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September 15, 2008

VIA 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: Hydro One Networks Inc. – 2010 & 2011 Distribution Rate Application
Board File: EB-2009-0096)
VECC's Comments Regarding Draft Issues List

As Counsel for the Vulnerable Energy Consumers Coalition (VECC), I writing to provide comments regarding the Proposed Issues List distributed as part of Procedural Order No. 1 on September 9, 2009. Also addressed are issues raised in the procedural order regarding the nature and the scheduling of the process.

A. ISSUES LIST

1. GENERAL

1.1 Has Hydro One responded appropriately to all relevant Board directions from previous proceedings?

1.2 Are Hydro One's economic and business planning assumptions for 2010/2011 appropriate?

1.3 Is service quality, based on the OEB specified performance indicators, acceptable?

1.4 Has Hydro One appropriately addressed the revenue consequences of implementing new rates effective January 1, 2010, rather than the conventional May 1 effective date?

VECC's Comments

VECC agrees with the wording of Issues 1.1 to 1.3. However, with respect to Issue 1.2, VECC seeks confirmation that, while not addressed in Exhibit A/Tab 14/Schedule 1 dealing with Business Planning Assumptions, the issue includes Hydro One's forecasted AFUDC rates (as set out in Exhibit D1/Tab 4/Schedule 1).

With respect to Issue 1.4, VECC submits that, in regard to Hydro One Networks' proposed effective date of January 1, 2010, the issues to be considered by the Board are broader than just addressing the "revenue consequences" of the proposed change and also include whether the proposal to change the effective date is appropriate. As a result, VECC submits that the wording of Issue 1.4 should be revised as follows:

> Revised Issue 1.4: Is Hydro One's proposal to change the effective date for implementation of its proposed Distribution Rates to January 1st, 2010 rather than the conventional May 1st effective date appropriate and has Hydro One appropriately addressed the revenue consequences of the proposed change.

2. LOAD 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?

2.2 Is the proposed amount for 2010/2011 external revenues, including the methodology used to cost and price these services, appropriate?

VECC's Comments

VECC agrees with the wording of Issues 2.1 and 2.2

3. OPERATIONS, MAINTENANCE and ADMINISTATION COSTS

3.1 Are the overall levels of the 2010/2011 Operation, Maintenance and Administration budgets appropriate?

3.2 Is the 2010/2011 vegetation management budget appropriate?

3.3 Is the proposed level of 2010/2011 Shared Services and Other O&M spending appropriate?

3.4 Are the methodologies used to allocate Shared Services and Other O&M costs to the distribution business and determine the distribution overhead capitalization rate for 2010/2011 appropriate?

3.5 Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

3.6 Is Hydro One's depreciation expense appropriate?

3.7 Are the amounts proposed for capital and property taxes appropriate?

3.8 Is the amount proposed for income taxes, including the methodology, appropriate?

3.9 Is the proposed spending on loss reduction efforts appropriate?

VECC's Comments

VECC agrees with the wording of Issues 3.1 to 3.9. VECC assumes that, as was the case in EB-2008-0272, issues regarding any changes to the Affiliate Service Agreements are subsumed under Issues 3.3 and 3.4.

4. CAPITAL EXPENDITURES and RATE BASE

4.1 Are the amounts proposed for Rate Base appropriate?

4.2 Are the amounts proposed for 2010/2011 Capital Expenditures appropriate including the specific Sustaining, Development and Operations categories?

4.3 Is the proposed level of 2010/2011 Shared Services and Other Capital expenditures appropriate?

4.4 Are the methodologies used to allocate Shared Services and Other Capital expenditures to the distribution business and determine the Working Capital component of the Rate Base consistent with the methodologies approved by the Board in previous Hydro One rate applications?

4.5 Does Hydro One's Asset Condition Assessment information and Investment Planning Process adequately address the condition of the distribution system assets and support the O&MA and Capital expenditures for 2010/2011?

4.6 Are the proposed capital expenditures to reduce electricity system losses appropriate?

VECC's Comments

VECC agrees with the wording of Issues 4.1 to 4.3.

VECC agrees with Energy Probe's submissions that Issue 4.4 should be split into two issues: one dealing with the methodology for allocating Shared Services and other Capital Spending to the distribution business and a second dealing with the methodology for determining Working Capital Requirements. Furthermore, with respect to the determination of Working Capital, VECC submits that the issue should be reworded so that it includes not only consideration of the methodology used but also the inputs used. One example, which has come up in a number of other utilities applications, is the calculation of the cost of power value input into the methodology. VECC suggests the following wording:

> Revised 4.4 (re: Working Capital): Are the inputs used to determine the working capital component of rate base appropriate and is the methodology used consistent with that approved by the Board in previous Hydro One rate applications.

VECC notes that, given Issue 4.3, a similar rewording is not needed for the part of Issue 4.4 dealing with the allocation of Shared Services and Other Capital Expenditures.

5. CAPITAL STRUCTURE AND COST OF CAPITAL

5.1 Is the proposed Capital Structure and Rate of Return on Equity for Hydro One's distribution business appropriate?

5.2 Are Hydro One's proposed costs and mix for its short and long-term debt for the 2010/2011 test years appropriate?

VECC's Comments

VECC agrees with the wording of Issues 5.1 and 5.2.

6. DEFERRAL and VARIANCE ACCOUNTS

6.1 Is the proposal for the amounts, disposition and continuance of Hydro One's existing Deferral and Variance Accounts appropriate?

