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BY COURIER

February 17, 2010

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

Dear Ms. Walli:

EB-2009-0423 – Hydro One Networks Inc.'s comments on the OEB's Review of Alignment of Rate Year with Fiscal Year for Electricity Distributors

Attached are three (3) paper copies of Hydro One Networks' comments on the request contained in the Ontario Energy Board's ("Board") memo to electricity distributors dated January 21, 2010.

I have also attached proof of successful submission of these comments through the Board's Regulatory Electronic Submission System.

Sincerely,

Susan Frank

Attach.

HYDRO ONE COMMENTS ON
ALIGNMENT OF RATE YEAR WITH FISCAL YEAR FOR ELECTRICITY DISTIBUTORS
BOARD FILE: EB-2009-0423

Hydro One Networks (“Hydro One”) is pleased to provide comments in response to the request contained in the Ontario Energy Board’s (“Board”) memo to electricity distributors dated January 21, 2010.

This submission consists of an Introduction, followed by responses to questions contained in the Board’s memo.

1.0 INTRODUCTION

Hydro One generally supports the recommendation of aligning the rate year with the fiscal year.

2.0 RESPONSES TO BOARD’S QUESTIONS

2.1 What are the benefits, if any, of changing the rate year to match the fiscal year for electricity distributors? Would these benefits be relevant for all distributors or only those that access the capital markets (i.e., those that report to the investment community)?

Response: Matching the rate year with fiscal year for Hydro One would facilitate the timely incorporation of the new Hydro One Sub - Transmission (ST) and Retail Transmission Service Rates (RTSR) charges by embedded LDCs into their own rates that would usually take effect on May 1st. This alignment would also assist embedded distributors to maintain lower balances in their Regulatory Asset Variance Accounts related to the charges they receive from Hydro One.

In addition, Hydro One Transmission rates are currently based on a fiscal year (i.e. January to December). Moving Hydro One Distribution rate year to match the fiscal year will lead to better alignment between Hydro One Transmission and Distribution charges for their respective revenue requirement / rate schedule changes.

Please see response to Question 2.3 below for comments regarding timelines for other distributors.

2.2 *What would be the implications, if any, of such a change from a ratepayers' perspective? For example, is it a concern that electricity consumers would see more frequent rate changes?*

Response: The change in timing in the LDCs rate changes should be a one time transitional issue that can be addressed through clear and timely customer communications. There should not be more frequent rate changes as there already are rate changes that occur on January 1st (i.e. Hydro One Transmission charges). We are assuming that the WSMS charge will still remain at May 1st.

2.3 *Were the Board to accept the merits of changing the rate year to match the fiscal year, should this change be applicable to all electricity distributors or should the Board consider effecting such a change by application only? If by application only, what may be the issues and concerns related to the fact that some distributors would be on January 1st rate year while others are on a May 1st rate year? Also, would it be appropriate to change the rate year while the distributor is under a performance based mechanism for rate-setting or should it be part of a cost of service filing?*

Response: Hydro One proposed the alignment of its 2010/11 Distribution Cost of Service Application (EB-2009-0096) to January 1st assuming that all embedded LDCs would remain on the May 1st rate year. As noted in response to Question 2.1 above the benefit of minimizing the amounts carried by the smaller embedded distributors in variance accounts is a worthy consideration. However, as long as Hydro One had its rates approved prior to the LDC's this benefit should still be realized.

Hydro One is not aware of any disadvantages that would result if the Board were to implement the alignment for a distributor that is under a performance based rate setting mechanism. The net outcome would be essentially the same when such implementation is done under a Cost of Service application. Perhaps the only significant difference would be the Board's timing to determine the appropriate price escalator for implementation on January 1st instead of May 1st.

2.4 *Under a cost of service mechanism, what are the specific issues from a ratemaking perspective of transitioning to a rate year that would be aligned with the fiscal year, and how should these issues be specifically addressed?*

Response: Implementing rates effective January 1st will enable Hydro One Networks, Hydro One Brampton Inc. and Hydro One Remote Communities to collect its approved revenue requirement over the same period on which the revenue requirement and rates were based and when the actual expenditures are incurred. Hydro One also believes this would be the case for many other LDCs. This will also coincide with the business planning period and the fiscal year for most LDCs. Under the current regime LDCs do not start to fully collect its annual revenue requirement until four months into the year (e.g. May 1st) and consequently there is a mismatch between costs incurred and revenues collected which complicates the reporting of actuals and comparing these against revenues from approved rates.

In summary, moving the effective date of the rate change to January 1st will result in LDCs incurring its costs and collecting revenues from its customers over a period coincident with the annual level of expenditures approved by the Board.

2.5 *Under an incentive regulation mechanism, what are the specific issues from a ratemaking perspective of transitioning to a rate year that would be aligned with the fiscal year, and how should these issues be specifically addressed?*

Response: As noted in its response to Question 2.3 above Hydro One does not see any specific issues arising with a transition to alignment of rate year with fiscal year with respect to an IRM.

2.6 *What would be the specific issues relating to the timeliness of existing filing requirements such as bridge year information, audited financial statements, tax returns, and review and disposition of deferral and variance account balances, and how should these be specifically addressed?*

Response: LDCs would need to file their rate Applications in Q1 rather than Q3 as is current the usual practice. This should not be an issue as long as the year end process is completed. Hydro One already works on a Fiscal Year basis for planning and budgeting to prepare its revenue requirement and rate applications and for its reporting to the OEB.

2.7 *Are there other key issues that should be considered if the Board were to change the rate year to match the fiscal year for electricity distributors?*

Response: Hydro One has no other comments to add beyond those provided in responses to Questions 2.1-2.6 above.