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Regulatory Affairs

BY COURIER

June 3, 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-2007-0681 – Hydro One Networks' 2008 Distribution Rate Application – Settlement Proposal

A Settlement Conference was held in the matter of Hydro One Network's 2008 Distribution Rate Application from May 26 to May 30, 2008. The attached Settlement Proposal was developed and agreed upon by Hydro One and the 13 intervenors who participated in the settlement conference. Ten hard copies have been provided for the Board's reference and a text-searchable Acrobat version is being provided to the Board and intervenors today by email.

We would like to thank the Board's Facilitator, Mr. Chris Haussmann for effectively guiding the Settlement process, Board Staff for contributing to a fuller discussion on issues and the Intervenors for their proposals and timely responses to the Settlement Proposal Document.

Acceptance of the Final Settlement Proposal has been obtained via e-mail correspondence from all Intervenors.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

c. EB-2007-0681 Intervenors
Mr. Rudra Mukerji
Ms. Jennifer Lea

Encl.

Hydro One Networks Inc.
Test Year 2008 Distribution Rates
EB-2007-0681

SETTLEMENT PROPOSAL

Preamble:

This settlement proposal is filed with the Ontario Energy Board ("the Board") in connection with the application by Hydro One Networks Inc. ("Hydro One") for an Order or Orders approving the revenue requirement and customer rates for the distribution of electricity to be implemented in 2008.

Further to the Board's Procedural Order No. 3 dated and issued March 14, 2008, a settlement conference was held on May 26, 27, and 30, 2008 in accordance with the *Ontario Energy Board Rules of Practice and Procedure* ("Rules") and the Board's Settlement Conference Guidelines ("Guidelines").

Hydro One and the following intervenors ("the parties") participated in the settlement conference:

Association of Major Power Consumers in Ontario ("AMPCO")
Canadian Manufacturers & Exporters ("CME")
Consumers Council of Canada ("CCC")
Electrical Contractors Association of Ontario ("ECAO")
Energy Cost Management Inc. ("ECMI")
Energy Probe Research Foundation ("EP")
Green Energy Coalition (”GEC")
Milton Hydro ("MH")
Pollution Probe ("PP")
Power Workers' Union ("PWU")
Rogers Cable Communications Inc. ("RCC")
School Energy Coalition ("SEC")
Vulnerable Energy Consumers Coalition ("VECC")

Ontario Energy Board staff also participated in the settlement conference but are not party to this settlement proposal.

Outlined below are the positions of the parties following the settlement conference. The settlement proposal follows the format of the Approved Issues List for ease of reference. The issues are characterized as follows:

> **Settled:** If the settlement proposal is accepted by the Board, the parties will not adduce any evidence or argument during the oral hearing as the Applicant and the intervenors who take any position on the issue agree to the proposed settlement.
>
> **Partially Settled:** If the settlement proposal is accepted by the Board, the parties will only adduce evidence and argument during the hearing on portions of the issues as the Applicant and the intervenors who take any position on the issue were able to agree on some, but not all, aspects of the particular issue.
>
> **Not Settled:** The Applicant and the intervenors who take a position on the issue will adduce evidence and argument at the hearing on the issue as the parties were unable to reach agreement.

For ease of reference, the following outlines the status of the issues as outlined in the settlement proposal:

Settled: Issue completely resolved. Parties will not adduce evidence or argument at the hearing.	**Partially Settled:** Issue partially resolved. Parties will adduce evidence and argument at hearing on certain portions of the issue.	**Not Settled:** Issue not resolved. Evidence to be adduced and argument presented on entirety of issue.
# issues settled: 17	# issues partially settled: 6	# issues not settled: 26

The positions taken by the various parties on each of the settled or partially settled issues are identified throughout the settlement proposal. A party who is noted as taking no position on an issue may or may not have participated in the discussion on that particular issue and takes no position on the settlement or partial settlement reached or on the sufficiency of the evidence filed to date.

The settlement proposal provides a brief description of each of the settled and partially settled issues, together with references to the evidence filed to date. The supporting parties each settled or partially settled issue agree that the evidence filed to date in respect of that settled or partially settled issue, as supplemented in some instances by additional information recorded in the proposal, supports the proposed settlement or partial settlement. In addition, the supporting parties agree that the evidence filed in support of each settled or partially settled issue and the additional information as recorded herein contains sufficient detail, rationale and quality of information to allow the Board to make findings in keeping with the settlement or partial settlement reached.