6.2 Are the proposed new Deferral and Variance Accounts appropriate?

VECC's Comments

VECC agrees with the wording of Issues 6.1 and 6.2

7. COST ALLOCATION and RATE DESIGN

7.1 Is Hydro One's cost allocation appropriate including the analysis of the relationship between density and cost allocation?

7.2 Are the proposed revenue to cost ratios for each class appropriate?

7.3 Are the fixed-variable splits for each class appropriate?

7.4 Are the proposed rate impact mitigation plans appropriate?

7.5 Are the proposed Retail Transmission Service rates appropriate?

7.6 Is the proposal for regulatory asset rate rider #6 appropriate?

VECC's Comments

VECC agrees with the wording of Issues 7.1 to 7.3.

With respect to Issue 7.4, VECC notes that the need for rate impact mitigation arises when the "initial bill impacts" are considered to be unacceptable. Given this context, VECC submits that the Issue should be reworded as follows:

> Revised Issue 7.4: Are the proposed rate impact mitigation plans appropriate and are the resulting customer bill impacts reasonable?

VECC notes that there was no "directive" to Hydro One Networks arising from EB-2007-0681 in relation to its Interim TOU Rates, the Hopper Foundry situation and <u>future</u> proceedings and, as a result, the matter is not necessarily subsumed by Issue 1.1. However, it is not immediately clear that the issue is covered under the Part 7 – Cost Allocation and Rate Design (i.e., there is no specific reference to the rate nor any general issues such as "Are Hydro One's proposed rates appropriate?"). VECC notes that the treatment of HON's interim TOU Rates and the Hopper Foundry for 2010 and 2011 rates is addressed in the Application (Exhibit G1/Tab 9/Schedule 1) and submits that it is a relevant issue for this proceeding. It could be addressed through either new issue specific to the Interim TOU Rates or a new issue with wording such as: "Are Hydro One's proposed rates appropriate?".

VECC agrees with the wording of Issues 7.5 and 7.6.

VECC notes that there is no issue dealing with Hydro One's proposal regarding loss factors for 2010 and 2011 (Exhibit G1/Tab 10/Schedule 1). VECC submits that the following new issue should be added:

New Issue 7.7: Are the proposed Distribution Loss Factors appropriate?

8. SMART METERS

8.1 Is the 2010/2011 smart meter O&M and Capital budget appropriate?

8.2 Are the amounts for Smart Meter related variance accounts appropriate?

8.3 Is the treatment of stranded meter costs appropriate?

8.4 Is Hydro One's regulatory treatment of Smart Meter costs appropriate including the smart meter funding adders proposed for 2010/2011?

VECC's Comments

VECC agrees with the wording of Issues 8.1 to 8.4. VECC assumes that the inclusion of smart meter costs up to December 2009 in rate base in subsumed in Issues 4.1 and 8.4.

9. GREEN ENERGY PLAN

9.1 Does Hydro One's Green Energy Plan meet the Board's filing guidelines and the objectives set out in the Green Energy and Green Economy Act, 2009?

9.2 Has Hydro One appropriately addressed the Green Energy Plan expenditures in the context of its overall Capital and O&M budgets?

9.3 Is Hydro One's methodology for allocating Green Energy Plan O&M and Capital costs between the OPA (Global Adjustment Mechanism) and Hydro One appropriate?

9.4 To what extent should the Board approve any projects or expenditures relating to the Green Energy Plan that are scheduled to occur beyond the test years (i.e. 2010 and 2011) in the current application?

9.5 What is the Board's role with regard to the approval of the Green Energy Plan? What criteria should the Board use when determining whether to approve the Green Energy Plan? If the Board approves the plan, what are the impacts of that approval?

VECC's Comments

VECC agrees with the wording of Issues 9.1 to 9.3. With respect to Issues 9.4 and 9.5, in VECC's view these are general policy issues that apply to all electricity distributors. VECC notes that in considering cost of service based applications filed by other electricity distributors for 2008 and 2009 rates, it has been the practice of the Board not to deal with Policy Issues that will affect all distributors within the context of an individual application. In VECC's view, Issues 9.4 and 9.5 clearly fall into this category and it would be inappropriate for the Board to consider them without due notice and provision for input from a wider range of stakeholders (both other electricity distributors and other industry participants) who are not participating in the current proceeding.

B. Process Issues

In Procedural Order No. 1 the Board requested input as to which issues should be considered on a written basis and which ones should be subject to an oral proceeding. In VECC's view it is premature to address this issue until after the interrogatory process has been completed. The interrogatory process can serve to both resolve issues (that might currently be considered requiring an oral proceeding) and lead to the identification of new issues that parties are not currently aware of. VECC submits that the question of which issues are best dealt with from a written vs. oral proceeding should be addressed during the Settlement Conference.

Procedural Order No. 1 also noted that the Board would be requiring intervenors to indicate whether they intent to file evidence in this proceeding. VECC submits that it is also premature for it to address this question. The need for intervenors to file evidence is influenced, in part, by whether the interrogatories posed have been fully answered by Applicant such that all of the information that intervenors need to rely on is already on the record. VECC will be in position to advise the Board on this matter after it has had an opportunity to review Hydro One's interrogatory responses.

Finally, VECC agrees with Energy Probe's submissions regarding the delayed filing dates for the outstanding evidence on CDM impacts and vegetation management and the need for the process to allow adequate time for parties to review and submit interrogatories on the matters dealt with in these reports.

If there are any questions or clarification required please contact either Bill Harper (416-348-0193) or myself (416-767-1666).

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC

cc: Ms. Anne-Marie Reilly