

**Ontario Energy
Board**
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

**Commission de l'Énergie
de l'Ontario**
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



BY E-MAIL

February 12, 2008

Board Secretary
Ontario Energy Board
2300 Yonge Street, Ste. 2700
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Hydro Ottawa 2008 Electricity Distribution Rates Application
Board File Number EB-2007-0713
Submissions on Issue 3.4**

Please see attached Board staff's submission on Issue 3.4 for the above proceeding.
Please forward the attached to Hydro Ottawa Inc. and all intervenors in this proceeding.

Yours truly,

A handwritten signature in black ink, appearing to read "Harold Thiessen".

Harold Thiessen
Case Manager

**Hydro Ottawa Limited
Cost of Service Distribution Rate Application
EB-2007-0713**

Board Staff Submission regarding Issue 3.4

3.4 Is the capitalization process (policy and procedure) appropriate?

Introduction

Hydro Ottawa Limited (Hydro Ottawa) filed an application with the Ontario Energy Board, received on September 19, 2007, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Hydro Ottawa charges for electricity distribution, to be effective May 1, 2008.

As part of this application, Hydro Ottawa requested a change to its overhead capitalization policy which is the focus of Issue 3.4.

Hydro Ottawa filed the Settlement Proposal in this proceeding on January 23, 2008. The Settlement Proposal indicated that Hydro Ottawa and the other parties achieved a complete settlement of 28 issues, an incomplete settlement of one issue (4.2), a partial settlement of one issue (3.4), and no settlement of one issue (8.4). The Settlement Proposal was approved by the Board with some minor adjustments on January 24, 2008.

As a result of the fact that the School Energy Coalition would not agree to settlement of the "change in capitalization" issue, Issue 3.4 was the subject of the oral hearing held on February 4, 2008.

The School Energy Coalition submitted its argument on this issue on February 7, 2008.

Board Staff Submission

Board staff did not make submissions regarding this issue in the Settlement Proposal hearing held on January 24, 2008.

Board staff notes that Hydro Ottawa has tabled evidence that their proposed capitalization change is consistent with other utilities, and with GAAP. They have documented the change thoroughly and demonstrated that it is within the realm of the CICA Handbook. Hydro Ottawa has submitted studies done by KPMG and Deloitte to support this change.

In addition, the impacts of this change appear to be reasonable in terms of the total bill impact on the customers of Hydro Ottawa.

Therefore, Board staff have no concerns with the proposed change in capitalization policy.