

May 11, 2010

Kirsten Walli
Board Secretary
Ontario Energy Board,
2300 Yonge St.
Suite 2700, P.O. Box 2319
Toronto, Ontario
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Canada

Dear Ms. Walli:

**Re: Guelph Hydro Electric Systems Inc. response to Ontario Energy Board
letter on Early Rebasing Applications**

Background

On March 16, 2010 Guelph Hydro Electric Systems Inc. ("Guelph Hydro") sent a letter to the Board communicating its intention to submit a forward test year cost of service distribution rate application in August of this year for 2011 distribution rates, with an effective date of May 1, 2011.

Guelph Hydro mentioned two matters that had prompted it to file an early rebasing application this year:

First, Guelph Hydro is commencing the construction of a 115 to 13.8 kV municipal transformer station ("MTS") in the Hanlon Expressway corridor from Maltby Road to Clair Road West in the City of Guelph. The MTS would step down electricity from the existing 115 kV transmission network to provide a reliable source of power to address the increased demand for electricity supply to new development in the south end of Guelph that cannot practically be supplied from facilities in the north part of the city.

Second, Guelph Hydro has found that its actual loads have been significantly lower than those forecast in Guelph Hydro's 2008 cost of service application. Guelph Hydro will not be seeking any recovery of forgone revenues on account of those lower loads, but does wish to update its load forecast at the earliest opportunity in order that its distribution rates are more reflective of its actual loads.

On April 20, 2010 the Ontario Energy Board (the "Board") issued a letter advising LDCs seeking rate rebasing in advance of their next regularly scheduled cost of service proceeding that they would be required to justify why an early rebasing is necessary notwithstanding that the "off ramp" conditions have not been met. The letter noted that the Board panel hearing the application may determine, as a preliminary issue, whether the application for rebasing is justified or whether the application as framed should be dismissed. Further, the Board panel may disallow some or all of the regulatory costs associated with the preparation and hearing of that application, including the Board's costs and intervenor costs.

Guelph Hydro Electric Systems Inc. response to the Board's letter on early rebasing applications

Guelph Hydro has considered the Board's letter on early rebasing applications as it relates to Guelph Hydro. In addition, Guelph Hydro has considered the Board's recent RPP price increase effective May 1, 2010 and the bill impacts on Guelph Hydro customers of an additional increase in distribution rates if Guelph Hydro were to submit a forward test year cost of service distribution rate application in August of this year for 2011 distribution rates.

Guelph Hydro has determined that it will not file a forward test year cost of service application for 2011 distribution rates. Instead, Guelph Hydro will be submitting a 3rd Generation Incentive Regulation Mechanism ("IRM3") application. That IRM3 application may include an Incremental Capital Module ("ICM") component. The Incremental Capital Adder application would address the new unusual capital investment with the municipal transformer station which is beyond the expected level of annual capital investment factored into base rates at the time that Guelph Hydro had its rates set in its last cost of service review (i.e. 2008). The new incremental capital investment satisfies the ICM threshold and the eligibility criteria of Materiality, Need and Prudence as defined in Chapter 3 of the Filing Guidelines issued July 22, 2009; the July 14, 2008 Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors; and the Supplemental Board Report issued September 17, 2008.

Guelph Hydro intends to apply for a realignment of its rate year to match the fiscal (calendar) year to be effective on January 1, 2012; the alignment application will form part of Guelph Hydro's Cost of Service application for 2012 distribution rates.

Respectfully Submitted,



Cristina Birceanu

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