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VIA COURIER AND EMAIL

Ms. Kirsten Walli
Board Secretary
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli,

Re: Vulnerable Energy Consumers Coalition (VECC)
EB-2008-0272 Hydro One Networks Inc. – Electricity Transmission Revenue Requirement Change

Please find enclosed the submissions of VECC in the above noted proceeding.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

Hydro One Networks Inc. – Transmission

2009 and 2010 Revenue Requirement & Rate Application

Board File No. EB-2008-0272

FINAL SUBMISSIONS OF THE VULNERABLE ENERGY CONSUMERS' COALITION

Contents

0. INTRODUCTION

This is the Final Argument of the Vulnerable Energy Consumers' Coalition ("VECC") in the Hydro One Networks Inc. Application for 2009 and 2010 transmission rates, EB-2008-272. It is organized in the same manner as the issues list, with numbering and sub-numbering that matches the issues list numbering scheme.

1. GENERAL

1.1 <u>Has Hydro One responded appropriately to all relevant Board directions from previous proceedings?</u>

Hydro One Networks' Position

In Exhibit A, Tab 18, Schedule 1 Hydro One Networks lists the various Board directives applicable to its Transmission business as a result of previous Board Decisions. In the same Exhibit, Hydro One Networks takes the position that it has responded to all Board directives and undertakings.

VECC's Submissions

VECC does not propose to specifically address Hydro One Networks' responses to all of the Board past directives and related Hydro One Networks undertakings. Hydro One Networks' responses to some of these are addressed under the relevant issues. Set out below are VECC's submissions on those items it views as warranting specific comment but which do not fit naturally under topics set out in the Issues List.

a) Export and Wheel Through Tariffs

As part of the EB-2006-0501 Settlement Agreement (which was approved by the OEB) the issue regarding Export Transmission Service Tariffs was settled as follows[1]:

> The parties have agreed that the status quo ETS Tariff of $1/MWh should be maintained until the 2010 transmission rate setting process.
> In supporting the settlement the parties are supportive of the IESO undertaking a study of an appropriate ETS Tariff to be completed prior to the 2010 transmission rate re-setting process, and through negotiation with neighbouring jurisdictions pursue acceptable reciprocal arrangements with the intention to eliminate all ETS Tariffs. It is understood that any change to the ETS tariff must be approved by the OEB as part of a rate setting process which Hydro One will initiate as part of the 2010 transmission rate re-setting process.

It should be noted that this wording differs slightly from that presented in Exhibit A/Tab 18/Schedule 1, which represents the wording of the Settlement Agreement as originally presented to the OEB. However, in response to concerns raised by the Board the wording was adjusted and subsequently approved[2].

In its current Application Hydro One Networks has stated that it "will file with the OEB any required changes to the existing ETS rate resulting from the Board's review and approval of the IESO's study"[3]. In response to interrogatories and cross examination Hydro One Networks further clarified its plans regarding the future changes to the Export Service Transmission rate as follows:

- Hydro One Networks expects the Board to initiate a process to review and approve the IESO recommendations and that this approval will precede any Hydro One Networks filing on the matter[4].
- Any changes to the rate would be initiated as part of Hydro One Networks next rate proceeding for 2011-2012 rates and not for 2010 rates[5].

[1] EB-2006-0501, Exhibit M/Tab 1/Schedule 6, page 1 – filed April 11, 2007
[2] EB-2006-0501, Settlement Proposal Decision, April 18, 2007
[3] Exhibit 1/Tab 5/Schedule 1, page 2
[4] Exhibit I/Tab 6/Schedule 24 and Volume #5, page 51
[5] Volume #4, page 26 and Volume #5, pages 15 and 52

- The re-establishment of a deferral account for could hold parties harmless in the interim[6].

VECC submits that this is not what was agreed to by Hydro One Networks and the other parties to the Settlement Agreement in 2007. First the Settlement Agreement is clear that it is Hydro One Networks that is responsible for bringing forward a proposal on Export Transmission Service rates as result of the IESO's work. There is no reference in the Agreement to either the IESO seeking approval for the Study or the Board initiating a review on its own initiative[7]. Indeed, during cross examination, Hydro One Networks appears to have eventually accepted this point and acknowledged that the best way to have the study considered was in the context of an application made by the Company[8].

Hydro One Networks appears to offer three possible reasons for postponing the consideration of the Export Transmission Service Tariff until its 2011-2012 Rate Application. The first was that the IESO study was late and would not be completed on time[9]. However, Hydro One Networks' witnesses subsequently confirmed that the study is scheduled to be completed by June 1, 2009 as originally planned[10]. The second reason was that there would need to be further consultation with neighbouring jurisdictions after the IESO study was completed. However, again, Hydro One Networks subsequently acknowledged that such consultations were part of the actual study itself[11].

The third reason for delaying until 2011 rates was that Hydro One Networks is currently in process of seeking approval for 2010 rates and the Company was unclear how it would affect 2010 rates already approved by the OEB[12]. Hydro

[6] Volume #5, page 16
[7] Volume #5, pages 51-52
[8] Volume #5, page 53
[9] Volume #4, page 26
[10] Volume #5, page 14
[11] Volume #5, pages 50-51
[12] Volume #4, page 26

One Networks claims that a deferral/variance account will keep everyone whole in the interim[13].

VECC does not accept the claim that the current rate approval requested for 2009 and 2010 rates precludes an Application by Hydro One Networks later this year for revised Export Transmission Service rates for 2010. The export tariff revenues are treated as a revenue requirement offset and therefore the implications of any change in export tariff can be managed via a variance account. Furthermore, since Hydro One Networks is proposing to update the 2010 revenue requirement[14] to reflect new revised estimates for 2010 return on equity and cost of deemed debt, there is no reason why the 2010 revenue requirement couldn't also be updated for a change in the export revenue offset if known in time.

In cross examination AMPCO's Counsel raised the issue of needing to address any inequities between export and domestic transmission rates on a timely basis[15]. In response, Hydro One Networks' witnesses suggested that a deferral/variance account to track the differences would hold parties harmless in this regard. The only way this would work would be if Export Transmission Service customers were eventually billed the new rates for 2010 even though they would not be known and approved until late 2010 or early 2011. In VECC's view such retroactive rate making is not acceptable. As result, VECC submits a fair result for 2010 requires new export transmission service rates be set for 2010.

Finally, this issue first arose as part of Hydro One Networks 2007-2008 Transmission Rate Application. The Settlement Agreement effectively postponed dealing with this issue for three years. VECC accepted this delay on the understanding that it would result in a more comprehensive proposal but also on the understanding that it would be dealt with for 2010 rates. It is VECC's

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[13] Volume #5, page 52
[14] Exhibit I/Tab 2/Schedule 2 and Exhibit I/Tab 1/Schedule 3
[15] Volume #5, page 16

submission that the Board should direct Hydro One Networks to honour the terms of the approved Settlement Agreement and file a proposal for export tariffs as part of the 2010 transmission rate-resetting process.

b) Cost of Capital

In its EB-2006-0501 Decision the Board determined that the cost of capital findings in its December 2006 Report on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors were also applicable to Hydro One Networks' transmission business. VECC has reviewed the submissions of BOMA/LPMA[16] pertaining to i) Return on Equity; ii) Short Term Debt Rate; and iii) Long Term Debt Rate and adopts them for purposes of its submissions. In support of BOMA/LPMA's submissions regarding Hydro One Networks inappropriate use of the long-term deemed debt rate to value unfunded long-term deemed debt, VECC notes it has been involved in a significant number of cost of service applications from Ontario electricity distributors for 2008 and 2009. In these applications, the practice of distributors[17] has been to value the entire long-term debt in their deemed capital structure at the average cost of actual long-term debt.

2. LOAD FORECAST and REVENUE FORECAST

2.1 Is the load forecast and methodology appropriate and have the impacts of Conservation and Demand Management initiatives been suitably reflected?

Hydro One Networks' Position

Hydro One Networks derives its forecast of charge determinants from its forecast of Ontario peak demand. Various modeling/forecasting techniques are used to

[16] Pages 21-28
[17] With the unique exception of Hydro One Networks

develop the Ontario peak demand forecast[18]. In addition specific adjustments are made to the forecast to account for embedded generation and CDM[19]. For the years 2008 through 2010, the reductions in Ontario peak demand (i.e., the overall one-hour system peak) attributed to CDM are assumed to be 1251 MW, 1620 MW and 2407 MW respectively[20]. These values are based on the Ontario Government's 2007 CDM target of 1350 MW (reduced to 1,000 MW for 350 MW of natural conservation) and the incremental CDM forecast in the OPA's August 2007 IPSP for the years following.

In its Application Hydro One Networks also filed materials aimed at responding to the three load forecasting related directives from the Board's EB-2006-0501 Decision[21].

VECC's Submissions

a) Outstanding Board Directives

With respect to Hydro One Networks' response to the various outstanding OEB directives, it is VECC's view that the Company has adequately addressed the issue of its load forecasting methodology versus that used by the IESO. However, there is a need for more effort regarding the directives concerning the impact of CDM and weather normalization methodology.

With respect to CDM, the Board expected that the CDM adjustment to the load forecast included in the next transmission filing would be based on a more rigorous analysis, including load impacts attributable to specific programs[22]. However, Hydro One Networks' adjustment for CDM in this application continues to be based solely on the same OPA target for 2007 as used in the last application, augmented by the OPA CDM projections for 2008-2010.

[18] Exhibit A/Tab 14/Schedule 3, page 20
[19] Exhibit A, Tab 14, Schedule 3, page 16, lines 25-28.
[20] Exhibit A, Tab14, Schedule 3, page 8, Table 2
[21] Exhibit A, Tab 14, Schedule 3, page 2
[22] Exhibit A, Tab 18, Schedule 1, page 3

It is clear from reading the EB-2006-0501 Decision[23] that the 350 MW was considered a conservative estimate as to the impacts of natural conservation and demand response and that the Board agreed both should be excluded from the CDM adjustment assuming normal weather conditions. When Hydro One Networks was asked why its 2007 CDM assumptions weren't updated to reflect the actual reported results (specifically the 590 MW demand response results) Hydro One Networks responded that it had not received any new directive from the Board to do so[24]. In VECC's view this is precisely what the Board's EB-2006-0501 directive intended that Hydro One Networks do.

In the case of weather normalization the directive called for a study of evolving weather normalization practices of utilities and other relevant entities. Hydro One Networks' study[25] focuses almost entirely on the number of years used in weather normalization. However, the weather normalization methodology described in Appendix A to the study involves a number of steps and processes to which the definition of "normal weather" is just one input. In VECC's view the study undertaken by Hydro One Networks was much too narrow in scope and does not fully respond to the Board's concerns as set out in its EB-2006-0501 Decision.

b) 2009 and 2010 Load Forecast

VECC submits that Hydro One Networks' load forecast, as filed, should be accepted for rate setting purposes. This submission is not based on the view that the current load forecast represents the best estimate of likely loads in 2009 and 2010 but rather on following factors:

- While the change in economic conditions may suggest that forecast should be lowered[26], VECC has ongoing reservations that Hydro One Networks'

[23] Pages 91-92
[24] Exhibit I/Tab 6/Schedule 15, part b)
[25] Exhibit A/Tab 14/Schedule 3, Attachment A
[26] Volume #5, page pages 71-72

forecast may overstate the impact of demand management programs on the forecast billing determinants.

- There are no details on the record regarding what an updated load forecast would be. The best the Board has is the suggestion that revenue (and therefore loads) could be 1% lower[27].
- Hydro One Networks has not updated any of the other forecast values underlying its 2009 and 2010 revenue requirement, including inflation rates; debt rates; capital spending for customer-driven connection requirements, etc.

2.2 Are Other Revenue (including Export Revenue) forecasts appropriate?

Hydro One Networks' Position

Hydro One Networks Application includes a forecast of external revenues from third parties which are used as an offset to the revenue requirement. The projected amounts are $18.6 M for 2009 and $18 M for 2010[28]. Also included as a revenue requirement offset is $12 M annually in Export Service Tariff revenue[29].

VECC's Submissions

a) Third Party External Revenues

Third party external revenues arise from Secondary Land Use and Work for Third Parties. In the case of Secondary Land Use the forecast revenues for 2009 and 2010 are $11.4 M and $11.3 M respectively[30]. These forecast levels are less than the actual revenues over the 2006-2008 period which averaged $17.9 M per annum[31]. VECC also notes that the 2007 and 2008 revenues were higher than

[27] Volume #5, page 72 – The 1% is based on a comparison of the suggested revenue reductions of $9 M and $14 M with the proposed 2009 and 2010 "Rates Revenue Requirement" (Exhibit E1/Tab 1/Schedule 1, page 5
[28] Exhibit E1/Tab 1/Schedule 2
[29] Exhibit E1/Tab 1/Schedule 1, pages 3 & 5
[30] Exhibit E1/Tab 1/Schedule 2, page 2
[31] Exhibit E1/Tab 1/Schedule 2, page 2

the Board approved amounts for the same years by $7.5 M per annum. Hydro One Networks explains that the higher amounts for 2006 - 2008 were the result of one-time events[32]. In contrast, Hydro One Networks does not forecast any one-time event revenues for 2009 or 2010[33], rather the forecasts for these years simply reflect base revenues.

In VECC's submission the Board should increase the external revenues from Secondary Land Use to reflect revenues from one-time events. Hydro One Networks acknowledges that such revenues do occur and have arisen in 3 out of the last 4 years[34]. Furthermore, Hydro One Networks acknowledges that there are virtually no costs involved with earning such revenues and one-time events can only lead to increased revenues[35]. VECC notes that, in its Application for 2007 and 2008 rates, Hydro One Networks similarly argued[36] that the appropriate forecast for those years was roughly $11 M on the grounds that the higher 2006 results were a one-time event.

In VECC's view there are two ways the Board could address this issue:

- The Board could direct Hydro One Networks to increase the external revenues from Secondary Land Use to $17.9 M (i.e., the average values for 2006-2008) and create a variance account to track any differences between this forecast and actual revenues, or
- The Board could increase revenue by a lower amount (e.g. $14.6 M – half the additional revenues received in 2006-2008) and not create any variance account.

VECC has no particular preference as between these alternatives, but suggests that the second approach may be preferable simply from an administrative

[32] Exhibit E1/Tab 1/Schedule 2, page 3 and Volume #3, page 29
[33] Volume #3, page 29
[34] Volume #3, page 30
[35] Volume #3, pages 30-31
[36] EB-2005-0501, Exhibit E3/Tab 1/Schedule 1,page 3

perspective. VECC's main concern is that there is no recognition in the current forecast of any opportunity for one-time gains.

The other two areas where forecast external revenues are materially less than historic levels are Station Maintenance and Engineering & Construction. In the case of Station Maintenance revenues in 2009 and 2010 are expected to average $3.15 M per annum versus historical revenues in 2007 and 2008 of $12.85 M per annum. Similarly, Engineering & Construction is forecast to average $1.5 M per annum relative to an historical average of $7.2 M per annum[37].

Hydro One Networks explains the lower forecast revenues as being the result of increasing internal workloads and corporate decision to reduce external work to a minimum. VECC notes that this same rationale was also presented by Hydro One Networks in EB-2005-0501[38] to support reduced revenues in these two areas for 2007 and 2008 whereas actual revenue proved to be much higher. In these cases any higher revenues will be accompanied by higher costs to accomplish the actual work. However, there is margin earned on this work[39].

Overall, it appears to VECC that while Hydro One Networks may be striving to reduce its activities in these areas work arises that requires the skills of their staff and contracts continue to be entered into to accommodate these industry needs[40]. VECC submits that, based on past history, it would be reasonable for the Board should increase the annual external revenues to be earned for 2009 and 2010 on Station Maintenance and Engineering & Construction to $12.8 M and $7.2 M respectively. VECC acknowledges that there will be a corresponding increase in cost, but expects the margin will be in the order of 15%[41].

b) Export Service Tariff Revenues

[37] Exhibit E1/Tab 1/Schedule 2, page 2
[38] Exhibit E3/Tab 1/Schedule 1, pages 4-5
[39] Volume #3, page 139
[40] Exhibit E1/Tab 1/Schedule 2, pages 3-5
[41] Volume #3, page 139 – based on margin of $3.5 M on $24 M revenues.

Hydro One Networks has included forecast Export Service Tariff Revenue of $12 M per annum as a revenue offset for 2009 and 2010. However, actual Export Service Tariff Revenues over the last two years have been $14.1 M and $24.6 M for 2007 and 2008 respectively[42]. Based on this history, VECC submits that the allowance for Export Service Tariff Revenue should be increased for 2009 and 2010. In VECC's view a reasonable level would be the average annual revenue experienced over the past two years - $19.4 M.

However, VECC does recognize that there is a fair degree of volatility in both the monthly and the annual revenues. As a result, VECC submits that it would be reasonable to establish a variance account to track the differences between forecast and actual revenues. In addition, in the EB-2006-0501 Settlement Agreement, Hydro One Networks committed to filing a revised Export Service Tariff for 2010[43]. The creation of a variance account will also track any differences in export tariff revenues for 2010 that may arise as result of changes in the tariff itself and avoid having to factor any expected changes in revenues due to the tariff change into the 2010 revenue requirement[44]. VECC notes that Hydro One Networks appears to be supportive of establishing such a variance account[45].

3. OM&A

3.1 <u>Are the proposed spending levels for Sustaining and Development OM&A in 2009 and 2010 appropriate, including consideration of factors such as of system reliability and asset condition?</u>

Hydro One Networks' Position

Hydro One Networks proposed spending on Sustaining, Development and Operations OM&A totals $292.7 M in 2009 and $310.1 M in 2010[46]. This 2009

[42] Undertaking J3.2
[43] Exhibit A/Tab 14/Tab 1, page 1
[44] Volume #4, page 27
[45] Volume #5, page 104

spending level represents a 14.7% increase over the 2008 Board approved spending and a 19.8% increase over 2008 actual spending[47].

VECC's Submissions

a) Hydro One Networks Planning Process (Capital and OM&A)

The process followed by Hydro One Networks in determining the proposed spend levels[48] for both Capital and OM&A is described in the Main Application[49]. VECC's understanding of the process, as described in the Application, is as follows:

- For each spending area, various levels of spending are assessed in terms of their ability to mitigate risk to Hydro One Networks' Business Values. Such plans are developed within the context of what the minimum required accomplishments are based on current codes, standards and legal requirements.
- Various aggregated levels of spending are then developed where, for each aggregate level, the risks are levelized across spending areas. For sustaining investments (capital and OM&A) input to the process includes information regarding asset demographics, asset condition, asset performance and asset utilization.
- A preliminary Investment Plan is proposed to Senior Management whose review considers factors such as customer affordability, known constraints on resources and the financial health of the company as well as residual risks to the Company's business values associated with the proposed investment.
- Based on re-direction from Senior Management a revise spending plan is developed, where such re-direction may involve more than one iteration.

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[46] Exhibit C1/Tab 2/Schedule 1, page 2
[47] Exhibit C1/Tab 2/Schedule 1, page 5
[48] The process is used to develop total spending including that for Shared Services as well as Sustaining, Development and Operations
[49] Exhibit A/Tab 14/Schedule 1 and Schedule

However, the Application did not contain any documentation on the overall prioritization of the work activities and precisely how the “cut-off point” for the proposed spending was determined - despite the fact that this had been specifically requested during the stakeholder process[50]. During the interrogatory process parties requested various sensitivity analyses[51] in order to gain some insight into the mechanics of Hydro One Networks’ planning process. Unfortunately, Hydro One Networks’ replies were none responsive to the issue and simply referred to its prioritization evidence.

VECC[52] and CCC[53] both pursued the matter further during cross-examination only to be told[54] that it was “a very long, convoluted and complicated process to build up these figures”. Hydro One Networks insisted that the process had been described and stakeholdered and that should be adequate[55]. VECC disagrees with this characterized. It is clear from the record that stakeholders were expecting more than just a description of process in the current filing but also wanted to see how the process worked in developing the proposed capital and OM&A expenses. Mr. Buonaguro attempted to put the issue in colloquial terms with the following analogy[56]:

> “But for me looking at this, the prioritization process is sort of like the rules of a game, like a hockey game, where you've described how the game is played, and you've told us what the final score is, but I have no idea how the game actually went. I don't know who scored, whether there were penalties, how the result -- how the rules were implemented in the particular process to provide you with the final score. And I think that is what is missing for me. You haven't actually shown what happened to get to the result, even though you have described the framework under which you would anticipate that going forward.”

[50] Volume #2, pages 87-88
[51] CME (Exhibit I/Tab 9/Schedules 3&4); VECC (Exhibit I/Tab 6/Schedule 49) and CCC (Exhibit I/Tab 11/Schedule 37)
[52] Volume #2, page 90
[53] Volume #2, page 23
[54] Volume #2, page 23
[55] Volume #2, pages 90-91
[56] Volume #2, page 88

Eventually, after the intervention of the Panel, Hydro One Networks provided information as to their "Minimum Spending Level" and the spending levels that were put forward at the iterations of the Company's senior management review of the proposed 2009-2010 budget[57]. However, no details were provided as to the programs/projects associated with each and the associated risk assessments. To continue with Mr. Buonaguro's analogy, the Board now knows what the score was at the end of each "period" as well as at the end of the game but still has no insight into how the game was actually played.

Another matter of concern to VECC is that fact that Hydro One Networks subsequently acknowledged that what they'd characterized as the "minimum spending level" possible given current standards and regulations was not really that[58]. Indeed, Hydro One Networks indicated that it was possible for them to dip below this minimum level and that is what they are doing in the current Application[59]. In VECC's view this changes entirely the characterization of the Company's planning process as set out in the original Application and the values put before the Board in Undertaking Exhibit J2.7.

VECC submits that both the Board and other parties require more information regarding the workings of Hydro One Networks' planning process including the basis for the "minimum spending level", the prioritization of projects/work activities and the residual risk associated with the alternative levels of spending considered by Hydro One Networks. During the proceeding, Hydro One Networks indicated[60] that if the Board was going to direct cuts in its spending then the Company was looking to the Board to suggest in what areas such cuts would be appropriate. VECC submits that without this type of information Hydro One Networks cannot expect the Board to provide such insight. Indeed, in VECC's view, without such information the Board will have difficulty in making a determination that the proposed level of spending is prudent and reasonable.

[57] Undertaking J2.7 and Exhibit K3.2
[58] Volume #4, pages 67-69
[59] Volume #4, page 70
[60] Volume #3, page 11

VECC is also of the view that this task is not impossible. During the proceeding Hydro One Networks made reference to fact that its risk-based planning process was fairly common practice and specifically referenced the British Columbia Transmission Corporation (BCTC)[61]. This is a timely reference as BCTC's F2010 and F2011 Transmission System Capital Plan was recently filed[62] and is currently being reviewed by the BCUC. VECC invites the Board to consider the types of information BCTC files[63] with its regulator regarding its planning process and contrast that with Hydro One Networks' filing. In particular, VECC notes that the BCTC Application includes:

- Detailed description of the risk assessment process including how each of the criteria are defined, assessed and weighted in the process[64].
- Detailed results of the risk and value scoring of each proposed development and sustainment project[65].

Overall, VECC submits that the Board should direct Hydro One Networks to provide more details regarding the mechanics and actual application of it planning processes as part of its next rate filing.

b) Assessing Asset Investment Requirements (Capital and OM&A)

During EB-2006-0501, Hydro One Networks presented information regarding asset demographics and reliability to support the increased spending levels it was requesting for Sustaining Capital and OM&A. However, the Board found[66] that:

> "some of the evidentiary record to be inadequate or incomplete. For example and as noted above, the Applicant insisted that the overall trend of its assets was continued and increasing deterioration while the evidence it placed before the Board on that point showed a marginal decrease in the failure of a single asset class in 2006. The

[61] Volume #3, page 80
[62] December 4, 2004
[63] Exhibit B-1, found at: http://www.bcuc.com/ApplicationView.aspx?ApplicationId=218
[64] Chapter 4 of Exhibit B-1
[65] Chapter 5, Tables 5-4 and 5-5 and Chapter 6.4 of Exhibit B-1
[66] Pages 25-26

> Board has concerns about the comparatively low spending levels in the years preceding the bridge year. It would be expected that a large and capable transmission company, such as the Applicant, would have had a more reliable asset condition assessment capability than appears to have been the case until recently. The Board would expect that the Company would attempt to smooth spending on this category of expense as much as possible, given the nature of the activity, which is, by definition, incremental in nature. It is concerning that the revenue requirement would include such a steep increase from one year to the next. While the Company has provided an explanation for its request for the sharp increase sought there remains ambiguity about the real state of the asset base. The evidence presented by the Company is not always consistent with the claims advanced."

This led to the Directive that "the Applicant to work with intervenors to develop the type of and format for data reflecting asset condition. In particular, the Board directs Hydro One to provide asset aging data which includes data by value and importance of the type of asset, as suggested in AMPCO's submissions, in its next transmission rates proceeding".[67] Following stakeholder discussions, Hydro One Networks reported to the Board that they had shared with stakeholders the types of asset information used in the decision making process and that parties had no particular concerns. The Company also noted that stakeholders had requested a clear understanding of how this assessment was incorporated into the final investment decisions and committed to do so in its pre-filed evidence[68],

In VECC's view, Hydro One Networks did not follow through on this commitment in preparing its Filing. While the current Application included an updated asset condition assessment[69] and some data on asset demographics[70], the Application did not include comprehensive data on asset demographics and trends asset

[67] EB-2006-0501 Decision, Pages 26-27
[68] Exhibit A/Tab 18/Schedule 1, Attachment 1, page 3
[69] Exhibit D1/Tab 2/Schedule 1
[70] Exhibit C1/Tab 2/Schedule 2, pages 15-16 and Exhibit D1/Tab 3/Schedule 2, pages 20-21

performance. Such information was elicited by parties during the interrogatory[71] and oral hearing processes[72].

More importantly no clear understanding was provided in the pre-filed evidence as to which pieces of information[73] were the key drivers in establishing the various investments proposed. Indeed, when parties attempted to reconcile trends in demographics with proposed increases in investment they were told that was too simplistic and one had to look at the assets' condition assessment performance[74]. But, when parties attempted[75] to link increases in spending requirements to asset condition/health, they were again simply told it was more complex and one had to look at performance trends. However, detailed performance trend information on performance trends was not provided[76] until after the witness panels dealing with Sustaining and Development Capital and OM&A had stood down.

VECC submits that the Hydro One Networks response to OEB Staff Interrogatory #30 is a good starting point for the type of information that should be pre-filed for each program in order to demonstrate the key drivers. However, the "words" need to be supported by data showing the relevant trends in that are being relied on for each referenced driver. Also, the scope of the schedule needs to be expanded to cover all Sustaining spending activities The Board should direct Hydro One Networks to pre-file such information in support of its next rate application.

c) Requested Level of Sustaining OM&A

The key contributor to the overall increase in Sustaining, Development and Operations OM&A is the Sustaining budget[77]. In VECC's view, the evidence

[71] For example, Exhibit I/Tab 1/Schedules 22 & 30; Tab32;
[72] Volume #3, pages 19-23
[73] These pieces of information include asset conditions, asset demographics, asset performance/failure
[74] Volume #2, pages 163-165 and page 174
[75] Volume #2, pages 185-186
[76] Exhibit K3.1 (particularly Attachment B) was filed by witness panel #3.
[77] Exhibit C1/Tab 2/Schedule 1, page 2

provided by Hydro One Networks is not sufficient to support the proposed increases over 2007/2008 approved spending levels[78] of 13% and 20 % in 2009 and 2010 respectively. As discussed in part (a) above Hydro One Networks has not provided any information as to the risk implications of maintain spending closer to historic levels:

- When pressed regarding how trends in asset demographics support such an increase Hydro One Networks indicated that demographics was just an indicator and that asset condition and performance were also considered[79].
- When pressed on the question of how changes in asset condition supports increase spending parties were told the story was “more complex”[80].

However, a review of the evidence shows that while asset condition[81] and performance[82] have changed, some areas have improved while others have worsened. To VECC this suggests a need to re-prioritize budget areas, not increase total budgets by 20% over the period. VECC notes that the detailed submissions made by Energy Probe regarding OM&A spending on Stations is a good example of how the evidence does not specifically support the types of increases Hydro One Networks is requesting.

Overall VECC submits that the 2009 and 2010 spending levels for Sustaining, Operations and Development OM&A should be limited to no more than a 5% increase annual increase over 2008 approved levels. In VECC’s view this level of increase would be more than generous as it not only covers inflation but also allows for increased spending in areas Hydro One Networks views as critical. VECC also submits that without more detailed information regarding Hydro One Networks’ planning process and the risks mitigated by various levels of project spending the Company has not provided the Board with sufficient information to

[78] Board approved spending for Sustaining OM&A was roughly $200M for 2007 and 2008
[79] Volume #2, page 167-168
[80] Volume #2, page 185-187
[81] Exhibit I/Tab 6/Schedule 51
[82] Exhibit K3.1

provided detailed directions as to where the reductions in spending should be made.

3.2 <u>Are the proposed spending levels for Shared Services and Other O&M in 2009 and 2010 appropriate?</u>

Hydro One Networks' Position

Hydro One Networks' proposed Shared Services and Other OM&A costs for 2009 and 2010 are $71.6 M and $66.4 M respectively[83]. The proposed costs can be broken down further as between a) Ongoing Shared Service costs (which are allocated to transmission, distribution and other businesses, b) Cornerstone Costs, c) Cost of Sales, and d) Other OM&A (e.g., capitalized overheads, environmental provisions and indirect depreciation).

VECC's Submissions

a) Ongoing Shared Service Costs

Ongoing Shared Service Costs consist of the transmission business' allocated share of Common Corporate Functions and Service (CCFS), Customer Care, Asset Management and Information Technology. In 2006 and 2007 the total Transmission-related cost for these activities was roughly $140 M / annum. This amount increased to $150.5 M in 2008 and is forecast to increase to $175.6 M in 2009 and $180.9 M in 2010[84]. When compared to 2006/07 levels the projected increases for the Test Years are roughly 25% and 29% respectively.

The portion of these costs attributed to the Transmission business is primarily determined by the "Rudden Methodology" which was approved by the Board in its EB-2005-0378 Decision[85] and allocates the total corporate costs across transmission, distribution and other business activities. For purposes of this Application, Hydro One Networks had R.J. Rudden Associates review the 2009

[83] Exhibit C1/Tab 2/Schedules 1, 4 and 5
[84] Exhibit C1/Tab 2/Schedule 5, page 3
[85] Exhibit C!/Tab 5/Schedule 1, pages 1-2

and 2010 allocations to confirm they were consistent with the original methodology[86]. Their report and the responses during the proceeding[87] indicate that the main reason for the significant Transmission business cost increases is not due to a shift in the allocation of cost but rather increases in the total costs being allocated across the various business units. For example, the total costs associated with CCFS, Asset Management and Information Technology (the major contributors to transmission-related costs in this area) increase by 28% between 2007 and 2009[88].

At a general level, VECC submits that that increases of this magnitude over a two year period are excessive and the Board must carefully consider whether they are warranted. Set out below are few specific points for the Board's consideration:

- In terms of General Counsel costs, Hydro One Networks has capitalized a portion of these costs in the past but has not made any provision for capitalization of some of these costs in the test years. VECC finds this to be at odds with the fact that Hydro One Networks is projecting an increase in its capital program in the test years[89].
- In the case of Finance costs, a major contributor to the increase is over $3 M for IFRS implementation. Given that the requirements of IFRS are yet to be determined, VECC questions the reasonableness of embedding such a provision in rates for 2009 at this point in time.
- Explanations for some the cost increases centre on issues such as smart metering and conservation, matters that appear to be more relevant to Hydro One Networks' distribution business[90]. As a result, VECC questions whether it is appropriate for generally the same allocation factors to be used in 2009 as established in 2006 or 2008.

[86] Exhibit C1/Tab 5/Schedule 1, Attachment 1
[87] Volume #4, page 55
[88] See Exhibit C1/Tab 2 – Schedule 6, page 2/Schedule 8, page 3 and Schedule 9, page 1
[89] Volume #4, pages 46-49
[90] Volume #4, pages 53-54

- These support areas are more likely to be staffed by non-unionized employees who will be subject to the Ontario government's imposed 1.5% compensation adjustment cap[91].

b) Cornerstone

The OM&A savings attributable to the Cornerstone project more than offset the direct project costs for the two test years. However, it should be noted that once the increased sustainment costs[92] and enabling unit costs[93] are accounted for the impact of the project in 2009 is an increase in OM&A costs of over $1 M and net savings do not accrue until 2010.

c) Cost of External Work

During cross examination Hydro One Networks' witnesses indicated that there was a "margin" built into the pricing of external work[94]. However, in the case of Engineering and Construction services total revenues equal total costs[95]. When questioned, Hydro One Networks indicated that the reason for no margin was that that they planned to do as little external work in this area as possible and there would be very little margin to be made[96].

VECC submits that this rationale for not including any margin is illogical. If Hydro One Networks is truly not interested in doing the work then the work should be priced to include a reasonable margin. Indeed, if no margin is included, Hydro One Networks pricing may be generating unwanted demand. Unwanted in the sense that it commands resources required for internal work and unwanted in the sense that there is no benefit (i.e., no margin) for ratepayers. VECC submits that the Board should provide for a margin on this work when setting Hydro One Networks' revenue requirement by either a) further increasing the revenue from

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[91] Volume #4, page 51
[92] Exhibit C1/Tab 2/Scheduel 9, page 11
[93] Exhibit C1/Tab 2/Schedule 6, page 8
[94] Volume #3, page 139
[95] Exhibit I/Tab 6/Schedule 36
[96] Exhibit I/Tab 6/Schedule 36

external work as discussed under Issue 2.2, or b) decreasing the cost of sales associated with this category of external work.

3.3 Are the compensation levels proposed for 2009 and 2010 appropriate?

Hydro One Networks' Position

Hydro One Networks' overall position is that its compensation levels are reasonable and appropriate given the environment in which it operates[97]. It also submits that its higher productivity (as demonstrated by the Mercer/Oliver Wyman study) offsets its relatively higher compensation levels[98].

VECC's Submissions

a) Hydro One Networks' Compensation and Productivity Studies

The Compensation and Productivity study[99] filed by Hydro One Networks was prepared in response to a Board Directive from EB-2006-0501[100]. The compensation study indicated that, for the benchmarked positions, Hydro One Networks was approximately 17% above the market median[101]. However, the productivity study concluded that "Hydro One Networks requires less workforce compensation to generate various levels of output"[102].

VECC notes that the consultants (Oliver Wyman) experienced considerable challenges in gathering the necessary peer data required to conduct a "productivity study" and eventually decided to rely on data that could readily be provided by the interested participants[103] and also obtained from secondary sources if not submitted as part of the survey[104]. However, as demonstrated by the Energy Probe Counsel's cross examination these simple measures fail to

[97] Exhibit C1/Tab 3/Schedule 2, page 17
[98] Exhibit C1/Tab 3/Schedule 2, page 16
[99] Exhibit A/Tab 16/Schedule 2
[100] Page 33
[101] Exhibit C1/Tab 3/Schedule 2, page 14
[102] Exhibit A/Tab 16/Schedule 2, Attachment 1, page 2
[103] Exhibit A/Tab 16/Schedule 2, Attachment 1, page 2
[104] Exhibit A/Tab 16/Schedule 2, Attachment 1, page 27

reflect the unique structure of Ontario's electricity sector relative the peers chosen. The key reason for this is that the measures include both Transmission and Distribution costs but, in Ontario's case, do not include the distribution costs incurred by the more than 80 other distributors in the Province[105]. This led to lower values for Hydro One Networks' measure of compensation per unit of output. As result, the conclusion of the study – that Hydro One Networks requires less compensation per unit of output – is suspect.

However, having reached this conclusion, VECC does not believe it would be particularly useful for the Board to direct the Company to pursue the question of comparing productivity levels across peer Transmission companies. As Oliver Wyman noted, there is considerable difficulty in obtaining the requisite comparative data. VECC is concerned that another round of data gathering may not materially improve the quality of the results. Rather, in VECC's, view the Board should direct Hydro One Networks to utilize the work of Oliver Wyman as to what are appropriate measures of productivity to develop benchmarks of its own productivity that can be tracked over time and reported at the next rate proceeding.

b) Compensation Data

As in previous proceedings, the discussion of compensation was confounded by Hydro One Networks' inability to provided compensation or FTE data specific to its Transmission operations[106]. At best, Hydro One Networks was able to provide its total wages broken down between OM&A and Capital and by employee group based on year-end head counts[107]. However, VECC observes that Hydro One Networks has been able to:

- Estimate the impact of the Government's 1.5% management salary cap on Transmission OM&A for 2009[108].

[105] Volume #3, page 43
[106] Exhibit I/Tab 2/Schedule 11
[107] Exhibit I/Tab 6/Schedule 37
[108] Volume #4, pages 51-52

- Estimate the impact of changes in pension contribution requirements on Transmission OM&A[109].
- Derive an estimate of core Transmission OM&A labour costs for purposes of determining its overhead capitalization rate[110].

Based on these precedents, it is VECC's view that Hydro One Networks should be able to develop reasonable estimates as to the FTE's and compensation associated with Transmission OM&A spending. Furthermore, VECC notes that in response to interrogatories[111] recently filed in EB-2008-0187 Hydro One Networks has noted that the project costing module of the Cornerstone Project will enable the company to break out the cost of labour. VECC submits that the Board should direct Hydro One Networks to develop such estimates for its next rate filing.

c) Compensation Levels Included in Rates

VECC acknowledges that the $400,000 in anticipated compensation savings[112] that will arise from the extension of the Government's 1.5% compensation cap to Hydro One Networks transmission business is minor relative to the overall requested revenue requirement. However, VECC submits that if the Government's direction is to have any meaning for Ontario's transmission system customer, the Board should explicitly recognize these savings when formulating its overall conclusions regarding Hydro One Networks' Transmission OM&A for 2009.

[109] Exhibit I/Tab 6/Schedule 39
[110] Exhibit I/Tab 6/Schedule 43
[111] EB-2008-0187, Exhibit I/Tab 2/Schedule 3
[112] Volume #4, page 52

3.4 Is Hydro One Networks' proposed transmission overhead capitalization rate appropriate?

During the interrogatory process VECC explored[113] a number of issues regarding the determination of Hydro One Networks' overhead capitalization methodology. Based on the responses received, VECC has no submissions regarding the proposed capitalization rate.

3.5 Are the amounts proposed to be included in the 2009 and 2010 revenue requirements for income and other taxes appropriate?

Hydro One Networks' Proposal

Hydro One Networks' requested revenue requirements for 2009 and 2010 include $31.M and $48.0 M respectively in payments in lieu of corporate income taxes[114]. Also included in the two years' revenue requirements are capital taxes[115] ($16.4 M and $6.0 M respectively) and property taxes[116] ($61.9 M and $64.1 M respectively).

VECC's Submissions

VECC's only submission with respect to payments in lieu of taxes is that the Board should direct Hydro One Networks to revise its income tax calculations for 2009 and 2010 to reflect the change in CCA rates for computer equipment and system software that were part of the recently approved federal budget[117].

With respect to property taxes, Hydro One Networks' forecast is based on the assumption that the assessed values of its properties will increase by 2% per annum and the tax rates (i.e., the mill rate) of the municipalities will also increase by 2% per annum. Hydro One Networks' forecast is also based on the presumption that all these increases will materialize and that there will be no

[113] Exhibit I/Tab 6/Schedule 42
[114] Exhibit C2/Tab 1/Schledule 1, page 1
[115] Exhibit C2/Tab 1/Schledule 1, page 1
[116] Exhibit C1/Tab 2/Schledule 12, page 1
[117] Volume #3, page 76

assessment refunds in either year. However, both of these events (i.e., assessment refunds and tax increases not materializing) occurred in 2008 such that property taxes were $2.1 M less than originally projected[118] and $8.5 M less than the $66.1 M approved in EB-2006-0501[119]. In VECC's view it would be reasonable for the Board to reduce the projected property taxes by at least $1 M in both 2009 and 2010.

3.6 Is Hydro One Networks' proposed depreciation expense for 2009 and 2010 appropriate?

Apart from the need to update the proposed depreciation expenses for impacts that will logically occur as a result of changes in 2009 and 2010 capital spending, VECC has no submissions regarding Hydro One Networks' 2009 and 2010 depreciation expenses.

4. CAPITAL EXPENDITURES and RATE BASE

4.1 Are the proposed 2009 and 2010 Sustaining and Development and Operations capital expenditures appropriate, including consideration of factors such as system reliability and asset condition?

4.2 Are the proposed 2009 and 2010 levels of Shared Services and Other Capital expenditures appropriate?

Hydro One Networks' Position

Hydro One Networks total proposed capital spending for Sustaining, Development, Operation and Shared Services is $944.0 M in 2009 and $1,074.1 M in 2010[120]. The 2009 proposed spending represents an increase of roughly 22% over the Board approved spending for 2008 and more than 34% over the

[118] Exhibit C1/Tab 2/Schedule 12, page 1 (Original vs. Updated)
[119] EB-2006-0501, Exhibit C1/Tab 2/Schedule 6, page 1
[120] Exhibit D1/Tab 3/Schedule 1, page 2

actual spending in 2008[121]. Relative to the 2008 Board approved values, the area experiencing the largest increase is Development. However, there is also a significant increase (>$40 M) in capital spending on Sustaining in 2010.

VECC's Submissions

VECC submits that the submissions it has made under Issue 3.1 regarding Hydro One Networks' Planning Process and Assessing Asset Investment Requirements are equally applicable to Capital spending and will not be repeated here. VECC requests that the Board consider the submissions in this context.

a) Past Spending Trends/Constraints

Total capital spending on Sustaining, Development and Operations was less in both 2007 and 2008 than approved by the OEB in EB-2006-0501[122]. In each year both Sustaining and Development capital were underspent. Hydro One Networks attributes the underspending to a combination of factors: human resource shortages, material shortages, outage availability, third party delays and unforeseen events[123]. In interrogatory responses[124] and during cross examination Hydro One Networks outlined a number of initiatives/strategies they have put in place in the last half of 2008 to address these bottlenecks[125]. Indeed, Hydro One Networks indicates that in the last half of 2008 capital spending totaled $444 M or roughly $890 M on an annualized basis as compared to the $704 M actually spent in 2008[126].

VECC notes that even with this higher "spend rate" in the latter half of 2008, spending will have to increase significantly more to meet the projected levels for 2009 ($944 M) and 2010 ($1074.1 M)[127]. VECC is concerned about Hydro One Networks' ability to ramp up its capital spending to these levels over this period.

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[121] Exhibit D1/Tab 3/Schedule 1, page 6
[122] Exhibit D1/Tab 3/Schedule 1, pages 4 & 6
[123] Exhibit I/Tab 6/Schedule 47
[124] Exhibit I/Tab 6/Schedule 47, part d)
[125] Volume #1, pages 54, 57 and 63
[126] Volume #1, page 187
[127] Exhibit D1/Tab 3/Schedule 1, page 2

As a result, should the Board approve increases in 2009 and 2010 capital spending approaching these levels, VECC sees considerable merit in the Board Staff's recommendation[128] for the establishment of a variance account for capital spending in 2009 and 2010. In VECC's view there are two ways such an account could be integrated with the approved capital spending for 2009 and 2010:

- Spending for each year could be set at what the Board considers an appropriate amount absent work execution concerns. The account would then only capture the impact of Hydro One Networks spending less than the total amount determined by the Board for each year.
- Spending to be included in the revenue requirement could be set at a level nominally below that determined by the Board to be appropriate absent work execution concerns. The account would then capture both under spending and overspending up to the level determined by the Board to be appropriate in each year. In VECC's view this second approach is preferable in the event that the Board chooses to largely accept Hydro One Networks' capital budget as filed.

b) Development Capital (2009/2010 In-Service Dates)

Hydro One Networks' proposed Development capital spending for 2009 and 2010 includes 10 major Inter-Area projects with in-service dates during the test years[129]. Two of the projects have already received Section 92 approval from the OEB. With two exceptions, the balance of the projects are characterized as "Pre-IPSP" projects, where the OPA either has or will formally communicate to Hydro One Networks the need to proceed with the project[130].

For these projects, it is VECC's view that, absent a Section 92 approval, it is imperative that the OPA clearly and formally support both the need and the planned in-service date for the project. The reason this is important is that Hydro

[128] Staff Submissions, page 23.
[129] Exhibit D1/Tab 3/Schedule 3, page 33
[130] Volume #1, pages 19 & 22

One Networks views the OPA recommendations as “an extension of government policy” and something that it needs to act on[131]. It is important that the OPA understand the context in which its recommendations are being interpreted and formalize the communications accordingly.

VECC notes that for two of these projects (D9 and D10) a formal recommendation from the OPA has yet to be received[132] but is expected in April 2009. VECC submits that the Board should not approve the inclusion of these projects in “rates” until satisfactory confirmation of need and timing have been provided by the OPA. Given the current state of affairs, VECC submits that it would be reasonable for the Board to direct that inclusion of these projects be subject to formal OPA recommendation being submitted with the draft rate order.

The remaining two Non-IPSP projects (D5 and D6) were both reviewed as part of Hydro One Networks’ EB-2006-0501 filing. However, in the case of the Cherrywood TS x Claireville TS project there is also a discretionary part to the investment which requires a cost benefit analysis to justify its approval[133]. Key to such analyses is the adoption of an appropriate social discount rate. In this regard VECC has reviewed and adopts the submissions of Board Staff. However, given the range of values that exist regarding the appropriate social discount rate[134], VECC submits that the Board should direct Hydro One Networks to also file information regarding the sensitivity of its future cost/benefit analyses to variations the social discount rate used.

The Development capital spending for 2009 and 2010 also includes two Local Area Supply projects with in-service dates of 2009 or 2010 (D15 and D16). VECC notes that both of these projects have already received Section 92 approvals[135]. The balance of the Development spending with 2009 or 2010 in-service dates is for load or generation connections and proceeds when there is a

[131] Volume #1, page 44
[132] Volume #1, page 24
[133] Exhibit A/Tab 18/Schedule 1, page 2
[134] Volume #1, pages 47-48
[135] Exhibit D1/Tab 3/Schedule 3, page 34

completed connection agreement with the customer[136]. VECC has no submissions regarding these projects

c) Development Capital (Post-2010 In Service Dates)

The projected Development capital spending also includes a number projects with in-service dates beyond 2010 rates and for which there is no rate impact in the test years[137]. While Hydro One Networks states that no specific approval is required from the Board for these projects[138], during the hearing when pressed for clarification as to what it was seeking Hydro One Counsel stated[139]:

> For these projects, Hydro One transmission is seeking guidance from the Board on the appropriateness of the need, the proposed solution, and the recoverability of the project cost. The actual in-service costs would be included in rate base when the project goes in service, subject to Board approval at a future revenue-requirement proceeding.
>
> So that's what the evidence says. And we had this same discussion, really, I think, in the distribution case. I imagine the Board is concerned that it not bind the hands of subsequent panels when it comes -- when these assets come in service, and that is not the intent of the company.
>
> We lay out -- they lay out these plans for you and for the intervenors to see. There is no rate impact in this rate case, but there will be a big rate impact down the road that's recognized.
>
> I think what the company asks is that not concrete approval which you cannot -- which will bind the hands of a subsequent panel, but any guidance that you can give, should you feel these plans are, based on the information available to you at the moment, inappropriate. That's really what I think the company is seeking.

[136] Volume #1, page 39
[137] Volume #1, page 120
[138] Volume #1, page 170
[139] Volume #3, pages 12-13

In short, Hydro One Networks is inviting the Board to offer an opinion on its current plans for in-service capital post 2010. VECC submits that this is an invitation the Board should decline. The focus of this proceeding is Hydro One Networks' 2009 and 2010 proposed revenue requirement and related matters. VECC submits that it is both unnecessary and inappropriate for Hydro One Networks to seek any assurance in this rate proceeding for recovery of costs for facilities that will only be used and useful in subsequent years, if they are developed at all

d) Sustaining Capital Spending

VECC notes that the Sustaining capital spending for Stations averages $228.2 M for 2009 and 2010, roughly 5% over approved 2008 spending levels. However, in the case of Lines, the average spending in 2009 and 2010 is almost 18% higher than 2008 approved levels. The increase in Lines spending was specifically explored by VECC during the interrogatory process and the increase is based on new information regarding the condition of the assets and increased failure rates[140]. VECC considers the proposed Sustaining Capital budget to be reasonable. However, as addressed earlier, VECC has reservations about Hydro One Networks' ability to accomplish all of this work in conjunction with its aggressive Development capital plan.

4.3 <u>Are the amounts proposed for rate base in 2009 and 2010 appropriate?</u>

Apart from the preceding submissions regarding capital spending and the resulting capital additions for 2009 and 2010, VECC has no additional comments regarding the proposed 2009 and 2010 rate base.

4.4 <u>Is the forecast of long term debt for 2008-2010 appropriate?</u>

VECC submissions on this issue are included under Issue 1.1 – part (b).

[140] Exhibit I/Tab 6/Schedule 52

5. DEFERRAL/VARIANCE ACCOUNTS

5.1 Are the proposed amounts and disposition for each of the deferral and variance accounts appropriate?

Hydro One Networks' Position

In its Application Hydro One Networks reported on the status[141] of three of its Regulatory Asset accounts (Tax Rate Changes, OEB Cost Assessment Differential and Pension Cost Differential) and requested approval[142] to clear the projected balances as of June 30, 2009 over a four-year period. In response to interrogatories[143], Hydro One Networks confirmed that there were currently no balances in the accounts approved by the Board in EB-2006-0501 regarding: i) Cambridge TS Customer Contributions and ii) Transmission System Code changes. Hydro One Networks similarly reported[144] on the status of its Regulatory Asset Recovery Account established following EB-2006-0501 to track the recovery of Regulatory Assets approved in that proceeding.

VECC's Submissions

VECC agrees with Hydro One Networks' proposal to clear the projected June 30, 2009 balances in the three Regulatory Asset accounts as identified. VECC acknowledges that the Board's typical practice has been to use audited numbers as the basis for approving regulatory asset balances for disposition. However, as noted by Hydro One Networks there have been past exceptions. Furthermore, in this case relying on audited actual results would only permit clearance of balances as of December 2007 – well over a year ago. VECC submits that, in the interest of intergenerational equity, the projected balances as of June 30, 2009 should be cleared as part of the 2009/2010 rate determination.

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[141] Exhibit F1/Tab 1/Schedule 1
[142] Exhibit F1/Tab 2/Schedule 1
[143] Exhibit I/Tab 6/Schedule 60
[144] Exhibit I/Tab 6/Schedule 62

VECC does not agree with Hydro One Networks proposed four-year disposition period. VECC submits that use of a shorter three-year period more effectively addresses the issue of intergenerational equity. Furthermore, if the Board approves a pattern of rate increases for 2009 and 2010 similar to that requested[145] by Hydro One Networks (e.g., 6.4% in 2009 and 12.1% in 2010) then a three year period would more effectively contribute to rate stability by further offsetting the 2009 and 2010 rate increases as well as providing some level of offset in 2011.[146]

5.2 Is the proposed continuation of the deferral/variance accounts appropriate?

Hydro One Networks' Position

Hydro One Networks is requesting approval for variance accounts that will continue to track revenue requirement impacts due to tax changes, incremental/decremental OEB cost assessments and variances between planned and actual pension costs[147]. Hydro One Networks is also requesting approval to retain the existing deferral account with respect to Transmission System Code and Cost Responsibility Changes[148]. Hydro One Networks has not sought approval to retain the deferral account regarding Cambridge TS Customer Contributions.

VECC's Submissions

VECC has no objections with respect to Hydro One Networks' proposals regarding the continuation of its existing deferral/variance accounts.

[145] Exhibit A/Tab 3/Schedule 1, page 3
[146] Exhibit I/Tab 1/Schedule 83
[147] Exhibit A/Tab 3/Schedule 1, page 5 and Exhibit F1/Tab 1/Schedule 1, pages 2-5
[148] Exhibit F1/Tab 1/Scheduele 2, page 5

5.3 Are the proposed new Deferral/Variance Accounts appropriate?

Hydro One Networks' Proposal

The only truly new deferral account Hydro One Networks is requesting is with respect to the preliminary planning/pre-engineering OM&A costs associated with 18 transmission-related projects that it states are required by the OPA in the IPSP and to incorporate Darlington "B" GS into the transmission system. The estimated cost associated with these activities is $47.9 M[149] of which $19.2 M will be incurred during the test years[150]. Hydro One Networks states that the work is required to meet the required in-service dates set out in the unapproved IPSP. It also states that if the IPSP is approved these costs would be capitalized[151]. However, the proposal for a deferral account is based on the fact that it is not clear that the projects will actually go ahead or eventually be undertaken by Hydro One Networks[152].

VECC's Submissions

VECC 's submissions regarding the requested deferral account will separately address the proposed spending regarding the Darlington "B" GS and that related to projects in the IPSP.

With respect to the pre-engineering work related to Darlington "B" GS, the work is predicated on a Government directive (and RFP) with respect to the development of nuclear at Darlington[153]. On this basis it is VECC's view that there is a reasonable expectation that the project will proceed and dollars spent will eventually be capitalized. Indeed, VECC does not understand why, given this context, specific deferral account treatment is required.

[149] Exhibit F1/Tab 1/Schedule 2, pages 1-3
[150] Exhibit I/Tab 1/Schedule 86, part c)
[151] Exhibit I/Tab 11/Schedule 41
[152] Volume 4, pages 95 - 96
[153] Volume 2, pages 71 & 76

With respect to the projects related to the “unapproved” IPSP, the work is predicated based on Hydro One Networks’ view that the OPA considers it urgently necessary that the projects get underway[154] prior to the approval of the IPSP. It has been confirmed by both the OPA[155] and Hydro One Networks[156] that there is no formal recommendation from the OPA to do the associated work. Rather, there appears to be an understanding between Hydro One Networks and the OPA that “it makes sense to undertake some of this work” and that the OPA is supportive “at least at a staff level” with respect to the potential need for the projects[157].

When Hydro One Networks’ witnesses were pressed on the rationale for proceeding with the pre-engineering work “now”, Counsel for the Company questioned the need for such information arguing that the costs weren’t going to rates but simply into a deferral account[158]. The Company’s position is that when requesting to clear the account it would explain why the project was undertaken and demonstrate prudency in the incurrence of the costs[159]. In contrast, during its Argument-in-Chief the company suggested that if it hadn’t requested a deferral account the costs would have been included in the test years’ revenue requirement as OM&A[160]. VECC notes that, if this had been Hydro One Networks’ proposal, then the proposed spending would have been subject to full scrutiny regarding its prudency.

Hydro One Networks’ rationale for applying for the deferral account is to provide greater certainty that the costs will be recovered, since there is some uncertainty the projects will go ahead and Hydro One Networks will undertake the construction[161]. It is for this reason that they are requesting a different treatment

[154] Volume 2, pages 71
[155] Undertaking J2.5
[156] Exhibit I/Tab 10/Schedule 8 and Volume 2, pages 69-70
[157] Volume 2, pages 69-70
[158] Volume 2, page 71
[159] Volume 4, page 85.
[160] Volume #7, page 24
[161] Volume 4, page 95

than what would typically be accorded to pre-engineering work[162]. Given this context, it is important that the Board be clear as to the requirements Hydro One Networks must meet in order to justify recovering the incurred costs from rate payers in the event the projects do not proceed.

VECC submits that, rightly or wrongly, creation of a deferral account does create an expectation of recovery (indeed this is why Hydro One Networks is making the request) and it is only fair to both the Company and rate payers if the ground rules are clear as to what must be provided in order to justify recovery. Even if the projects do proceed, the pending amendments to the Transmission System Code mean that construction of these facilities does not obviously fall to Hydro One Networks[163]. Hydro One Networks was unwilling to admit[164] that undertaking such preliminary work would give them a "leg up" in any competition for the work. Hydro One Networks has indicated[165] that the work has commercial value and therefore, in VECC's view, it is obvious that the Company will have a competitive advantage.

Therefore, VECC submits that in order for Hydro One Networks to justify undertaking such work there must not only be a demonstrable need for the work but also the urgency must be such that the project cannot wait the normal (more competitive) processes envisioned by the IPSP and the pending amendments to the Transmission System Code. Furthermore, this demonstration of urgency needs to be more formal than simple reference to staff discussions with the OPA. The Board should make it clear to Hydro One Networks from the onset that as a <u>necessary</u> condition for the clearance to rates (as opposed to a capital project) of any deferred amounts the Company will be expected to provide formal documentation from the OPA (issued before the expenses are incurred) supporting both the need and urgency for the spending. Finally, consistent with

[162] Volume 3, page 85
[163] Undertaking J2.5 and Volume #2, pages 81-82
[164] Volume #2, pages 127-128
[165] Volume #2, page 82

the Board's November 2006 Filing Requirements[166], it should be made clear that the OPA could be expected to provide additional evidence (or witnesses) to support any request to clear the deferral account.

Besides the new deferral/variance account that Hydro One Networks is requesting, VECC submits that:

- A new variance account is required to track the difference between forecast and actual export service tariff revenues. The rationale for this account is discussed under Issues 1.1 and 2.2.
- A new deferral/variance account could be required to track the difference between forecast and actual external revenues. The rational for this account is discussed under Issue 2.2.
- A new deferral/variance account could be required to track the revenue requirement impact of differences between forecast and actual capital spending as discussed under Issue 4.1 a).

6. COST ALLOCATION

6.1 <u>Would it be appropriate to make changes to cost allocation in response to the study submitted on line connection costs for customers directly connected to networks stations?</u>

Hydro One Networks' Position

As part of the EB-2006-0501 Settlement Agreement Hydro One Networks committed to conducting an internal study on connection facilities terminating at Network Stations and associated connection charges[167]. The study was filed as part of the current Application[168]. However, Hydro One Networks is not proposing to change its cost allocation or charge determinant methodology[169].

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[166] EB-2006-0170, pages 34, 49 & 50
[167] Exhibit A/Tab 18/Schedule 1, page 1
[168] Exhibit G1/Tab 3/Schedule 1, Attachment 1
[169] Exhibit G1/Tab 3/Schedule 1, page 4

VECC's Submissions

First, VECC submits that Hydro One Networks has met it commitment as per the EB-2006-0501 Settlement Agreement.

Second, VECC agrees with Hydro One Networks' conclusions[170] that the cost allocation methodology should not be changed. The current cost allocation methodology does not charge Line Connection service rates to customers whose delivery point (i.e., where the customer facilities connect with Hydro One Networks' facilities) is located at a Network Station[171].

VECC acknowledges that there may be some inequities in assessing Connection Line cost to all customers who do not connect directly to a Network Station, as there are different connection arrangements and different customer-owned facilities required. However, under the Study's approach all load customers would be assessed a Line Connection charge, even those customers where minimal costs are involved in "connecting" them to a Network Station[172]. VECC agrees with Hydro One Networks' views that this result is inconsistent with rationale for having a Line Connections rate pool in the first place[173].

VECC also notes that determining the connection cost for the 45 delivery points that are located at a Networks Station requires Hydro One Networks to make a number of interpretive assumptions. In VECC's view the need for such assumptions suggests that the study may be trying to identify costs when none really exist. Overall, VECC submits that the Board should accept Hydro One Networks' current methodology for defining Line Connection costs and customers.

[170] Exhibit I/Tab 1/Schedule 87
[171] Exhibit G1/Tab 3/Schedule 1, Attachment 1, page 1
[172] Volume #5, page 93
[173] Volume #5, page 93

6.2 Has Hydro One Networks' cost allocation methodology been applied appropriately?

During the interrogatory process[174] and the oral proceeding[175] VECC tested various changes that had been made to Hydro One Networks' cost allocation methodology. Overall, VECC is satisfied that the methodology has been applied appropriately.

7. CHARGE DETERMINANTS

7.1 Is the proposal to continue with the status quo charge determinants for Network and Connection service appropriate?

Hydro One Networks' Position

Hydro One Networks' proposal is to continue with the status quo as approved by the OEB in its RP-2006-0501 Decision[176]. Under the status quo approach Network Connection customers are billed monthly based on the higher of the customer's demand coincident with the monthly system peak or 85% of the customer's non-coincident monthly demand between 7 AM and 7 PM[177].

AMPCO's Proposal

During the course of the proceeding the Association of Major Power Consumer of Ontario (AMPCO) filed evidence[178] (including an Expert Report by Dr. Anindya Sen[179]) putting forward an alternative proposal which they characterized as the "High Five" approach. AMPCO's proposal[180] for the Network Connection charge determinant is that:

> The customers' charge for demand on the network would be based on their

[174] Exhibit I/Tab 6/Schedules 63 & 64
[175] Volume #5, pages 55-57
[176] Page 97
[177] Volume 5, page 7 and Exhibit H1/Tab 3/Schedule 1, page 1
[178] "The Benefits of Improvements n Transmission Rate Design" – "the AMPCO Evidence"
[179] "Do Firms Shift Demand In Response to High Prices? An Empirical Analysis" – "Dr. Sen's Report"
[180] Volume #6, page 20

> coincident peak demand on the five highest days of demand in the previous year, regardless of when those five days occur. If they occur all in January or three of them occur in August, they still count. It's not the one-day-a-month system we currently have.
>
> Those -- the average of the customers' demand for those five days becomes their demand level that's calculated for the following year. The transmitter recovers their revenue requirement through their rate. The rate is basically the revenue requirement for the network, divided by the sum of all customers' average demands for those five days.

The AMPCO proposal also calls for the elimination of the “85% of the customer’s non-coincident peak” consideration.

VECC’s Submissions

AMPCO has put forward a number of arguments in support of why the Networks Connection billing determinant should be changed from what was adopted by the Board in its RP-1999-0044 Decision and recently re-affirmed in EB-2006-0501, including[181]:

- The assertion that the AMPCO proposal provides better signals to customers regarding the costs their consumption imposes on the system,
- The assertion that the AMPCO proposal promotes more efficient demand management and specifically peak shifting,
- The assertion that the AMPCO proposal provides benefits to all customers through lower commodity (HOEP) prices[182],
- The assertion that the AMPCO proposal allocates transmission costs more fairly among customers, and
- The existence of the 85% ratchet mutes the price signal during the peak period[183].

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[181] AMPCO Evidence, page 2
[182] AMPCO Evidence, page 11

In VECC's view AMPCO's High Five proposal should be rejected by the Board. The following submissions respond to each of the points raised by AMPCO.

a) Provided Better Signals Regarding the Costs Customers' Consumption Imposes on the System

AMPCO's proposal is premised on the view[184] that "the primary cost driver for the network is peak demand on the system as a whole". However, VECC notes that in its cross examination of Hydro One Networks' first witness panel which was responsible for speaking directly to the Company's system development plans and needs the following points were agreed to:

- Virtually all of Hydro One Networks' Inter-Area investments over the next five years are being driven by the need to incorporate new generation resources[185]. In the case of the Bruce project, the line must be able to carry the relatively constant output from Bruce as well as that of new wind developments which typically peak in the winter months[186]. In the case of the North-South transmission, the facilities must be sized to carry new hydro generation where the maximum instantaneous output can occur at anytime[187]. As a result, while the investment in these projects is driven by "peak use", the peak that drives the need for the investments is not at the same time as the system peak.
- In the case of Local Area Supply investments, Hydro One Networks has confirmed[188] that such investments are driven by local peak load growth and not regional (or system peak) growth. Furthermore, Hydro One Networks' load forecast witness has testified that the local peak may not occur at the same time as the system peak[189]. Again, the investments are driven by "peak

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[183] AMPCO Evidence, page 3
[184] Volume #6, page 19
[185] Volume #1, pages 9 and 27
[186] Volume #1, pages 28-29
[187] Volume #1, page 29
[188] Volume#1, pages 32-33
[189] Volume #5, page 65

demand" but the "peak" is not necessarily at the same time as the system peak.

- For completeness, the balance of the development investments put forward by Hydro One Networks are for Load and Generation connections and the facilities would generally be part of the Line Connections function (if load-related) or paid for by the customer (if generator-related).

VECC agrees that it is peak use that drives the need for transmission investment. However, based on the testimony of Hydro One Networks' planners VECC submits that it is incorrect to assume that this use always occurs at the time of the system peak. Indeed, the foregoing submissions regarding the current drivers for Inter-Area and Local Area Supply transmission investment indicate that this is <u>not</u> the case.

VECC submits that focusing the recovery of transmission costs solely on the five days of the year with the highest peak demands will not provide a better signal as to when usage imposes transmission costs on the system.

Indeed, by focusing narrowly on the peak use in these five days, VECC submits that AMPCO's High Five proposal could be encouraging customers to shift to the hours that are critical from a local supply perspective. VECC notes that in cross examination AMPCO's witnesses agreed that i) Local peak may not occur at the same time as the system peak[190] and ii) Current constraints and stresses on the system are local issues[191]. VECC also notes Hydro One Networks' testimony that close to half of the end-use customers are in northern Ontario where the Company doesn't have a problem with maximum demand[192].

