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BY EMAIL

July 6, 2010
Our File No. 2010002

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
M4P 1E4

Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2010-0002 – Hydro One Tx 2011/12

We are counsel for the School Energy Coalition. Pursuant to Procedural Order #1 in this proceeding, this letter constitutes the submissions by the School Energy Coalition on the Draft Issues List. The numbering in this letter tracks the numbering in the draft list.

1. General

1.3 We submit that the words “overall bill” should be omitted. The point is not to establish a particular measurement method (i.e, total bill impact), but rather as a matter of substance to reflect the actual economic impact of the proposals in the Application. In addition, we propose that the word “consumers” be changed to “end users”, to avoid any ambiguity in which the word “consumers” may be taken to refer only to residential ratepayers.

1.4 We propose that the following additional issue be added:

“Has the Applicant fully complied with all Board filing requirements applicable to transmission rate applications? If not, what steps should be taken to ensure that the filed information supporting this Application is sufficient to form the basis of a decision by the Board?”

The Applicant advises in their profiles that they have “substantially” complied with the filing requirements. Exploration of any gaps in their filing is therefore appropriate.

1.5 We propose that the following additional issue be added:

“What are the implications on the revenue requirement or rates of the Applicant of International Financial Reporting Standards? Has the Applicant complied with the spirit of the Board’s Report in EB-2008-0408 on the transition to IFRS? Is the approach to IFRS proposed by the Applicant in Exhibit A, Tab 3, Schedule 1 appropriate?”

This is the first proceeding in which the Applicant will be subject to IFRS. It is therefore appropriate for the Board to look specifically at how this change will affect Hydro One, and whether the disclosures and other aspects of the evidence relating to IFRS are sufficient for a full record before the Board.

1.6 We propose that the following additional issue be added:

“Are the strategic objectives of the Applicant appropriate in light of their short and long term impacts on rates, reliability, and security? Has the Applicant made sufficient progress to date in achieving its strategic objectives?”

The Board regulates Hydro One not just this year, but in subsequent years as well. While the focus of any rate application must be on the test year or years, the Board must be conscious of the longer term implications of the Applicant’s strategies, particularly in this case where the Applicant is the main transmitter in the province, and the electricity sector in Ontario is undergoing a major change in which the Applicant will play a key role.

1.7 We propose that the following additional issue be added:

“Were the changes in the Application and the Applicant’s plans made after March to reduce the rate impacts both appropriate and sufficient?”

The Applicant prepared, justified internally, and publicly discussed an Application which had a more extensive work plan, and higher costs, than the Application actually filed. It is important, in our view, for the Board to know what tradeoffs were made in reducing the revenue requirement, and whether sufficient reductions took place to mitigate rate impacts. While this issue is likely embedded as a matter of necessary implication in issues 2-6, and perhaps 9, it may be useful for the Board and all parties if it is listed separately, so that the Board can look on an overall basis at the revenue requirement reduction exercise that took place, and the judgments that were made in that process.

2. Load Forecast and Revenue Forecast

No submissions.

3. Operations Maintenance and Administration Costs

3.1 We understand the wording of this issue to include consideration of the following:

“What are the impacts on spending levels of changes to transmission reliability standards, including those established by the North Eastern Reliability Council?”

If this is not implicit in the issue, we propose that the sentence be added, or a new issue inserted. Significant spending by the Applicant has arisen since the 2003 blackout, and a comparison of the Applicant’s response to these changes, and the response of other transmission companies affected, would in our view assist the Board in understanding the Applicant’s cost pressures. This should also, of course, apply to Issue #4 on the capital side.

3.2 We propose that the following sentence be added to this issue:

“Are all costs allocated between distribution and transmission operations consistent year to year, and are the Board-approved allocated costs of distribution in any of the test years consistent with the base costs included in this Application to be allocated to transmission?”

The staggered two-year distribution and transmission applications by Hydro One make it difficult to get an overall look at its costs and how they are being allocated between the divisions. It is important, in our view, for the Board to be satisfied that 2011 costs approved for recovery in the last distribution application are consistent with the costs being sought for recovery in the same year in this transmission application. For example, if the Applicant sought a budget of \$100 million for a particular spending category in its distribution application, of which 50% was allocated to distribution, and the Board only allowed a \$45 million budget, it would be relevant to the Board in this Application if the underlying budget is still \$100 million, but 55% is now being allocated to transmission. SEC wishes to explore whether the overall budget of Hydro One is being allocated consistently between divisions, and whether reductions and other spending approval decisions by the Board are being reflected appropriately in subsequent applications such as this one.