The parties acknowledge that the Board may accept settlement on any individual issue, or combination of them.

The parties agree that all unsettled issues will be dealt with during the oral phase of this proceeding.

Unless stated otherwise, the settlement of any particular issue in this proceeding and the positions of the parties in this Proposal are without prejudice to the rights of parties to raise the same issue and/or to take any position thereon in any other proceedings.

Overview:

The parties were unable to reach agreement on several issues, including OM&A, capital programs, cost allocation and rate design including the Applicant's rate harmonization plan.

Many of the settled issues were issues that were canvassed during Hydro One's 2006 Distribution Rate Application, EB-2005-0378 and/or Hydro One's 2007/08 Transmission Rate Application, EB-2006-0501 and which the Board had previously approved or commented. The settlement proposal outlines references to the applicable Board Decision.

1. ADMINISTRATION (Exhibit A)

1.1. Has Hydro One responded appropriately to all relevant Board directions from previous proceedings?

Partially Settled. The parties agree that the Applicant has appropriately responded to all directives from prior proceedings including those from the 2006 Distribution rate application (EB-2005-0378) and the 2007/08 Transmission rate application (EB-2006-0501) as outlined in Exhibit A-17-1, Table 1 with exception of those directives related to the following:

- CDM
- Compensation

The narrowed scope of the issue is: "Has Hydro One responded appropriately to Board directions from previous proceedings with respect to CDM and compensation?"

Evidence:

A-17-1 Summary of Board Directives and Undertakings from Previous proceedings

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

1.2. Has Hydro One responded appropriately to the Board's Directions on CDM and Line loss reduction?

Partially Settled. The parties agree that the Applicant has responded appropriately to the Board's Direction on Line Loss reduction. The parties also agree that the remaining issue relating to Hydro One's response to the Board's Direction on CDM is covered under issue 1.1.

Evidence:

A-15-3 Distribution Line Loss

H-1-97, H-3-2, H-10-8, H-12-11

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

1.3. Are the Affiliate Service Agreements appropriate?

Settled. The parties agree that the Applicant's Affiliate Service Agreements are appropriate. They are similar in form and substance to those previously reviewed and approved in EB-2005-0378 and EB-2006-0501. However, the parties' agreement on this issue is without prejudice to the positions that they may take on the costs of Affiliate Services which fall within Issues 3.3 and 4.6.

Evidence:

A-8-3 Affiliate Service Agreements

H-1-92, H-10-2, H-12-1, H-12-2, H-13-28, H-13-29, H-13-30

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

1.4. Are Hydro One's Economic and Business Planning Assumptions for 2008 appropriate?

Settled. The parties agree that Hydro One's Economic and Business Planning Assumptions for 2008 are appropriate. In settling this issue, the parties relied upon information from Hydro One that changes in US exchange rate forecasts have no material impact upon its costs, that it has no debt issued in US dollars and has no current plans to issue any US dollar debt. The Applicant referenced Exhibit H-1-15 from proceeding EB-2005-0378, where it confirmed that the impact of an updated exchange rate on all US dollar payments during the year would not materially impact the test year revenue requirement.

Evidence:

A-14-2 Economic Indicators

H-7-17, H-7-18, H-7-19, H-10-19, H-11-1, H-11-2, H-11-3, H-11-4, H-12-3, H-12-6, H-13-1

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

1.5. Is the load forecast and methodology appropriate and have the impact of Conservation and Demand Management initiatives been suitably reflected?

Partially Settled. The Applicant continues to apply the same forecasting methodology as approved by the Board in EB-2005-0378. The only issues that the parties were unable to reach agreement on are the impact of CDM on the load forecast, the compatibility of Hydro One's load forecast with the OPA's load forecast and whether an LRAM is appropriate.

The narrowed scope of the issue is: "Have the impact of Conservation and Demand Management initiatives been suitably reflected in the load forecast? Is Hydro One's load forecast compatible with the OPA's load forecast? Is an LRAM appropriate at this time?

Evidence:

A-14-3 Distribution Load Forecast and Methodology

H-1-17, H-1-101, H-1-102, H-1-103, H-1-104, H-1-105, H-1-106, H-1-107, H-1-108, H-1-109, H-1-110, H-2-1, H-2-2, H-2-21, H-7-20, H-10-3, H-10-4, H-10-5, H-10-6, H-11-5, H-11-6, H-11-7, H-11-8, H-11-9, H-11-10, H-12-4, H-12-5, H-12-7, H-13-38

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

1.6. Is service quality on the OEB specified performance indicators acceptable?

Settled. The parties agree that Hydro One's level of service quality in relation to OEB specified performance indicators is acceptable. The parties' agreement on this issue is without prejudice to any positions that may be taken regarding service quality targets as they relate to Issues 3 and 4.

