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BY COURIER

September 15, 2009

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON.
M4P 1E4

Dear Ms. Walli:

EB-2009-0096 – Hydro One Networks' 2010-2011 Distribution Rate Application – Comments Respecting Proposed Issues List

Hydro One Networks Inc. (“Hydro One”) is pleased to provide the following comments respecting the proposed issues list included as Appendix B to Procedural Order No.1 (“PO #1”), issued by the Board on September 9, 2009.

Hydro One is concerned that the list of issues proposed is overly broad. A broad list of issues detracts from a thorough and focused examination of the key issues most relevant to Hydro One’s 2010-2011 Distribution Rate Application. In Hydro One’s view the core issues in the current Application relate to the proposed Green Energy Plan, direction from previous proceedings, and the proposed increases in OM&A and Capital spending.

To ensure a focused review of its Application Hydro One recommends the removal of a number of issues, specifically those issues that relate to:

- the use of a methodology reviewed and accepted by the Board in a previous proceeding;
- evidence where there is not a material change from the evidence reviewed as part of a previous rate application; and
- evidence based on external consensus forecasts

Attachment 1 provides a list and rationale for the issues Hydro One believes should be removed in order to maximize the efficient use of the Board and intervenor resources. Hydro One anticipates that this written review of the issues list will result in a streamlined issues list, as shown in Attachment 2.

Hydro One would also like to take this opportunity to comment on two other items raised by PO #1.

The first item is with respect to intervenor evidence. Hydro One notes that as part of the first procedural order in Hydro One's 2009/10 Transmission Application (EB-2008-0272) the Board requested intervenors to declare their intent to submit evidence on the same date as intervenor interrogatories were due. A similar requirement for the current Application will allow the Board to better define the schedule for subsequent activities, and in particular the timing of the oral hearing.

The second item is with respect to the settlement process. As has been Hydro One's past practice, the Company believes its requested revenue requirement accurately reflects its costs and accordingly Hydro One cannot offer to reduce these expenditures as part of the settlement process. As such, Hydro One believes the 3+ weeks currently allotted for the settlement process in PO #1 is excessive. In Hydro One's 2008 Distribution Rate Application (EB-2007-0681) the settlement conference lasted two days, the settlement agreement was finalized within the week, and the Board approved the settlement agreement without the need for a hearing. In Hydro One's 2009/10 Transmission Application the settlement conference lasted less than a half day, and resulted in no settlement agreement. Given Hydro One's experience, and a streamlined issues list, Hydro One does not believe a settlement process is required. At a minimum, the schedule of activities provided in PO #1 should be revised to reflect a more efficient and expedited settlement process appropriate to Hydro One's case.

Hydro One believes its proposed changes to the issues list and the comments above will contribute to a more efficient application process and minimize the time beyond Hydro One's requested January 1, 2010 implementation date when new rates could be implemented.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

c. EB-2009-0096 Intervenors

Attachment 1 ISSUES PROPOSED TO BE REMOVED

The following is a list of the issues Hydro One proposes be removed from the Draft Issues List and the associated rationale.

A. Issues related to a methodology reviewed and accepted by the Board in previous proceedings, where Hydro One's approach has not changed for the current Application

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?

The methodology used to determine the allocation of Shared Services and Other O&M costs, as well as the distribution overhead capitalization rate, was reviewed and approved by the Board in both Hydro One's 2008 Distribution Rate Application (EB-2007-0681) and its 2009/10 Transmission Application (EB-2008-0272).

3.6

Is Hydro One's depreciation expense appropriate?

The depreciation methodology was reviewed and approved by the Board in its 2006 Distribution Rate Application (EB-2005-0378). Depreciation expense was part of the settlement agreements approved by the Board for both Hydro One's 2008 Distribution Rate Application (EB-2007-0681) and Hydro One's 2008 Transmission Application (EB-2006-0501). Examination of the appropriateness of the actual amount of depreciation expense is subsumed under issue 3.1.

3.7

Are the amounts proposed for capital and property taxes appropriate?

The approach used to determine capital and property taxes was reviewed and approved by the Board in Hydro One's 2008 Distribution Rate Application (EB-2007-0681). Examination of the appropriateness of the actual amount of these taxes is subsumed under issue 3.1.

3.8

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

The methodology for determining income taxes was previously reviewed and approved by the Board in Hydro One's 2008 Distribution Rate Application (EB-2007-0681). Examination of the appropriateness of the actual amount of these taxes is subsumed under issue 3.1.

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?

The methodologies for allocating Shared Services and Other Capital expenditures, as well as determining Working Capital, were previously reviewed and approved by the Board in both Hydro One's 2008 Distribution Rate Application (EB-2007-0681) and the 2009/10 Transmission Application (EB-2008-0272).

