



January 4, 2008

Ms. Kristen Walli
Ontario Energy Board
P. O. Box 2319
2300, Yonge Street
26th, Floor
Toronto, On
M4P 1E4

Dear Madame:

Subject: 2008 Rate Rebasing
: File Number: EB-2007-0704

Please find enclosed one electronic version and 2 hard copies of the following:

- 1- Hydro 2000 Inc. Response to Board Staff Submission
for 2008 Electricity Distribution Rates.
- 2- Hydro 2000 Inc. Response to VECC Final Argument for 2008
Electricity Distribution Rates.

Please contact the undersigned for any information.

Yours truly,

Rene Beaulne (Bone)
Manager/CEO
613-679-4093

CC: Mr. Ted Antonopoulos



ONTARIO ENERGY BOARD

**IN THE MATTER OF the Ontario Energy Board Act, 1998,
S.O. 1998, c. 15, Sch.B as amended:**

**AND IN THE MATTER OF an Application by Hydro 2000
Inc. pursuant to section 78 of the Ontario Energy Board Act
for an Order or Orders approving just and reasonable rates
for the delivery and distribution of electricity.**

REPLY TO

BOARD STAFF SUBMISSION AND VECC FINAL ARGUMENTS

**HYDRO 2000 INC.
EB-2007-0704
2008 ELECTRICITY DISTRIBUTION RATES**

JANUARY 7, 2008

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Manager
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HYDRO 2000 INC.

Tables of Contents	Page
1- OM&A Expenses.....	2
2- Regulatory Costs.....	3
3- Allocation of LV Cost.....	3
4- Line Losses TLF.....	5
5- Revenue to Cost Ratios	
a. GS > 50kW over Neutral Point.....	6
b. USL rate to conform Board Policy.....	7
6- Fixed Charges.....	8
7- Deferral and Variance Accounts	
a. Treatments of RSVA's 1584 & 1586.....	9
b. Treatments of RSVA's 1588.....	9
8- Forecasting Balances for Disposition.....	10
9- Treatment of Account 1508 cost Assessment.....	10
10- Treatment of Account 1590 Regulatory Assets.....	12
11- Treatment of Account 1592.....	13
12- Request for new Deferral Account.....	14

HYDRO 2000 INC.

1- OM&A Expenses:

Hydro 2000 Inc. has review and has asked Ottawa River Power Corporation and Ottawa River Power Solutions and affiliate to confirm the new incremental cost of operating the new Harris Billing System. The Following tables shows the new charges and the Previous Charges.

A letter from ORPC will be attached with the written submission to confirm the incremental cost.

On Going Costs	New Charges	Previous Charges	Charge
Harris Proposal for 3 rd Party Licences	\$140	\$0	Annual
ORPC allocation of Harris Licence maintenance cost	\$10,000	\$8,166	Annual
Retail and Wholesale Settlement (Pass through of Utilismart)	\$ 150	\$0	Monthly
EBT HUB and Spoke (Pass through of SPI Costs per enrolled customer or \$150 min. charge each month plus \$4,000 annual charge divided in 3 ORPC, H2000 & Embrun	\$ 150 \$ 1,333	\$0 \$0	Monthly Annual
Total Annually	\$15,073	\$8,166	Annual

The total incremental cost incurred by the new Harris Billing CIS is \$6,907.

A new Salary Grid was approved in December 2007, following a Study Shared with the municipality of Alfred Plantagenet and Hydro 2000 Inc. The result of this study was originally schedule to be presented early in 2008. The new Salary Grid Set Executive Salary at \$67,410 and Non-

HYDRO 2000 INC.

Unionized at \$39,590 an increased of \$8,136 over and above the increase of 2008 presented in Exhibit 4, Tab 2, Schedule 7, Page 1 should be included in OM&A expenses.

Description	2008 Test Year	2008 With new Salary Grid	Difference
Executive	\$59,566	\$67,410	\$7,844
Non-unionized	\$39,298	\$39,590	\$292
Total	\$98,864	\$107,000	\$8,136

2- Regulatory Costs:

Hydro 2000 Inc. has removed \$60,000 of regulatory costs from OM&A. The amount of \$60,000 was the cost budgeted for the expenses of 2008 rebasing model. Hydro 2000 Inc. has only included \$40,000 of regulatory cost in the 150800-03 deferral account. The approximately \$40,000 dollars are the actual expenses incurred up to the revised application on November 15, 2007. There will be others expenses that are not known at this point and will accounted in the future in the proper variance account.