Evidence:

A-15-1 Service Quality Indicators

H-1-43, H-1-44, H-1-45, H-1-46, H-1-47, H-1-48, H-1-53, H-1-54, H-1-58, H-6-1, H-7-21, H-7-22, H-7-23, H-11-11, H-11-12, H-12-8, H-12-9, H-12-10

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

1.7. Are the proposed Distribution Loss Factors appropriate?

Settled. The parties agree that Hydro One's proposed Total Loss Factors ("TLF") are appropriate. The proposed TLFs which are consistent with those approved by the Board in EB-2005-0378, are outlined below:

Proposed Customer Class	Proposed TLF %
Urban Residential	7.8
R1	8.5
R2	9.2
Seasonal	9.2
Urban General Service energy	9.2
Urban General Service demand	6.1
General Service energy	9.2
General Service demand	6.1
Street Light	9.2
Sentinel Lights	9.2
Distributed Generator	6.1
Sub-Transmission	3.4

The parties further agree that the TLFs shown above may need to be adjusted to reflect the Board's Decision relating to customer rate classes (Issue 7.1).

Evidence:

A-15-3 Distribution Line Loss, G1-10-1 Total Loss Factors

H-1-96, H-1-97, H-1-98, H-1-99, H-1-100, H-2-3, H-2-4, H-5-1, H-10-7, H-11-13, H-11-14, H-12-7, H-12-11, H-12-65

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

2. COST OF CAPITAL/DEBT (Exhibit B)

2.1. Is the proposed Capital Structure and Rate of Return on Equity for Hydro One's distribution business appropriate?

Settled. The parties agree that the capital structure and ROE proposed by Hydro One is appropriate. Hydro One is following the Board's deemed capital structure of 60% debt and 40% equity as approved in EB-2006-0501 and per the Board's direction in its report issued on December 20, 2006, *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors*. When implementing the Board's Decision in the establishment of final 2008 distribution rates, the Applicant will reflect the Board approved 2008 ROE for LDCs of 8.57%.

Evidence:

B1-1-1 Cost of Capital

H-1-111, H-1-112, H-12-12

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

2.2. Are Hydro One's proposed costs and mix for its short and long-term debt for the 2008 test year appropriate?

Settled. The parties agree that Hydro One's proposed costs and mix for its short and long term debt are appropriate. In settling this issue, the parties relied upon information from Hydro One that updating the long-term debt issues and cost rates with actual 2007 and 2008 debt issues and cost rates would have minimal impact on the revenue requirement. Further, Hydro One confirmed that when implementing the Board's Decision in establishing final 2008 distribution rates it will reflect the Board approved rates for deemed short-term debt of 4.47% and deemed long-term debt of 6.10% for the 2008 test year. The settlement is without prejudice to the ability of intervenors to advocate for updated long term debt costs in future rate proceedings.

Evidence:

B1-2-1 Cost of Third Party Long Term Debt, B2-1-1 Debt and Equity Summary, B2-1-1 Cost of Long Term Debt

H-10-9, H-12-12, H-12-13, H-12-14, H-13-1, H-13-19, H-13-37

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

3. COST OF SERVICE (Exhibit C)

3.1. Are the overall levels of the 2008 Operation, Maintenance and Administration budgets appropriate?

Not settled. The parties were unable to reach agreement on this issue.

3.2. Is the 2008 vegetation management budget appropriate?

Not settled. The parties were unable to reach agreement on this issue.

3.3. Is the proposed level of 2008 Shared Services and Other O&M spending appropriate?

Not settled. The parties were unable to reach agreement on this issue.

3.4. Are the methodologies used to allocate Shared Services and Other O&M costs to the distribution business and determine the distribution overhead capitalization rate for 2008 appropriate?

Partially Settled. The parties agree that the methodology used by the Applicant to determine the distribution overhead capitalization rate for 2008 is appropriate. This methodology was approved by the Board at page 36 of their Decision in EB-2005-0378. The settlement of this issue was also accepted by the Board in proceeding EB-2006-0501.

The narrowed scope of the issue is: "Are the methodologies used to allocate Shared Services and Other O&M costs to the distribution business for 2008 appropriate?"

