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Susan Frank
Vice President and Chief Regulatory Officer
Regulatory Affairs

BY COURIER

January 4, 2007

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
27th Floor, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli,

EB-2006-0330 - Hydro One Networks Inc. Comments on Ontario Energy Board Staff Discussion Paper "Screening Methodology to Establish a Rebasing Schedule for Electricity LDCs"

This memo is in response to the Board's request for comments on the Board staff discussion paper entitled "Screening Methodology to Establish a Rebasing Schedule for Electricity LDCs" issued on December 19, 2006.

Hydro One is in general agreement with the three broad areas - Financial Attributes, Special Situations, and Self-Nomination - that the Board will consider in making their selection of which LDCs to rebase for each of 2008, 2009 and 2010.

Specific comments, organized by the sub-headings in the Board staff discussion paper, are provided below.

3.1 Financial Attributes

The Board staff propose "consideration of an LDC's cost levels to identify those with high costs in relation to other distributors" as one of the financial criteria. It is Hydro One's understanding the cost comparison information will only be used for screening purposes, and we are in agreement with the use of the information in this context. Hydro One urges caution in the application of this criteria for purposes other than screening, given the diversity of LDCs in Ontario in their scope of operation, infrastructure, customer density, geography, climate and vegetation.

3.2 Special Situations

Hydro One agrees with the use of this criteria for selecting the groups of LDCs to be rebased, and suggests it could be beneficial to have a generic bullet to the effect that the Board could consider other special situations that may arise, as appropriate.

3.3 Self-Nomination

Hydro One agrees with the use of this criteria for selecting the groups of LDCs to be rebased, and suggest it could be particularly important in selecting the LDCs to be part of the 1st tranch. LDCs may have specific concerns about significant levels of investments, or other utility-specific issues, that are not adequately addressed by the 2nd generation IRM and as such those utilities should be rebased at the first available opportunity.

Hydro One filed a self-nomination request with the Board on November 3, 2006 outlining the reasons why it should be part of the 1st tranch. This letter is included as Attachment A to this document.

4.0 Implementation Recommendations

The time between the publication date for the list of LDCs in the 1st tranch (draft list March 15, final list April 30) and the August 15th, 2007 filing of the application should be extended. This will provide LDCs with the lead time required to complete a thorough and well documented filing, and to prepare consultant studies in support of a forecast test year submission as part of the Cost of Service filing required for rebasing. Options for increasing the time to prepare the filing include reducing the time given to LDCs for sending self-nomination requests, making a more expeditious decision on the draft list of LDCs for the 1st tranch, and/or delaying the cost of service filing date to the end of August.

Sincerely,

Susan Frank

Susan Frank

Attach.

Attachment A
Hydro One Networks Self-Nomination Letter Sent November 3, 2006

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

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

Susan Frank