

Hydro One Networks Inc.

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Susan Frank

Vice President and Chief Regulatory Officer

By Facsimile

July 24, 2006

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli

Re: EB-2006-0064 - OEB Staff Discussion Paper on Regulatory Options for Setting Payment Amounts for Ontario Power Generation Prescribed Generation Assets

Hydro One Networks Inc. (Hydro One) appreciates the opportunity to provide comments to assist the OEB (the Board) in this important matter. Hydro One is encouraged by the Board's Staff (Staff) proposal on an incentive based form of regulation for the Board's obligation in respect of regulating the payments for OPG's prescribed assets. Hydro One agrees that incentive regulation is a more efficient form of regulation that drives efficiency and streamlines the regulatory process.

However, as Hydro One noted in its previous comments on the subject matter, the success of any incentive based regulatory scheme is predicated on the starting point containing a firm base where costs have been thoroughly examined and tested through a due process. This approach establishes the requisite level of detail to give the Regulator the assurance that costs are appropriate for the desired level of performance. If the starting point is not properly defined then the incentive plan will not yield the right signals for the Applicant to better manage its costs and to drive efficiencies. Therefore, Hydro One is concerned that Staff propose to omit this important aspect in this proceeding where there is little confidence that the underlying costs are reasonably understood. Furthermore, existing payments for the prescribed assets are based on information that will be out of date by the time the Board begins to set the payment levels after April 1, 2008.

Hydro One notes that the greater majority of stakeholders participating in the review of the Staff proposal in this matter are in favour of an initial Cost of Service review as this would allow the a detailed examination of the relevant costs for the prescribed assets over which the Board will have jurisdiction in setting payments. Therefore, Hydro One encourages the Board to recognize the

importance of including a Cost of Service review as part of the process for establishing the Board's accountability to determine the level of payments for OPG's prescribed assets.

Sincerely,

A handwritten signature in cursive script, appearing to read "Susan Frank". The signature is written in dark ink and is positioned to the right of the word "Sincerely,".

Susan Frank