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By e-mail to Boardsec@oeb.gov.on.ca

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

Dear Ms. Walli:

Re: Hydro One Networks 2010/2011 Distribution Rates Application
EB-2009-0096

We enclose the Reply Submissions of Hydro One Networks Inc. in this matter.

Yours very truly,

D. H. Rogers
DHR:db
Encl.

c. Intervenors

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This document is complementary to the oral argument presented by Hydro One to the Ontario Energy Board ("OEB") on January 14, 2010. The intent of this reply is to respond in some detail to the key arguments of the OEB Staff and Intervenors. Failure to comment on all points raised by the parties does not imply Hydro One's agreement on those issues. The intent is not to summarize or repeat the vast body of evidence which has already been put forth.

Hydro One will outline its position on some preliminary matters which emerged as central themes in the proceeding, followed by its submissions on each of the matters outlined in the Board's approved issues list.

Appendix "A", attached, is a list of approvals that Hydro One is seeking from the Board which has been updated for the revised cost of capital.

Hydro One received final argument submissions from the OEB Staff and the following Intervenors:

- Association of Major Power Consumers of Ontario (AMPCO)
- Canadian Manufacturers and Exporters (CME)
- Consumers Council of Canada (CCC)
- Electrical Contractors Association of Ontario (ECAO)
- Energy Probe Research Foundation (Energy Probe)
- Green Energy Coalition (GEC)
- Hopper Foundry (Hopper)
- Pollution Probe (PP)
- Power Workers Union (PWU)
- Rogers Cable Communications Inc. (Rogers)
- School Energy Coalition (SEC)
- Society of Energy Professionals (SEP)

- Vulnerable Energy Consumers Coalition (VECC)

Introduction

Since coming under regulation in 1998, Hydro One has attempted to cooperate with Board staff and intervenors.

Hydro One has tried its best in all of its applications to host stakeholder sessions and to provide detailed evidence to assist the Board and interested stakeholders in understanding its operations, work programs and decision making process. The Applicant has, with each successive rate application, endeavoured to respond to identified concerns by providing more detailed evidence to support its proposals. This application is no different.

Notwithstanding these efforts, Hydro One has come under increasing levels of attack.

Hydro One tries to be the provincial leader in electricity distribution and transmission. As a result, the Applicant is involved in numerous Board and other industry initiatives and participates in all of them in good faith. It can readily accept disagreement with the exercise of the judgment underlying its proposals and it encourages respectful debate. It cannot accept unsubstantiated allegations of bad faith which serve only to demean the regulatory process.

SEC wrongly asserts that Hydro One flaunts Board process by refusing to participate in the Board's settlement conference process. First, making the allegation contravenes the fundamental principle of the Board's settlement conference guidelines which provide at pg. 4 that the ADR process is strictly confidential. A party's settlement position should not be discussed in a closing argument.

However, since the issue has been raised, a brief response is required.

Hydro One has repeatedly stated that its applications, as filed, reflect what the Applicant believes is necessary to maintain its distribution system and deliver reliable power. There is no intentional "padding" of the costs. For that reason, Hydro One will not agree to arbitrary reductions to its planned work programs simply to avoid Board scrutiny at a hearing. It is unfortunate that intervenors view this as defiance of the regulatory process. It is not.

Hydro One does not consider it appropriate to comment further about the settlement process and urges the Board to ignore the comments of SEC.

Similarly, Hydro One does not show disrespect for the Board's processes by filing a cost of service application rather than relying on the Board's IRM formula. A cost of service application is a significant undertaking requiring a tremendous amount of effort on the part of the company, its managers and its witnesses, which for most involved, is beyond their primary responsibilities. It must be obvious that no company would file a cost of service application unless it believed that such an onerous undertaking was absolutely necessary. Such is most definitely the case with Hydro One.

While it is understood that a certain amount of rhetorical flourish is to be expected in a quasi-adversarial proceeding, Hydro One is discouraged by the increasing partisanship and lack of civility which seems to be developing in this regulatory process, particularly in the final argument phase. Hydro One would like to get back to a more respectful and reserved dialogue about the points of legitimate disagreement, but will say no more about it in the following paragraphs.

Preliminary Issues

Impact of the Economy on Hydro One's Rate Application

Hydro One acknowledged in its Argument in Chief, as it did in its last transmission rates application EB-2008-0272, that Ontario is currently in the midst of a poor economic climate. Financial indices have performed poorly, jobs have been lost, businesses have closed and many are struggling in these tough times. At the same time, many initiatives at all levels of government are increasing cost pressures on businesses and consumers.

As anticipated, Board staff and many intervenors have urged this Board to evaluate Hydro One's current application against the general economic backdrop. The suggestion seems to be that spending on otherwise necessary work programs should be reduced because the economy has not fully recovered from the recession and because of other factors external to Hydro One such as the introduction of the HST.

While the state of the economy is obviously an important consideration, this application must nevertheless be assessed solely on its merits. Hydro One's witnesses described the necessity of the work programs and explained the reasons for any increases behind those work programs. This evidence seems to have been ignored in many of the responding arguments.

Hydro One is obligated to operate as any commercial enterprise as mandated by its memorandum of understanding with the Ontario government filed in J4.5. It is also expected to provide a safe and reliable essential service: the delivery of electricity to its customers. These are the principles by which senior management and Hydro One's Board of Directors develop and execute the company's business plan.

Similar arguments were urged upon the Board recently in Hydro One's last transmission rates application EB-2008-0272, decided by this Board less than a year ago. As noted in argument in chief, economic times then were much darker than they are now. In its decision dated May 28, 2009, the Board addressed the issue of the poor economy and rejected the argument urged upon it by intervenors. The Board concluded at pg. 4:

> "However, the Board does not agree that it is appropriate to constrain the relief sought by utilities solely on the basis of current economic conditions. The Board agrees with Hydro One that its spending programs are long term in nature and that planning for their execution should not be driven by economic cycles".

Hydro One submits that the Board ought to adopt a similar approach in this proceeding.

Board staff made reference to two American regulators which appear to have required utilities to cut costs due to the poor state of the economy, presumably as precedent for the Board to so in this case. The underlying circumstances and regulatory environment of these cases is unclear and the best precedent for this Board to follow is its own decision, established only a short time ago.

Of course costs can always be deferred. However, the evidence in this case is that this will inevitably lead to higher costs later, poorer performance and less efficiency. The cost pressures of further rate increases are going to rise in the short term, even without the additional pressure of costs deferred from this application.

Hydro One's Business Planning Process

Hydro One's business planning process was a topic of interest to Board staff and intervenors throughout all phases of this proceeding. Intervenors and Board staff alike criticized the Applicant about the process that it undertakes.

With each application that it has filed over recent times, more and more information and evidence has been provided about the process to facilitate understanding by the Board and stakeholders. This application is no different. The process was explained in detail in the pre-filed evidence at Ex. A.14.1. Further information and detail was provided by Hydro One's witnesses, Greg Van Dusen and the company's CFO, Sandy Struthers.

Hydro One takes pride in its business planning process which is an internally designed, planning tool. The process is risk and work based and takes into consideration the core business values and strategic objectives of the company and the work necessary to promote those values and achieve the objectives. The business plan evolves over time and is reviewed on several occasions by senior management before receiving final approval from the Board of Directors.

It is important to understand, as Mr. Van Dusen explained, that the business plan is a bottom up process. It starts with determining the work that needs to be done to maintain the objectives of the company and then costing that work. The overall budget is then reviewed to determine where additional risk can be tolerated and to consider further constraints, including customer impact.

A risk based process is also utilized in budgeting for shared services and Asset Management functions, though the actual process is somewhat different as outlined in H7.58.

The criticisms of Hydro One's business planning process seem to be focused on two key areas: the extent to which rate impact on customers is taken into consideration and that spending should be restricted to what has been termed the "minimum" level of spending.

Hydro One does consider impacts on its customers as part of the business planning process. One of the eight strategic objectives of the company is satisfying its customers with a goal of achieving 90% customer satisfaction. Certainly rates and rate increases is one facet of customer satisfaction, but it is certainly not the only one. Hydro One's customers also expect reliable power, positive interactions with customer care and prompt responses to outages, to mention but a few. All play equal consideration in the business planning process.

Several intervenors have highlighted Mr. Struthers' testimony where he indicated that he personally had not read all of the letters of comment received in response to this rate application. This is not fair. He is the Chief Financial Officer of the Company. Intervenors have chosen to ignore Mr. Van Dusen's evidence that he personally prepared a briefing note for the Chairman of the Board of Directors relating to the number, content and Hydro One's response to the letters of comment: see Tr. Vol. 4, pg. 203.

Mr. Struthers testified that the impact on rates was given further consideration during the business planning process for the test years due to the increased costs associated with implementation of the *Green Energy Act* and given the state of the economy: see. Tr. Vol 3, pgs.69-70. Confidential Ex.KX3.2, pgs. 5, 10 and 19 reflects the information provided to Hydro One's Board of Directors about rate impacts.

The business planning process is risk based. It is based on the premise that increased work (and thus spending levels) mitigate against an identifiable risk. Those risks are measured against Hydro One's business values. The increased work/spending are measured in varying levels. The lowest level of work/spending has been internally termed the "minimum" level of spending.

