

THE ONTARIO ENERGY BOARD

IN THE MATTER OF the Ontario Energy Board Act, 1998,
S.O. 1998, c. 15 (Schedule B)

AND IN THE MATTER OF an application by Hydro One Networks Inc. for an Order or Orders approving or fixing just and reasonable rates and other charges for the distribution of electricity.

Staff Submission on Procedural Order No. 3

1. On December 18, 2007, Hydro One Networks Inc. ("Hydro One") filed an application with the Ontario Energy Board seeking approval for changes to the rates that Hydro One charges for electricity distribution. The Board assigned file number EB-2007-0681 to the application.
2. By way of a letter dated February 27, 2008 Hydro One requested that its existing 2007 rates for the distribution of electricity approved under the proceeding EB-2007-0542 be declared interim effective May 1, 2008.
3. The Board issued Procedural Order No. 3, dated March 14, 2008, wherein it invited interested parties to file written submissions on this request by Monday March 24, 2008.
4. Board staff seeks comments on the suggestion that the following component of Hydro One's 2008 rate application dealing with the transmission-related charges it proposes to apply to its embedded distributor customers, as shown in Exhibit G2, Tab 94 Schedule 1 page 3 of 8, be approved on an interim basis. This would change the existing rates of Hydro One on an interim basis.

Hydro One Networks Inc.
TARIFF OF RATES AND CHARGES
for the Sub-Transmission (ST) Class
Effective Date: May 1, 2008

Updated: February 20, 2008
EB-2007-0681
Exhibit G2
Tab 94
Schedule 1
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Retail Transmission Service Rates:

Network Service Rate	\$/kW	2.01
Line Connection Service Rate	\$/kW	0.50
Transformation Connection Service Rate	\$/kW	1.38
Both Line and Transformation Connection Service Rate	\$/kW	1.88
Wholesale Market Service Rate	\$/kWh	0.0052
Rural or Remote Rate Protection Rate	\$/kWh	0.0010
Standard Supply Service (Regulated Price Plan) - Administration Charge	\$	0.25

5. On October 17, 2007, the Board issued its EB-2007-0759 Rate Order, setting new Uniform Transmission Rates for Ontario transmitters, effective November 1, 2007. The Board approved a decrease of 18% to the wholesale transmission network rate, a decrease of 28% to the wholesale transmission line connection rate, and an increase of 7% to the wholesale transformation connection rate. The combined change in the wholesale transmission line connection and transformation connection rates amounts to a reduction of 5%.
6. The transmission-related rates proposed by Hydro One for its sub-transmission class of customers, which includes the embedded distributors, reflect the reductions associated with the Uniform Transmission Rates.
7. In support of this suggestion, staff notes the following excerpt from the Board Findings in a recent decision (Hydro 2000 Inc. – EB-2007-0824, page 15) dealing with the distributor's Retail Transmission Service (RTS) rates.

“The Board notes that there is a variance account mechanism for all distributors to capture differences between their transmission costs and the charges they levy on their customers. The issue is not whether the distributors or the customers would be financially harmed. Good ratemaking suggests that to the extent possible and

practical rates and charges at a point in time should reflect the most current information so that any differences captured in variance accounts would be minimized. This would lead to smoother rate making and reduced concerns about inter-generational inequities.

In making its proposal, Hydro 2000 correctly notes that Hydro One Distribution has not yet received approval to lower the charges for Hydro 2000. The new Uniform Transmission rates that transmitters like Hydro One Transmission can charge took effect November 1, 2007. There is an application by Hydro One Distribution currently before the Board for new distribution and other rates effective May 1, 2008 (Board file EB-2007-0681). Although the Board has not yet approved Hydro One Distribution's new rates, the latest available information about what Hydro 2000 and other embedded distributors may be charged in the 2008 test year are the retail transmission rates contained in Hydro One Distribution's application.

The Board agrees that Hydro 2000 should revise its RTS rates but does not accept the approach proposed by the Company. It is not appropriate to derive new RTS rates by comparing, as Hydro 2000 has done, the current RTS rates charged by Hydro One Distribution to Hydro 2000 and the new wholesale transmission rates charged by Hydro One Transmission to Hydro 2000's host distributor, Hydro One Distribution. The Board directs Hydro 2000 to reduce its current RTS – Network Service Rate by 18% and its current RTS – Line and Transformation connection Service Rate by 5%. Those percentages are based on the reductions in wholesale transmission rates that were effective November 1, 2007 and are similar to the reductions proposed by Hydro One Distribution in its current rates case.”

8. Other decisions currently being issued by the Board for electricity distributors' rates, to be effective May 1, 2008, have directed distributors to reduce their Retail Transmission Service rates to reflect the reduction in the Uniform Transmission Rates. By making Hydro One's proposed Retail Transmission Service Rates interim, increases to the levels of the distributors' variance accounts will be minimized.

All of which is respectfully submitted on the 19th day of March, 2008.