



EB-2010-0002

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

AND IN THE MATTER OF a review of an application filed by Hydro One Networks Inc. for an order or orders approving a transmission revenue requirement and rates and other charges for the transmission of electricity for 2011 and 2012.

PROCEDURAL ORDER NO. 2

Hydro One Networks Inc. ("Hydro One") filed an application, dated May 19, 2010, with the Ontario Energy Board under section 78 of the *Ontario Energy Board Act*, 1998, c.15, Schedule B, seeking approval for changes to the transmission revenue requirement and rates that Hydro One charges for electricity transmission, to be effective January 1, 2011 and January 1, 2012. The Board assigned File Number EB-2010-0002 to the application.

The Board issued a Notice of Application and Hearing dated June 7, 2010. On June 16, 2010, Hydro One filed a Notice of Motion to sever the issue of the Association of Major Power Consumers of Ontario proposal to alter the method of determining the transmission network charge, termed the "High 5 Proposal", for review and assessment in a separate generic proceeding.

The Board issued Procedural Order No. 1 on June 28, 2010 which included a draft issues list and provided for written submissions on the issues in this proceeding. Procedural Order No. 1 also approved a number of intervention requests and requests

for eligibility for a cost award, and set the date to hear the Hydro One motion on the High 5 Proposal.

The Board heard the High 5 Proposal motion on July 20, 2010 and issued its oral decision on the motion that day. The High 5 Proposal will remain as an issue in this proceeding. As it is not yet clear that intervenor evidence will be filed on this issue, or what the nature of that evidence will be, the Board has not scheduled a technical conference to address this evidence, but may do so as more information is received.

In addition, on July 20, 2010 the Board issued an oral decision on the approved issues list. The Board's decision on the issues list is attached as Appendix A and the Board's approved issues list is attached as Appendix B.

The Board has received correspondence from Hydro One dated June 11, 2010 which suggested that no settlement conference be held in this proceeding. The Board is of the view that any settlement discussions, no matter how brief, are valuable in encouraging efficiency in a proceeding. Therefore, the Board has made provision for a short settlement conference in the schedule outlined below.

The Board considers it necessary to make provision for the following matters related to this proceeding. The Board will issue further procedural orders from time to time.

THE BOARD ORDERS THAT:

1. As stated in Procedural Order No. 1, intervenor evidence is due on August 26, 2010. This is to include any evidence to be filed on the High 5 Proposal.
2. Written interrogatories on any intervenor evidence shall be filed with the Board and delivered to the intervenors and the applicant on or before Friday, September 3, 2010.
3. Responses to interrogatories on intervenor evidence shall be filed with the Board and delivered to all parties on or before Monday, September 13, 2010.
4. A settlement conference will be held on Thursday, September 16, 2010 beginning at 9:30 am to discuss settlement of any issues and/or to discuss the

prospect of any issues being designated as 'argument only' with no oral evidence being called.

5. The oral hearing for this proceeding will begin on Monday, September 20, 2010 commencing at 9:30 am. Any agreement resulting from the settlement conference will be presented to the Board on this day.

All conferences and hearings will take place in the Board's hearing room at 2300 Yonge Street, 25th Floor, Toronto.

All filings to the Board must quote file number EB-2010-0002, be made through the Board's web portal at www.errr.oeb.gov.on.ca, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Please use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.oeb.gov.on.ca. If the web portal is not available you may email your document to the address below. Those who do not have internet access are required to submit all filings on a CD or in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

Address

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ISSUED at Toronto, July 21, 2010

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

APPENDIX A

**HYDRO ONE NETWORKS INC
TRANSMISSION REVENUE REQUIREMENT AND
RATE HEARING**

EB-2010-0002

BOARD DECISION ON THE ISSUES LIST

(Transcript excerpt pages 30 to 38, July 20, 2010)

1 technical conference in September to deal with this, to
2 deal with this issue, should it seem to be advisable.

3 The Board, in considering the issue, will be mindful
4 of the general desirability of having rates -- a rates
5 decision in place to be effective January 1st, 2010, and
6 the timing issues -- I beg your pardon, 2011 -- and the
7 timing issues elucidated by IESO and Hydro One.

8 So it is the Board's view that we will consider this
9 issue as originally drafted in the draft Issues List, 8.1,
10 in this proceeding.

11 And are there any questions arising from that?

12 What follows now is the Board's decision with respect
13 to the Issues List.

14 **DECISION ON ISSUES LIST:**

15 Pursuant to Procedural Order No. 1, the Board
16 distributed a draft Issues List and solicited comments from
17 the parties. This is the Board's decision with respect to
18 the Issues List.