3.3 We propose that the last sentence of this issue be replaced with the following:

“Has Hydro One shown sufficient improvement in its human resources costs? Is Hydro One implementing an appropriate strategy to deal with increasing retirements of key personnel? Is Hydro One managing its pension costs in an appropriate manner?”

The first part of this edit is intended to make the issue more open-ended and ensure that appropriate areas of inquiry are not inadvertently shut off. Retirements is an issue that Hydro One have themselves raised in Exhibit A, Tab 4, Schedule 1, at page 17, and it is well known in the industry. Recent losses of some key people make it timely for the Board to satisfy itself that Hydro One’s approach to this problem will not only be effective, but at the lowest possible cost. The pension cost issue arises because of the volatility that has arisen in pension plans in the last two years, and the potential of IFRS to complicate it further. Pension costs may already be included by implication in the first sentence of the issue, in which case the addition of that last sentence is not required.

4. Capital Expenditures and Rate Base

4.4 We believe that the issue would be better worded as follows:

“Are the methodologies used to allocate Shared Services and Other Capital expenditures to the transmission business appropriate?”

This is similar to the wording of Issue 3.5, and reflects the fact that the question is not whether the Applicant is carrying on as before, but rather whether, today, the approach being taken by the Applicant is, in the opinion of the Board, the appropriate one.

4.5 We believe that the issue would be better worded as follows:

“Are the inputs used to determine the Working Capital component of the rate base, and the methodology used, appropriate?”

See our comments under 4.4.

4.6 We believe that the word “adequately” in this issue should be replaced with “appropriately”. Depending on the particular capital or operating issue, an adequate response by Hydro One may not, in the Board’s view, be sufficient, and a higher standard may be appropriate.

4.7 We agree with the submission of AMPCO that a new issue dealing with the proposed inclusion in rate base of CWIP should be added. It may be useful to reword their proposed issue to also include the question of whether the “partial in-service” approach to CWIP inclusion, as suggested by Hydro One, is appropriate.

4.8 We propose that the following additional issue be added:

“Are the Applicant’s improvement plan for its Head Office building, and the planned spending on that plan in the Test Years, appropriate?”

We understand that Hydro One has determined its Head Office building is nearing the end of its useful life, and is embarking on a significant improvement program. Unless this is already included in one of the other issues, we believe that a review of this plan and spending is appropriate.

5. Cost of Capital and Capital Structure

5.2 We believe that the issue would be better worded as follows:

“Are the proposed Return on Equity and rate for short-term debt, and the methodologies used to adjust them prior to the effective date of rates, appropriate?”

The existing wording has an unfortunate emphasis on how the calculation is done, rather than on whether the right result is being achieved. This proposed revision ensures that both aspects are captured.

6. Deferral/Variance Accounts

No submissions.

7. Cost Allocation

7.1 We believe that the issue would be better worded as follows:

“Is the cost allocation proposed by Hydro One appropriate?”

See our comments above on issues 4.4 and 5.2.

8. Charge Determinants

7.1 We believe that the issue would be better worded as follows:

“Are the charge determinants proposed by Hydro One appropriate? What action, if any, should be taken by Hydro One to implement or otherwise give effect to AMPCO’s High 5 Proposal?”

The first part of this proposed edit is similar to 4.4, 5.2 and 7.1 above. In the second sentence, we propose a somewhat expanded approach to the High 5 proposal, i.e. including consideration of options other than simply implementation as proposed.

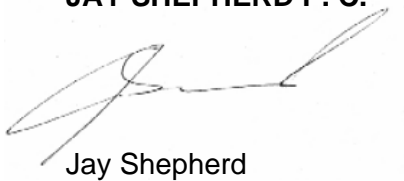
9. Green Energy Plan

No submissions.

We hope these comments are of assistance to the Board.

All of which is respectfully submitted.

Yours very truly,
JAY SHEPHERD P. C.



Jay Shepherd

cc: Wayne McNally, SEC (email)
Interested parties (email)