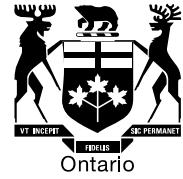


**Ontario Energy
Board**

P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

**Commission de l'énergie
de l'Ontario**

C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



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: Cooperative Hydro Embrun Inc.
2008 Incentive Regulation Mechanism Rate Application
Board File Number EB-2007-0848**

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

Yours truly,

Original signed by

Roy Hrab
Policy Advisor, Regulatory Policy Development

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

Cooperative Hydro Embrun Inc.

EB-2007-0848

January 21, 2008

INTRODUCTION

Cooperative Hydro Embrun Inc. (“Embrun Hydro”) submitted an application on October 29, 2007, seeking approval for changes to the rates that Embrun Hydro charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism. On November 8, 2007, Embrun Hydro filed an addendum proposing adjustments to its 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 Embrun Hydro.

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.

Embrun Hydro proposes to reduce both its RTR — Network Service Rate and its RTR — Line and Transformation Connection Service Rate by 25% for all customer rate classes.

Discussion and Submission

Staff is unclear regarding the methodology used by Embrun Hydro to derive their proposed RTR adjustments. Embrun Hydro’s proposal presents the amounts billed in accounts 1584 and 1586 between July 2006 and June 2007 and a forecast balance of these accounts as at April 30, 2008 to determine an account balance/billing ratio. The calculated balance/billing ratios for network and connection are then augmented by the

reduction in wholesale network and connection transmission rates resulting in changes of 32.4 0% and 29.95% respectively. Embrun Hydro then proposes to reduce its RTR — Network Service Rate and its RTR — Line and Transformation Connection Service Rate by 25% for all customer rate classes.

Staff is unclear regarding the derivation and relationship of the proposed 25% reduction in rates and the evidence presented by Embrun Hydro as described above. Staff invites Embrun Hydro to provide clarification of their methodology for adjusting their retail network and connection transmission rates.

In addition, there are discrepancies between the account balances provided by Embrun Hydro and the information included as part of the Reporting and Record-Keeping Requirements (RRR). In particular, the RRR as of December 31, 2006 indicate a credit balance of \$52,194 for account 1584 where Embrun Hydro reports a debit balance of \$33,777. Also, the RRR as of December 31, 2006 indicate a debit balance of \$1,664 for account 1586 where Embrun Hydro reports a debit balance of \$41,809.

The 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 disposition of deferral and variance account balances is also generally dealt with in aggregate rather than clearing discrete accounts. Also, the Board typically deals with the clearance of deferral and variance accounts through rate riders that are not incorporated into the rate itself.

As noted above, in its letter dated October 29, 2007, the Board directed each distributor to propose an adjustment to their retail transmission rates and disposition of the associated variance account balances. 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.

Given that one of the intents of the present Incentive Regulation Mechanism is to provide a streamlined process for setting 2008 rates, parties are asked to comment on whether the Board should consider waiting for the review of the disposition of all variance accounts until such time as Embrun Hydro applies to have its distribution rates rebased, which is scheduled to occur in 2010.

All of which is respectfully submitted.