3- Allocation of LV Cost:

Hydro 2000 Inc. has revised and is providing class revenue requirements in which the LV component is calculated following the Board method by allocating the LV charges with the transmission connection portion of each class. Please see on the table on next.

The next table shows the calculation for class revenue requirements for LV using the new 2008 rates transmission connection and the 2008 load forecast.

Hydro 2000 Inc.
EDR 2006 MODEL (ver. 2.1)
ED-2002-0542 (RP-2005-0020, EB-2005-0380)

7-2 ALLOCATION - Low Voltage Wheeling Costs					
Amount allocated on this sheet:-- <i>Low Voltage Wheeling Costs B.R.R. #2</i>	Retail Transmission Connection Rate (\$)		Basis for Allocation (\$) (rate x volume from 6-2)	Allocation Percentages	Allocated \$
\$106,241	per KWh	per kW			
RESIDENTIAL					
Regular	0.0057	0.0000	91,132.19	60.11%	\$ 63,858.05
GS Less than 50 kW	0.0057	0.0000	32,370.15	21.35%	\$ 22,682.37
GS Greater than 50 kW (to 3000 kW)	0.0000	2.1218	26,753.78	17.65%	\$ 18,746.88
Unmetered Scattered Load	0.0057	0.0000	107.18	0.07%	\$ 75.11
Street Lighting	0.0000	1.3824	1,253.84	0.83%	\$ 878.59
TOTALS			151,617.13	100.00%	\$ 106,241.00

2008 <i>Low Voltage Costs</i>	2008 Retail Transmission Connection Rate (\$)		2008 Load Forecast		Basis for Allocation (rate x volume)	Allocation Percentages	LV Allocated
\$143,000	per KWh	per kW	per KWh	per kW	\$	%	\$
RESIDENTIAL							
Regular	0.0040	0.0000	16,514,191		\$ 66,056.76	61.55%	\$ 88,010.24
GS Less than 50 kW	0.0036	0.0000	5,862,016		\$ 21,103.26	19.66%	\$ 28,116.77
GS Greater than 50 kW (to 3000 kW)	0.0000	1.4348		13,280	\$ 19,054.14	17.75%	\$ 25,386.65
Unmetered Scattered Load	0.0036	0.0000	19,951		\$ 71.82	0.07%	\$ 95.69
Street Lighting	0.0000	1.1092		941	\$ 1,043.76	0.97%	\$ 1,390.64
TOTALS					\$ 107,329.75	100%	\$ 143,000.00

HYDRO 2000 INC.

4- LINE LOSSES TLF:

Hydro 2000 Inc. confirms that its TLF is 1.070 which is the product of these two factors.

Hydro 2000 Inc. will rebalance its feeders in January 2008.

Hydro One Networks Inc. has noticed Hydro 2000 Inc. that its Plantagenet feeder is out of balance by 25% on one phase. Hydro 2000 will try to rebalance as best it could and try to find the cause of this unbalance.

Hydro One Networks will re-assess the feeder in February 2008 for its on analysis and provide Hydro 2000 with the result of the rebalancing for both village of Alfred and Plantagenet.

Hydro 2000 Inc. has proposed a TLF of 1.066 that was in between 1.061 to 1.07.

HYDRO 2000 INC.

5- REVENUE TO COST RATIOS:

A) GS OVER 50kW

Hydro 2000 Inc. has moved the revenues to cost ratios toward the 100 % in each class.

Hydro 2000 has moved the revenue to cost ratio for the GS > 50kW from 94.5% past the neutral Point to 108.4%. When Hydro 2000 was answering all the interrogatories it did realize the problem but did not have the time to correct this problem, redo all calculation and re-submits all exhibits. In the approval of rates Hydro 2000 Inc. is ready to rectify this problem. By reducing GS over 50 kW to the neutral point, it will impact all the other classes by an increase.

An analysis of the model was performed to understand why even though Hydro 2000 was moving its revenue to cost ratio from existing rate to cost allocation rate it went over the neutral point. In theory it should not have happened. The only factor that contributed to pass the neutral point was the increase in Load Forecast in KW for the class.

HYDRO 2000 INC.

5- REVENUE TO COST RATIOS:

b) UNMETERED SCATTERED LOAD (USL)

Hydro 2000 Inc. has only three customers with a total of 6 connections. Any small changes to this class will have major issues because of the limited number of customers.

