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VIA COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto, Ontario
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Dear Ms. Walli,

**Re. Staff Discussion Paper – Electricity Distributors’ Deferral and Variance Account Review,
Board Staff Discussion Paper
EB-2008-0046**

Thank you for the opportunity to provide comments on the subject discussion paper. Hydro One believes that the current approach to clearing deferral and variance accounts is working well and there is no need for additional mechanisms. Hydro One has had opportunity on a regular basis to clear deferral and variance accounts. We have relied on existing rules and mechanisms for clearing these accounts and have found them to be workable and effective. If an automatic adjustment mechanism is implemented, a utility should have the ability to opt out.

However, to be helpful we would like to provide the following comments on the proposal for your consideration. We believe that regulatory accounts should be cleared on a timely basis and that it is important to keep in mind the following key principles:

- administrative efficiency
- smoothing of rate impacts to customers
- minimizing the number of customer rate adjustments

We agree that there are differences in the nature of regulatory accounts and the approach to grouping accounts on pages 9 -11 appears to be reasonable. In some cases, regulatory account balances can self-correct and there is not a need to clear these accounts on a regular basis. However, it is understood that individual LDC experience may be different. LDC’s should be provided with the option not to clear a balance if it is below a minimum threshold level.

It is important the changes not be administratively cumbersome. Since interest is earned/paid on deferral and variance accounts at the Board’s prescribed rate, both the customer and the LDC are being

compensated for the time value of money associated with funding regulatory accounts. This reduces the need to clear balances frequently.

The discussion paper proposes a one year default recovery period to clear account balances through rate riders (page 37). Hydro One believes that an important consideration is the smoothing of customer rate impacts and it is important to consider customer impact when the rider is implemented and when it is removed. LDC's should have the option of proposing a recovery period that best meets the smoothing objective when also considering other rate adjustments that may be occurring at the same time.

Hydro One agrees that any rate change resulting from clearing deferral accounts should be implemented simultaneously with changes that occur from a Distribution rate change. Rate changes are costly to implement. Minimizing the number of rate changes is an important objective. The broad principle is that changes in rates resulting from the clearing of deferral accounts should be made coincident with the date of other Distribution rate changes.

With respect to the Filing Requirements (10.1 (a) on page 41), the additional audit certification proposed would require a special purpose engagement. Making a statement certifying that all the Board's accounting "rules" have been followed would require extensive audit evidence that expands beyond the scope of a traditional financial audit. The cost of such an engagement could be significant. Hydro One suggests that it be sufficient for the Board to rely on the traditional financial statement audit and certification that is provided as part of the current annual RRR filing.

Hydro One continues to recommend that the current rules are sufficient and appropriate for clearing its deferral and variance accounts. Furthermore Hydro One has accounts that require special treatment. For instance, the Rural and Remote Rate Protection (RRRP) variance account should not be cleared as part of the process proposed in the discussion paper as the nature of this account is different from other regulatory accounts.

In July, Hydro One will be filing deferral and variance account balances and recommendations for recovery as part of our 2010/2011 Distribution rate application.

I hope that these comments are helpful.

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

c. K. Newman