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Susan Frank

Vice President and Chief Regulatory Officer
Regulatory Affairs



BY COURIER

May 30, 2008

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

Dear Ms. Walli:

**EB-2008-0113 – Hydro One Networks' 2009 Uniform Transmission Rate Adjustment
– Application and Prefiled Evidence**

I am attaching ten (10) copies of the Hydro One Networks' Application pursuant for an Order or Orders adjusting rates for the transmission of electricity, to be implemented on January 1, 2009.

An electronic copy (text searchable Acrobat format) has been submitted to the Board using the Regulatory Electronic Submission System and the proof of successful submission slip is also enclosed.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Attach.

ONTARIO ENERGY BOARD

IN THE MATTER OF *the Ontario Energy Board Act, 1998*;

AND IN THE MATTER OF an Application by Hydro One Networks Inc.
for an Order or Orders approving rates for the transmission of electricity.

APPLICATION

1. The Applicant is Hydro One Networks Inc. (Hydro One Networks), a subsidiary of Hydro One Inc. Hydro One Networks is an Ontario corporation with its head office at Toronto. The Applicant carries on the business, among other things, of owning and operating transmission facilities in Ontario. The transmission business of Hydro One Networks will be referred to as “Hydro One Transmission”.
2. Hydro One Networks hereby applies to the Ontario Energy Board (the “Board”), pursuant to section 78 of the *Ontario Energy Board Act, 1998*, for an Order or Orders adjusting rates for the transmission of electricity, to be implemented on January 1, 2009.
3. The Board’s Decision in Proceeding EB-2006-0501 directed the implementation of an Earnings Sharing Mechanism (ESM) (page 81) and the disposition of the Company’s Revenue Difference Deferral Account (RDDA) (page 99) over the fourteen month period beginning November 1, 2007 through December 31, 2008. This reduced Hydro One’s revenue requirement from the approved levels and necessitated a one-time rate change to reflect the appropriate re-payment to transmission customers.

1 4. As per the rate schedules attached to the Board's Rate Order from Proceeding EB-
2 2008-0759 (Ontario Uniform Transmission Rates, dated October 17, 2007), the
3 rates implemented in November, 2007 associated with the re-payment of ESM
4 and RDDA, will end December 31, 2008. Therefore, in order to allow recovery of
5 the Board approved 2008 revenue requirement Hydro One requests an adjustment
6 to the uniform transmission rates (UTR's), effective January 1, 2009.

7
8 5. Hydro One's revenue requirement collected through the Uniform Transmission
9 Rates (UTR's) associated with the re-payment of ESM and RDDA over the 14
10 month period is \$1,209.5 million (\$1,031.6 million annualized value). The Board-
11 approved revenue requirement for 2008 is \$1,135.3 million. This represents a
12 9.2% average increase when applied to the uniform transmission rates. Table 4 in
13 Exhibit B, Tab 2, Schedule 1 illustrates the adjustment to the uniform
14 transmission rates reflecting the Board approved 2008 revenue requirement
15 effective January 1, 2009. The calculations and assumptions underlying these
16 proposed UTR's are consistent with the calculations and assumptions in Exhibits
17 1.0, 1.5, 1.7, 1.8, 2.3, 2.4, 3.0, 3.1 and 4.0 in the Board's Revenue Requirement
18 and Charge Determinant Order Arising from the EB-2006-0501 Decision with
19 Reasons, September 28, 2007.

20
21 6. In the Board's 2007 Decision in proceeding EB-2006-0501, the Board provided
22 the expectation that Hydro One would return with a cost of service application for
23 2009 (page 11). Hydro One is preparing a 2009 – 2010 Transmission Revenue
24 Requirement and Rate Application to be submitted at the end of August 2008. In
25 the Board's 2007 Decision the Board directed Hydro One to complete a number
26 of studies with specific stakeholder engagement prior to the next application.
27 Hydro One is currently undertaking these studies and has extensively involved
28 stakeholders. To ensure complete and comprehensive responses to the Board
29 directives, these studies will not be complete until later this year, at which time

1 they will incorporated into the rate application. With the August 2008 submission
2 date, it is recognized that the associated approved uniform transmission rates
3 might not be implemented until mid-2009. This would result in an over-payment
4 of the ESM and RDDA to customers.

5

6 7. These proposed adjustments affect only the Company's revenue requirement
7 recovered through the uniform transmission rates. No changes are proposed to
8 the current rates for the Wholesale Meter Service Pool, or the current Export
9 Service Tariff.