Hydro One's use of the term "minimum" has generated a great deal of controversy and criticism in Hydro One's recent rate applications. Unfortunately, the concept continues to be misunderstood.

Intervenors and Board staff suggest that in any given year, Hydro One can operate at the "minimum" level without adverse consequences. This is incorrect.

As Mr. Van Dusen explained, the "minimum" represents a level of work/spending which, if maintained over the five year planning period, would dramatically increase the risk of a catastrophic event occurring. It represents a level of work that is neither sustainable nor desirable. Spending at the "minimum" level, even for one year, will result in increased risk. Hydro One's business plan has already provided for minimum levels of work/spending for certain activities where appropriate: see H7.39.

An illustrative example of simply using the minimum level of spending is the wood pole replacement program as described in Ex. A14.6, pg. 7. This exhibit highlights financial, regulatory and reliability risks that will result and demonstrates that merely executing the minimum level of work over a 5 year planning term is unacceptable. Further details are also provided at H7.4.

The evidence shows that a detailed and sophisticated business planning process is followed by competent management of a very complex business. It is submitted that the resulting business plan should not be disregarded without very good reason.

Similar criticism and misunderstanding was manifest in Hydro One's last transmission rates case EB -2008-0272. In its decision of May 28, 2009, the Board stated (pg. 21) that "The Board is of the view that Hydro One has satisfactorily explained it planning process, use of the "minimum spending" concept, their risk analysis and system optimization objectives".

Hydro One submits that the Board should similarly so find in this application.

Analysis of Overall Rate Impacts

A number of intervenors, led by CME, have urged this Board to apply a detailed methodology for assessing overall rate impacts on customers. The proposal goes far and beyond the assessment of overall increases in distribution rates. Moreover, Hydro One is unable to validate the details of the CME calculation.

Hydro One is aware that there are other factors that will influence the ultimate price that customers will pay other than its own distribution costs. However, many of those factors are external to Hydro One, outside of its control and beyond its ability to forecast.

If accepted, the proposal made by intervenors will result in a fundamental change to the methodology of assessing rate impacts and would require the Board to provide forecasts to the utilities on many portions of the customer's bill.

The Board had a lengthy and detailed generic proceeding to re-evaluate setting of distribution rates and to mitigate rate impacts. It appears that CME and some other intervenors are suggesting that the OEB should reassess its current methodology.

Hydro One understands that customers are impacted by the combined impact of all bill line items. But, Hydro One also notes that distributors cannot forecast many of the elements in the total bill. The Board appears to be in the best position of any to make such forecasts.

The Applicant submits that it has appropriately considered customer bill impacts within its ambit in this proceeding and requests that the Board find accordingly.

The Move Towards Green Energy

Ontario is embarking on a new and changing electricity environment. The government announced sweeping changes with the *Green Energy Act.* The direction is clear. The province as a whole, with government direction, is to promote and support energy conservation and renewable generation. The initiative will impact all stakeholders, but with a more significant impact on Hydro One. With its large distribution system covering a vast territory across the province, Hydro One is likely to connect the most renewable generation to its system. This is precisely why Hydro One was required to file this cost of service application.

Hydro One must build infrastructure and materially adjust its operations to meet the government's goals. The costs associated with implementing the objectives of the *Green Energy Act* are immediate. There will be large increases in work programs in the years ahead. These costs cannot be avoided if the goal is to be met.

Hydro One will be a leader in fostering the move to green energy, and in doing so, must file a Green Energy Plan. At the same time, Hydro One must also ensure that it continues to provide reliable and safe energy. It must continue to maintain and refurbish its aging asset base and execute its core work programs. It will strive to do so at a reasonable cost.

The Applicant believes that its current application strikes the appropriate balance between implementing the new government initiative and its primary business as an electricity distributor. Hydro One hopes that the evidence, both written and oral, have persuaded the Board that the appropriate balance has been struck in the test years.

Recovery of Green Energy Costs

Hydro One recognizes the comments made by Board staff and intervenors about the assessment of green energy plans and the regulatory treatment of the green energy plan costs given that the implementation of the initiative is at its infancy. That cannot be helped and one must do the best one can in the circumstances.

Hydro One's submits that its green energy plan is appropriate and the Applicant asks the Board to approve it as filed.

As was stated in its argument in chief and during the testimony of Hydro One witnesses, the company is proposing to recover its smart grid costs in the cost of service, but is prepared to have the balance of its direct green energy costs funded by rate adders, with actual costs to be tracked in variance accounts to be trued up in the future.

However, it is critical that Hydro One be assured of adequate cash flow and that it will recover its prudently incurred costs. Mr. Struthers testified that "it is important for us that we do have the necessary funding and the necessary certainty around that funding in able - - in order to be able to do the work": see Tr. Vol. 3, pg. 75.

It should be noted that the implementation of the rate adders and variance accounts is more complex than it may appear on the surface. Further details about implementation are outlined below in issue 9.3.

Board Jurisdiction

Some intervenors have suggested that the Board is in conflict in exercising its jurisdiction to establish just and reasonable distribution rates and in promoting and facilitating the objectives of the *Green Energy Act.*

Hydro One disagrees.

The move towards green energy, including conservation and demand management and facilitating sources of renewable generation, has been part of an ever expanding government initiative, eventually resulting in the introduction of the *Green Energy Act.* This represents the current policy of the government which the Board, Hydro One and other utilities must follow and which intervenors and ratepayers must accept.

In doing so, the obligations upon the Board are clear. The *Green Energy Act* includes two new specific objectives for the Board: to facilitate the implementation of a smart grid in Ontario and to promote the use of generation of electricity from renewable energy sources in a manner consistent with the policies of the Government of Ontario, including the timely expansion or reinforcement of transmission systems and distribution systems to accommodate the connection of renewable facilities.

These new government initiatives now form the current energy landscape in which “just and reasonable” rates are established pursuant to section 78 of the *Ontario Energy Board Act.*

Accordingly, Hydro One submits that the two objectives are not mutually exclusive as some intervenors suggest. Rather, the two are inextricably linked in that the new green energy initiatives are another factor which informs the Board’s decision making in determining what, today, are just and reasonable rates.

Board Notice

Near the end of the oral phase of the hearing, CCC brought a motion for a declaration that the Board’s notice of this proceeding was inadequate. The Board dismissed that motion with oral reasons delivered on January 14, 2010. The Board invited the parties for any proposals to assist the Board in communicating the final decision reached in this case.

Hydro One’s position was that the Board’s notice was appropriate. In an effort to provide additional clarity in the future, the Board may wish to provide language that would make clear that the amount of the actual rate increase is subject to change.

However, there is a limit to the amount of information that can be meaningfully communicated in a notice. There must remain some obligation on the interested reader to take steps should further information be required. The notice is just that; “a notice”, to alert the public about the application and to indicate where more information can be obtained.

The Board invited comments concerning the communication of its final decision in this decision. The Board communication could contain a clear statement that the Board's decision is only in relation to Hydro One's current distribution rate application for rates in 2010 and 2011 and that the total overall bill of Hydro One's customers will be influenced, higher or lower, by factors that are external to the present distribution rate application.

In addition, the Board may wish to provide information about the *Green Energy Act* and any approval of Hydro One's Green Energy Plan.

It may be useful for the Board to know the steps followed by Hydro One to inform its customers.

Hydro One is committed to providing timely and transparent information to its customers on numerous issues, one of which is rates. The Applicant often will issue rate related communications both when initially making an application to the Board and again following a Board decision. As the Board is well aware, it provides province wide OEB branded publication to notify customers and interested stakeholders about its rate proceedings.

In addition, Hydro One issues communications on its website and through bill inserts which notify its customers of rate applications and associated rate impacts. Customers are also advised about the process to obtain further information, how they can become involved in a rate proceeding if so interested and the purpose of the rate increase. Once final rates are approved, the company undertakes a further round of communication to notify customers about the outcome of the rate application and the associated bill impact. A press release about Board decisions is also issued in keeping with Hydro One's disclosure obligations.

For each rate application, Hydro One currently utilizes its website for additional communication. The application, pre-filed evidence, OEB notice, OEB decision and the OEB final rate order are all made available. Given the timeliness and ease of website communications, Hydro One will take steps to also post amendments and additions to its filing. In other words, where changes are made that materially impact an application, Hydro One will also communicate that information in future rate proceedings.

In addition, Hydro One is taking additional steps this year to communicate with its customers by embarking on a community specific information sessions throughout the province at its own cost.

The Company believes that this addresses the concerns raised in this proceeding by intervenors.

General

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

A summary of Board directives and undertakings from previous proceeding are found at Ex. A.18.1.

Board staff and some intervenors have suggested that Hydro One has not followed the Board's directions. Hydro One submits that it has made best efforts to appropriately respond to all previous Board directives and undertakings.

One area of particular interest was the Board's direction for Hydro One to provide a detailed analysis on the relationship between density and cost allocation. Hydro One engaged a consultant to provide guidance and recommendations in this regard. Though not directed to do so, Hydro One believed it should involve interested stakeholders in this process.

This is, after all, an exercise of cost allocation involving issues of fairness between customers. Customer understanding and acceptance is important. SEC's expert, Dr. Woo agreed that this was the proper approach.

