital structure and return on equity. With respect to capital structure, Hydro One supports the Board's intent to move to a common capital structure for all LDCs over a three year period commencing in 2008. Hydro One is also pleased to see the retention of the properly applied and well tested "Cannon Methodology" for the determination of the allowed return on equity.
- Hydro One is disappointed that the Board has chosen to exclude a capital investment factor in the 2<sup>nd</sup> Generation IRM formula. As a result there is no incentive for LDCs to invest in much needed infrastructure during the initial IR period. Hydro One recommends the Board immediately establish an industry task group to start work on designing the 3<sup>rd</sup> Generation IRM methodology.
- It is not clear to Hydro One as to the Board's intent behind the proposal to use benchmarking information in conjunction with rate review during the 2007-2010 period. Hydro One would be concerned if the Board were to use any initial benchmarking evidence based on current utility data as part of its rate review process during this timeframe. Hydro One in previous submissions to the Board has indicated its concerns with the quality and comparability of any initial benchmarking data acquired for purposes other than as a screening tool. Hydro One would therefore like the Board to clarify how it plans to use any benchmarking data.

I am enclosing seven (7) hard copies of Hydro One Networks' submission.

An electronic version of the comments in searchable Adobe Acrobat (PDF) and Word is being provided to you via email to [Boardsec@oeb.gov.on.ca](mailto:Boardsec@oeb.gov.on.ca) as requested.

Hydro One is hopeful that these comments are of help to the Board.

Sincerely,

A handwritten signature in cursive script that reads "Susan Frank". The signature is written in black ink and is positioned below the word "Sincerely,".

Susan Frank