



February 7, 2008

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON
M4P 1E4

Dear Ms. Walli,

**RE: Whitby Hydro Electric Corporation
2008 Incentive Regulation Mechanism Rate Application
Board File Number EB-2007-0838**

Whitby Hydro Electric Corporation (WHEC) has reviewed the Board staff's submission dated January 24, 2008 with respect to the above noted application. WHEC has highlighted the key questions posed and provided the following responses for the Board's consideration:

Board Staff summarized WHEC's proposal to adjust RTR Network Service and RTR Line and Transformation Connection Service Rates to clear April 30, 2009 forecasted variance account balances in accounts 1584 and 1586 respectively. In addition, "WHEC is also proposing that effective May 1, 2009, RTR be reverted to the 2007 level, subject to future rate orders from the Board. Board staff invites WHEC to further clarify the rationale for this proposal"

WHEC submitted a proposal that was felt to be consistent with the intent of the Board's letter dated October 29, 2007 with regards to the Ontario Uniform Transmission Rate Order EB-2007-0759 and its effect on Distributor Retail Transmission Rates. This letter requested all electricity distributors to propose an adjustment to their retail transmission rates and disposition of the associated variance account balances.

In resetting these rates, the Board noted that the November 1, 2007 change in wholesale transmission rates and the pattern of variance in the accounts should be incorporated into the adjustment. WHEC's proposal and resulting rate rider attempted to ensure that the estimated balances in the identified variance accounts at the end of the 2008 rate year, was minimized.



It is WHEC's understanding, that the approved rate order for Ontario Uniform Transmission Rates (EB-2007-0759) is essentially a fourteen month rate rider effective from November 1, 2007 to December 31, 2008. When the retail transmission rate proposal was originally submitted to the Board, WHEC felt that there was uncertainty regarding the Ontario Uniform Transmission rates beyond December 2008 as well as the timeframe when WHEC would be rebasing. Now that WHEC has been selected to rebase in 2009, WHEC withdraws the request to revert its RTRs back to 2007 levels as these rates will be addressed in 2009 as part of the overall application.

Board staff indicated that the usual practice for disposing of variance and deferral accounts in the electricity sector is to use historical balances which are supported by audited financial statements, plus forecasted carrying charges up to the start of the new rate year. "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...."

While a historical balance approach has been used in the past to dispose of variance accounts, WHEC believes that the intent of the Board's request was to incorporate the impact of the recently announced decision regarding Ontario Uniform Transmission Rate Order (EB-2007-0759) into the proposed adjustment. In order to include this rate order in WHEC's proposed rate adjustment, a forecast approach was necessary. While additional guidance from the Board regarding the overall direction and general assumptions (including third party rate impacts ie. IESO, Hydro One) required to prepare a forecasted approach would have been beneficial to the exercise, WHEC undertook a detailed forecasting analysis using a set of assumptions which it felt reasonable to allow for the disposal of RSVA accounts 1584 and 1586.

WHEC would prefer to see a process in place which would allow for a review of all deferral and variance account balances with the intent to dispose of any material balances (in aggregate) on an annual basis through a consistent, mechanistic adjustment for all distributors. This would ensure that customer rates incorporate costs/over-recoveries in these accounts on a timely basis and allow distributors to have confidence knowing material balances will be disposed of on a regular basis. For the purpose of the 2008 IRM application, WHEC took direction from the Board's letter dated October 29, 2007 and limited its proposal address the retail transmission rates.



"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 deferral and variance accounts until such time as WHEC applies for its distribution rates to be rebased..."

Given the absence of a consistent, mechanistic approach for all distributors to handle deferral and variance accounts as part of the 2008 IRM process, WHEC does not object to delaying further review of these accounts by the Board until its 2009 rebasing application.

Please contact me if you have any questions.

Yours Truly,

Original signed by

Ramona Abi-Rashed
Treasurer