Due to the number of possible approaches to the study, all stakeholders, but one, were of the view that Hydro One should respond to this Board directive in a staged approach. The first stage identified was to establish the principles regarding density based class rates, the factors driving the relationship between density and costs and to define the options available to complete the study. Once identified, the second stage would be to collect the necessary data to establish a cost based relationship between density and costs to enable completion of a cost allocation study.

Hydro One felt that this was the most prudent approach to undertake at this time because there was insufficient time to collect the necessary data to complete the study prior to this filing.

The Board ordered the study on December 18, 2008; the final rate order was issued January 29, 2009, followed by an incentive regulation filing in March 2009 for 2009 rates. Given the changing nature of its costs, a decision was made to file a cost of service application, which occurred in July 2009, for 2010 and 2011 rates. As a result, this short period of time was inadequate to do a proper, full cost allocation study, which is a major undertaking. Therefore, the company was unable to file a study with this cost of service application.

Hydro One believes the staged approach that it undertook was the best it could do in the circumstances.

Hydro One immediately advised the Board of the approach it intended follow by letter dated April 20, 2009 found as Attachment 1 to Ex.H1.123.

Hydro One submits that its response to this directive is prudent and appropriate. The details of the study will be discussed in more detail further below under issue 7.1.

Some intervenors have also suggested that Hydro One has not responded to the Board's directive to incorporate CDM impacts unrelated to the actions of Hydro One in its load forecast.

Hydro One did engage an external consultant to assist with this direction. This is not an easy task and the consultant was unable to complete the work in time for presentation in this rate case. However, Hydro One did complete an internal study on the impacts of CDM which was filed in this proceeding [Ex. H.12.2]. It is difficult for Hydro One to incorporate CDM impacts for programs other than its own and on those which the OPA reports. Hydro One submits that it has made best efforts to respond to this Board directive. As outlined in issue 2.1, Hydro One will file the consultant's study as soon as it is complete.

The Board also directed Hydro One to file a vegetation benchmarking study in this rate case. The Applicant has done so. Hydro One sought stakeholder input in defining the scope of the study. The study conducted by CN Utility Consulting dated September 18, 2009 is filed as Ex. A.15.2.

The study concludes that Hydro One's efficiency generally ranges from better than average when considering labour hour measurements, to slightly worse than average when considering unit cost measures. The study also concluded that Hydro One will benchmark better in comparison to its peer group as the clearing cycle is reduced and efficiencies and reliability realized.

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

A test year forecast necessarily implies some uncertainty. The question to ask is whether the forecasts were reasonable at the time that they were made and are they still reasonable.

Some intervenors have challenged Hydro One's economic and business planning assumptions and have asked the Board require Hydro One to update some of its planning assumptions and to refuse to establish rates for 2011 at this time.

The business plan is based on a consistent set of assumptions which guide the overall development of the business plan. It is inappropriate to selectively update economic indicators, ignoring other assumptions that are part of the overall planning process.

Hydro One's overall costs are generally comprised of labour and material components. The labour component alone is approximately 50% of the costs, which are predominantly bound by negotiated labour union contracts. There has been no change to the labour assumptions. Some material costs are covered by long term agreements which fix the costs over the rate period. General expectations that are interest rates will rise more quickly than forecast. Inflationary pressure is only one small component which drives costs.

The Applicant acknowledges that some planning assumptions may have changed since this application was filed, but there will be puts and takes, increases and decreases. On balance, the overall planning assumptions continue to remain appropriate for 2010 and 2011.

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

Hydro One submits that service quality, based on OEB specified performance indicators, is acceptable, though not ideal.

Hydro One's continues to have some concerns about its service quality. Hydro One's reliability is worse than that of all other utilities that participated in the study referenced at J6.8. The Applicant is endeavouring to improve its reliability, which is an underlying benefit of the increase proposed for its vegetation management program, which is discussed in detail under issue 3.2.

1.4 Is Hydro One's proposal to change the effective date for implementation of its proposed distribution rates to January 1, 2010 rather than the conventional May 1st effective date appropriate and has Hydro One appropriately addressed the revenue consequences of proposed change?

Hydro One proposed in this application that it change the effective date of rate implementation from the conventional May 1st date to January 1st because it facilitates the implementation of the low voltage rate for embedded distributors.

In the Applicant's view the approach remains appropriate

However, Hydro One acknowledges that the Board recently initiated an industry wide consultation process, Alignment of Rate Year with Fiscal Year EB-2009-0423.

For the purpose of this application, implementation of new rates effective May 1, 2010 and January 1, 2011 is appropriate. Hydro One has not yet asked for interim rates for 2010 on the assumption that this implementation date will be achieved.

1.5 Is the overall increase in 2010 and 2011 revenue requirement reasonable given the impact on consumers?

Table 1 below outlines the requested revenue requirement for 2010 and 2011 as updated for the revised cost of capital parameters: see J4.6.

Table 1

2010 and 2011 Revenue Requirement ($ millions)

	2010	**2011**
OMA Expenses	$ 560	$ 575
Depreciation	$ 259	$ 291
Capital Taxes	$ 4	$ 0
Income Taxes	$ 27	$ 48
Return on Capital	$ 346	$ 381
Total Revenue Requirement	**$ 1,196**	**$ 1,295**
Other items:		
Rate Base	$ 4,836	$ 5,146
Capital Expenditures	$ 565	$ 577
Deferral & Variance Accounts (Refund)	$ 13	$ 13
External Revenues	$ 48	$ 48

Hydro One believes that its overall revenue requirement is reasonable in view of the work expected of it. As Mr. Struthers, CFO, testified:

> "We understand we have to do certain work in order to ensure that we have a reliable system. We also understand that, to the extent that we could or would be able to defer work, we would have done so.
>
> We believe that the work that we are putting forward here is work that is necessary. We don't believe that delaying it will be economically beneficial to our customers. We believe that costs will increases, and we believe that this is probably the best time to do that work from the perspective of actually getting the work done and ensuring that it is done in the most cost-effective manner for our customers.": see Tr. Vol. 3 pg 72-73.

Hydro One has concerns about the submissions made by Board staff and various intervenors about the approach the Board should take when assessing Hydro One's application, the work programs and the overall revenue requirement. The evidence supporting the need for the work has been largely ignored, as is detailed below.

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?

Hydro One's load forecast is reliable and has a proven track record. Hydro One has utilized the same methodology that was approved in prior Board proceedings EB-2007-0681 and EB-2008-0272 for which there appears to be general acceptance among intervenors.

However, some intervenors and Board staff have argued that the impacts of CDM have not been accurately reflected in the load forecast.

As Mr. But testified, Hydro One believes that it has made a reasonable CDM forecast based on the information that is available to it, to reflect CDM in the load forecast. Hydro One has incorporated its share of the OPA's CDM forecast for the province.

Since its last proceeding, Hydro One engaged a consultant to study CDM impacts and to incorporate those impacts as the Board directed it to do. Unfortunately, the study is still proceeding and was not completed in time for this proceeding.

However, Hydro One did conduct an internal study [Ex. H.12.2] to comply with the Board's directive. It outlined detailed CDM results from 2006-2008 and the expected result for 2009. Based on the analysis undertaken, the CDM results for Hydro One retail customers have exceeded the CDM forecast for 2008. Hydro One submits that the results of this analysis demonstrate that CDM is being appropriately reflected in its load forecast.

Hydro One will file the consultant's completed study. The company will comply with the balance of the Board's direction, as best it can, upon completion of the study.

Hydro One submits that the Board should accept the load forecast in this proceeding, including the estimated CDM impacts.

While not a specific issue on the Board approved issues list, the issue of a Loss Revenue Adjustment Mechanism (LRAM) has arisen again. GEC, supported by other intervenors, is again asking that this Board order Hydro One to establish an LRAM.

As it has previously stated, Hydro One supports the Board's guidelines on LRAM as outlined in EB-2008-0037. An LRAM process must be supported by LDC-specific program results and should account for all CDM impacts, including OPA and non-OPA program results. Given that there remain significant gaps in critical and verifiable information required to properly implement LRAM, Hydro One continues to be of the view that it is not appropriate to implement an LRAM at this time.

The internal study that Mr. But conducted on historical CDM was challenged during the oral hearing primarily based on the number of assumptions used. The analysis conducted by Mr. But is the same analysis that would be required for an appropriate LRAM.

It is difficult to see how intervenors can urge the Board to order the Applicant to establish an LRAM while at the same time challenging the reliability of the underlying analysis.

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

The forecast for external revenues and the methodology used is appropriate. There were no serious or significant criticisms from Board Staff or intervenors in this regard.

Operations, Maintenance and Administration Costs

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

Table 2 below outlines the total OM&A Hydro One is requesting for 2010 and 2011.

Table 2

OM&A Expenditures 2008-2011
($ million)

Category	**2008** Board Approved	**2008** Actual	**2009** Bridge	**2010** Test	**2011** Test
Sustaining	270.3	284.5	296.4	318.5	340.5
Development	9.1	8.0	14.5	21.7	21.9
Operations	13.4	12.4	12.5	16.7	17.6
Customer Care	103.8	99.3	106.7	106.3	102.4
Shared Services & Other	65.2	62.9	92.4	92.1	88.1
Tax other than Income Tax	4.5	4.3	4.6	4.7	4.8
Total	**466.3**	**471.3**	**527.1**	**560.0**	**575.2**

As noted above, Hydro One is concerned with the arguments of Board Staff and Intervenors to cut OM&A costs based on envelope or other indices-linked reductions. This approach essentially ignores the large volume of evidence submitted in this Application which explains the need for the work.