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11 8. It is proposed that this application be reviewed through a written proceeding since
12 all of the information provided in this application has been reviewed by the Board
13 and interveners during the EB-2006-0501 proceeding and all numbers are based
14 on the previously Board approved Hydro One 2008 revenue requirement and the
15 revenue requirements of other transmitters as approved in the Board's Rate Order
16 for proceeding EB-20067-0501

17

18 9. The written evidence filed with the Board may be amended from time to time
19 prior to the Board's final decision on the Application. Further, the Applicant may
20 seek meetings with Board staff in an attempt to identify and reach agreements to
21 settle issues arising out of this Application.

22

23 10. The persons affected by this Application are the ratepayers of Hydro One
24 Networks' Transmission business. It is impractical to set out their names and
25 addresses because they are too numerous.

26

27 11. Hydro One Networks requests that a copy of all documents filed with the Board
28 by each party to this Application be served on the Applicant and the Applicant's
29 counsel as follows:

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a) The Applicant:

Mr. Glen MacDonald
Senior Advisor – Regulatory Affairs
Hydro One Networks Inc.

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b) The Applicant's counsel:

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Rogers Partners LLP

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**HYDRO ONE TRANSMISSION'S
REVENUE RE-PAYMENTS TO CUSTOMERS**

1.0 INTRODUCTION

In its August 16, 2007 Decision with Reasons on Proceeding EB-2006-0501 respecting Hydro One's 2007-2008 rates for its Transmission Business (the August 2007 Decision), the Board directed the implementation of an Earnings Sharing Mechanism (ESM) and the disposition of the Company's Revenue Difference Deferral Account (RDDA) over the fourteen month period beginning November 1, 2007 through December 31, 2008. This had the effect of reducing Hydro One's revenue requirement from the 2008 approved levels. This Exhibit provides a description of these re-payment mechanisms.

2.0 THE EARNINGS SHARING MECHANISM (ESM)

On February 21, 2006, the Board's Decision (EB-2005-0501) respecting the treatment of Hydro One Transmission's 2006 over-earnings (page 11) directed the re-payment of over-earnings accrued during 2006, through an ESM. Fifty per cent of the over-earnings, based on the Company's audited financial statements for 2006, would be returned to customers.

The Board's August, 2007 Decision respecting the ESM states on page 81, that "the balance in the ESM account should reduce Hydro One's revenue requirement at the first available opportunity, which is the revenue requirement for the years 2007 and 2008." As per Exhibit 1.5 of the Board's Revenue Requirement and Charge Determinant Order Arising from the EB-2006-0501 Decision with Reasons, September 28, 2007, revenues were reduced by \$56.7 million. Ten months of the 2007 portion of \$28.4 was included in the calculation of the RDDA described below.

3.0 THE REVENUE DIFFERENCE DEFERRAL ACCOUNT (RDDA)

On March 30, 2007, the Board approved Hydro One Transmission's creation of the RDDA, to record the differences in revenues between the 2006 Transmission rates currently in force, and the rates that would result from the new revenue requirement as determined by the Board for 2007 (Partial Decision, EB-2006-0501, March 30, 2007, page 7).

The Board's August 2007 Decision approved a single rate change on November 1, 2007 to collect the approved 2007-2008 revenue requirement for the next 14 months and the balance in the RDDA. The balance in the RDDA that accumulated from January 1, 2007 through October 31, 2007, was \$85.3 million (which included ten months of the 2007 ESM (\$28.4) as described in Section 2.0 above).

Table 1 below illustrates the total re-payment to customers of the ESM and RDDA.

Table 1
Ending of ESM + RDDA

\$ millions		
Nov + Dec 2007 ESM	(4.9)	
2008 ESM	(28.4)	
RDDA Refund over 14 months	(85.3)	Note 1
Nov 1/2007 to Dec 31/2008 ESM + RDDA	<u>(118.6)</u>	
Annualized ESM and RDDA	<u>(101.2)</u>	

Note 1. This includes an overpayment of \$61.8M plus Jan – Oct 2007 ESM

1 **2009 UNIFORM TRANSMISSION RATE ADJUSTMENT**

2
3 **1.0 INTRODUCTION**

4
5 This Exhibit presents the January 1, 2009 uniform transmission rates adjustment. The
6 calculations and assumptions underlying these are consistent with the calculations and
7 assumptions in Exhibits 1.0, 1.5, 1.7, 1.8, 2.0, 2.1, 2.2, 2.3, 2.4, 3.0, 3.1 and 4.0 in the
8 Board's Revenue Requirement and Charge Determinant Order Arising from the EB-
9 2006-0501 Decision with Reasons, September 28, 2007.

