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Ontario

BY EMAIL

January 21, 2008

Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Festival Hydro Inc .
2008 Incentive Regulation Mechanism Rate Application
Board File Number EB-2007-0872

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

Yours truly,

Original signed by

Angela Pachon
Policy Advisor, Regulatory Policy Development

Encl.

Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

Festival Hydro Inc.

EB-2007-0872

January 21, 2008

INTRODUCTION

Festival Hydro Inc. (“Festival”) submitted an application on November 1st, 2007, seeking approval for changes to the rates that Festival charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism.

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 Festival.

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.

Festival proposes to reduce its RTR — Network Service Rate by 14.7% and its RTR — Line and Transformation Connection Service Rate by 18.4% for all customer rate classes.

Discussion and Submission

To derive their proposed RTR adjustments, Festival calculated the average amounts that were paid to the IESO and Hydro One in 2004, 2005 and 2006. The 3-year average costs were subsequently reduced by the average 12% decrease in wholesale transmission rates effective November 1, 2007 (EB-2007-0759). The resulting “new” costs were allocated among customer rate classes based on their pro-rata share of average RTR revenues over 2004-2006.

The new RTR rates by rate class were calculated by dividing the allocated “new “costs by the average of 2004-2006 volumes for the corresponding rate class.

Staff notes the 3-year average costs for wholesale transmission line connection costs were reduced by 10% instead of the average of 12% (cell H88 in the Excel spreadsheet).

Staff also notes that the intended average of 12% was used to reduce both the 3-year average wholesale transmission network and line connection amounts while Festival’s proposed methodology takes into consideration separate bills and volumes for the calculation of wholesale transmission network and connection costs. Festival is asked to clarify the rationale of this approach.

All of which is respectfully submitted.