For example, Board staff and intervenors argued that spending should be restricted to the rate of inflation, thus proposing that OM&A be reduced by $33M. However, there was no meaningful criticism or analysis of the underlying causes of the proposed increases. Board staff did not indicate which areas of service it felt should decline due to the reduced workload.

Board staff and some intervenors felt the Board should simply compare the proposals in this application to 2008 actual numbers. Hydro One agrees that 2008 actual numbers are useful, but not without considering 2009 spending. The evidence is clear that Hydro One has, during an IRM period, increased its work programs significantly, at a cost to the shareholder. What could be better evidence that Hydro One is convinced that the increased work is necessary?

Similarly, other intervenors such as CME have urged the Board to consider proposed test year expenditures based on historical norms. Again, Hydro One agrees that historical spending levels are useful information for the Board. However, where costs deviate from the historical norms, there should be consideration of the reasons behind the changes. Hydro One has filed extensive evidence justifying the proposed spending increases.

CME suggested assessing work program increases by comparing year over year costs based on $ per customer or $ per circuit kilometre. These types of analyses, in isolation, are inappropriate because they ignore the fact that costs can increase due to increased workload without any new customers additions or additions to circuit kilometres. For example, responding to new PCB regulations and increasing vegetation management is independent of either the number of customers or the number of circuit line kilometres.

AMPCO proposed admittedly “arbitrary” reductions without any justification for doing so, other than commenting that increases are large and thus should be reduced.

Suggestions of arbitrary reductions without proper justification for doing so are short sighted and fail to take into account the long term impact on the costs and reliability of service to customers. The Board is urged to reject them.

If OM&A is reduced, less work will be accomplished and the performance of the distribution system will be affected as Mr. Struthers stated, as noted above.

Hydro One has acknowledged throughout this proceeding that the proposed increases are large. The reasons for increases in OM&A costs have been explained in the evidence. The primary drivers for increasing OM&A costs are the vegetation management program, elimination of PCB's, smart meter costs, demand driven programs and smart grid. None of the core programs have attracted serious criticism.

It is the changing scope and volume of work which is the primary driver for changes in OM & A costs, not cost escalators such as inflation. This seems to have been ignored by intervenors that instead have proposed arbitrary reductions to work programs without a rational basis for doing so and absent any evidentiary criticism of the need to complete the work as forecast.

Necessary OM&A expenses have been increasing in recent years as demonstrated by historical spending. Hydro One's actual 2008 expenditures of $471.3M and its forecast 2009 expenditures of $527.1M both exceed the 2008 Board approved spending level of $466.3M. These increasing costs were absorbed by Hydro One's shareholder which demonstrates the company's commitment to ensure the needs of the system are met.

A careful examination of the increase in core Sustainment, Development, Operations and Customer Care costs shows that the majority of the $33.2M increase in these program areas from 2009 to 2010 is attributable to increased work in responding to new PCB regulations, work associated with smart meter OM&A which in prior years were tracked in a variance account and development of the smart grid.

These are areas of work that Hydro One must take on.

A similar analysis of the $19.1M increase in 2011 over 2010 again demonstrates that virtually all of the increase is related to the PCB drivers noted above and the proposed increase for the vegetation program, which is addressed in detail under issue 3.2.

In those instances where intervenors have challenged specific programs the evidence has not been fully appreciated.

The Trouble Call program is a case in point.

SEC suggested that Hydro One has not properly adjusted the trouble call spending for the impact of high storm-related costs in 2008. This is incorrect. Hydro One's pre-filed evidence clearly states that trouble call is a reactive program where costs vary due to a wide range of external factors: see (Ex. C1.2.2, pg.13). Hydro One submits that historical spending is the best and most prudent indicator of the costs of this type of demand driven program. The company uses a 4 year weighted historical average as the basis to forecast these costs: see H1.18 and H1.20 and has reduced the cost of this program by $5M in 2010 and $5M in 2011 in recognition of the high costs experienced for abnormally active storms years (i.e. 2006 and 2008).

It has also been suggest that Hydro One has not adjusted its trouble call budget to account for potential reductions attributable to the increased vegetation management program. The Applicant specifically addressed this issue in H1.35. As Hydro One explained, only marginal improvements are expected in the short term as a result of increased vegetation management spending which will be offset by many factors including the deteriorating condition of trees attributed to the Emerald Ash Borer.

Concerns were also raised with operations spending. The inconsistencies in the spending levels highlighted by Energy Probe arise from a misunderstanding that the costs of the Operations Grid Control Centre (OGCC) are shared between transmission and distribution. The spending levels shown in the Application are distribution's share of the costs, while the staffing numbers used in Energy Probe's analysis are for the distribution and transmission OGCC operations. This clarification should eliminate any concerns with the basis for Hydro One's proposal.

3.2 Is the 2010/2011 vegetation management budget appropriate?

Vegetation management is the Applicant's largest work program. Forecast costs for this program alone in 2010 and 2011 are $133.2M and $144.6M respectively. This compares to forecast spending of $136.1M in 2009 and $119.4M in Board approved spending for 2008.

Hydro One's current Application proposes a continuation of the reduction in clearing cycle initiated and approved in its last distribution cost of service application, EB-2007-0681. Hydro One is proposing to move from the currently planned 8 year clearance cycle to a 7 year cycle beginning in 2011. A detailed discussion of the vegetation management program is outlined at Ex. C1.2.2.

Hydro One submits that there are good reasons for moving to a 7 year cycle now as outlined in the pre-filed evidence: see Ex. C1.2.2, pgs. 32-41. This was confirmed by the most recent vegetation management benchmarking study which show that Hydro One's clearing cycle is well above that for comparable utilities: see Ex. A.15.2., Attach. 1, pg. 29.

The benefits of reducing the clearing cycle do not seem to be in doubt. Although, costs pressures facing the company will not subside in the near term, and thus, deferring work will increase cost pressure in the long term.

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

Board staff and intervenors commented on the overall levels of costs and increases in Asset Management, corporate functions and services (CF&S), IT costs and Hydro One's CDM costs.

The Asset Management function provides key services to both the distribution and transmission businesses. As outlined in Ex.C1.2.8 Asset Management has the key accountabilities in support of the core work program.

Asset Management work activities and costs are directly related to the size of Hydro One's core work programs.

Key drivers to the Asset Management costs are outlined in interrogatory response H9.22 and H10.36. These include the overall increase in the work program, including the impact of the Green Energy Plan, compliance activities and increased efforts to replace end-of-life assets.

Hydro One's seeks recovery of $1M in funding to maintain the programs that it initiated under MARR funding, maintain a base level of CDM capability required to participate in industry activities and to access resources required to develop future CDM programs and prepare funding applications.

Board staff suggested that Hydro One should request this funding from the OPA. Hydro One disagrees as these programs form part of its ongoing efforts to maintain existing CDM programs.

As in the past, some intervenors have urged the Board to order Hydro One to spend more for CDM programs. CDM is funded externally at present and is expected to be in the future. Hydro One is not asking for any funding beyond the $1M noted above.

Corporate Functions and Service (CF&S) work activities and costs are also directly linked to the size of Hydro One's core work program as described in detail in Ex C1.2.7. The increased CF&S costs from 2008 actuals to 2010 forecast are approximately $17M. The reasons for the increases in this area are outlined throughout the evidence and interrogatories including H10.35.

IT activities and costs were fully explained in the pre-filed evidence in Ex. C1.2.9 and C1.2.10 and Ex. D1.3.6 and D1.3.7. Further, details about the capital component of IT were provided in H9.38 with additional OM&A details outlined in H1.47, H1.48 and H1.50.

The increase in OM&A IT costs is required to support, sustain and enhance Hydro One's core business systems and the processes that depend on them, as well as the more effective use of the data and information available to meet productivity targets.

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

Hydro One's methodologies to allocate shared service and other costs and to determination the overhead capitalization rate are consistent with the methodologies previously reviewed and approved by the Board in prior proceedings.

Board staff and intervenors do not appear to have any serious concerns with the methodologies used.

Hydro One has acknowledged that there is a problem arising from the update to the Asset Management time study and the other common cost allocators for 2010. These had previously been approved by the Board in Hydro One's recent transmission proceeding EB-2008-0272.

In hindsight, as Mr. Malozewski readily acknowledged, Hydro One indicated that updating elements common to transmission and distribution should be deferred to the next uncommon rate year: see Tr. Vol. 7, pg. 66.

However, Hydro One explained during cross examination that the change in allocators resulted in under recovery for Hydro One when all shared services are taken into account. Therefore, no reduction is appropriate in the circumstances.

3.5 Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate?

The Applicant is well aware that this Board has expressed concerns about Hydro One's compensation costs. It has urged the Company to continue with its efforts to reduce overall compensation costs and put its best evidentiary foot forward about its efforts and achievements.

Hydro One has tried to do so.

