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BY COURIER

December 7, 2010

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

Dear Ms. Walli:

Direct Benefits - Allocation of Costs Between Hydro One Distribution Rate Payers and Provincial Consumers under Ontario Regulation 330/09

Hydro One Networks Inc. ("Hydro One") is advising the Board of its plans for re-evaluating the direct benefits that accrue to its customers as a result of eligible investments made to accommodate renewable generation on the Hydro One distribution system.

Background

Hydro One's Green Energy Plan (EB-2009-0096, Exhibit A, Tab 14, Schedule 2) discusses Hydro One's methodology and percentages for allocating costs identified in that plan between Hydro One's distribution ratepayers and provincial consumers. The Board provisionally approved Hydro One's methodology on February 18, 2010. On June 10, 2010, the Board culminated a consultation process, EB-2009-0349, with a Report of the Board that establishes a framework for determining the direct benefits that accrue to the customers of an electricity distributor as a result of eligible investments made to accommodate renewable energy generation facilities, per Ontario Regulation 330/09.

Determination of Direct Benefits

Hydro One believes that, at this time, the following reasons are influential in determining the appropriate time to re-evaluate the direct benefits that accrue to its customers under the Board's framework:

1. Extent to which eligible investments have been made to accommodate renewable generation

In May, 2010, Hydro One began receiving Connection Impact Assessment (CIA) applications from the first group of projects contracted under the Feed-In-Tariff program that require a capacity allocation. Due to the relatively early stage of these projects in the connection process, Hydro One has not yet incurred any significant costs towards eligible investments to accommodate these generators on the distribution system. As of September 30, 2010, Hydro One's net expenditure on eligible investments was approximately $5M; however, none of the assets towards which these costs were incurred are in service yet. In the absence of meaningful experience with investments that are eligible for distributor funding, Hydro One's view is that it is premature to re-evaluate the cost allocations between Hydro One distribution ratepayers and provincial consumers that were determined as part of Hydro One's filed Green Energy Plan. Hydro One's intention is to re-evaluate the direct benefits that accrue to its distribution rate payers, for actual eligible investments that have been made, based on audited financial information. Hydro One expects to make significant eligible investments in 2011, and audited financial information for these costs will be available around March 2012, at which time the company believes it will have sufficient information to re-evaluate the direct benefits.

2. Usefulness of cost allocation for other distributors

The Ontario Power Authority offered its first group of contacts to renewable energy projects that require a capacity allocation around April, 2009. A relatively small proportion of these projects is located outside Hydro One's distribution service territory. Given the timing of the contract offers, Hydro One expects that these projects, similar to projects in Hydro One's service territory, are at an early stage in the connection process. As such, Hydro One expects that similar to its own experience, other distributors are unlikely to have incurred significant costs towards eligible investments to accommodate renewable generation.

Hydro One believes that the methodology discussed in its Green Energy Plan is largely consistent with the framework provided by the June 10, 2010 Report of the Board. Hydro One's plan considers the benefit of eligible investments on asset replacement and load growth as well as service quality improvements expected from Renewable Enabling Improvements. The additional criteria, regarding improved capability of the distribution system, identified in the Board's framework, are unlikely to materially affect the allocations proposed in Hydro One's Green Energy Plan. In addition, since an insignificant amount of generation affected by regulation 330/09 is in service to date, the impact on network transmission and wholesale market service charges is negligible.

A re-evaluation of direct benefits at this time is not expected to result in material changes from the proposed allocation in Hydro One's Green Energy Plan. As such, the company believes it would be inefficient to complete another (prospective) direct benefits assessment now, and then again after audited financial information is available. Instead, Hydro One proposes to apply the Board's cost allocation methodology on a final basis, based on audited 2011 financial information, to costs previously incurred towards eligible investments, as noted in the Board's partial decision of February 18, 2010. Until such time, Hydro One's view is that other distributors will be well-served to use the same methodology as Hydro One did in its initial Green Energy Plan submission, use variance accounts to track the costs, and finalize the allocation when the variance accounts are cleared.

3. Potential Impact, on cost allocations, of the Board's decision regarding Hydro One's exemption application (EB-2010-0229)

Hydro One's exemption application (EB-2010-0229) is currently before the Board. Hydro One expects that the Board will render its decision on this application by the end of 2010. The Board's decision may result in Hydro One making eligible investments which may in turn result in modifications to the Company's approved Green Energy Plan and in some, yet to be determined, direct benefit to Hydro One customers. Hydro One believes that it would be appropriate for this decision to be reflected and considered in a re-evaluation of percentage cost allocations between Hydro One's distribution ratepayers and provincial consumers. However, as noted above, Hydro One would consider the impact of the investments that result from this decision once audited financial information is available.

In conclusion, Hydro One submits that a re-assessment of direct benefits in accordance with the June 10, 2010 Report of the Board would be appropriate after Hydro One has access to audited financial information for eligible investment costs incurred during 2011, and after the Board's decision regarding Hydro One's exemption application. Hydro One will communicate with the Board and its staff regarding this matter, and provide a reassessment of its plans and the timing for re-evaluating the Direct Benefits, after the company has the appropriate level of information to allow such work.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Attach