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September 14, 2007

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

Dear Ms. Walli:

**Subject: 2007 Electricity Distribution Rates  
Variance Account for Capitalized Overhead**

Hydro Ottawa Limited ("Hydro Ottawa") hereby requests the Board to issue an accounting order that would authorize Hydro Ottawa to establish a variance account – to be called the 2007 Capitalized Overhead Variance Account – and to record in it the variance between (a) one-quarter (1/4) the Board-approved amount of capitalized overhead in the 2007 service revenue requirement and (b) the actual amount of capitalized overhead in the last quarter (October-December) of 2007.

The variances will arise from the following:

- an update of Hydro Ottawa's accounting estimates of the amount of overhead costs directly attributable to its capital programs; and
- a change in Hydro Ottawa's methodology to identify and allocate directly attributable overhead costs.

The changes in the accounting estimates and the methodology for allocating overhead costs have been reflected in a new cost allocation procedure. Hydro Ottawa's capitalization policy has been updated to reflect the new allocation procedure.

Hydro Ottawa plans to implement the new allocation procedure and updated capitalization policy on October 1, 2007. Timely implementation is a requirement under the CICA handbook.

Hydro Ottawa estimates the resultant effect in the last quarter of 2007 to be approximately \$1.5 - \$2.0 million of overhead costs that will be charged to operating expenses instead of being capitalized.

Hydro Ottawa will provide pre-filed evidence on this matter in its forthcoming application for 2008 electricity distribution rates. A copy of the capitalization policy and of the new allocation procedure will be included in the pre-filed evidence.

Hydro Ottawa also requests that the accounting order authorize it to record interest calculated on the opening monthly balances that accumulate in the 2007 Capitalized Overhead Variance Account. The applicable rate of interest would be derived using the methodology approved by the Board in its letter decision dated November 28, 2006. Hydro Ottawa will make a proposal to clear this variance account in its application for 2009 electricity distribution rates.

Yours truly,

A handwritten signature in black ink, appearing to read "Lynne Anderson".

Lynne Anderson  
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Government Relations Officer  
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cc: Mr. J.H. Farrell  
Fraser Milner Casgrain LLP