In the Applicant's recent transmission rates case, EB-2008-0272, the Board disallowed $4M in compensation costs for each of the test years. Board Staff and most intervenors are urging the Board to apply the same approach in this rate application and reduce compensation costs by an equivalent amount or $9M in each of the test years.

In this case the company attempted to provide additional and more meaningful evidence for the Board to consider at Ex. C1.3.2, pg. 5-7 to demonstrate its bargaining achievements which should be considered rather than simply focusing on current wage and benefit levels.

Ex. C1.3.2. also contains additional evidence comparing Hydro One to a more appropriate and relevant peer group – its successor companies, Bruce Power and OPG. These are Hydro One's main competitors for labour resources.

Hydro One has achieved more success across virtually all wage classifications.

For example, Board staff acknowledged that Hydro One appears to have made gains when compared to OPG and Bruce Power, but dismissed those gains based on two lower skilled positions, labourer and stock keepers where rates were higher. While true that rates are higher, those positions only represent 9% of Hydro One’s work force.

On the other hand the more skilled positions that were compared which comprise about 51% of the PWU labour component. Furthermore, what is being ignored in the arguments is that Hydro One uses hiring hall to resource some of these lower skilled positions, thus using a resource with a more favourable compensation level.

As stated in its argument in chief Hydro One fully understands the message given to it by the Board during the previous transmission hearing. However, the fact of the matter is that little can be done to address the issue in the short term because collective bargaining agreements are in place until 2011 when the PWU contract is up for negotiation and Society contract is up in 2013. In the meantime, Hydro One will continue with its best effort to address the Board’s concerns through the means available to it.

3.6 Is Hydro One’s depreciation expense appropriate?

Generally speaking, there was no issue with the depreciation expense proposed by Hydro One.

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

Hydro One’s submits that its proposal for capital and property taxes are appropriate. The company notes that no submissions were received on this issue by Board staff or by any intervenors.

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

Hydro One notes that some intervenors commented upon this issue. Comments were restricted to a previously identified error in CCA calculations.

As noted in Hydro One's letter to the Board dated October 19, 2009, CCA calculations were reviewed arising from recent Federal budget changes. Hydro One acknowledged that it had initially incorrectly applied the budget change to CCA class 12 assts. The impact of this correction is to reduce revenue requirement for distribution by $10.2M in 2010 and $9.0M in 2011. These changes also impact the smart meter funding adder. Hydro One confirms that it will reflect this updated information in its final rate order. Additional details about the changes can be found in Ex.H.3.18 and Ex.H.3.36.

3.9 is the proposed spending on loss reduction efforts appropriate?

Hydro One has not proposed any spending on loss reductions efforts.

Capital Expenditures and Rate Base

4.1 Are the amounts proposed for Rate Base appropriate?

Hydro One submits that the amounts proposed for rate base in the test years are appropriate, the details of which are outlined further below.

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

Outlined below in Table 3 is summary of the capital expenditures for 2010 and 2011 that Hydro One is requesting.

Table 3
Capital Expenditures 2008-2011
($ million)

Category	**2008*** Board Approved	**2008*** Actual	**2009*** Bridge	**2010**** Test	**2011**** Test
Sustaining	152.3	170.7	176.5	185.8	202.5
Development	167.7	153.2	167.9	357.6	515.1
Operations	3.6	0.9	2.4	8.1	11.2
Shared Services & Other	77.8	110.6	103.5	164.8	110.8
Total	**401.4**	**435.3**	**450.3**	**716.3**	**839.6**
Renewable Generation Development Capital					
Generator Funded				13.3	26.8
Provincially Funded				138.6	235.9
Hydro One Funded				16.5	33.4
Total less renewable Generation Development Capital				**547.9**	**543.5**

* Net Capital, ** Gross Capital

A number of intervenors compare the total gross capital spending in the test years to the net capital spending in recent years and use the admittedly large difference between those two sets of numbers to suggest that the proposed capital program should be reduced, either to align with inflationary increases or some other arbitrary basis. Apart from the error in comparing net versus gross capital spending in the two time periods, such an approach ignores the obvious large impact of capital spending related to new renewable generation over the test years. The increases in capital spending relative to recent years are contained to a few program areas, the reasons for which are clearly detailed in the evidence.

Hydro One notes that few intervenors raised specific areas of concern related to non-Green Energy related capital spending on sustainment, development and operations programs.

The following responds to the two areas that received the most attention.

The need for the increase in the wood pole asset replacement program was extensively discussed in this pre-filed evidence: Ex. D1.3.2, pgs.20-22; Ex. D1.2.1, pgs 14-16; Ex. D2.2.3, ISD S10 and in interrogatory responses and the oral portion of the hearing.

Despite this large body of evidence, Board staff observed that the average number of poles being replaced in the test years represents a 32% increase over the number of poles replaced historically. This is true. However, of the 17,000 poles being replaced in the test years, 2,500 of those are red-pine poles. The need to replace this subset of poles is tied to safety, reliability and operability concerns.

In addition, the number of non red-pine pole replacements planned for the test years is critical to addressing the aging and deteriorating condition of this class of assets.

AMPCO's suggests that Hydro One has not tested "life extension alternatives". Had the Applicant been asked about this issue at any point during this application, Hydro One would have advised that this option has been considered.

There is also increased spending forecast in the New Connections and in the System Capability Reinforcement programs in response to increases in customer demand. While there has been an overall decrease in demand (net of CDM), Hydro One witnesses clarified that there are pockets of the province where demand is increasing. Hydro One is also obligated to respond to new customers requesting connection to its system. The need and details for all reinforcement projects under this program are documented in 25 specific Investment Summary Documents provided as part of Ex. D2.2.2. This evidence addresses AMPCO's complaint.

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

Hydro Ones notes that several parties commented on the overall size of increases in this area, but gave little attention to any specific area.

Shared services capital is outlined in D1.3.5-9 and primarily consists of IT, the Cornerstone project, Facilities and Real Estate and Transport and Work Equipment (TWE).

Intervenors criticized the size of the increase for TWE in 2010. The primary reason for is increased work associated with the green energy plan: see H7.92. The planned increases are also consistent with the overall increase in Hydro One's work programs, both for transmission and distribution.

The Board has not been provided with any specific submissions or evidence to suggest that the increases were unnecessary or otherwise inappropriate.

Board staff submitted that Hydro One should be required to establish a deferral account to track TWE costs. Hydro One's view is that a deferral account is inappropriate at the work program level.

CCC commented on Hydro One's facilities and real estate program. In particular, CCC argued that certain head office enhancements could be deferred. Hydro One provided a detailed explanation of explaining the necessity for this work in D1.3.8 and H.12.32.

The planned expenditures are necessary to accommodate increasing staff levels and to address a significant amount of head office building infrastructure elements which are at the end of life and require replacement.

4.4 Are the methodologies used to allocate Shared Services and Other Capital appropriate and is the methodology used consistent with the methodologies approved by the Board is previous Hydro One rate applications.

Hydro One has applied approved Board methodology.

Generally, there was either support or no comment about the methodology used to allocated shared services.

4.5 Are the inputs used to determine the Working Capital component of the Rate Base appropriate and is the methodology consistent with the methodologies approved by the Board in previous Hydro One rate applications?

Hydro One confirms that the methodology for determining the working capital component of the rate base is consistent with the methodology previously reviewed and approved by the Board, with updated parameters at the time of filing.

A number of intervenors raised questions about updates to the calculation of working capital. Hydro One previously responded to specific questions related to changes in the working capital parameters in J8.5 and J8.6 which show that the impact is relatively small. Furthermore, they are offset by other impacts such as the increase in receivables.

Accordingly, Hydro One submits that the inputs are appropriate

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

There appears to be general support for the asset condition assessment information and the company's use of the information to develop work programs.

In the past distribution decision EB-2007-0681, the Board stressed the importance of having sufficient asset information and condition assessments to support the proposed funding levels. Hydro One responded and filed more detailed information in its last two proceedings.

It is ironic that even though the asset condition information went unchallenged, several intervenors argued for reductions in work programs which rely upon the asset condition information.

These arguments are inconsistent in the face of the uncontested asset condition evidence.

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

Hydro One has not proposed any capital expenditures to reduce electricity system losses.

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?

Hydro One's deemed capital structure is 60% debt (56% long term and 4% short term) and 40% equity. This is consistent with both of the Board's reports on the cost of capital: see Report of the Board on the Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors dated December 20, 2006 in EB-2006-0088/EB-2006-0089 and the recent Report on the Board on the Cost of Capital for Ontario's Regulated Utilities dated December 11, 2009, EB-2009-0084.

Hydro One submits that the proposed capital structure is appropriate.

Some intervenors have suggested that Hydro One should have a larger amount of short term debt and therefore a lower cost of capital. Hydro One relies on the Board's prior decisions on the Cost of Capital for Ontario's Regulated Utilities in both proceedings referenced above.

Specifically as it relates to short term debt, the Board's December 20, 2006 report states that "[T]he actual average for the industry is about 4%. Some distributors use it extensively as a substitute for long-term debt. This may be advantageous in a period characterized by low inflation and interest rates, but such a practice exposes the distributor – and its customers – to inordinate risk if rates climb". In its recent report released on December 11, 2009 the Board noted that its cost of capital parameters remain appropriate.

Based on the foregoing Hydro One submits that it capital structure is appropriate.

Hydro One has maintained since filing its application on July 13, 2009 that it anticipated that the ROE that would apply for the test years would be based upon the Board's final report in EB-2009-0084. The Applicant's position has been consistent throughout.

Many intervenors have taken issue with applying the new ROE in the test years accusing Hydro One of "cherry-picking". Hydro One's position today is the same as when it filed this application in July 2009 at a time when it did not know what the impact of the Board's proceeding would be.

SEC has argued that Hydro One has not called any evidence to establish that the new ROE should apply. The Board's formula on ROE has been applied to Hydro One in numerous past proceedings. The formula applies to all of Ontario's regulated electricity utilities. When this issue was raised during the hearing the Board stated that "the Board sees no need to require the applicant to file further evidence justifying the Board's policy at this time". Tr. Vol. 6, pg. 147.

CME argued that the applicant should not receive any return on equity. This argument, raised for the first time in this case, ignores the fact that Hydro One's mandate is to operate as a stand alone commercial entity. It is entitled to recover all of its prudently incurred costs, including its true cost of capital in its rates, just like all LDCs. This principle has never been challenged before and has been recognized by a consistent line of Board decisions.

Hydro One notes that a fair return is a true cost to the utility, which is a legal requirement. Depriving the utility of that return may negatively impact its credit rating, impacting on its ability to borrow funds, particularly in this time of system enhancement and expansion.

Several intervenors have noted that the 50 basis points transaction/flotation costs should not apply to Hydro One. The Board's ROE formula has historically always included these 50 basis points and the approved formula has been consistently approved for Hydro One.

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

Many intervenors argued that Hydro One should update all of its cost of capital parameters, including short and long term debt.

Hydro One is prepared to update for actual debt issues in 2009. In addition, Hydro One agrees to update the cost of capital parameters for the most recent consensus forecast in finalizing its 2010 and 2011 Revenue Requirement.

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?

Hydro One seeks to refund a regulatory asset total balance of $25.8M based on forecast balances to April 30, 2009 together with carrying charges to December 31, 2009. Hydro One proposes to refund the balance over the two year test period or $12.9M in 2010 and $12.9M in 2011.

Board Staff and intervenors, other than CME, have opposed both requests urging that the amount to be refunded be based on actual audited financial balances of $39.3M and have further urged this Board to order refund of the entire balance in the 2010 test year.

There is superficial attraction to the argument suggested by others – if followed, the amount to be refunded is larger and the rate impact in 2010 otherwise anticipated can be reduced.

However, this approach ignores the fact that the amount to be refunded is decreasing. Therefore, while the rate impact in 2010 will be lower, the increase in 2011 will be higher.

Hydro One submits that a principled approach should be followed. Disposition over the two test years has a rate smoothing affect. This is consistent with past practice. Moreover, 2009 audited results will be available for use when implementing the final rate order.

Board staff also submitted that Hydro One should be ordered to track actual line loss variance in the existing account 1588 RSVA Power. This is based on a simplistic argument that the company already does report line loss to the OEB as part of its filing requirements. This is not quite correct. The value of losses currently reported by Hydro One is an estimated value and excludes the losses associated with market participants, as Mr. Roger testified.

Given Hydro One's unique and complex distribution system, it has different Board approved loss factors for each of the rate classes in comparison to all other LDCs which have one uniform approved loss factor. The comparison of actual losses to the Board approved losses requires an allocation of actual losses to each rate class. The accuracy of this allocation negates the benefit of any comparison. The only way to provide a meaningful comparison is to track actual losses which would require a significant investment to install meters to record actual sales compared with electricity purchases. The costs to do so are out of keeping with any gains that may be achieved.

The Board agreed with Hydro One that this was not a sound investment in EB-2005-0378.

6.2 Are the proposed new Deferral and Variance Accounts appropriate?

Hydro One is requesting approval to establish five new variance accounts. These are detailed in Ex. F1.1.1.2 and are the Pension Cost Differential Account, the OEB Costs Differential Account, the Impact of Change in IFRS Account, Fixed Charge for Micro-Generators Account and the Bill Impact Mitigation Account.

IFRS Differential Account

Hydro One is of the view that the nature of the requested account has been misunderstood by Board staff and by all of the intervenors who were opposed to it.

Hydro One acknowledges that the Board's report on the Transition to International Financial Reporting Standards, EB-2008-0408 dated July 28, 2009, established a limited deferral account. The Board described the account as follows:

> "The Board will establish a deferral account for distributors for incremental one-time administrative costs related to the transition to IFRS. This account is exclusively for necessary, incremental transition costs, and is not to include ongoing compliance costs or impacts on revenue requirement arising from changes in the timing of the recognition of expenses."

Board staff and the intervenors are under the mistaken impression that the account requested by Hydro One is the same as that explicitly rejected by the Board. That is incorrect.

The account approved by Board in its EB-2009-0408 report disallowed the inclusion of any revenue requirement impacts from the adoption of, and transition to IFRS, effective January 1, 2011. Hydro One agrees that the already approved account cannot include revenue requirement impacts from moving from Canadian generally accepted accounting principles (CGAAP) in 2010 to the Board-approved modified IFRS basis in 2011. The account Hydro One is asking for in this proceeding would not include such impacts.

Hydro One's 2011 application was based on IFRS as it was at the time, including the IASB's exposure draft on accounting for rate regulated activities. The requested variance account was for changes to IFRS which could not be predicted at the time of filing. In particular, for the purposes of its 2011 rate application, Hydro One assumed (see Ex. A.13.1, pg. 3 IFRS Implementation for 2011 Test Year), that the basis of costing for its self constructed capital assets under IFRS for 2011 would be the same as that in effect for 2010, based on CGAAP. As noted in the exhibit referenced above, this assumption was based on the specific accounting proposals for costing rate regulated property, plant and equipment assets in the IASB's exposure draft. Specifically, costs of property, plant and equipment and intangible assets are assumed to include both directly attributable costs and other amounts permitted by the regulator, e.g. indirect overheads. Hydro One stated its assumption that this was expected to be the case.

The account proposed by Hydro One is intended to track the impact on 2011 revenue requirement of changes to existing IFRS standards and changes in the interpretation of such standards. As the Hydro One witness noted, the scope of proposed account would include the impact of any specific changes from the IFRS accounting framework that Hydro One Distribution anticipated to be in place for 2011. This framework included all existing standards in effect at the filing date, plus the specific proposals included in the exposure draft. The outcome of the exposure draft process has the potential to significantly impact the sufficiency of the 2011 revenue requirement.

The IASB's rate regulated exposure draft has not yet been finalized and the future outcome and timing for completion of this project is currently in question. The final outcome of the IASB's rate regulated activities project could differ significantly from its draft positions at the time of Hydro One Distribution's filing and assumed to be effective for the 2011 application. For example, a change to the proposal that the cost of self-constructed assets include indirect overheads if approved by the regulator would result in such overhead costs being classified as OM&A rather than capital in 2011. In such a case, Hydro One Distribution's revenue requirement would be insufficient to recover the reclassified costs.

Pension Differential Account

In its application, Hydro One requested approval of the extension of the existing pension cost variance account to capture differences between pension costs included in rates and actual pension contributions. In addition, the account is intended to capture any difference in valuation as at December 31, 2009.

Only SEC objected arguing that capturing the change in valuation was a big change to the nature of the account which has not been disclosed. SEC also disagreed that capturing a valuation change in this account was inappropriate.

This is not correct.

Hydro One already explained the nature of the account its pre-filed see Ex. H.1.117b).

The impact of any changes in pension contributions on Hydro One's OM&A cannot reasonably be predicted in advance of the completion of the updated valuation by the external actuary in mid-2010.

Accordingly, Hydro One submits that the extension of the account, as currently defined, is reasonable.

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?

As noted above, Hydro One acknowledges that it did not file a complete study on the relationship between density and cost allocation as directed by the Board in EB-2007-0681, the reasons for which have been explained in issue 1.1.

Hydro One asks for further Board guidance.

Board staff is supportive of Hydro One's proposal to maintain density based rates, though Board staff and a number of intervenors do recommend that Hydro One proceed with further study. Suggestions range from analyzing sample data, doing an engineering study, or some other simple alternative.

Based on the evidence before the Board in this proceeding including Hydro One's witness, Mr. Roger, Hydro One's expert, John Todd and the expert produced on behalf of SEC, Dr. Woo, Hydro One's view is that the most appropriate course of action to follow is to first obtain direction from this Board.

Hydro One does not believe that it is appropriate to redefine customer classes in the middle of the four year rate harmonization plan which was approved by the Board in EB-2007-0681. Doing so would likely confuse customers and cause further rate impacts.

SEC was alone in its submission that the Board should end the previously approved harmonization process of the test years simply because Hydro One did not file a complete study as noted above. Hydro One disagrees with this submission for the reasons noted above.

Hydro One's submits that its overall proposal is reasonable and is in the best interests of the ratepayers. The evidence adduced and the approach taken by Hydro One (which was supported by all stakeholders but one) demonstrates that a full study measuring the relationship between density and costs is extremely costly and is not certain to provide information which is better than the current density definitions used by Hydro One. Prior to embarking on this costly endeavour, it seeks the guidance of the Board.

VECC commented on a discrete issue. It does not support Hydro One's proposal to change density weighting factors for its Seasonal customers. The Applicant submits that its proposal on this issue should be accepted by the Board as the proposed change would treat Seasonal customers equally to all other customer classes that are not differentiated by density such as the ST class and the DG class.

In addition to the above, there have been further issues raised which impact upon cost allocation. Those relate to the treatment of unmetered scattered load (USL) and the Hopper Foundry.

Unmetered Scattered Load

Currently, USL customers received a credit which reflects that there are no meter costs associated with those accounts. This approach was approved by the Board in EB-2007-0681.

If the Board orders Hydro One to file evidence of the revenue to costs ratio for USL customers, as requested by Rogers, the effect is to require Hydro One to in effect create a separate class for USL.

Hopper Foundry

Based on a long standing time-of-use special rate, Hopper Foundry is in the unique position of not paying its share of delivery costs. The rate harmonization proposal by Hydro One in its last distribution proceeding would have resulted in significant rate impacts to Hopper Foundry.

In EB-2007-0681 the Board ordered that the time of use rates continue for Hopper Foundry until April 30, 2010. In the meantime, Hopper Foundry was directed to explore options that would see Hopper Foundry moved to an existing approved rate class.

Unfortunately, a solution that is acceptable to the customer within the current customer classifications has not yet been identified.

A number of intervenors recommended further study or special treatment to resolve the Hopper issue.

Hydro One does not agree with these recommendations. Any grouping or regrouping of customers classes creates winners and losers. Hydro One went through a lengthy and detailed cost allocation and rate harmonization process in EB-2007-0681. Hydro One does not see any merit in studying and creating further customer classes to deal with one customer's unusual circumstances or to create a special exception for one customer.

Hydro One is neutral from a financial perspective provided that the Board allows Hydro One to recover any revenue shortfall created by special treatment for Hopper, but is of the view that the existing structure is the best alternative.

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

There was little comment on Hydro One's proposed revenue to cost ratios.

Only VECC took exception to the Applicant's proposal arguing that the revenue to cost ratio for the Distributed Generation class should be set at 1.15 rather than 1.0 as proposed.

Hydro One's current proposal is in keeping with the Board's findings in EB-2007-0681 which Hydro One sees no reason to depart from in the circumstances of this case.

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

There were no comments on Hydro One's proposal (other than VECC who agreed). Hydro One submits that its current proposal remains appropriate.

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

Hydro One has followed the Board's guidelines and has proposed a rate impact mitigation plan which is based on mitigation for bill impacts where the impact would exceed 10% for a customer with average consumption within a particular rate class.

Those critical of the Board's mitigation guidelines should be reminded of the considerable consultative efforts which were undertaken by the Board when the mitigation guidelines were developed.

The proposed mitigation plan includes harmonization of distribution rates over the test years which sees a subsidy from Legacy customers to Acquired customers. This is similar to the plan proposed and ultimately approved by the Board in EB-2007-0681.

7.5 Are the proposed Retail Transmission Service rates appropriate?

There was little intervenor comment on this issue. AMPCO was alone in its position that Hydro One should provide a further level of detail to support its RTSR calculation. Hydro One is not opposed to providing further detail and will certainly respond to reasonable requests for further information at its next cost of service application.

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

Board staff, Energy Probe and VECC all argued that Hydro One change the allocator for the Provincial Benefit variance account to allocate this balance only to non-RPP customers. Hydro One is agreeable to do so.

In order to effect this proposed change, Hydro One proposes to use actual 2008 billing data to develop the allocators consistent with the information outlined in Ex. H.7.112. In addition, Hydro One is agreeable to developing a separate rate rider for the Provincial Benefit as submitted by Energy Probe with a separate rate rider for clearance of all other variance accounts.

7.7 Are the proposed Distribution Loss Factors appropriate?

Hydro One submits that the proposed Distribution Loss Factors are appropriate. The Loss Factors utilized are based upon the engineering study conducted by Kinectrics in 2007 and filed in EB-2007-0681.

In this proceeding, only AMPCO and VECC made submissions on the issue. Both suggested that the Board order Hydro One to update the loss evaluation study. Hydro One does not believe a study is warranted at this time as there have been no significant changes to the distribution system that would warrant updating the study.

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?

Hydro One will address all of the smart meter issues together.

The Applicant notes that neither Board staff nor intervenors raised any objections to its proposals.

Hydro One is proposing to include smart meter costs incurred to December 31, 2008 in its OM&A budgets and rate base commencing in 2010. No issue was raised with the Applicant's proposed treatment of these costs.

Costs associated with smart meters from January 1, 2009 continue to be tracked in the appropriate smart meter variance accounts. Costs to be cleared from the accounts were addressed above under issue 6.1.

The Applicants confirms that there are no stranded smart meter costs.

Hydro One is proposing smart meter funding adders of $2.18 in 2010 and $3.87 in 2011 as outlined in Ex. H.3.36. This takes into account the previously identified tax change in CCA rates.

Hydro One requests that the Board approve all of its proposals relating to smart meters as requested.

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?

Hydro One submits that its Green Energy Plan meets the Board's filing guidelines and meets the objectives of the *Green Energy Act.*

Board staff criticized Hydro One's Green Energy Plan on the basis that it does not include a system assessment and does not contain project specific detail. Hydro One disagrees with both assertions.

Hydro One provided reference to where in the green energy plan system capacity was considered; see J3.1. In addition, specific information on the capacity of its feeders to accommodate renewable generation has been provided: see H10.6.

The Applicant acknowledges that some program specifics are not included in the Green Energy Plan. It must be recognized that distributed generation connections are demand driven work. It is now, and always will be, impossible to forecast specific projects with certainty. All demand work is budgeted on an aggregate basis – there is no other method of doing so.

Hydro One is waiting for the details to emerge as FIT applications are processed and contracts awarded by the OPA. Hydro One has a reasonably good understanding of the types of generation connections that are expected and the general areas where the connections will likely occur. It is not unusual for Hydro One to engage in these types of forecasts and to also estimate costs on a program basis: see D1.3.3.

For those programs that are not as closely linked to specific generation locations, such as some of the renewable enabling improvement work, project details are provided in Exs. D1.3.3 and D2.2.2.

The proposed plan strikes the appropriate balance between the information and experience to date with the flexibility the Applicant requires at this stage so it can respond as more details do become known.

Hydro One has done its best to propose a Green Energy Plan that meets the objectives of the underlying legislation and which complies with the Board's filing guideline.

Hydro One submits that it is a sound plan and asks that it be approved as filed.

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

Hydro One submits that it has appropriately addressed the Green Energy Plan expenditures in the context of its overall Capital and O & M budgets and the plan should be approved.

Hydro One agreed to accept a variance account and a rate adder if that is the Board's preference. However, the assurance of adequate cash flow is essential to the Applicant. Said cash flow must fund the costs to be incurred.

Ratepayers are protected by a properly constituted variance account. The risk of underfunding far outweighs the risk of overfunding. If the costs collected in the variance account are greater than actual expenditures, all will be returned to ratepayers, with interest. Conversely, if the amount collected is too low, necessary work to connect new generators may not take place.

Forecast Connections and Associated Costs

Hydro One's green energy plan is based on the primary assumption that the company will connect 3500MW over the two test years 2010 and 2011.

The Company's proposal has been criticized by Board staff and intervenors, largely based on the argument that the forecast for connections is overstated, and thus costs are overstated as well.

The evidence lays out the basis underlying the estimate of forecast connection, as well as the associated programs and costs. As Hydro One witnesses testified, the forecasts were based on the experiences with the RESOP program, the company's considerable knowledge about the electricity industry, recognition of changes in cost responsibility for connecting new generations and the information known about the FIT program at the time.

The Applicant recognizes that the more recent information provided by the OPA about the FIT program as outlined in J1.6 suggests that the estimated forecasts for connections appear to be lower than the forecasts for connection contained in Hydro One's green energy plan.

The information that has been provided by the OPA reflects information available as of November 20, 2009. These estimates reflect FIT applications received during the initial 60 day launch period only. The estimates do not include the 527MW of RESOP connections which are anticipated to occur in 2010.

Additional FIT applications for connections in Hydro One's service territory are anticipated as EP recognized. The figures are preliminary and based on the early stages of the FIT program as Board staff acknowledged.

Hydro One submits that all of the above, in combination, provide assurance that the FIT program will result in more actual connections than was the experience with the RESOP program.

In any event, the variance account and rate adder approach removes risk for the ratepayers.

Smart Grid Capital and Development OM&A

Hydro One proposes $112M in total capital spending in the test years for smart grid spending, including the smart zone project.

There was little criticism about the need for these projects. Rather, many parties questioned the reliability of the forecast spending, arguing that the costs are dependent upon the outcome of the smart zone project RFP which has been issued, but not concluded. In the circumstances, Hydro One feels the forecast is reasonable.

As Mr. Stevens explained, while true that the actual final cost of the smart zone project will be known once the RFP process is concluded, Hydro One is confident that the RFP outcome will not results in material differences from its anticipated costs during the test years. Mr. Stevens testified that the RFP relating to the smart zone pilot is very detailed to which Hydro One has then applied its extensive experience to when forecasting the expected costs.

