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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: Essex Powerlines Corporation
2008 Incentive Regulation Mechanism Rate Application
Board File Number EB-2007-0878

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

Yours truly,

Original signed by

John Vrantsidis
Policy Advisor, Regulatory Policy Development

Encl.

Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

Essex Powerlines Corporation

EB-2007-0878

January 21, 2008

INTRODUCTION

Essex Powerlines Corporation ("Essex") submitted an application on November 1, 2007, seeking approval for changes to the rates that Essex charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism. On December 6, 2007, Essex 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 Essex.

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.

Essex has forwarded two sets of calculations using alternative approaches.

Under the first approach, Essex calculates the estimated wholesale transmission network and transformation connection charges for the November 2007 to April 30, 2009 period. The proposed RTR revenues for the 2008 rate year are derived by subtracting from these estimated costs the RTR revenues that are forecast to be generated from November 1, 2007 through to April 30, 2008 under existing RTR. The new RTR rates are calculated by dividing RTR revenues by rate class by forecast usage. This method results in reductions in RTR - Network Service Charges that range between 28% to 35% and in increases to the RTR –Transformation Connection between 10% to 15%, depending on the customer rate class.

The second approach is the same as the first one with the exception that the balances (including interest) as of October 31, 2007 in variances accounts 1584 and 1586 are netted against the estimated wholesale transmission network and transformation connection charges for the November 2007 to April 30, 2009 period. The variance account balances for accounts 1584 and 1586 as of October 30, 2007 are a credit of $923,995.94 and a debit of $839,379.36 respectively. This approach results in reductions in RTR — Network Service Charges ranging from 51% to 61%, and increases to the RTR –Transformation Connection from 46% to 60%, depending upon rate class depending on the customer rate class.

Essex requests that this second approach be considered as its proposal.

Discussion and Submission

Essex proposed approach for setting its RTR as of May 1, 2008 includes the variance accumulated in accounts 1584 and 1586 as of October 30, 2007 as well as the projected variance from November 1, 2007 through to April 30, 2008.

Board Staff notes that 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.

Parties are asked to comment on whether the Board should consider whether the disposition of deferral and variance account balances should be dealt 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. Moreover, the Board typically deals with the clearance of deferral and variance accounts through rate riders that are not incorporated into the rate itself.

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 Essex applies to be rate rebased, which is scheduled to occur in 2009.

Were the Board to consider the proposed disposition of accounts 1584 and 1586 in this application, the interest calculation should include carrying charges coincident with the timing of the account clearance. In addition, the 2006 closing balances for accounts 1584 and 1586 utilized in the utility's proposal do not agree with the corresponding balances as of December 31, 2006 filed under the utility's Reporting and Record Keeping Requirements. Staff is unclear as to the reasons for the apparent differences. Parties are asked to comment on whether the Board should consider the matter in greater detail as part of 2009 rebasing application.

All of which is respectfully submitted.