CLASS	FIXED RATES	
	2007 CURRANT	2008 PROPOSED
GS Less 50kW	\$11.90	\$24.78
Unmeterd Scattered Load (USL)	\$5.82	\$10.00

CLASS	VOLUMETRIC RATES	
	2007 CURRANT	2008 PROPOSED
GS Less 50kW	\$0.0098	\$0.0106
Unmeterd Scattered Load (USL)	\$0.0098	\$0.0086

The next table will demonstrate to meet the objective of the Board for the USL class for the revenue cost ratios will have a major increase. Following the Board guideline for the USL class the revenue to cost ratios boundaries are from 70% to 120%. To meet the low boundaries of the class the rates would be as follows with the following increases.

Unmetered Scattered Load (USL)		
Rate Description	Revenue to Cost Ratio Lower Boundaries of 70%	% Change compare to 2007 Rates
Fixed Rate	\$24.52	421.3%
Volumetric Rate (kWh)	\$0.1651	1684.7%

HYDRO 2000 INC.

6- FIXED CHARGES:

After the revision of Board Staff Submission and VECC Final Argument and application of Cost Allocation for Electricity Distributors Hydro 2000 will modify its fixed charges?

In the revision of the fixed rates and volumetric rates the following changes were considered for the following proposed fixed and volumetric rates.

- 1- The LV charges were entered in the Model with the proposed calculation on page 4.

Class	LV charges
Residential	\$88,010.24
GS less 50 kW	\$28,116.77
GS over 50 kW	\$25,386.65
USL	\$95.63
Street Light	\$1390.64

- 2- The GS over 50 kW Revenue to cost ratio was moved to the neutral point.
- 3- Hydro 2000 proposed to move the USL Revenue to cost ratio to 27.87% to minimize the increase at 24.3% or an increase of \$37.58 per bill. The total bill impact to bring the class to 70% of its revenue to cost ratio is 63.37% or an increase of \$97.99 per bill.
- 4- The Bill impact for smaller residential customers will be address with the new proposed rates.

HYDRO 2000 INC.

Residential Customer	
Consumption	Bill Impact
100 kWhs	-0.5%
250 kWhs	-3.2%
500 kWhs	-4.6%

Hydro 2000 is proposing to go with the customer unit cost per month directly related. After considering all items from 1 to 4 and others the new proposed rates for the fixed and volumetric rates are as follows.

Class	Fixed Rate	Volumetric rate	Revenues to cost ratios
Residential	\$8.50 per month	\$0.0108/kWh	104.16%
GS less 50 kW	\$24.52 per month	\$0.0125/kWh	100.00%
GS over 50 kW	\$120.28 per month	\$2.8522/kW	100.00%
USL	\$24.52 per month	\$0.0152/kWh	27.87%
Street Light	\$0.05 per connection	\$8.3136/kW	71.82%

**NOTE: \$0.26 FOR SMART METER ADDER IS NOT INCLUDED
FIXED RATE.**

7- DEFERRAL AND VARIANCE ACCOUNTS:**A) TREATMENTS OF RSVA'S 1584 & 1586**

Hydro 2000 is disposing of its variance account 1584 & 1586 with its transmission rates. Please see answer to question 49 of Board Staff Interrogatories page 100 of 104. In the transmission model that Hydro 2000

File Number: EB-2007-0704

HYDRO 2000 INC.

has made it take in consideration to be revenue neutral and RSVA Adjustment. Please see the bottom of page 100 and 101 of question #49.

7- DEFFERRAL AND VARIANCE ACCOUNTS:

B) TREATMENTS OF RSVA'S 1588

Hydro 2000 ask for the disposition of RSVA Power account to show the Board that there is a large amount setting in variance power account. \$63,892 is a large amount for a small utility. Hydro 2000 will follow Board directions as part of Bill 23.

8- FORECASTING BALANCES OF DISPOSITION:

Hydro 2000 used forecast balances for disposition to show the impact on some RSVA and DVAD. Hydro 2000 used forecast balances to show and prevent DVAD and RSVA accounts to be cumulating large amounts and demonstrate the orientation of the accounts. By doing forecast of each account and disposing of all balances in each variance account customers rates will be more accurate with less fluctuation.

9- TREATMENT OF ACCOUNT 1508:

A) COST ASSESSMENT

Hydro 2000 acknowledge that it did continue to register Board Assessment cost after April 30, 2006 by error. Hydro 2000 will remove all post April 30, 2006 cost assessment that was register to the account.

HYDRO 2000 INC.

