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December 11, 2007

VIA MAIL and E-MAIL

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

Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition (VECC)
Submissions Re: EB-2007-0770
Hydro Ottawa Limited – Application for an Accounting Order to Establish a Variance Account

As Counsel for VECC (Vulnerable Energy Consumers Coalition), I am writing to provide our submissions on the above Application.

Hydro Ottawa is requesting an accounting order that would authorize it to establish a "variance account" to record the difference between (a) ¼ of the Board approved amount for capitalization of overhead in the 2007 revenue requirement and (b) the actual amount of capitalized overhead in the last quarter of 2007[1].

In VECC's view there is no "Board approved amount for capitalized overhead in the 2007 revenue requirement". Indeed, there is no Board approved 2007 revenue requirement for Hydro Ottawa. Rather, Hydro Ottawa's 2007 distribution rates were set in accordance with the process established by the OEB in its December 20, 2006 Report of the Board on Cost of Capital and 2nd Generation

1 See Ottawa Hydro's September 14, 2007 Application

Incentive Regulation Mechanism for Ontario Electricity Distributors (the "Report"). This process involved setting 2007 rates by applying a "price adjustment mechanism" to the approved 2006 rates. As a result, in VECC's submission, there is no Board approved amount against which to calculate a variance.

Having said this, VECC acknowledges that the decision by Hydro Ottawa management (and its Board) to implement a new overhead capitalization policy effective October 1, 2007 will increase Hydro Ottawa's reportable OM&A expense for 2007. However, this is only one of host of management decisions that will impact on OM&A for 2007. The question is the appropriate treatment of the increased expense within the framework established by the Board in its December 2006 Report.

It is VECC's submission that the Report offers only two mechanisms by which electricity distributors can seek recourse if they believe the revenues received based on the price adjustment mechanism are inadequate. The first involves the application for a Z-Factor adjustment and second involves the use of the Off-Ramp provision and the filing of a comprehensive cost of service application. In VECC's view, Hydro Ottawa's Application should be viewed as a Z-Factor Application.

However, it is VECC's submission that Hydro Ottawa's request for a variance account related to Capital Overhead variances does not meet the requirements set out in the Board's Report for a Z-Factor. In its Report the Board determined that it would "limit reliance on creation of new deferral accounts during the term of the scheme to well-defined and well-justified cases only"[2]. Furthermore, the Board Report went on to say that "Z-Factors will be limited to changes in tax rules and to natural disasters"[3]. Hydro Ottawa's Application is predicated on neither of these circumstances. Furthermore, while Hydro Ottawa argues that early implementation of the accounting policy change was prudent, its does acknowledge that the utility had a choice and the early implementation (i.e., prior to January 1, 2009) was within its control[4]. This is contrary to the most fundamental principle underlying Z-Factor adjustments, namely that they relate to events not with management's control.

In VECC's view, the Board Report was the result of extensive consultation and the results were designed to balance a number of competing interests and expectations. The Board should not depart from the principles established in the Report and, as a result, VECC recommends that the request by Hydro Ottawa <u>not</u> be granted.

2 Board Report, page 46
3 Board Report, Appendix C
4 See Response to OEB Staff IR #1.2, page 4 of 4

As set out in the Board's procedural order, VECC will be filing an application for costs by December 21, 2007.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

cc: Lynne Anderson
Hydro Ottawa Limited