Mr. Stevens stated that in:

> "the RFP itself, we have developed a very detailed list of requirement that we're expecting vendors to bid on. We have put in there exactly what we want them to do, by when, and we have outlined it in phases of the project.

> So, you know, we've done projects before. We understand going from requirement to design, to build, to test, to commission, and we've estimated on that basis": see Tr. Vol. 6, pg. 45.

On that basis, Hydro One submits that the Board should accept the reliability of the Company's forecasts.

Hydro One's application also includes $5M in each of the test years for technical work that has been characterized as research and development by Board staff and several intervenors. Those parties thus argued that it contrary to the Board's guidelines and should be disallowed. Hydro One disagrees.

As Mr. Stevens explained, the amounts proposed are not for research and development work, but rather to prepare for the anticipated surge in distributed generation. The Company acknowledges that there is a nuance in the characterization of this work However, Hydro One does not believe this work is research and development. Mr. Stevens stated:

> "The smart grid studies are really technical studies to look at some of the devices that could help us mitigate things like reliability and power quality issues around some of the DGs for the benefit of our customers": see Tr. Vol. 6, pg. 44.

EP agreed with Hydro One and accepted Hydro One's position that the work must be done, regardless of when the system modifications will be required.

Depreciation Expense

The one common area of interest commented upon by Board staff and intervenors was Hydro One's proposed depreciation expense for projects which form part of the Green

Energy Plan. In particular, Hydro One is proposing to use a 20 year depreciation period for those projects funded by provincial ratepayers.

As was explained in the evidence, Hydro One's rationale for using a 20 year depreciation period, rather than the usual depreciation period, was to align the depreciation with the term of the contracts between the OPA and the generators.

For that reason, Hydro One continues to believe that it is appropriate to use a 20 year service life when calculating the rate adder to be collected from provincial ratepayers. A 20 year service life equals the length of the underlying electricity contract with the generators. Though the asset has a physical life greater than 20 years, it is inappropriate to utilize the conventional service life since there is no guarantee that these assets will actually be "used and useful" beyond the 20 year contract period.

In the event that the contracts are not extended beyond the initial 20 year term, there is a risk that the assets will be "stranded" and will need to be written off. Hydro One submits that it would be inappropriate for Hydro One customers or its shareholder to absorb the cost impact of any write off. The service life should match the period of time for which there is a benefit for all provincial ratepayers.

Moreover, Hydro One's proposed treatment follows accepted accounting principles in a circumstance where there is no assurance that an asset will be a benefit beyond a specified contractual period.

Hydro One thus requests that the Board approve its proposed accounting treatment of these assets.

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?

Hydro One acknowledges that this issue has been deferred At the conclusion of the oral hearing, the Board invited parties to provide comments on how to deal with this one outstanding issue. In response, Hydro One submitted that it was prepared to call its witnesses at the Board's convenience and that issue need not be further delayed.

Board staff suggested that the Board need not deal with the issue at all. The Board's generic proceeding, EB-2009-0349, in this regard is ongoing. In the meantime, Hydro One has agreed that proceeding with variance accounts and funding adders is acceptable to it. Board staff suggested that all renewable generation costs associated with the Green Energy Plan be tracked in a variance account to be trued up later in accordance with the Board staff final paper in EB-2009-0349. Board staff suggested that in the interim, the Board could accept Hydro One's proposed allocation or an arbitrary percentage such as the arbitrary 15% allocation as suggested by Board staff.

This approach is acceptable to Hydro One but there are serious complications to be considered in designing the variance accounts.

Hydro One recommends that its proposed allocation methodology be adopted for the reasons outlined in the pre-filed evidence, this is generally consistent with the principles outlined in the Board staff's draft discussion paper in the generic proceeding referenced above. Hydro One agrees that the Board staff's proposed approach has the advantage of expediency and also protects ratepayors in the event that the Board's final position paper is substantially different from Hydro One's current proposal.

Should the Board require Hydro One to establish variance accounts to be trued up at a later date, while in the interim providing the utility with funding adders, there are some parameters which are critical to the company.

Hydro One submits that the funding adders should approximate the cash flow that would have been present had the renewable generation investment spending been included in revenue requirement. This is imperative to allow the Applicant be able to borrow funds as necessary.

It is important that Hydro One be assured of the recovery of prudently incurred costs. The applicant must ensure confidence for those relying on Hydro One's financial statements that unrecovered amounts will ultimately be recovered, together with financing costs, so long as those costs were prudently incurred. Assurance of recovery is also necessary from an accounting perspective to support recording an undiscounted regulatory asset in the Applicant's financial statements.

If this proposal is accepted by the Board, Hydro One's expectation is that the settlement and disposition of the variance accounts will occur in its next distribution cost of service application.

Implementation of this approach is somewhat more complex than it may appear. The appropriate distribution rate adder would be required in addition to a provincial rate adder to be collected through the IESO.

Hydro One would believes that it would need to establish four separate variance accounts:

1. to track the actual renewable generation costs benefiting Hydro One customers;
2. to track the balance of actual renewable generation costs which benefit provincial ratepayers;
3. to track the adder revenues collected from Hydro One distribution customers;
4. to track the adder revenues collected from provincial ratepayers.

The clearing of these variance accounts is further complicated depending on how the allocation of direct benefits will be assessed when the accounts are to be cleared.

If Hydro One's proposed ex ante aggregate approach (or another ex ante aggregate approach) for determining direct benefits is used when the account is cleared, administration of the accounts is relatively easy.

If however, when the accounts are to be cleared, the Board intends to assess direct benefits on an ex post basis by applying the direct benefits on a project specific basis, there will be significant additional costs. In the Applicant's view this would be extremely difficult and costly to determined, and thus, the additional costs should be recovered from provincial ratepayers. Furthermore, the ex post treatment cannot be applied to work already completed.

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?

Hydro One has filed a five year Green Energy Board in accordance with the filing requirements which it asks this Board to approve.

In doing so, Hydro One is seeking approval for its forecast expenditures for the 2010 and 2011 test years. While approval is sought for the five year plan, Hydro One is not asking this Board to approve specific expenditures for beyond the test years. Hydro One expects to file an updated Green Energy Plan with specific forecast expenditures for 2012 and beyond in its next distribution cost of service 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?

Hydro One is of the view that the Board's role in approving a Green Energy Plan is to promote and support the goals and objectives underlying the government's policy and the *Green Energy Act.*

In considering the Applicant's Green Energy Plan, Hydro One submits that the following criteria can assist the Board in evaluating the plan (also see H9.52):

Is the plan consistent with the Green Energy Act?

Can the plan be implemented?

Has the plan been formulated in coordination with the OPA.

All of which is respectfully submitted.

ORIGINAL SIGNED BY D.H. ROGERS

D. H. Rogers

Counsel to the Applicant Hydro One Networks Inc.

APPENDIX "A"

LIST OF APPROVALS SOUGHT

1. An Order pursuant to Section 78 of the *Ontario Energy Board Act* approving 2010 and 2011 revenue requirement and customer rates for the distribution of electricity, to be implemented on May 1, 2010 and January 1, 2011, respectively.

2. Approval of a distribution revenue requirement of:
   - $1,196M for 2010;
   - $1,295M for 2011;
   - These sums are based upon a deemed capital structure for rate making purposes of 40 percent common equity and 60 percent debt and cost rates for debt inequity reflecting the Board's report in EB-2009-0084 issued December 11, 2009. The return on common equity is 9.75% in 2010 deemed short-term debt is 1.93% and long-term debt is 5.67%. The 60 percent debt component is comprised of 4 percent deemed short-term debt and 56 percent long-term debt. (Ex. B1, Tab 1, Sch. 1)

3. Inclusion of smart meter costs into ongoing operations and rate base for smart meters installed in the period ending December 31, 2008, in accordance with the Smart Meter Funding and Cost Recovery Guidelines G-2008-0002 issued October 22, 2008.

4. Approval to refund regulatory assets with a net balance of $26M to be refunded over a two-year period at $13M per year.

5. Approval for an updated smart meter funding adder of $2.31 in 2010 and $4.57 in 2011 per month per metered customer to provide funding for the 2010 and 2011 forecast smart meter in-service additions and associated OM&A expenditures.

6. Approval of new Retain Transmission Service Rates to reflect the Board's approval of new Uniform Transmission Rates effective January 1, 2010, per its EB-2008-0272 Decision.

7. Approval for variance accounts related to impacts of IFRS changes, fixed charges applied to micro generators, variances in actual pension costs, bill impact mitigation and incremental OEB costs.

8. Approval of the Company's Green Energy Plan in accordance with the Deemed Conditions of License Distribution System Planning Guidelines G-2009-0087 issued June 16, 2009.

9. Approval of 2010 rate schedules including terms and conditions of service as set out in Sch. 1 of Ex. G2, Tab 4 and Schedules 1 of Ex. G2, Tab 5 to Ex. G2 Tab 92, or as modified, to reflect the Board's Decision.

10. The charges for the provision of miscellaneous services as set out in Ex. G2, Tab 93, Sch. 1.

11. Approval of Hydro One's proposals for the third and fourth years of harmonizing acquired LDCs' and Legacy customers' distribution rates as described in Ex. G1, Tab 2, Sch. 4 and Ex. G2, Tab 2, Sch. 1.