Evidence:

C1-5-1 Common Corporate Costs, C1-5-2 Overhead Capitalization Rate, C1-5-3 Common Asset Allocation

H-1-83, H-1-84, H-12-23, H-13-20

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

3.5. Is the proposed E-factor methodology and adjustment as part of the distribution overhead capitalization appropriate?

Settled. The parties agree that the Applicant's proposed E-factor methodology and adjustment as part of the distribution overhead capitalization is appropriate. In settling this issue the parties relied on information from the Applicant that the E-factor methodology is consistent with the Rudden overhead capitalization rate methodology that was accepted by the Board in EB-2005-0378. The 2008 E-factor adjustment represents a $14.4 million one-time true-up of 2006 overheads capitalized. The Applicant confirmed that the E-factor adjustment did not result in an increase in the test year revenue requirement. Hydro One advised that in 2007 it initiated a more timely process by which overheads are reviewed and adjusted on a quarterly basis. This process improves the timeliness of the update mechanism within the approved Rudden methodology.

Evidence:

C1-5-2 Overhead Capitalization Rate

H-1-16, H-12-24

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

3.6. Are the 2008 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate?

Not settled. The parties were unable to reach agreement on this issue.

3.7. Is Hydro One's depreciation expense appropriate?

Settled. The parties agree that the Applicant's depreciation expense methodology is appropriate. Hydro One continues to employ the depreciation methodology approved by the Board at page 24 of their Decision in EB-2005-0378. The settlement of this issue was also accepted by the Board in proceeding EB-2006-0501. The parties agree that the actual amount of depreciation expense may be affected by the Board's Decision in respect of Issue 4, or other issues, and will be adjusted accordingly is establishing the final 2008 distribution rates.

Evidence:

C1-6-1 Depreciation and Amortization Expenses, C2-5-1 Depreciation and Amortization Expenses – Historic, Bridge Year and Test Year, D2-3-2 Continuity of Accumulated Depreciation

H-1-5, H-1-41, H-12-25, H-13-42

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

3.8. Are the amounts proposed for capital and property taxes appropriate?

Settled. The Applicant's methodology and tax calculations are accepted by the parties. The parties agree that the amount of property taxes is appropriate. When implementing the Board's Decision in the establishment of final 2008 distribution rates, Hydro One will use the prevailing capital tax rates applicable to the test year.

Evidence:

C1-2-7 Property Taxes, C2-4-1 Capital Taxes Test Year (2008)

H-1-93, H-12-3, H-13-39

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

3.9. Is the amount proposed for income taxes, including the methodology, appropriate?

Settled. The Applicant's methodology and tax calculations are accepted by the parties. When implementing the Board's Decision in the establishment of final 2008 distribution rates, Hydro One will use the prevailing income tax rates applicable to the test year.

Evidence:

C1-7-1 Payments in Lieu of Corporate Income Taxes, C2-6-1 calculation of Utility Income Taxes, C2-6-2 2006 Hydro One Networks Income Tax return

H-1-94, H-1-95, H-13-40

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

3.10. Is the level of Hydro One initiated and or delivered CDM activity and budget appropriate and should it be funded by OPA or in rates?

Not settled. The parties were unable to reach agreement on this issue.

3.11. Is the proposed spending on loss reduction efforts appropriate?

Settled: The parties agree that the proposed expenditures to reduce electricity system losses, as recommended in the Kinectrics study provided at Exhibit A-15-3, Attachment A are appropriate. The spending on line loss reduction initiatives recommended in this study, and already undertaken by Hydro One, are consistent with previously Board approved amounts. As such, Hydro One is not requesting any additional spending for specific loss reduction initiatives in the test year.

Evidence:

A-15-3 Distribution Line Loss

H-1-97, H-3-2, H-10-8, H-12-11

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

4. RATE BASE (Exhibit D)

4.1. Are the amounts proposed for Rate Base appropriate?

Not settled. The parties were unable to reach agreement on this issue.

4.2. Are the amounts proposed for 2008 Capital Expenditures appropriate?

Not settled. The parties were unable to reach agreement on this issue.

4.3. Are the 2008 sustaining capital expenditures proposed for Asset Replacement appropriate?

Not settled. The parties were unable to reach agreement on this issue.

4.4. Are the 2008 amounts proposed for Development capital appropriate?

Not settled. The parties were unable to reach agreement on this issue.

4.5. Is the 2008 budget for storm related capital expenditures appropriate?

Not settled. The parties were unable to reach agreement on this issue.

