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Susan Frank

Vice President and Chief Regulatory Officer
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BY COURIER

December 20, 2007

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON.
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Dear Ms. Walli:

Request to Maintain Existing Regulatory Assets – Phase 2 Rate Rider

Summary

Hydro One Networks requests the Board for approval to maintain the rate rider established under EB-2004-0371 (Final Recovery of Regulatory Assets – Phase 2), until such time as new distribution rates are implemented in response to a Final Order from the Board on Hydro One Networks' 2008 Distribution Rates Application under proceeding EB-2007-0681.

Background

In the March 14, 2005 Board Decision associated with proceeding EB-2004-0371 (Final Recovery of Regulatory Assets – Phase 2) the Board ordered that:

- “1. Hydro One is granted final approval for its regulatory asset account balances as filed on January 20, 2005. Approval is further granted for the recovery of the amounts allocated to customer classes and for this recovery to take place through the application of class specific rate riders beginning April 1, 2005 until April 30, 2008.
2. Hydro One is granted approval for its regulatory asset specific charges to the embedded direct customers to recover the approved aggregate amount of \$5,746,514, or \$1,915,505 per year, over a three year period beginning on April 1, 2005.”

The regulatory assets approved in EB-2004-0371 are currently being recovered through the application of Rate Rider # 1, and funds collected are allocated to variance account 1590 established in accordance with the Board's Decision with Reasons in the proceeding "Review and Recovery of Regulatory Assets – Phase 2" (RP-2004-0117/0118).

As of April 30, 2008 the balance in variance account 1590 is forecast to be \$5 million owing to Hydro One Networks.

The existing Rate Rider #1 is currently set to terminate on April 30, 2008 for most customers, and on March 30, 2008, for embedded direct customers. Accordingly, Board direction on this request is required by February 28, 2008 to allow time for implementation of the billing system changes that would be required.

The current Rate Rider #1 approved as part of Hydro One Networks' 2007 Rates proceeding (EB-2007-0542) are detailed in the following exhibits of that proceeding: Exhibit C, Tab 1, Schedule 3 for legacy customers; Schedule 2 of Exhibit D, Tabs 1 through 87 for acquired customers; and Exhibit E, Tab 1, Schedule 2 for embedded customers.

Discussion

There are a number of significant factors driving Hydro One Networks' request to maintain Rate Rider #1 in effect, as noted below:

- It provides rate stability for customers, by smoothing the impact of new rates, and eliminates customer confusion associated with multiple rate changes over a short period of time.
- It avoids the negative impacts on rate harmonization which result from calculating total bill impacts relative to a lower revenue base that excludes Rate Rider #1. These negative impacts are twofold –
 - It drives the need to harmonize rates over more than 4 years in order to respect the Board's limit on total bill impacts. This extends the existing cross subsidies between customer classes since some customers will not be paying for their full cost of service in accordance with the Board's cost allocation methodology.
 - It drives additional cross subsidies in 2008 related to shifting revenues to be collected from some acquired customers to legacy residential customers, as a result of needing to collect the total revenue requirement while ensuring the average total bill impact for customers stays below 10%.
- It allows the forecast Rate Rider #1 variance account (1590) balance of \$5 million owing to Hydro One Networks as of April 30, 2008 to be drawn down.
- It avoids the costs associated with billing system changes and customer communications related to eliminating Rate Rider #1.
- It puts Hydro One Networks on a level playing field with other Distributors that have applied for new rates in 2008, and include the removal of Rate Rider #1 as an offset to their rate increases to be implemented May 1, 2008.

The concern with rate stability was articulated by the Board and intervenors in Hydro One Networks' Application for 2006 Distribution Rates (EB-2005-0378). In their Decision on the 2006 Distribution rates application the Board expressed concern about the "yo-yo effect that some customers will see in their rates" as a result of Hydro One Networks' proposals and noted that intervenors expressed concerns about the possibility that some customers might experience significant increases and decreases in their bills within a short period of time.

Disposition of Incremental Revenues Collected

Until such time as new rates are implemented under EB-2007-0681, it is proposed that incremental revenues collected via the maintenance of Rate Rider #1 will be tracked in existing variance account 1590 for disposition at a later date, per Direction from the Board. The disposition will be done in accordance with the Direction from the Board in their December 9, 2004 Decision with Reasons in the proceeding "Review and Recovery of Regulatory Assets – Phase 2" (RP-2004-0117/0118). Per the December 9, 2004 Decision, "the residual (positive or negative) balance in the Regulatory Asset Recovery Account (1590) shall be disposed of to rate classes in proportion to the recovery share established when rate riders were implemented".

Conclusion

Given the benefits associated with maintaining stable rates, reducing cross subsidization between customer classes, eliminating unnecessary customer confusion and avoiding the cost of making interim rate changes, Hydro One believes that maintaining Rate Rider #1 in effect is a prudent course of action.

An alternative that would achieve the same effect as requested above would be for the Board to approve a Transitional Rate Rider equivalent to currently approved Rate Rider #1. This Transitional Rate Rider would remain in effect, until such time as new distribution rates are implemented in response to a Final Order from the Board on Hydro One Networks' 2008 Distribution Rates Application under proceeding EB-2007-0681. The incremental revenues collected by Transitional Rate Rider #1 would be tracked in the existing variance account 1590 for disposition at a later date, per Direction from the Board.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank