PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DEFENSE DE L'INTERET PUBLIC
ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7
Tel: (613) 562-4002. Fax: (613) 562-0007. e-mail: piac@piac.ca. http://www.piac.ca

Michael Buonaguro
Counsel for VECC
(416) 767-1666

April 8, 2009

VIA MAIL and E-MAIL

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

Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition (VECC)
EB-2008-0187
Hydro One Networks Inc. – 2009 Electricity Distribution Rate Application

Please find enclosed the submissions of the Vulnerable Energy Consumers Coalition (VECC) in the above-noted proceeding.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

HYDRO ONE NETWORKS INC. – DISTRIBUTION

2009 DISTRIBUTION RATE APPLICATION

BOARD FILE NO. EB-2008-0187

FINAL SUBMISSIONS OF THE VULNERABLE ENERGY CONSUMERS' COALITION

Table of Contents

INTRODUCTION

1. On November 7, 2008 Hydro One Networks Inc ("HON") filed its initial 2009 Distribution Rate Application. The Application was considered a "place holder" pending receipt of the Board's Decision regarding HON's 2008 Distribution Rate Application[1]. On January 20, 2009 the Application was updated to reflect the Board's EB-2007-0681 Decision regarding 2008 rates. The Application included the standard mechanistic/formulistic adjustments provided for under the Board's Third Generation Incentive Regulation Mechanism ("3GIRM"). It also included applications[2] for:

   - An incremental capital module Rate Rider.
   - A Shared Tax Savings Rate Rider
   - A revised 2009 Smart Meter Rate Adder of $1.65 / customer / month.

2. Set out below is the Final Argument of the Vulnerable Energy Consumers' Coalition ("VECC") with respect to Hydro One Networks' Application. The Argument is organized into the following sections:
   1) 3GIRM – Overall Approach and Standard Adjustments
   2) Intent of Incremental Capital Module
   3) Filing Requirements for Incremental Capital Module
   4) Bill Impacts

3GIRM – OVERALL APPROACH AND STANDARD ADJUSTMENTS

3. In its July 14, 2008 Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors[3] and the September 17th Supplemental Report of the Board[4], the OEB set out the basic framework for the 3GIRM which included:

[1] Volume #1, page 63 and pages 69-70
[2] Exhibit B!/Tab 1/Schedule 1, page 1 and Exhibit B1/Tab 2/Schedule 1, pages 3-4
[3] Exhibit K1.13
[4] Exhibit K1.14

- Term: Rebasing Year Plus Three Years[5]
- Inflation Factor: Based on the year over year change in the Canada GDP IPI for Final Domestic Demand[6]
- Productivity and Stretch Factors: Productivity Factor (TFP trend) of 0.72% established for all distributors and Stretch Factors of 0.2%, 0.4% or 0.6% established for each distributor based on current performance relative to peer distributors[7].

4. VECC agrees with Hydro One Networks[8] that this part of the 3GIRM formulistic and mechanistic. VECC has no disagreements regarding the HON's application of this part of the 3GIRM. VECC's only submission is that the escalation factor used in the January 2009 Updated Application (i.e., 0.98% - consisting of 2.1% GDP-IPI escalation less a 0.72% productivity factor and less a 0.4% stretch factor) needs to be updated to reflect the Board's March 2009 determination regarding the appropriate GDP-IPI escalator. This changes the applicable escalation factor for HON from 0.98% to 1.18%[9].

5. The Board's July 2008 Report included a number of provisions aimed a addressing concerns raised by both distributors and other stakeholders regarding the ability of an incentive regulation mechanism to yield just and reasonable rates in subsequent years including:

    - An Incremental Capital Module – to address "the treatment of incremental capital investment needs that may arise during the IR term"[10]
    - Z-Factor Adjustments – to address material "events genuinely external to the regulatory regime and beyond the control of management and the Board"[11]

[5] July 2008 Report, page 7
[6] July 2008 Report, page 11
[7] September 2008 Report, pages 12 & 22
[8] Volume #2, page 14
[9] Volume #1, page 64
[10] July 2008 Report, page 32
[11] July 2008 Report, page 35

- Off-Ramps – that define conditions under which the IR plan would be terminated or modified before its normal end-of-term date.[12]

6. In addition VECC notes that while the July 2008 Report stated[13] "the rates of the distributor are not normally expected to be subject to rebasing before the end of the plan other than through an eligible off-ramp", the practice of Board appears to be permit rebasing during the course of the three years if requested by the distributor. An example of this is Hydro One Networks. Its distribution rates were rebased in 2008 suggesting that unless an off-ramp was triggered it would not be subject to rebasing until 2012. However, in response to a February 11, 2009 notice from Hydro One Networks' that it intended to file a "cost of service" based application for 2010 and 2011 rates, the OEB has included HON in its list of distributors for rebasing in 2010[14]. Overall, it is VECC's submission that the incremental capital module is just one of a number of remedies that are open to an electricity distributor who is concerned that the 3GIRM will not result in just and reasonable rates for an upcoming test year.

INTENT OF INCREMENTAL CAPITAL MODULE ("ICM")

Hydro One Networks' Position

7. Throughout this proceeding Hydro One Networks has repeatedly expressed the view that the one of purposes of the ICM is to address the funding gap that occurs when capital expenditures outstrip depreciation. This is illustrated by the testimony of Hydro One Networks' witnesses:

> "So clearly there is a gap in recovery. It is the capital adjustment module that is the mechanism created by the Board to be used in the unusual circumstances where such a gap exists between depreciation and in-service additions".[15]

[12] July 2008 Report, page 37
[13] Page 7
[14] Board Letter of March 5, 2009. http://www.oeb.gov.on.ca/OEB/_Documents/EB-2009-0028/letter_RebasingFinalSelection_20090305.pdf
[15] Volume #1, page 43

and

> I take it, then, that Hydro One's position is that the raison d'être of the ICM is to address that funding gap that occurs when capital expenditures outstrip depreciation?
> DR. PORAY: That is correct.[16]

8. Indeed, as Dr. Poray acknowledged, this is the view that the distributors took throughout the consultation process leading up to the Board's Reports[17] regarding the 3GIRM.

> DR. PORAY: Well, in our view, the issue of the capital adjustment module, really throughout the entire process of the 3rd generation IRM, was the fact that the price cap index would be insufficient to adjust the rates to capture the cost of the capital expenditure.
> So the utilities were coming from the perspective that they expected to have significant capital investments that would need to be addressed.[18]

VECC's Submissions

Circumstances Qualifying for ICM

9. The Board's September 2009 Supplementary Report stated[19] that "the capital module is intended to be reserved for unusual circumstances that are not captured as a Z-factor and where the distributor has no other options for meeting its capital requirements within the context of is financial capabilities underpinned by existing rates". Throughout this proceeding Hydro One Networks' position has been that the fact its capital spending program exceeds depreciation is an "unusual circumstance" and, as a result, its application meets the intent of the ICM[20]. VECC disagrees.

[16] Volume #2, page 91
[17] The July and September 2008 Reports.
[18] Volume #1, page 78
[19] Page 31
[20] For example, Volume #1, page 46

10. It is VECC's submission that the Board specifically considered and rejected the type of circumstance that Hydro One Networks' has outlined as qualifying for the Incremental Capital Module. This can be clearly seen from following excerpt from the Board's September 2008 Report[21]:

> The Board notes that there are clearly differences in perception as to the purpose of the incremental capital module. Ratepayer groups perceive the capital module as a mechanism aimed solely at addressing extraordinary or special CAPEX needs by distributors. The distributors, on the other hand, perceive the module as a special feature of the 3rd Generation IR architecture which would enable them to adjust rates on an on-going, as-needed basis to accommodate increases in rate base.
>
> In the Board's view, the distributors' view is not aligned with the comprehensive price cap form of IR which has been espoused by the Board in its July 14, 2008 Report. The distributors' concept better fits a "targeted OM&A" or "hybrid" form of IR. This alternative IR form was discussed extensively in earlier consultations but was not adopted by the Board. The intent is not to have an IR regime under which distributors would habitually have their CAPEX reviewed to determine whether their rates are adequate to support the required funding. Rather, the capital module is intended to be reserved for unusual circumstances that are not captured as a Z-factor and where the distributor has no other options for meeting its capital requirements within the context of its financial capacities underpinned by existing rates.

11. As result, contrary to the suggestion[22] of Hydro One Networks' counsel, it is not the intervenors but rather HON that is misstating the Board's words and the Board's intent. In VECC's view, the Board could not have been clearer that the ICM was <u>not</u> meant to address circumstances where a distributor's capital ongoing programs were reviewed to determine whether the rates are adequate to support the required capital program. As the Board states, this option was considered and rejected by the Board during the development of the 3GIRM. In VECC's submission, Hydro One Networks' application really represents a request by HON for the Board to reverse its previous determinations and the Board should reject it accordingly. This issue was fully canvassed and carefully considered by the Board as part of the overall development process for the

---

[21] Pages 30-31
[22] Volume #2, page 126

3GIRM and HON has presented no new arguments as to why the Board should reverse its direction regarding the purpose of the ICM. Furthermore, VECC submits, that it would be inappropriate for the Board to make such a fundamental determination (effectively a review and vary decision) within the context of a single distributor's rate application.

12. VECC also rejects that HON's suggestion that the fact its capital spending exceeds its depreciation is an "unusual circumstance" in the context established by the Board. HON itself has noted that its capital spending has been on the rise since 2002[23] and is expected to continue to be high for the foreseeable future[24]. As a result, there would be a habitual need for HON to apply for an ICM to support its required capital spending. Again, this outcome is inconsistent with the Board's view[25] as to the purpose of the module:

> The intent is <u>not</u> to have an IR regime under which distributors would habitually have their CAPEX reviewed to determine whether their rates are adequate to support the required funding. (emphasis added)

Unusual Circumstances

13. The preceding submissions beg the question as to whether any of Hydro One Networks' 2009 capital spending qualifies as "unusual" and outside normal program spending as anticipated at the time of 2008 rebasing. HON has indicated that, in general, the 2009 capital program is normal work. However, when questioned during the interrogatory process[26] HON identified the following program areas as not being a simple continuation of 2008 programs:

- PCB Management
- Provincial Mobile Radio System Upgrade
- ORMS Mobile IT Integration (part of Smart Grid)
- Transfer DS Control Authority (part of Smart Grid)

[23] Volume #1, page 46
[24] Volume #1, page 123
[25] September Report, page 31
[26] Exhibit I/Tab 6/Schedule 3

14. Then, during the subsequent oral phase of the proceeding, HON suggested that the “new” items for 2009 were its Smart Grid spending, its Distributed Generation spending and the spending associated with the federal PCB legislation[27].

15. In VECCs view, the only spending that can be truly characterized as unusual is that related to new PCB legislation. HON has confirmed[28] that all the spending relates to where the PCB concentration is above 500 ppm and must be addressed by December 2009[29]. In VECC’s view, subject to HON meeting the other eligibility criteria[30] this is the only spending that would qualify for an ICM adjustment. Such an adjustment would be based on the $11 million capital budget for the spending.[31]

16. With respect to Distributed Generation, there was Board approved spending in this area in the 2008 rates and the spending levels for 2009 are less[32]. As a result, VECC does not see agree that it would qualify as unusual spending.

17. In the case of the Smart Grid spending, VECC notes that spending in this area was also approved for 2008 although not reported separately[33].

18. Finally, in terms of the Radio System upgrade, this project should be by no means a surprise or even new as the current systems have been in-place for over 40 years[34].

Alternatives to ICM

19. HON argues it has no other options for meeting its capital requirements and, as a result, the Board should adopt HON’s view as to the purpose of the ICM. Again, VECC disagrees. Hydro One Networks’ other option was to apply for 2009 rates

---

[27] Volume #1, pages 84-85
[28] Volume #2, page 47
[29] Exhibit B1/Tab 3/Schedule 3, page 9
[30] Please refer to the discussion in the subsequent sections of VECC’s Argument
[31] VECC roughly calculates the ensuing revenue requirement impact to be approximately $1-$1.5 Million.
[32] Exhibit B1/Tab 3/Schedule 4, page 2 and Volume #1, pages 157-158
[33] Volume #2, page 50
[34] Exhibit I/Tab 6/Schedule 3

on cost of service basis – similar to what it is planning to do for 2010-2011[35]. In fact, in its June 2008 Report, the Board acknowledged that for many distributors this may be the preferred option:[36]

> "Distributors with an amount of capital spending that exceeds the materiality threshold may best be accommodated through rebasing".

20. However, it appears that HON actually has the financial capacity to undertake the proposed capital programs with 2009 rates that are simply adjusted by the standard IRM mechanism (i.e. 1.18%) and does not require the ICM adjustment. At its November 2008 meeting the Hydro One Networks' Board of Directors approved a budget for 2009 that did not include an Incremental Capital Module[37] but rather anticipated a rate increase in the order of 1%[38]. This budget did not include the roughly $11 M associated with the new PCB legislation[39]. However, it also did not recognize that, as a result of the Board's 2008 distribution rate decision, HON would receive full funding (via the rate adder) for its 2009 smart meter spending[40]. The overall effect of the latter point is that, without the ICM module, the distribution rate increase for 2009 will now be in the order of 2.28%[41]. As result, VECC submits that contrary to HON's contention[42], the standard 3GIRM price cap was sufficient to support HON's 2009 capital expenditures. Therefore, even if the Board accepts HON's characterization of what should be considered "unusual circumstances" ,HON does not require an Incremental Capital Module adjustment.

---

[35] Volume #1, page 65
[36] Page 32
[37] Volume #1, pages 76-77
[38] Volume #1, page 96
[39] Volume #1, page 71
[40] Volume #1, page 75. If smart meter costs had not been removed then the costs would have subject to the 3GIRM adjustment (1.18%) in 2009.
[41] Volume #1, page 136
[42] Volume #1, page 81

FILING REQUIREMENTS FOR AN INCREMENTAL CAPITAL MODULE

Hydro One Networks' Position

21. A distributor requesting an ICM adjustment as part of its 3GIRM rate application must meet specific filing guidelines which are set out in Appendix B (pages VI & VII) of the Board's September 2008 Supplementary Report. In its Argument-In-Chief HON contended[43] that it had provided all of the information required.

VECC's Submissions

22. VECC first notes that, contrary to the contention made by HON[44], the application for an ICM adjustment is not formulistic and mechanistic. Rather, as illustrated by the Board's guidelines, comprehensive evidence is required to support a number of specific requirements. Hydro One Networks has suggested[45] that the evidentiary requirements must be different than those in a cost of service proceeding. VECC agrees that the requirements are different and in many areas even less. In the context of a 3GIRM and ICM adjustment application there is no need for a Distributor to file a load forecast, to file evidence in support of its planned OM&A spending, or to file evidence supporting its current actual cost of debt. However, this does not mean that evidentiary requirements for a requested ICM adjustment should not be comprehensive. Set out below are VECC's submissions regarding HON's compliance with each of the Board's filing guidelines.

   a) *An analysis demonstrating that the materiality threshold test has been met and that the amounts will have a significant influence on the operation of the distributor*

23. This requirement has two parts. With respect to the demonstration that the materiality threshold has been met, VECC has the following submissions.

---

[43] Volume #2, pages 121-122
[44] Volume #1, page 130, lines 5-9
[45] Volume #1, page 130, lines 15-22

24. First, the threshold value of $287 M calculated by HON[46], must be updated to reflect the Board's adopted value for GDP-IPI and the resulting increase in the price adjustment factor from 0.98% to 1.18%. The revised threshold value will be roughly $ 296 M[47]. Second, as will be discussed in parts (d) and (e), while there is an issue as to whether HON's entire $460 M of proposed 2009 capital spending is clearly non-discretionary and prudent, VECC submits that even with reasonable adjustments for these considerations HON's capital spending for 2009 would exceed this threshold.

25. The second part of this filing guideline requires HON to demonstrate that the spending will have a significant influence on its operation. As discussed above, HON's Board of Directors approved the 2009 budget based on the assumption that the Company would not apply for an ICM. The evidence provided[48] and witnessed by the Applicant as to the financial implications of this budget were submitted in confidence. VECC has reviewed and adopts the more detailed non-redacted submissions of CME, and submits that they clearly demonstrate that the ICM is <u>not</u> required in order to avoid a significant impact on HON's operations from a financial perspective.[49] Furthermore, HON has indicated that it plans to undertake the projects even if the ICM is not approved[50]. As result, VECC submits that the ICM is not required in order to avoid a significant impact on HON's operations from a safety and reliability perspective.