4.6. Is the proposed level of 2008 Shared Services and Other Capital expenditures appropriate?

Not settled. The parties were unable to reach agreement on this issue.

4.7. Are the methodologies used to allocate Shared Services and Other Capital expenditures to the distribution business and determine the Working Capital component of the Rate Base consistent with the methodologies approved by the Board in previous Hydro One rate applications?

Partially Settled. The parties agree that the methodology used by the Applicant to determine the Working Capital of $273.2 million is consistent with the methodology approved by the Board at page 29 of their EB-2005-0378 Decision. This amount represents 11.2% of total OM&A and cost of power. The settlement of this issue was also accepted by the Board in proceeding EB-2006-0501.

The narrowed scope of the issue is: "Are the methodologies used to allocate Shared Services and Other Capital expenditures to the distribution business consistent with the methodology approved by the Board in previous Hydro One rate applications".

Evidence:

D1-1-3 Working Capital and Lead/Lag

H-1-11

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

4.8. Does the Asset Condition Assessment information adequately address the condition of the distribution system assets and support the OMA and Capital expenditures for 2008?

Settled. The parties agree that the Asset Condition Assessment information filed by the Applicant adequately addresses the condition of the distribution system assets. The parties agree that the extent to which the Asset Condition Assessment information supports the OM&A and capital expenditures will be dealt with as part of Issues 3.1 and 4.2 respectively.

Evidence:

D1-1-2 Distribution Assets, D1-2-1 Asset Condition Assessment and Analysis

H-1-14, H-1-55, H-7-1, H-12-26, H-12-27, H-13-8, H-13-43

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC,

4.9. Are the proposed capital expenditures to reduce electricity system losses appropriate?

Settled: The parties agree that the proposed capital expenditures to reduce electricity system losses, as recommended in the Kinectrics study provided at Exhibit A-15-3, Attachment A are appropriate. The capital spending on line loss reduction initiatives recommended in this study, and already undertaken by Hydro One, are consistent with previously Board approved amounts. As such, Hydro One is not requesting any additional capital spending for specific loss reduction initiatives in the test year.

Evidence:

A-15-3 Distribution Line Loss Study, D1-3-5 Shared Service and Other Capital

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

5. REVENUE REQUIREMENT (Exhibit E)

5.1. Is the calculation of the proposed revenue requirement for 2008 appropriate?

Settled. The parties agree that the calculations for revenue requirement are appropriate. However, the final amount of revenue requirement will reflect the Board Decision.

Evidence:

E2-1-1 Calculation of Revenue Requirement (2008)

H-10-25, H-10-26, H-12-32

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

5.2. Is the proposed amount for 2008 External Revenues, including the methodology used to cost and price these services, appropriate?

Settled. The parties agree that the proposed amount for 2008 External Revenues, including the methodology used to cost and price these services is appropriate.

ECAO's agreement on this issue is premised on clarification from Hydro One that: i) the streetlight maintenance revenues referred to in the pre-filed evidence [Exhibit E3, Tab 1, Schedule 1, page 10, line 13] consists of approximately $50,000 from services provided as a "service provider of last resort" to 12 Municipalities and First Nations primarily located in northern Ontario where no other qualified contractors are available, or willing, to provide the service; ii) the sentinel lighting service revenues arise solely from customers to whom Hydro One is required to provide the service pursuant to Ontario Regulation 161/99 [s.5(6)]; and iii) the design and redesign of new subdivision services provided to developers relates to design and redesign of the Hydro One owned distribution network within the subdivision, and redesigns are included in the "external work" category by virtue of the cost recovery nature of the work.

ECAO's and the Applicant’s agreement on this issue is expressly without prejudice to either party with respect to characterization in the pre-filed evidence of those elements of new connection and upgrade service work as "work that must be done by Hydro One Distribution under its Distribution Licence" [Exhibit E3, Tab 1, Schedule 1, page 8, lines 13 through 19].

Evidence:

E3-1-1 External Revenues, E3-2-2 External revenues Historic, Bridge Year and Test Year

H-10-26, H-12-33, H-12-34

Supporting Parties: AMPCO, ECAO, EP, CCC, CME, PWU, SEC, VECC

Parties taking no position: ECMI, GEC, MH, PP, RCC

5.3. Is the proposed accounting treatment of non utility revenue and expenditures associated with OPA funded CDM appropriate?

Not settled. The parties were unable to reach agreement on this issue.