5.1

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

Hydro One's Capital Structure was reviewed and approved by the Board as part of its 2008 Distribution Rate Application (EB-2007-0681) and is consistent with the Board's Cost of Capital Report issued December 20, 2006. Hydro One applies the formulaic approach approved by the Board in its Cost of Capital Report, using Consensus Forecasts and Bank of Canada data to determine the rate of return on equity. Examination of the appropriateness of the currently approach for determining Return on Equity is part of an active generic proceeding on Cost of Capital (EB-2008-0084).

7.2

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

Hydro One uses the Board approved methodology for determining the revenue to cost ratios and the proposed revenue to cost ratios are within the Board approved ranges specified in the report of the Board "Application of Cost Allocation for Electricity Distributors", Proceeding EB-2007-0667, issued November 28, 2007.

7.5

Are the proposed Retail Transmission Service rates appropriate?

Hydro One use the methodology specified in the Distribution Rate Handbook for determining the Retail Transmission Service rates.

B. Issues that relate to evidence where there is not a material change from the evidence reviewed as part of a previous rate application.

Issue 1.3

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

Hydro One's service quality continues to meet all OEB-specified requirements and the evidence on service quality has not materially changed from the evidence reviewed and approved as part of Hydro One's 2008 Distribution Rate Application (EB-2007-0681).

2.2

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

The approach used to determine external revenues has not substantially changed from that reviewed and approved by the Board in Hydro One's 2008 Distribution Rate Application (EB-2007-0681).

3.9

Is the proposed spending on loss reduction efforts appropriate?

This was an issue in Hydro One's 2008 Distribution Rate Application (EB-2007-0681) specifically to address Hydro One's use of funds previously approved by the Board for this purpose. The appropriateness of the spending on loss reduction initiatives previously undertaken, and Hydro One's intention to not undertake any additional spending for specific loss reduction initiatives, was a settled issue approved by the Board in EB-2007-0681. As such, no evidence is provided in this application on this issue.

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?

Hydro One's Asset Condition Assessment and Investment Planning processes were reviewed and addressed in both Hydro One's 2008 Distribution Rate Application (EB-2007-0681) and Hydro One's 2008 Transmission Application (EB-2006-0501). Those processes have not materially changed. The extent to which the O&MA and Capital expenditures for 2010/2011 are adequately supported is subsumed under issues 3.1 and 4.2.

4.6

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

See the rationale provided for removing issue 3.9.

7.3

Are the fixed-variable splits for each class appropriate?

The approach used to determine the fixed-variable splits for each rate class has not materially changed from the approach reviewed and approved by the Board as part of Hydro One's 2008 Distribution Rate Application (EB-2007-0681).

7.4

Are the proposed rate impact mitigation plans appropriate?

The rate impact mitigation plans proposed in the current Application have not materially changed from the plans reviewed and approved by the Board as part of Hydro One's 2008 Distribution Rate Application (EB-2007-0681)) and comply with Board Guidelines as per the 2006 Distribution Rate Handbook.

8.3

Is the treatment of stranded meter costs appropriate?

The issue of stranded meter costs was addressed as part of Hydro One's 2006 Distribution Rate Application (EB-2005-0378) and was a settled issue in Hydro One's 2008 Distribution Rate Application (EB-2007-0681).

C. Issues that relate to evidence that is largely based on external consensus forecast.

Issue 1.2

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

Hydro One's planning assumptions are largely based on external consensus forecasts. In addition, as was noted by the Board in its decision on the issues list for Hydro One's Transmission Application (EB-2008-0272), this issue is subsumed under issues 2, 3 and 4 the examination of which will require a consideration of economic and business planning assumptions.

5.2

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

Hydro One's Capital Structure, including its mix of short term debt, was reviewed and approved by the Board as part of its 2008 Distribution Rate Application (EB-2007-0681). Hydro One determines the cost of short term debt consistent with the Board's Cost of Capital Report issued December 20, 2006, and the cost of long term debt is determined by prevailing market conditions for debt.

Attachment 2 STREAMLINED ISSUES LIST

1. GENERAL

1.1

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

1.2

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

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?

3. OPERATIONS, MAINTENANCE and ADMINISTRATION 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 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?

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?

5. DEFERRAL and VARIANCE ACCOUNTS

5.1

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

5.2

Are the proposed new Deferral and Variance Accounts appropriate?

6. COST ALLOCATION and RATE DESIGN

6.1

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

6.2

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

7. SMART METERS

7.1

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

7.2

Are the amounts for Smart Meter related variance accounts appropriate?

7.3

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

8. GREEN ENERGY PLAN

8.1

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?

8.2

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

8.3

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?

8.4

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?

8.5

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?