



EB-2006-0501

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 transmission
of electricity commencing January 1, 2007.

BEFORE: Pamela Nowina
Vice Chair and Presiding Member

Paul Sommerville
Member

Bill Rupert
Member

**ORDER to AMEND the REVENUE REQUIREMENT and CHARGE DETERMINANT
EXHIBIT ARISING FROM THE EB-2006-0501 DECISION WITH REASONS**

Hydro One Networks Inc. ("Hydro One", the "Company", the "Utility" or the "Applicant") filed an application dated September 12, 2006 (the "original Application") with the Ontario Energy Board (the "Board") under section 78 of the *Ontario Energy Board Act, 1998*; S.O. c.15, (Sched. B) (the "Act"), for an order or orders approving the revenue requirement for the test years 2007 and 2008; customer rates for the transmission of electricity to be implemented on May 1, 2007; changes to the current capital structure with an increase in the return on common equity; the inclusion into rate base of certain capital costs; a revenue requirement adjustment mechanism for 2009 and 2010; and other matters related to the fixing of just and reasonable rates for the transmission of

electricity. The Board assigned file number EB-2006-0501 to the Application and issued a Notice of Application dated October 17, 2006. Updates to certain parts of the original Application were filed on February 23, 2007.

An Issues List was provided to parties with Procedural Order No. 2 on December 20, 2006. On March 26, 2007 a Settlement Conference was held to settle as many of the issues as possible. The Settlement Conference resulted in a Settlement Proposal which was filed with the Board on April 3, 2007. The Board considered the Settlement Proposal at a hearing held on April 10, 2007. The Board issued its Settlement Proposal Decision on April 18, 2007. Of the 40 issues on the Issues List, the Settlement Proposal fully settled 24 issues and partially settled two issues. The parties were unable to reach agreement on the remaining 14 issues and the Decision with Reasons addressed these non-settled issues.

In a letter dated February 14, 2007 Hydro One requested that a 2007 revenue deficiency deferral account be established, beginning January 1, 2007, to record the revenue deficiency between the approved revenue for 2007 and the forecast revenues at currently approved transmission rates. Hydro One requested a decision from the Board on this issue by March 31, 2007. On March 30, 2007, the Board issued a Partial Decision and Order approving the establishment of the 2007 revenue deficiency deferral account.

The Board's EB-2006-0501 Decision with Reasons (the "Decision") was issued on August 16, 2007. The Board indicated that a number of the findings in the Decision would affect the applied-for revenue and charge determinant amounts. With regard to the rate implementation of the Decision the Board noted that the Company should file with the Board and all intervenors of record, a draft exhibit outlining the final revenue requirements and charge determinants to reflect the Board's findings in the Decision. The Company was also directed to file an exhibit "...which includes the calculation of the uniform transmission rates, charge determinants and revenue shares resulting from this decision. This exhibit will be used in the uniform transmission rates proceeding to establish the Ontario Uniform Transmission Rates."

Hydro One filed the required draft exhibit on September 7, 2007, which included the changes requested by the Board in the Decision. These changes included:

- Application of the LDC deemed regulatory capital structure (60% debt, 40% common equity) and ROE formula which results in an ROE set at 8.35% for both 2007 and 2008.
- Disposition of the ratepayers' portion of 2006 excess earnings (ESM) as a refund to ratepayers over two years (2007 and 2008) rather than as capital contributions. The excess earnings were revised to be consistent with Hydro One Transmission's audited 2006 financial statements.
- Removal of the proposed OEB cost deferral account recovery.
- Incorporation of the Revenue Difference Deferral Account (RDDA) to be effective January 1, 2007 and to be calculated using the 2007 load forecast accepted by the Board.
- Removal of the proposed regulatory treatment of the designated projects.
- Expensing and recovery of the carrying costs of the Niagara Reinforcement Project as of January 1, 2007 until the project is completed and placed into service.
- Increase in the 2007 and 2008 load forecast of 350MW to reflect a lower CDM impact.

In addition, as part of the exhibit, Hydro One also filed a proposal for Uniform Transmission Rates to be effective on January 1, 2009, which anticipates that a 2009 revenue requirement, charge determinants and Uniform Transmission Rates decision for Hydro One would not be completed for a January 1, 2009 implementation.

No intervenor made submissions on the Hydro One exhibit.

Upon reviewing the materials, the Board does not accept Hydro One's interpretation of the Board's direction on page 64 of the Decision, which orders that it expense the AFUDC, or carrying costs, associated with the Niagara Reinforcement Project. Hydro One has included an equity component in this calculation. The Decision does not permit Hydro One to recover anything more than interest costs.

THEREFORE, THE BOARD ORDERS THAT:

1. Hydro One use only the AFUDC rates shown in its evidence at Exhibit D1/Tab 4/Schedule1 to calculate carrying costs for the Niagara Reinforcement Project for 2007 and 2008 for use in the draft revenue requirement exhibit. No equity component should be used when calculating the carrying costs.

2. Hydro One revise the draft revenue requirement exhibit accordingly and submit the revised exhibit to the Board and intervenors of record as soon as possible.

ISSUED at Toronto, September 21, 2007

ONTARIO ENERGY BOARD

Original signed by

Peter H. O'Dell
Assistant Board Secretary