An adjustment to account 1508 will be made to reflect the proper total in the amount of \$2,925.58 plus the carrying charges in the amount of \$182.83.

The Amount remove from 1508 should be accounted in 5655 and should be reconsidered has increases of Hydro 2000's OM&A expenses.

9- TREATMENT OF ACCOUNT 1508:
B) 2008 REBASING COST

Hydro 2000 is proposing two methods of dispositions of the 2008 rebasing costs.

The first method is to register all budgeted expenses to be recorded in account 5655 and to be disposed on a three year basis. It is very hard to predict what are all the expenses associated to 2008 rebasing cost. In this process there is so many unknown, Intervener cost, Oral hearings, etc. It is easy to over or under collect if future rates are not set on time or the budgeted expenses over or under achieves the target.

The second method is to register all budgeted expenses to be recorded in a variance account that the Board recommend in this case 1525. It will not impact OM&A expenses. All expenses would be track and could be approved by the board and all the recoveries would be track too. This would be the best and most equitable solutions where the utility is left with less risk of being expose to expenses or having to over budget to protect from unexpected expenses.

If the Board select to choose the second method, Hydro 2000 than ask the Board to approved the variance and include it as part of its new Regulatory Asset Recovery Rates of May 1st, 2008.

File Number: EB-2007-0704

HYDRO 2000 INC.

10- TREATMENT OF A CCOUNT 1590 REGULATORY ASSETS:

“At the end of the three year period, at April 30,2008, as there will be a residual (positive or negative) balance in regulatory Asset Recovery Account (1590), this balance shall be disposed of to rate classes in proportion to the recovery share as established when rate riders were implemented. (Section 9.019)

Hydro 2000 is proposing a blending recovery of its regulatory assets. The residual balance in the regulatory Assets recovery to be recovered is redistributed per class with the same proportion as established when the rate riders were implemented. Please see next page for details or DVAD Model, TAB 2008 Rate Riders Calculation Cell F36 to K36.

Hydro 2000 is asking to have its regulatory assets approved with the residual balance for rates stability. The previous Regulatory Recovery Residential Rate was \$0.0054 then when up to \$0.0098, if the residual is not approved than the rates will decrease significantly to \$0.0015 and back up again when the residual an other DVAD will be approved. For every \$100,000 of recovery per year the rate will increase by approximately \$0.004 for residential class.

At this point there will be large amount sitting in different DVAD.

Hydro 2000 Inc. can have its financial audited report by the end of February 2008.

File Number: EB-2007-0704

HYDRO 2000 INC.

Hydro 2000 Inc. can have its 1590 residual amounts Audited by May 7, 2008, supply the Board with all the information. Hydro 2000 Inc. only billed once a month and can wait until May 21, 2008 for its Regulatory Assets Recovery Rate Rider Approved.

11-TREATMENT OF ACCOUNT 1592 PILS:

In the March 10th, 2007 letter, the final balances for 2006 were not known yet. At that time, it was estimated that the taxable income would be less than the accumulated loss.

After the final numbers were known, the taxable income was greater than the accumulated loss. Because it was estimated to be lower, Hydro 2000 Inc. did not ask to recover this amount in account 1592. The final amount of PILs paid for 2006 was \$10,211. This amount has been assessed by the Ministry of Finance.

The amounts used for 2007 and 2008 were the estimated amounts of PILs that will be paid. According to the OEB method, the amounts are much less. The difference will be recovered later. The amounts of PILs according to OEB will be \$0 for 2007 and \$1,679 ($\$5,036 * 4 / 12$) (January to April). The model will be modified accordingly.

HYDRO 2000 INC.

12- REQUEST FOR NEW DEFERRAL ACCOUNT:

All members of the CHEC Group are asking for a New Deferral account.

By asking a deferral account this will eliminate expensive rebasing cost and all the process of new application in front of the Board. Another option would be to submit an application being more complex with different set of rates for each year.

HYDRO 2000 INC.

Tables of Contents	Page
1- Transmission Connection.....	2
2- Cost of Power.....	2
3- Load Forecast.....	2
4- OM&A Expense.....	3
a) Incremental Cost for Harris billing	
b) Details of services provided by Deloitte and Elenchus	
c) Only \$40,000 has been “posted” to the deferral account	
5- Line Losses.....	4
6- Cost of capital/capital structure.....	4
7- Deferral and Variance Accounts.....	4
8- Cost Allocation.....	5
9- Base Distribution Cost.....	5
10-Rate Design.....	6
11-Recovery of reasonably Incurred Costs.....	6

HYDRO 2000 INC.