26. The only operational result that will arise if the Board grants HON's request for an ICM adjustment is that the Company will be positioned to earn returns significantly higher than the Board's approved ROE for 2009. VECC submits that this was not the intent of the ICM adjustment. As a result, VECC submits that HON's application does <u>not</u> meet this filing requirement.

---

[46] Exhibit I/Tab 1/Schedule 2, page 3
[47] Volume #1, page 109
[48] Exhibits KX1.6 and KX1.7
[49] Final Submissions of CME, unredacted, paragraphs 62-70.
[50] Volume #1, page 176

b) *A description of the underlying causes and timing of the capital expenditures including an indication of whether expenditure levels could trigger a further application before the end of the IR term*

27. VECC accepts that HON's evidence provides descriptions as to the underlying causes of its proposed capital expenditures. However, with regard to "timing" HON has made the assumption that all capital spent in 2009 will come into service in 2009[51]. When pressed on this point, HON acknowledged that this assumption simply reflected the mechanics of the 3GIRM model[52] and they had not provided any further information on the actual expected timing of its capital expenditures[53]. As a result, in VECC's view, the Company has not fully responded to this particular filing requirement.

28. Additionally, while not addressed in the original application, HON did indicate during cross-examination that they "would probably have to consider the capital adjustment module in the succeeding years of the IRM"[54].

c) *An analysis of the revenue requirement associated with the capital spending (i.e., the incremental depreciation, OM&A, return on rate base and PILs associated with the incremental capital), and a specific proposal as to the amount of relief sought*

29. In Exhibit B2/Tab 1/Schedule 2, Appendix F Hydro One Networks provided a calculation as to the revenue requirement impact of the proposed capital spending that exceeded the threshold. When questioned as to why the values of inputs used for various elements such as tax rates, debt rates and ROE were not 2009 values, HON responded that it was a Board model to which they simply input the values[55] which were generally based on their 2008 approved rates[56].

30. VECC has three concerns about HON's approach to this issue. The first is that while the Company has primarily used the 2008 values to determine the 2009 revenue requirement impact, it has not done so consistently. In particular, in the

[51] Volume #1, page 36
[52] Volume #1, page 164
[53] Volume #1, page 167
[54] Volume #1, page 168
[55] Volume #1, pages 91-92
[56] Volume #1, page 92

case of capitalized overheads, HON has used an updated 2009 rate of 10.7% as opposed to the 8.7% values used in the 2008 rate application[57]. The impact is that costs are shifted[58] from OM&A to capital. HON explains that the increased overhead capitalization rate is due to an increase in Shared Services OM&A costs[59]. VECC submits that, under the 3GIRM, changes in OM&A costs are to be managed within the standard price cap. It is inappropriate for HON to selectively update parameters of the revenue requirement calculation so as to shift a portion of these costs to capital and then apply to have them recovered through an ICM adjustment factor.

31. VECC's second concern is with respect to HON's treatment of the costs and savings attributable to the Cornerstone project. VECC notes that in its EB-2007-0681 Decision the Board determined that due to the timing of spending the capital cost of Phase 1 would be included in the rebased rates but the OM&A savings would accrue to HON during the IRM period[60]. The Board concluded that this was simply an "accident of timing" and declined to intervene. However, in the current Application HON is seeking to increase its rates further in 2009 based on new 2009 capital spending on Cornerstone but, at the same time, continue to keep the OM&A savings arising from the Cornerstone initiative. Under a standard IRM mechanism new investments undertaken during the IRM period would be funded by the utility and the savings would accrue to the utility until rebasing. By virtue of the ICM module HON is effectively asking that Board approve a scheme whereby ratepayers pay for the capital but the Company keeps the OM&A savings. In VECC's view this is inappropriate.

32. VECC's third concern is with respect to the application of a full year rule (as opposed to ½ year rule) in HON's circumstance. The Board determination not to apply the half-year rule in determining the rate relief under the ICM was made so as to "not build in a deficiency for subsequent years in the term of the plan[61].

