



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

Hydro Hawkesbury Inc.

EB-2007-0833

January 24, 2008

INTRODUCTION

Hydro Hawkesbury Inc. (“Hawkesbury”) submitted an application on October 26, 2007, seeking approval for changes to the rates that Hawkesbury charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism. On November 23, 2007, Hawkesbury filed a supplemental application 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 Hawkesbury.

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.

Hawkesbury is proposing that the RTR — Network Service Rate be reduced by 18%, for all customer rate classes. Hawkesbury also proposes a reduction in the RTR — Line and Transformation Connection Service Rate of 34%. Hawkesbury further proposes negative rate riders for each class that are intended to clear the forecast balances in variance accounts 1584 and 1586 as of April 30, 2008 over a 3-year period.

Discussion and Submission

To derive their proposed RTR adjustments, Hawkesbury determined the annualized wholesale transmission network and connection costs based on the Board rate order dated October 17, 2007 (EB-2007-0759) and 2007 readings. These wholesale transmission network and connection costs were subsequently compared to the

revenue generated through the existing RTR — Network Service Rate and RTR — Line and Transformation Connection Service Rate respectively. The excess revenue for network and connection were subsequently allocated at the rate class level on the basis of existing RTR revenue. The allocated network and connection excess revenue were then unitized and subtracted from the existing RTR — Network Service Rate and RTR — Line and Transformation Connection Service Rate.

Hawkesbury calculated the proposed rate riders by rate class by allocating the forecast balances in variance accounts 1584 and 1586 as of April 30, 2008 on the basis of existing RTR revenue for network and connection respectively. The allocated balances in accounts 1584 and 1586 were then unitized and divided by three to reflect the proposed disposition over a 3-year period.

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 RSVA 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 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 Hawkesbury applies for its distribution rates to be rebased, which is scheduled to occur in 2010.

Were the Board to consider the proposed disposition of account 1586 and 1584 in this application, the interest calculation should be adjusted coincident with the clearance of the accounts. Board staff is unclear if interest amounts are included in the balance provided for accounts 1584 and 1586, and if so, up to what period. In addition, Board staff would find it useful if Hawkesbury could provide the rationale for proposing to dispose of the forecast balances of accounts 1584 and 1586 over a 3-year period, and to comment on how the disposition period could be used to mitigate adjustments to rates over time.

All of which is respectfully submitted.