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Susan Frank
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Regulatory Affairs

BY COURIER

April 11, 2007

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON.
M4P 1E4

Dear Ms. Walli:

EB-2007-0542 - Hydro One Networks 2007 Distribution Rate Application – Response to Intervenor Submissions

I am attaching three (3) copies of Hydro One Networks' response to intervenor submissions received from Board Staff and VECC. An electronic copy (Acrobat text-searchable format) will be sent to the Board Secretary email address.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

c. EB-2007-0542 Intervenors

Attach.

Hydro One Distribution's Response to Board Staff and Intervenors' submissions on Hydro One's Submission in Proceeding EB-2007-0542
2007 Distribution Rates

Hydro One Distribution Submission in Proceeding EB-2007-0542 consisted of four elements:

1. Adjustment of Basic Distribution rates based on the Board's 2nd generation incentive regulation mechanism;
2. Smart Meter Rate Rider based on Board's Addendum issued January 29, 2007;
3. Request for a variance account to track costs associated with municipal permits fees; and
4. Extension of the Interim TOU pilot program past September 30, 2007 and creation of a related variance account to track loss distribution revenues.

Variance Account for Permit Fees Assessed by Municipalities

Hydro One Distribution requested a variance account to capture new costs related to permit fees assessed by municipalities directed through Ontario Regulation 584/06 approved December 21, 2006. These costs will be assessed to Hydro One Distribution by municipalities for issuing permits with respect to activities associated with the construction and maintenance of distribution assets. The annual amount is expected to be approximately $5 million.

Board staff notes in its Submission that "... these types of costs are a straight pass through for all distributors." (page 3). Board Staff continues by stating that some of these costs are included in Hydro One's approved revenue requirement. Hydro One Distribution notes that these are new unanticipated costs that were not included in Hydro One's approved revenue requirement. A variance account is therefore required to track the cost for the eventual pass through to customers.

VECC's Argument supports the creation of the variance accounts as long as the costs are new, outside Hydro One Distribution's control, and meet materiality criteria, (pages 3 to

4). Hydro One Distribution notes that the estimated permit fee amount meets OEB's materiality criteria.

Hydro One Distribution's maintains that it's request for the creation of a variance account to track the said costs is appropriate, because these amounts involved were not included in Hydro One Distribution approved Revenue Requirement and correspondingly were not included in current Distribution rates.

Interim Time-of-Use Rates

Hydro One Distribution received OEB approval for interim TOU rates as part of its Conservation and Demand Management (C&DM) programs on November 10, 2004 as part of the RP-2004-0457/EB2004-0203 proceeding. The interim TOU rates approval therefore expires on September 30, 2007 at the same time as does Hydro One's current C&DM plan.

As part of its request for 2007 Distribution rates, Hydro One Distribution sought approval to extend the Interim TOU rates until Hydro One Distribution is allowed to implement a new set of Distribution rates. Hydro One Distribution also requested the creation of a variance account to track lost revenues that exceed the amount in the C&DM program fund.

As per Hydro One Distribution letter dated March 26, 2007, Hydro One has also requested an extension to April 30, 2008 for the completion of C&DM plan funded through the third tranche of MARR.

Board Staff in its Submission supports the creation of a variance account to track loss revenues, (page 7), and also supports the extension of the Interim TOU rate pilot but only until April 30, 2008, (page 6), with the proviso that Hydro One Distribution file a TRC test when an application is made to recover the costs recorded in the variance account. VECC in its Argument supports OEB Staff's position (Page 4).

Hydro One Distribution notes that a TRC test was not required for C&DM expenditures financed by third tranche funds. Preliminary analysis indicates that the program would not pass the TRC test.