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11 **2.0 REVENUE REQUIREMENT RECONCILIATION**

12
13 Table 1 illustrates the reconciliation of Hydro One's revenue requirement from the
14 current revenue requirement that has been collected through rates over the 14 month
15 period beginning November 1, 2007 through December 31, 2008 to the 2008 OEB
16 approved revenue requirement.

Table 1

Revenue Requirement Reconciliation

Nov 1/2007 to Dec 31/2008 Revenue Requirement [14 months]	\$1,209.5	Note 1
Annualization of 14 months of Revenue Requirement	\$1,031.6	
Add Annualized Impact of ending ESM and RDDA	\$101.2	Note 2
Other Adjustments		
Increased LVSG Credit	\$0.2	
Blended 2007/2008 to 2008 Rates Adjustment	\$2.4	
Board Approved 2008 Rate Pool Revenue Requirement	\$1,135.3	Note 3

Units: \$ millions

Note 1: Refer to Appendix A, page 2

Note 2: See Exhibit B Tab 1 Schedule 1 Section 4

Note 3: Refer to Table 2 of this exhibit: Revenue Requirement by Pool

The steps to reconcile the Revenue Requirements include:

1. The November 1st, 2007 to December 31st, 2008 Rate Pool revenue requirement of \$1209.5 million which covers a 14 month period.
2. This value is annualized which equals \$1301.6 million
3. The addition of the required refunds of \$101.2 million for ESM and RDDA
4. An increase in the Low Voltage Switch Gear credit of \$0.2 million due to a higher OEB approved revenue requirement in 2008 compared with 2007 OEB approved revenue requirement
5. An adjustment of \$2.4 million to reflect the difference between the current revenue requirement based on a blended 2007/2008 rate and the revenue requirement based on 2008 rates

The resultant is the 2008 OEB approved revenue requirement of \$1135.3 million.

1 Table 2 below illustrates Hydro One's approved 2008 revenue requirement collected
2 through rates of \$1,136.9 million (the Revenue Requirement of \$1,135.30 plus \$1.6
3 million for the wholesale meter pool).

Table 2
OEB Approved Revenue Requirement By Rate Pool
Effective January 1, 2009

		2008 Rate Pool Revenue Requirement (\$ Million)					
		Network	Line Connection	Transform. Connection	Uniform Rate Pool Sub-Total	Wholesale Meter	Total
OM&A		167.7	36.0	107.4	311.1	1.3	312.4
Other Taxes (Grants-in-Lieu)		45.5	12.0	17.6	75.1	0.0	75.1
Depreciation of Fixed Assets		121.9	32.8	67.1	221.8	0.1	221.9
Capitalized Depreciation		-3.9	-1.1	-1.6	-6.6	0.0	-6.6
Asset Removal Costs		11.1	3.0	4.6	18.6	0.0	18.6
OPEB Amortization		9.7	2.1	6.2	17.9	0.1	18.0
Other Amortization		2.6	0.7	1.0	4.3	0.0	4.3
Return on Debt		142.2	37.6	55.2	235.0	0.1	235.1
Return on Equity		134.5	35.6	52.2	222.3	0.1	222.3
Income Tax		31.9	8.4	12.4	52.7	0.0	52.7
Capital Tax		9.9	2.6	3.8	16.4	0.0	16.4
Base Revenue Requirement		673.0	169.8	325.8	1168.6	1.6	1170.1
Less Regulatory Asset Credit		-8.1			-8.1		-8.1
Total Revenue Requirement		664.9	169.8	325.8	1160.5	1.6	1162.0
Less Non-Rate Revenues		-14.3	-3.8	-5.5	-23.6	0.0	-23.6
Less Export Revenues		-12.0			-12.0		-12.0
Plus LVSG Credit				10.4	10.4		10.4
Revenue Requirement by Pool		638.6	166.0	330.7	1135.3	1.6	1136.9

3.0 CHARGE DETERMINANTS

Table 3 below illustrates the charge determinants for setting UTR's for January 1, 2009 per Rate Pool. These charge determinants are the final annual charge determinants (12-month average peak in MW) for 2008 as approved by the Board in its Exhibit 3.0 of the Board's Revenue Requirement and Charge Determinant Order Arising from the EB-2006-0501 Decision with Reasons, September 28, 2007.

