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Susan Frank
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BY COURIER

January 21, 2009

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

Dear Ms. Walli:

EB-2007-0681– Hydro One Networks' 2008 Distribution Rate Application – Reply to Board Staff and Intervenor Comments on Draft Rate Order

Hydro One Networks Inc ("Hydro One") is responding to the comments provided by Board staff and intervenors on its Draft Rate Order filed January 12, 2009.

Comments on Board Staff Submission

Hydro One concurs with Board staff comments that the determination of working capital allowance should typically be reflected in the calculation of the rate order but in this case the impact is not significant and no change is recommended. However, the impact on working capital allowance would not be based on applying 11.2% to the Cost of Power and controllable expenses as indicated by Board staff. The changes to OM&A, including a breakdown of the OM&A into material and labour components, would need to be flowed through the Lead/Lag methodology used by Hydro One in order to determine the impact of the Board Decision on the working capital allowance. Hydro One estimates the change to working capital allowance would reduce Revenue Requirement by about $100,000. As Board staff point out, the estimated Revenue Requirement reduction would not materially impact Hydro One's proposed rates.

With respect to Cost of Capital, Hydro One agrees that it could have applied the average cost of debt, calculated as a weighted average of actual and deemed long-term debt costs, to its long-term debt of 56.0% of rate base. However, this would not change the calculated cost of debt stated in the Draft Rate Order. Hydro One does not believe it would be appropriate to apply its actual third-party debt rate of 5.71% to the total long term debt of 56.0% of rate base as suggested by Board staff, as a portion of this amount is deemed long-term debt to which the rate of 6.10% should be applied.

The basis for continuing with the $0.93/month per meter customer is per the specific Board direction at the top of page 21 of the Decision for Hydro One to continue to use this smart meter rate adder amount. The derivation of the $0.93/customer rider was provided in Exhibit B, Tab 1, Schedule 2, Exhibit B of the evidence provided with the 2007 Distribution rate application EB-2007-0542. Hydro One will be proposing a new smart meter funding adder as part of an update to its 2009 3GIRM Distribution Application to be filed January 30, 2009. The new smart meter funding adder is expected to be about $1.65/month per meter customer.

Comments on VECC and CME Submissions

With respect to VECC's and CME's comment on the impact of the reduced revenue requirement on different customer classes and the potential to change the revenue to cost ratios, Hydro One agrees that, in principle, the cost allocation model would need to be re-run in order to exactly determine the impact of the OM&A and rate base reductions on individual rate classes. However, Hydro One notes that for most customer classes the revenue to cost ratios proposed in its Application and approved by the OEB were well within the OEB recommended revenue to cost ratio ranges. Given the relative magnitude of the changes falling out of the OEB Decision, Hydro One believes that re-running the cost allocation model for these changes would not materially impact the proposed revenue to cost ratio and ultimately final rates. Hydro One's proposal to derive the final rates by multiplying the proposed 2008 rates by a factor of 96.2% is a reasonable approach that reflects the OEB Decision and allows implementation of the final rates by February 1, 2009.

With respect to VECC's concern about the amounts accrued to the Bill Impact Mitigation variance account, Hydro One clarifies that the revenue requirement reductions specified in the Board's Decision has eliminated the need for the original $2.5 million in mitigation requested in its Application. Hydro One will only be using this variance account to track the cost of the additional mitigation measure proposed, which is expected to be less than $300,000.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

c. EB-2007-0681 Intervenors