---

[57] Volume #2, page 56
[58] Volume #2, page 57
[59] Volume #2, page 58
[60] Volume #2, pages 107-108
[61] September Report, page 31

This determination makes sense when a distributor is subject to a multi-year plan as contemplated in the Board's initial July 2008 Report[62]. However, the same reasoning does not hold in the case of HON whose request for rebasing in 2010 has been accepted by the Board[63]. VECC submits such circumstances are inconsistent with the basis on which the Board made its determination. Such circumstances are also inconsistent with the Board's initial view as to when and how frequently rebasing would occur. In such unique circumstances VECC submits the Board should continue to use the ½ year rule.

33. As noted earlier, it is VECC's position that HON's Application does not meet the intent of the Incremental Capital Module. However, should the Board determine that its does and that some portion of the proposed capital spending should form the basis for an ICM rate rider, then VECC submits that the preceding concerns should be taken into account when establishing the revenue requirement implications of the spending.

> d) *Justification that amounts being sought are directly related to the claimed cause, which must be clearly non-discretionary and clearly outside of the base upon which current rates were derived. This includes historical plant continuity information for each year of the IR plan term since the last Board-approved Test Year.*

34. This section of the filing guidelines requires an applicant to provide justification for the amounts claimed and demonstration that they are non-discretionary. When asked about their evidence that the proposed spending was non-discretionary, HON's witnesses stated the non-discretionary aspect of the spending was demonstrated by the fact the proposal was the result of a "rigorous planning process"[64].

35. VECC has a number of concerns with this position. First, it is clear from the evidence that $460 M is not HON's non-discretionary capital spending level for 2009. As part of the HON's planning process a minimum spend level is

[62] Page 7
[63] Hydro One Network's Letter of February 9, 2009 and the OEB Letter of March 5th regarding Electricity Distributors for rebasing in 2010 and 2011.
[64] Volume #1, page 169

established that forms the basis for subsequent decisions regarding trade-offs between increased spending and reduced risks[65]. For 2009 this minimum capital spending level for distribution is $419 M[66] – not the $460 M requested by HON. However, even this is not the true minimum or non-discretionary spending level as HON notes that in some areas HON's approved plan dips below the minimum spend levels[67].

36. VECC's second concern is the suggestion by HON that past descriptions of the planning process have been sufficient to satisfy parties as to the basis for HON's proposed spending. VECC notes that Hydro One Networks uses the same planning process for both transmission and distribution. Furthermore, as a result of concerns regarding the support provided for HON's capital spending plans, following EB-2006-0501 HON was directed by the Board to consult with parties as to what additional information was required. VECC submits that it is clear from those consultations, that parties were seeking greater insight into the actual workings of the planning process. This is evidenced by the following extract from HON's most recent transmission rate application[68]:

> "At the close of the December 17, 2007 session, stakeholders indicated that they wanted to understand the overall business planning process for asset investment including the overall prioritization and how the Company determines where the cut-off point is on capital spending. Hydro One Transmission indicated that it would undertake to address questions about the prioritization process, and how and where final asset investment decisions are made as part of its transmission rate filing."

37. Based on such comments, VECC submits that it is inappropriate for HON to suggest[69] that filing information similar to that provided in previous proceedings is sufficient to demonstrate that a proposed level of spending is non-discretionary or that the issue has been satisfactorily addressed in past proceedings[70].

---

[65] Volume #1, pages 57-59
[66] Exhibit K1.10
[67] Volume #1, pages 56-57
[68] EB-2008-0272, Exhibit A/Tab 17/Schedule 1, pages 10-11
[69] Volume #1, page 175
[70] Volume #2, page 55

38. Finally, when asked to provide the information submitted to HON's senior management regarding what spending was discretionary vs. non-discretionary and the prioritization for the plan HON declined to do so[71].

39. Overall, VECC submits that HON has failed to effectively demonstrate that its proposed $460 M of 2009 distribution capital spending is clearly non-discretionary.

> e) *Justification that the amounts to be incurred will be prudent. This means that the distributor's decision to incur the amounts represents the most cost-effective option (not necessarily least initial cost) for ratepayers.*

40. HON also referred to its rigorous planning process, in response to an interrogatory request from CCC regarding the prudence of its 2009 planned spending[72]. HON provided a similar response when asked in cross-examination about the cost-effectiveness of its proposed capital spending[73]. As discussed above in part d), VECC submits that it is also inappropriate for HON to refer to its planning process as justification that the spending is prudent without addressing the issues raised in the past regarding the documentation of the process and/or providing more details when requested during this proceeding.