Table 3
Charge Determinants for Setting Uniform Transmission Rates
Effective January 1, 2009

	Total MW Over Period
	2008 Jan. 1 to Dec. 31
Network	253,730
Line Connection	242,393
Transformation Connection	208,377

4.0 UNIFORM TRANSMISSION RATES AND REVENUE DISBURSEMENT FACTORS

Table 4 below presents the 2008 revenue requirements approved for Hydro One; the approved 2008 revenue requirements of the Province's other transmitters (from Exhibit 4.1 of the Board's Revenue Requirement and Charge Determinant Order Arising from the EB-2006-0501 Decision with Reasons, September 28, 2007); and the disbursement of these into the Networks, Line and Transformation Connection pools using the annual charge determinants discussed in Section 3.0.

1 The adjustment to the OEB approved 2008 rate pool revenue requirement represents a
2 9.2% average increase in uniform transmission rates across the three rate pools,
3 comprising 11.3% for the Network Pool, 18.6% for the Line Connection Pool and 0.6%
4 for the Transformation Pool. The variation in rate changes across the rate pools is the
5 result of the allocation of the recovery of the RDDA amounts from each of the rate pools
6 per Exhibit 2.2 of the Board's Revenue Requirement and Charge Determinant Order
7 Arising from the EB-2006-0501 Decision with Reasons, September 28, 2007. See
8 Appendix A, page 3.

9
10 For comparison purposes, the current uniform transmission rates as approved in Exhibit
11 4.0 of the Board's Revenue Requirement and Charge Determinant Order Arising from the
12 EB-2006-0501 Decision with Reasons, September 28, 2007, for 2007-2008 are
13 reproduced below in Table 5. The revenue requirements and charge determinants in
14 Table 5 are calculated for a 14-month period and must be annualized to enable
15 comparisons with Table 4.

Table 4
Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2006-0501
Proposed Uniform Transmission Rates and Revenue Disbursement Factors
(for Rates Effective January 1, 2009)

Transmitter	Revenue Requirement (\$)			
	Network	Line Connection	Transformation Connection	Total
FNEI	\$2,912,596	\$757,111	\$1,508,293	\$5,178,000
CNPI	\$2,594,474	\$674,417	\$1,343,552	\$4,612,443
GLPL	\$19,566,608	\$5,086,215	\$10,132,598	\$34,785,422
H1N	\$638,600,000	\$166,000,000	\$330,700,000	\$1,135,300,000
All Transmitters	\$663,673,679	\$172,517,743	\$343,684,443	\$1,179,875,865

Transmitter	Total Annual Charge Determinants (MW)			
	Network	Line Connection	Transformation Connection	
FNEI	44.915	44.915	44.915	
CNPI	583.420	668.600	668.600	
GLPL	4,150.498	2,847.032	2,777.933	
H1N	253,730.000	242,393.000	208,377.000	
All Transmitters	258,508.833	245,953.547	211,868.448	







Transmitter	Uniform Rates and Revenue Allocators			
	Network	Line Connection	Transformation Connection	
Provincial (Uniform) Rates (\$/kW-Month)	2.57	0.70	1.62	
				
FNEI Allocation Factor	0.00439	0.00439	0.00439	
CNPI Allocation Factor	0.00391	0.00391	0.00391	
GLPL Allocation Factor	0.02948	0.02948	0.02948	
H1N Allocation Factor	0.96222	0.96222	0.96222	
Total of Allocation Factors	1.00000	1.00000	1.00000	

Table 5
Hydro One Networks Inc.
Implementation of Decision with Reason on EB-2006-0501
(for Period November 1, 2007 to December 31, 2008)

Transmitter	Revenue Requirement (\$) (Note 3)			
	Network	Line Connection	Transformation Connection	Total
FNEI	\$3,327,919	\$813,625	\$1,899,456	\$6,041,000
CNPI	\$2,964,434	\$724,758	\$1,691,992	\$5,381,184
GLPL	\$22,356,716	\$5,465,870	\$12,760,407	\$40,582,992
H1N (Note 1)	\$666,300,000	\$162,900,000	\$380,300,000	\$1,209,500,000
All Transmitters	\$694,949,069	\$169,904,252	\$396,651,855	\$1,261,505,176

Transmitter	Total Annual Charge Determinants (MW) (Note 3)			
	Network	Line Connection	Transformation Connection	
FNEI	52.401	52.401	52.401	
CNPI	680.657	780.033	780.033	
GLPL	4,842.248	3,321.537	3,240.922	
H1N (Note 2)	295,022.000	281,845.000	242,192.000	
All Transmitters	300,597.305	285,998.972	246,265.356	