6. REGULATORY ASSETS (Exhibit F)

6.1. Is the proposal for the amounts, disposition and continuance of Hydro One's existing Deferral and Variance Accounts (Regulatory Assets) appropriate?

Not settled. The parties were unable to reach agreement on this issue.

6.2. Is the proposal to establish new Deferral and Variance Accounts appropriate?

Not settled. The parties were unable to reach agreement on this issue.

7. COST ALLOCATION AND RATE DESIGN (Exhibit G)

7.1. Are Hydro One's proposed new Customer Rate Classes appropriate?

Not settled. The parties were unable to reach agreement on this issue.

7.2. Is Hydro One's cost allocation appropriate?

Not settled. The parties were unable to reach agreement on this issue.

7.3. Are Hydro One's proposed rates appropriate?

Not settled. The parties were unable to reach agreement on this issue.

7.4. Are the proposed revenue to cost ratios appropriate?

Not settled. The parties were unable to reach agreement on this issue.

7.5. Are the fixed-variable splits for each class appropriate?

Not settled. The parties were unable to reach agreement on this issue.

7.6. Is Hydro One's proposal to have both fixed and variable service charges for sub-transmission customers, sentinel lights and street lights appropriate?

Partially Settled: The parties agree that the Applicant's proposal to include both fixed and variable components for the service charges applicable to sentinel light and street light rate classes is appropriate.

The narrowed scope of the issue is: Is Hydro One's proposal to have both fixed and variable service charges for sub-transmission customers appropriate?

Evidence:

G1-4-2 Target rates for Retail Customers, G1-4-4 Rate Considerations for Sub-Transmission Customers

H-12-42, H-12-46

Supporting Parties: AMPCO, ECMI, EP, CME, VECC

Parties taking no position: CCC, ECAO, GEC, MH, PP, PWU, RCC, SEC

7.7. Is the proposal for harmonization of rates appropriate?

Not settled. The parties were unable to reach agreement on this issue.

7.8. Are the customer bill impacts resulting from the proposed rate impact mitigation plan reasonable?

Not settled. The parties were unable to reach agreement on this issue.

7.9. Are the proposed Retail Transmission Service Rates appropriate?

Settled: The parties agree that the Retail Transmission Service Rates are appropriate. These Rates have been determined using the current Board approved methodology outlined in Chapter 11 of the Distribution Rate Handbook and using the Ontario Uniform Transmission rates (EB-2007-0759), effective November 1, 2007, as approved by the Board in their Decision.

Evidence:

G1-6-1 Retail Transmission service Rates, G2-4-1 Retail Transmission Services Rates Details

H-1-159, H-1-160, H-1-161, H-1-162, H-1-163, H-12-60

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

7.10. Is the proposal for regulatory asset rate rider #3 appropriate?

Not settled. The parties were unable to reach agreement on this issue.

8. SMART METERS

8.1. Is the 2008 smart meter O&M budget appropriate?

Not settled. The parties were unable to reach agreement on this issue.

8.2. Is the proposed 2008 capital spending for the Smart Meter program appropriate?

Not settled. The parties were unable to reach agreement on this issue.

8.3. Are the amounts for Smart Meter related variance accounts appropriate?

Not settled. The parties were unable to reach agreement on this issue.

8.4. Is the treatment of stranded meter costs appropriate?

Settled: The parties agree that the Applicant's treatment of stranded meter costs is appropriate. In the Applicant's 2006 Distribution Rate Application, a comprehensive depreciation study prepared by Foster Associates was filed dealing with all of Hydro One's assets (Exhibit C1, Tab 7). Intervenors did not cross examine on the study and no witness testified about the study. As a result, on page 24 of its Decision in EB-2005-0378 the Board accepted the costs flowing from the study.

As it relates to stranded meters, the depreciation study stated:

"It is the opinion of Foster Associates that a responsible and appropriate treatment of the embedded base of conventional meters (i.e., Account 1860) is amortization over a period of 5 years. The recommended amortization period is consistent with the Provincial initiative to replace all conventional meters by 2010."

The Applicant continues to follow the same depreciation treatment of stranded meters that was implemented following the Board's Decision in EB-2005-0378.

Evidence:

C1-6-1 Depreciation and Amortization Expenses

Supporting Parties: AMPCO, EP, CCC, CME, SEC, VECC

Parties taking no position: ECAO, ECMI, GEC, MH, PP, PWU, RCC

8.5. Is Hydro One's regulatory treatment of Smart Meter costs appropriate?

Not settled. The parties were unable to reach agreement on this issue.