> f) *Evidence that the incremental revenue requested will not be recovered through other means (e.g., it is not, in full or in part, included in base rates or being funded by the expansion of service to include new customers and other load growth)*

41. It is VECC's submission that HON has failed to adequately demonstrate that none of the requested incremental revenue will be recovered through other means. First, HON's capital spending plans are predicated on the assumption that there will be roughly 17,700 new connections in 2009[74]. This represents a growth in connections of 1.48% - approximately three times the growth rate used to determine the capital spending threshold for the ICM[75]. Since additional connections mean additional revenues, this suggests that there may be an

[71] Volume #2, page 23
[72] Exhibit I/Tab 3/Schedule 14
[73] Volume #1, page 175
[74] Exhibit I/Tab 5/Schedule 8
[75] Volume #2, pages 69-70

additional source of revenue not accounted for in the base 2008 rates nor in the growth allowance used for the capital threshold calculation.

42. When the issue was put to HON, their response was that this was not a cost of service application and they were not required to re-examine their load forecast[76]. VECC submits that HON has missed the point. One of the drivers behind its capital spending forecast is increased connections. To the extent this suggests there may be additional (unaccounted for) revenues the filing guidelines require HON to address the matter. HON has failed to do so.

43. Likewise, as previously discussed, HON has failed to account for the recovery of OM&A costs through the increased capitalization of overhead, and the benefits of the Cornerstone Project, both sources of funds directly related to the claimed incremental capital requirement.

> *g) A description of the actions the distributor will take in the event that the Board does not approve the application.*

44. While this point was not specifically addressed in the Application, HON did indicate during cross-examination that it intended to go ahead with the capital program even if the Board does not approve the Application[77].

<u>Conclusion</u>

45. In the first part of its argument VECC concluded that HON's Application did not meet the intent of the Incremental Capital Module and should be rejected accordingly. However, should the Board determine otherwise and adopt Hydro One Networks' view of the role and purpose of the ICM then, based on preceding discussion, it is VECC's submission that HON's Application has failed to adequately address most of the Board's detailed filing requirements for an ICM. As a result, the Application is incomplete and the request for an ICM should be rejected.

---

[76] Volume #2, page 70
[77] Volume #1, page 176

BILL IMPACTS

Hydro One Networks' Position

46. Hydro One Networks' Application states that the resulting distribution rate increase for the average customer will be on average 4% which amounts to less than a 1.5% increase for the average residential customer total bill[78]. While the application provided information regarding the impacts at various levels of consumption, bill impact considerations focused on the "average customer"[79].

VECC's Submissions

47. VECC has two concerns with Hydro One Networks' approach to bill impacts. First, in calculating the bill impact of its 2009 rate application, Hydro One Networks did not account for the fact that a 2008 bill impact mitigation plan is currently in place as part of Hydro One Networks' rate harmonization implementation. Since the bill impacts were calculated assuming none of its customers received bill impact rebates 2008[80] the materials provided in Exhibit C, Tab 1, Schedules 3-6 understate the bill impacts for these customers.

48. A revised set of schedules were provided in response to a VECC interrogatory[81] setting out the bill impacts recognizing the lower 2008 bills paid by those customer receiving rebates. These schedules show that some customers will experience total bill impacts significantly higher than $3 / month and 15% - the criteria used in the 2008 rates to determine who would receive bill impact mitigation rebates[82]. However, Hydro One Networks did not consider these customers or their particular circumstances when developing its 2009 rate proposal[83]. In VECC's view this is unacceptable as some customers will experience total bill impacts in excess of 20% (more than $15 / month). VECC submits that the Board should direct Hydro One Networks to extend its 2008 bill

[78] Exhibit A/Tab 2/Schedule 1, page 2
[79] Volume #2, page 73
[80] Exhibit I/Tab 6/Schedule 2, part b)
[81] Exhibit I/Tab 6/Schedule 2, part b)
[82] Volume #2, page 72
[83] Volume #2, page 73

impact mitigation plan to 2009 using the same 15%/$3 criteria, in the event the Board determines that HON qualifies for an incremental capital adjustment.

COSTS

49. 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 8TH DAY OF APRIL 2009