Transmitter	Uniform Rates and Revenue Allocators			
	Network	Line Connection	Transformation Connection	
Uniform Transmission Rates (\$/kW-Month)	2.31	0.59	1.61	
				
FNEI Allocation Factor	0.00479	0.00479	0.00479	
CNPI Allocation Factor	0.00427	0.00427	0.00427	
GLPL Allocation Factor	0.03217	0.03217	0.03217	
H1N Allocation Factor	0.95877	0.95877	0.95877	
Total of Allocation Factors	1.00000	1.00000	1.00000	

Note 1: Hydro One Networks (H1N) Revenue Requirement per Exhibit 2.0 of *

Note 2: Hydro One Networks (H1N) Charge Determinant per Exhibit 3.0 of *

Note 3: Data for Other Transmitters per Exhibit 4.1 of *

* the Board's Revenue Requirement and Charge Determinant Order Arising from the EB-2006-0501 Decision with Reasons, September 28, 2007

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5.0 LOW VOLTAGE SWITCHGEAR CREDIT (LVSG)

The LVSG credit increases by \$200,000 annually, effective January 1, 2009 to reflect the increased Transformation Connection Pool revenue requirement. Table 6 below updates the content of Exhibit 2.4 of the Board's Revenue Requirement and Charge Determinant Order Arising from the EB-2006-0501 Decision with Reasons, September 28, 2007, illustrating the derivation of the credit and this increase.

Table 6
Low Voltage Switchgear (LVSG) Credit
Effective January 1, 2009

	Charge Determinant (MW)	Transformation Pool Revenue Requirement Before LVSG Credit (\$M)	Rate Before LVSG Credit (\$/kW/ month)	Demand (MW)	LVSG Proportion (%)	Final LSVG Credit (\$M)
	(A)	(B)	$(C) = (B)/(A)/12$	(D)	(E)	$(F) = (C) \times (D) \times (E)$
2008	17,365	313.6	1.51	2976	19.0%	10.2
2009	17,365	320.3	1.54	2976	19.0%	10.4

6.0 OTHER RATES

Hydro One does not propose any changes to the current wholesale meter service rates [\$6200 annually per meter point] and meter exit fees [\$5200 per meter point], nor to the current export service tariff [\$1/MWh] as approved during proceeding EB-2006-0501.

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APPENDIX A

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September 26, 2007
EB-2006-0501
Exhibit 2.0

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2006-0501

Summary Final Revenue Requirement by Rate Pool
(for Determining Uniform Transmission Rates for November 1, 2007 to December 31, 2008)

	Supporting Exhibit	Revenue Requirement (\$ Million)			
		Network	Line Connection	Transformation Connection	Total
Revenue Requirement Nov.1/2007 to Dec.31/2007	2.1	107.2	27.5	53.3	188.1
RDDA by Rate Pool	2.2	(62.4)	(26.1)	3.1	(85.3)
Revenue Requirement Jan.1/2008 to Dec.31/2008	2.3	621.4	161.4	323.9	1106.7
Total Revenue Requirement by Rate Pool from Nov.1/2007 to Dec.31/2008		666.3	162.9	380.3	1209.5

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September 26, 2007
EB-2006-0501
Exhibit 2.2

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2006-0501

RDDA Allocation to Rate Pools Based on 2007 Revenues

	Supporting Exhibit	\$ Million			
		Network	Line Connection	Transformation Connection	Total
2007 Rate Pool Revenue at Current Rates	Note 3	692.7	190.9	300.6	1184.2
Adjustment for 350 MW CDM Reduction (Note 1)	1.9	9.3	2.6	4.0	15.9
Adjusted 2007 Rate Pool Revenue at Current Rates		702.0	193.5	304.6	1200.1
2007 Rate Pool Revenue Requirement	2.1	620.5	159.4	308.7	1088.6
Rate Pool Share of Total Difference between Revenue Requirement and Revenue at Current Rates (Note 2)		0.73	0.31	-0.04	
Rate Pool Share of Total RDDA		(62.4)	(26.1)	3.1	(85.3)

Note 1: \$15.9 CDM adjustment (per Exhibit 1.8) is split between rate pools based on pool share of revenue at current rates.

Note 2: Total RDDA allocated to rate pools based on the rate pool share of the annual difference between total revenue requirement and total revenue at current rates.

Note 3: See EB-2006-0501 Exhibit G1, Tab 1, Schedule 1, Table 2.