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October 26, 2009

VIA EMAIL & COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

**Board File No. EB-2008-0272 Hydro One Networks
2009-2010 Transmission Rates Case
Supplemental Evidence – Energy Probe Submissions**

Pursuant to Procedural Order No. 7, issued on October 20, 2009, please find attached two hard copies of the Submissions of Energy Probe Research Foundation (Energy Probe) in respect of the Supplemental Evidence filed in the EB-2008-0272 proceeding for the Board's consideration. An electronic version of this communication will be provided in PDF format.

Should you require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

cc: Anne-Marie Reilly, Hydro One Networks Inc. (By email)
Donald H. Rogers, Rogers Partners LLP (By email)
Peter T. Faye, Counsel to Energy Probe (By email)
Parties of Interest (By email)

Energy Probe Research Foundation 225 BRUNSWICK AVE., TORONTO, ONTARIO M5S 2M6

Phone: (416) 964-9223 Fax: (416) 964-8239 E-mail: EnergyProbe@nextcity.com Internet: www.EnergyProbe.org

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act*,
1998, S.O. 1998, c.15, Schedule B;

AND IN THE MATTER OF a review of an application
filed by Hydro One Networks Inc. under section 78 of the
Ontario Energy Act, 1998, seeking changes to the uniform
provincial transmission rates.

Submissions On Behalf Of

Energy Probe Research Foundation

Supplemental Evidence (September 4, 2009)

Capital Projects D7 & D8

October 26, 2009

Submissions On Behalf Of
Energy Probe Research Foundation
In Respect of Supplemental Evidence filed September 4, 2009
On Capital Projects D7 & D8

How these Matters came before the Board

1. On September 30, 2008, Hydro One Networks Inc. (the “Applicant” or “Hydro One”), filed an Application seeking approval for changes to the uniform provincial transmission rates that it charges for electricity transmission, to be effective July 1, 2009. The Board issued a Notice of Application on October 17, 2008. Energy Probe filed a Notice of Intervention on October 24, 2008, as a full time intervenor.
2. Energy Probe participated in extensive pre-hearing consultations with Hydro One prior to the Application being filed with the Board. Energy Probe filed Interrogatories on December 24, 2008, and actively participated in a short Settlement Conference on February 9, 2009.
3. Energy Probe did take part in the Oral Hearing, including cross examination of witnesses, commencing on February 23, 2009.
4. On May 28, 2009, the Board issued its Decision With Reasons. Commencing at Page 34, in Section 6, the Board addressed Capital Expenditures. In Sub-Section 6.5, on Page 39, the Board dealt with Development Capital, stating as background:

Development capital includes funding for projects related to new or upgraded transmission facilities. Hydro One is seeking approval for development capital of \$553.4 million in 2009 and \$658.8 million in 2010.

5. The projects being examined in this submission were classified as Category 2 projects by Hydro One in its original evidence, as described on Page 40 of the Decision as follows:

Category 2 projects are those that do not require an approval under section 92 or any other Board proceeding (other than a rate proceeding). These projects are forecast to be completed in the test period, and Hydro One is seeking Board approval for these projects, with inclusion in rate base when they go in-service.

6. There were 15 Category 2 projects brought forward for the Board's consideration in the EB-2008-0272 proceeding, depicted on a chart on Page 45 of the Decision. In the Board Findings in respect of Category 2 projects, referring to projects D7, D8, D9 and D10, the Board concluded, commencing with the third paragraph of Page 8:

The Board will not approve these four projects at this time because of the evidence has not been sufficient. The only evidence provided was a letter of recommendation from the OPA which the Board has already explained is not sufficient. No supporting evidence or analysis was provided.

The Board recognizes that Hydro One's application was predicated on its position regarding the role of the OPA and specifically the significance of the OPA recommendations related to these projects. As indicated earlier, the Board does not accept Hydro One's position, and as a result requires the type of analysis described in the *Filing Requirements for Transmission and Distribution Applications*.

The Board will keep this part of the proceeding open and will provide Hydro One with the opportunity to provide additional evidence on these projects for purposes of setting 2010 rates. Hydro One should file this evidence no later than November 30, 2009. The Board will ensure a streamlined process to consider any new evidence on these projects. If necessary, the Board will declare the 2010 rates interim at the appropriate time in order that the rate impacts of these projects can be included in the event the Board approves the projects.

Submissions of Energy Probe

7. The Supplemental Evidence filing of September 4, 2009 is for approval of capital expenditures for projects D7 (SVC at Porcupine TS and Kirkland Lake TS) and D8 (Series Capacitors at Nobel SS) in the 2010 test year.

8. The evidence filed includes analyses from the Ontario Power Authority (OPA) showing that new generation north and west of Sudbury will result in increased power flows on the north south 500 kV tie line that will exceed the transfer capability by the year 2010. This conclusion appears at lines 8-11 on Page 8 of Attachment C1-1-1 of Exhibit C1-01-02 and the rationale supporting it appears to be reasonable to Energy Probe.

9. The evidence also includes analyses by the Independent Electricity System Operator (IESO) to determine the effect on the power system of new generation proposed in the OPA analysis. The IESO concludes in its System Impact Assessment Report in C-01-03 that the capacity of the north south tie line will be exceeded by existing and committed generation by a large margin requiring either reinforcement or rejection of new generation.

10. Energy Probe accepts the IESO's analysis that the north south tie line capacity will be exceeded with existing and committed generation by 2010 and that the D7 and D8 reinforcement projects proposed by Hydro One are appropriate to achieve the necessary increased capacity. Therefore, Energy Probe believes that the applicant has demonstrated the technical necessity of the projects.

11. Board staff has raised the issue of economic justification for the projects pointing out that the Filing Requirements for Transmission and Distribution applications set out in EB-2006-0170 require a cost benefit analysis for such projects. Energy Probe agrees with Board staff that section 5.3.2 of the guidelines

does require comparative economic analysis of the identified alternatives and that Hydro One has not provided the same level of detailed cost benefit analysis that it provided in the Bruce to Milton leave to construct application.

12. Energy Probe notes, however, that, according to the evidence, the only other viable alternative to the proposed projects D7 and D8 is a new 500 kV transmission line from Pinard TS to Hanmer TS. That project is estimated to cost about \$1 B compared with the estimated \$150 M combined cost for D7 and D8. (Evidence B-1-3 page 3). This is roughly an order of magnitude difference in costs between the two alternatives. In addition, the evidence points out that it would be impossible to construct the transmission line in time for the 2010 capacity requirements.

13. Given these two considerations, Energy Probe's opinion is that more comprehensive cost benefit analysis would not yield a different outcome than the qualitative analysis presented in the evidence. Energy Probe does not advocate routine waiver of the filing requirements but, in this case at least, strict compliance with the requirements would seem to be unnecessary for the Board to make an informed decision on the application.

14. In summary, Energy Probe is satisfied that the applicant has provided adequate technical and economic justification for projects D7 and D8 and recommends that the Board approve them for inclusion in Hydro One's revenue requirement for capital budgets in 2010.

Costs

15. Energy Probe submits that it participated responsibly in this proceeding. Energy Probe requests the Board award 100% of its reasonably incurred costs.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

October 26, 2009

Peter Faye

Counsel to Energy Probe Research Foundation