1- Transmission connection:

Hydro 2000 Inc. is an embedded utility and as already received a decrease from its Host distributor Hydro One Networks Inc. (HONI). The new rates announce does not have the same impact to embedded utilities compare to market participant utilities. At the present time **Hydro 2000 paid on its Power bill and amount of \$2.09 for Line Connection and Line Transformation. The new rate for Line Connection and Line Transformation is \$2.20, an increase of 5.26%.** If you applied the load forecast (growth) you will get close to 7%. At this point Hydro 2000 Inc. is waiting for HONI new rate application to be approved to see all the future impacts on hydro 2000 rates.

2- Cost of Power:

Hydro 2000 calculated its cost of power by using its 2008 load forecast of 28,071,992 kWhs at \$57.04 MW rate supplied by IESO when ask by Elenchus group from OEB. 28,071,992 kWhs time \$0.05704 kWh is \$1,601,226.

3- Load Forecast:

Hydro 2000 has concerns that the methodology used by HONI has generated a Load Forecast which is over estimated in Hydro 2000's opinion. Based on 2007 actual figures the load forecast calculated by Hydro 2000 is more accurate than the Load forecast of HONI which is off by approximately 7%. Hydro 2000 Load Forecast prediction is about 0.5% off.

HYDRO 2000 INC.

4- OM&A EXPENSE :

A) Incremental cost for Harris Billing

Please see Hydro 2000 Inc. reply to Board Staff Submission on page 2.

4- OM&A EXPENSE :

B) Details of services provided by Deloitte and Elenchus.

The following services were provided by **Elenchus**.

- Sale of the Model & Exhibit
- Training
- Modification of the model
- Support of the Model
- Support for Interrogatories

The following services were provided by **Deloitte**.

- Help prepare the Model & Exhibit
- Supplied Confirmation letters
- Help answering Interrogatories
- Help answering Submission

4- OM&A EXPENSE :

C) Only \$40,000 has been “posted” to the deferral account.

Hydro 2000 confirms that the \$40,000 is actual money spent to date.

HYDRO 2000 INC.

5- LINE LOSSES TLF:

Please see Hydro 2000 Inc. reply to Board Staff Submission on page 5.

6- COST OF CAPITAL/CAPITAL STRUCTURE:

A) Cost of debt

Hydro 2000 Inc. confirms that the interest is 5.5% and the weighted average cost of capital should be 6.956%. In the calculation of interest table in the Elenchus Model the Average Balance should have been used instead of the year end balance for the long term debt which would yield the proper interest amount without having to change the interest rate.

Hydro 2000 Inc. confirms that the deemed interest and net income with the actual figures are

Interest: $\$735,075 \times ((49.33\% \times 5.5\%) + (4.0\% \times 4.77\%)) = \$21,346$

Net income: $\$735,075 \times (46.67\% \times 8.68\%) = \$29,778$

The rate base will change following OEB final decision on the application. One example is the OEB assessment cost which will be expensed instead of being capitalized in the regulatory assets

7- DEFFERRAL AND VARIANCE ACCOUNTS:

Please see Hydro 2000 reply to Board Staff Submission on page 13.

HYDRO 2000 INC.

8- COST ALLOCATION:

Hydro 2000 Inc. confirms that the LV charges will be proportion to each class by the new 2008 Transmission Rate Connection and 2008 Load Forecast. Please see Hydro 2000 Inc. reply to Board Staff Submission on page 3 and 4.

Hydro 2000 may have not used the proper method (or pass through) but always considered as a pass through in the model. Please see the LV Charges and Smart meter were treated as pass through please see Exhibit 7, Tab 1, Schedule 1, Page 3 they are included as a revenue and as an expense.

At the time the model was completed Hydro 2000 Inc. did not know that the cost allocation model had to be updated. They were no direction from the Board how to use the cost allocation for the revenue to cost ratio and fixed rates per class.

9- BASE DISTRIBUTION COSTS:

Please see page 9 of Hydro 2000 reply to Board Staff Submission for new proposed rates for fixed rates and volumetric rate and revenue to cost ratios.

10- RATE DESIGN:

Hydro 2000 has revised its fixed and volumetric rates. Please see page 9 of Hydro 2000 reply to Board Staff Submission.

HYDRO 2000 INC.

11-RECOVERY OF REASONABLY INCURRED COSTS:

Hydro 2000 Inc. wants to reiterate that it's a very small utility that all intervenor expenses will impact its 1163 customers.