In VECC's view the current transmission rate design which focuses on all twelve months of the year and encourages customers (through the 85% factor) to be

[190] Volume #6, page 91
[191] Volume #6, page 120
[192] Volume #5, page 10

mindful of their peak use throughout the entire peak period provides a better signal to customers regarding cost causation.

b) Promotes Efficient Demand Management and Peak Shifting

To support its claim that the High Five proposal would promote more "peak shifting" AMPCO commissioned Dr. Sen to perform an empirical evaluation as to "whether firms shift their demand for electricity to periods of lower prices (non-peak periods) in response to high prices during hours of peak consumption (peak hours)"[193]. However, Dr. Sen's analysis did not specifically look at the impacts of the AMPCO High Five proposal (i.e., impact of increased prices for the peak hour in the five days of the year with the highest loads) but rather looked at the impact of increasing the <u>average</u> price during the 12-hour peak period on the <u>average</u> use in the peak period and the adjacent off-peak period. As a result, VECC submits that one cannot use Dr. Sen's results in the context of understanding the load shifting implications of AMPCO's proposal. Specifically, if AMPCO suggests customers only have to manage their peaks for 2-4 hours a day to avoid the system peak[194] VECC is concerned that the proposal is likely to produce significant shifting within the peak period which may simply aggravate local area issues and constraints.

As well as the general reservation regarding the applicability of the results to testing the load shifting merits of AMPCO's proposal, VECC has concerns regarding the use of Dr. Sen's empirical analysis to gauge the degree of peak shifting that will occur: The models produced by Dr. Sen generally had R Squared values of less than 0.5[195]. While Dr. Sen did not believe this negated the results of his analysis[196], he did acknowledge that it suggested there could be issues with the specification of the model (e.g., a missing explanatory variable) and the inclusion of such variable could change the coefficient on the price

[193] Dr. Sen's Report, page 2
[194] AMPCO Evidence, page 8
[195] Dr. Sen's Report, page 4
[196] Volume #6, page 48

variable[197]. VECC notes that it is this coefficient that provides the price elasticity estimate used by AMPCO in its impact analysis. If it changes as a result of an improved specification of the model then AMPCO's impact analysis will change.

VECC also has concerns regarding AMPCO's use of Dr. Sen's results to estimate the impact of their High Five proposal on peak and off-peak energy use:

- AMPCO has estimated a shadow price for transmission network services of $102.80/MWh based on the need to reduce peak demand for 12 hours a day for 25 days in order to avoid the five highest peaks[198]. The calculated result is a reduction of 29 MW. However, AMPCO – when calculating the impact on the HOEP – assumes this demand reduction occurs for all hours of the summer peak period or 1,476 hours[199]. Clearly, this is incorrect. A reduction of 29 MW for 300 hours translates into an average reduction of 5.9 MW when averaged over all the summer peak hours[200].
- AMPCO's analysis of the impact on demand of changing transmission pricing fails to account for the fact that the current transmission rates only apply in the peak period[201]. Rather, the analysis assumes there is no difference in transmission prices between peak and off-peak and therefore has not factored in a current peak period shadow price for transmission[202]. VECC notes that the majority of end-use transmission customers are billed based on their coincident peak[203], in which case the shadow price for transmission based on a 12 hour peak is $42.84/MWh[204]. Even for the minority of end-use customers billed on 85% of their own peak, there is currently a transmission shadow price of at least $8-$9/MWh[205]. VECC submits that by ignoring the transmission shadow prices inherent in the current rate design, AMPCO has overstated the impact on price of changing to its proposal and, therefore,

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[197] Volume #6, page 54
[198] AMPCO Undertaking Exhibit J6.3, page 2
[199] Volume #6, page 71
[200] 29*300/1476
[201] Volume #6, page 56
[202] Volume #6, page 71
[203] Volume #6, page 57
[204] Volume #6, pages 59-61
[205] AMPCO Undertaking J6.1

overestimated the MW impact. The result is that the calculated impact on average summer peak use would be less than 5.9 MW.

- AMPCO's analysis fails to recognize that the OPA has introduced additional demand response programs since 2007 which is the year Dr. Sen's analysis is based on. As result, some of the load shifting AMPCO is looking to encourage is likely to have already occurred[206].

c) Provides Benefits to All Customers Through Lower Commodity Prices

AMPCO also commissioned Dr. Sen to empirically analyze the effect of changes in demand on HOEP. To do so Dr. Sen used a multivariate regression model which included a number of explanatory variables besides demand levels[207]. VECC has concerns with both Dr. Sen's results and with AMPCO's use of them in translating the demand impact of the High Five Proposal into an impact on electricity prices.

When Dr. Sen was questioned about the counterintuitive results obtained with respect to the coefficient on natural gas prices he claimed "you will always get one or two covariates which do not conform exactly to economic theory"[208]. However, VECC notes that this estimated equation has a relatively low R Squared value (0.5057[209]) and when subsequently asked about this Dr. Sen stated "we tend to lay more emphasis on the statistical significance of individual covariates and their signs of the coefficient estimates"[210].

VECC submits that these arguments are self-contradictory. One can't argue not to worry that the signs on the covariates are wrong in one breath and then state that the equation is okay despite the low R Squared because of the sign on the covariates. VECC also submits that the low R Squared value suggests[211] an

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[206] Volume #6, page 200
[207] Exhibit I/Tab 17/Schedule 14 d). Subsequently corrected in AMPCO Undertaking Exhibit J6.2
[208] Volume #6, page 80
[209] Based on the corrected Exhibit J6.2 results
[210] Volume #6, page 80
[211] Volume #6, page 81

explanatory variable is missing and proper specification of the model could change the estimated impact of demand on HOEP.

With respect to AMPCO's use of Dr. Sen's results, VECC draws the Board's attention to its previous comments. The 29 MW estimated impact of the High Five proposal was for 300 hours. However, at this stage in its analysis AMPCO has assumed the 29 MW reduction occurs over the entire summer peak period (1,476 hours). This is likely to overstate the impact on price (even assuming the analysis undertaken by Dr. Sen is appropriate) by a factor of 5 and substantially reduce the estimated benefits.

d) Allocates Transmission Costs More Fairly Among Customers

In the last Transmission proceeding (EB-2006-0501), Mr. Saleba (AMPCO's expert witness) made reference to FERC guidelines for deciding on the appropriate CP method for cost allocation. He also testified that a fair amount of weight should be placed on the FERC as a source of precedent and guideline[212] in the area of cost allocation and that cost causation is the overarching principle behind cost allocation[213]. During the interrogatory process, Mr. Saleba provided the results of applying the "tests" to Hydro One Networks. The results <u>all</u> supported the use of 12CP[214]. Based on these results, Mr, Saleba agreed that 12CP should be the starting point for rate design[215]. In this proceeding AMPCO's witnesses indicated that they were not aware that anything had subsequently changed with respect to the use of the FERC tests[216].

As a result, VECC submits that the generally accepted practice regarding transmission rate setting supports the use of 12 months of peak in circumstances such as Hydro One Networks as opposed to a narrower definition of peak responsibility as proposed by AMPCO.

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[212] EB-2006-0501, Volume #10, page 88, lines 15-21
[213] EB-2006-0501, Volume #10, page 87, lines 8-11
[214] EB-2006-0501, Exhibit J, Tab 13, Schedule 9 and Volume #10, page 89, lines 11-20
[215] EB-2006-0501, Volume #10, page 90, lines 12-25
[216] Volume #6, page 88

e) The 85% Factor Mutes the Price Signal

VECC acknowledges that in principle this may be correct but submits that there are other valid reasons for maintaining the 85%.

As discussed above, not all areas of the province "peak" at the same point in time. If Ontario is to maintain a common transmission rate it is important that the rate signals to customers the need to manage their loads over a broader period than just the few hours around the system peak. The "85% ratchet" does this.

VECC is also concerned that AMPCO's witnesses do not fully understand how the 85% factor was applied:

- AMPCO's witnesses state that once customer sets a peak under the current rate design there is a very small incentive for the balance of the month[217]. This is incorrect. Under the current regime customers still need to watch what their demand will be at the time of system peak. This observation is borne out by the fact that over ½ of end-use transmission customers are billed on the basis of their demand at the time of the system peak[218].
- AMPCO's witnesses state that "if you want to reduce your demand to reduce your charges under the non-coincident peak component of it, you have to reduce your demand in every hour of the working day between 7:00 and 7:00[219]. Again, unless the customer load is completely flat (i.e. 100% load factor) for the entire 12 hours this is incorrect. Indeed, VECC submits, by focusing on non-coincident as well as coincident peak, the current rate design encourages customers to levelize their load during the entire peak period and thereby improve overall asset utilization. In contrast, the High Five approach only encourages demand reductions during a limited number of hours in the peak period (i.e., roughly 300 hours over the course of a year).

[217] Volume #6, page 23
[218] Volume #6, page 57
[219] Volume #6, page 97

Overall, VECC recommends that the evidence does not support AMPCO's arguments for a change and the Board should accept Hydro One Networks proposal to maintain the status quo in terms of the billing determinant applicable to Network Connection Service. Furthermore, VECC submits that the shortcomings in AMPCO's proposal go beyond just uncertainties regarding the degree of load shifting and commodity price reduction that will occur. As seen in the discussion under parts (a) and (d) – by focussing too narrowly on five "Peak days" - the proposal is inconsistent with Hydro One Networks' current transmission cost drivers and with generally accepted principles regarding the establishment of fair transmission rates.

8. COSTS

The Vulnerable Energy Consumers Coalition hereby requests that the Board order payment of our reasonably incurred costs in connection with our participation in this proceeding. It is submitted that the Vulnerable Energy Consumers Coalition has participated responsibly in all aspects of the proceeding, in a manner designed to assist the Board as efficiently as possible.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 25TH DAY OF MARCH 2009