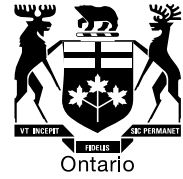


**Ontario Energy
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BY EMAIL

January 21, 2008

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Ste 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

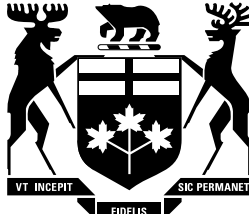
**Re: Kitchener-Wilmot Hydro Inc.
2008 Incentive Regulation Mechanism Rate Application
Board File Number EB-2007-0883**

Please find attached Board staff's submission for the above proceeding for distribution to the applicant and any intervenors.

Yours truly,

Original Signed By

Alexandre Ruest
Policy Advisor, Regulatory Policy Development



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

Kitchener-Wilmot Hydro Inc.

EB-2007-0883

January 21, 2008

INTRODUCTION

Kitchener-Wilmot Hydro Inc. (“KWH”) submitted an application on November 1, 2007, seeking approval for changes to the rates that KWH charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism and includes a proposal to adjust to their retail transmission service rates.

The purpose of this document is to provide the Ontario Energy Board (the “Board”) with the submissions of Board staff after its review of the evidence submitted by KWH.

RETAIL TRANSMISSION SERVICE RATES ADJUSTMENT

Background

In its letter dated October 29, 2007, the Board directed each distributor to propose an adjustment to their retail transmission rates (RTR) and disposition of the associated variance account balances in its 2008 Cost of Service or Incentive Rate Mechanism application, as applicable.

KWH proposes to reduce its RTR — Network Service Rate by 12% and its RTR — Line and Transformation Connection Service Rate by 20% for all its customer rate classes. The proposed RTR effectively include the effect of disposing of the forecast balances in variance accounts 1584 and 1586 as at April 30, 2008, over a two-year period from May 1, 2008, to April 30, 2010.

Discussion and Submission

To derive their proposed RTR adjustments, KWH calculated the rates required over the May 1, 2008, to April 30, 2010, to bring the total revenues equal to the total costs over the period starting from January 2005 to April 2010. KWH's calculation assumes that the wholesale transmission rates will revert back to their pre-November 1, 2007, level starting in January 2009. Based on their derivation of their proposed RTR adjustments, staff notes that this assumption leads to a lesser reduction of those rates than would be the case if they assumed the new wholesale transmission rates remained the same post December 2008. Staff also notes that KWH did not include the rationale underlying this assumption.

KWH effectively proposes that the resulting rate riders to dispose of account 1584 and 1586 be embedded within the proposed rates. KWH did not provide separate calculation for the adjustment due to the change in wholesale transmission rates and the rate riders to dispose of accounts 1584 and 1586. Staff notes that the Board typically deals with the clearance of deferral and variance accounts through rate riders that are not incorporated into the rate itself.

KWH provides the unaudited September 30, 2007, balances in accounts 1584 (a credit of \$1,351,023) and 1586 (a credit of \$943,727) upon which the forecasted changes up to April 30, 2008 are added. These balances do not appear to include interest.

Usual practice for disposing of variance and deferral accounts in the electricity sector is to use the most up-to-date audited balances, as supported by audited financial statements, plus forecasted carrying charges on those balances up to the start of the new rate year. The most-up-to-date audited balances for accounts 1584 and 1586 are dated December 31, 2006. KWH effectively proposes to dispose of forecast balances, which, if accepted, would be precedent-setting. The disposition of deferral and variance account balances are also generally dealt with in aggregate rather than clearing discrete accounts.

Parties are asked to comment on whether the Board should consider whether the disposition of deferral and variance account balances should be dealt with in aggregate since some accounts may contain debit balances while others have credit balances. Disposing of all deferral and variance accounts at the same time would minimize fluctuations in amounts refunded to or collected from customers through deferral and variance account disposition.

Also, given that one of the intents of the Incentive Regulation Mechanism was to provide a streamlined process for setting rates, parties are asked to comment on whether the Board should consider waiting for the review of the disposition of all RSVA accounts until such time as KWH applies to for its distribution rates to be rebased, which is scheduled to occur in 2010.

All of which is respectfully submitted.