19 First, the Board would like to thank parties for their
20 very constructive suggestions and their approach with
21 respect to the Issues List. The Board notes that in some
22 instances parties sought to amend the list so as to provide
23 considerable detail with respect to the Issue List. As a
24 general comment, the Board considers that too much
25 specificity or granularity in the Issues List is not
26 necessarily a virtue. The purpose of the Issues List is to
27 provide, at the outset of a proceeding, its scope, so that
28 the interrogatory process can be conducted with reasonable

1 efficiency. Too much detail in the Issues List can have
2 the effect of unnaturally constraining the scope of the
3 proceeding to a point -- at a point when the evidentiary
4 foundation of the case is only partially developed.

5 Perhaps most importantly, the Issues List can provide
6 guidance to parties with respect to issues that the Board
7 will simply not entertain in the context of the proceeding
8 because they can be handled more effectively in some other
9 forum or at some other time.

10 Unless specifically referenced in this Oral Decision,
11 the parties should conclude that the wording of the issues
12 is identical to that appearing in the draft Issues List
13 circulated by the Board as part of Procedural Order No. 1.

14 Board Staff will circulate a revised Issues List,
15 which will govern the interrogatory process for this
16 proceeding over the next few days. That Issues List will
17 reflect this Decision.

18 With respect to Issue 1.3, the Board considers it
19 appropriate to amend that issue so as to delete the words:
20 "given the overall bill impact on consumers". This change
21 was supported by a couple of intervenors. The Board
22 considers the deletion of the "overall bill impact
23 reference" as appropriate insofar as, as amended, it more
24 accurately describes the Board process in arriving at
25 rates. The Board also considers it appropriate to enable
26 intervenors to place the implications of consequential
27 rates in a context that is broader than the overall bill
28 impact.

1 Schools urged the Board to adopt four new issues,
2 which it numbered 1.4 through 1.7.

3 The Board does not consider it advisable to include
4 the proposed 1.4 in the Issues List. 1.4, as proposed by
5 SEC, dealt with the Applicant's compliance with the filing
6 requirements.

7 It is always open to the intervenors to seek
8 additional information and/or argue that the record does
9 not adequately support the relief sought in any particular
10 element of the application. The Board does not consider it
11 necessary or advisable to facilitate this assessment
12 through a holistic review exercise.

13 The Board notes that Hydro One has indicated that it
14 considers the subject matters of issues 1.5 to 1.7 to be
15 covered under the existing Issue 1.3. The Board
16 understands that the approach adopted by Hydro One means it
17 will not object to questions addressing the subject matters
18 canvassed in the proposed new issues, and will take a
19 reasonably liberal attitude with respect to them.

20 The Board agrees that these topics can be dealt with
21 under Issue 1.3. Similarly, the Board finds that the
22 suggestions for additions under issue headings 2 and 3 to
23 be unnecessary.

24 With respect to 4.2, VECC suggested additional wording
25 to address the need for system expansion within the capital
26 expenditures proposals of the Applicant. The Board
27 considers that the original wording of 4.2 includes, as
28 part of the development component, consideration of the

1 need for system expansion, and accordingly no amendment to
2 this issue is required.

3 With respect to Issue 4.4, the Board accepts the
4 suggestions of several intervenors that this issue should
5 be worded so as to be consistent with Issue 3.5.

6 Specifically, the Board amends Issue 4.4 so as to read:

7 "Are the methodologies used to allocate shared
8 services and other capital expenditures to the
9 transmission business, appropriate?"

10 The Board considers that a similar change should be
11 made to Issue 4.5, so that it will now read:

12 "Are the inputs used to determine the working
13 capital component of the rate base and the
14 methodology used appropriate?"

15 AMPCO suggested that a new issue should be added to
16 section 4 to address the question of Hydro One's request
17 for accelerated cost recovery with respect to the costs
18 associated with the Bruce-to-Milton double-circuit line
19 project.

20 In response to AMPCO's submission, Hydro One proposed
21 that a new 9.3 should be included in the Issues List, which
22 would read as follows:

23 "Are Hydro One's accelerated cost recovery
24 proposals for the Bruce-to-Milton line and for
25 Green Energy projects appropriate?"

26 The Board adopts Hydro One's proposal, but with the
27 following commentary. Inclusion of this issue in the Green
28 Energy Plan section of the Issues List should not be

1 construed in any degree as a recognition by the Board that
2 the Bruce-to-Milton line is inherently a Green Energy
3 project, or that the Report of the Board With Respect to
4 the Regulatory Treatment of Infrastructure Investment, that
5 is EB-2009-0152, is or is not relevant to the costs
6 associated with that project. In other words, it will be
7 open to parties to direct interrogatories to the extent to
8 which the Bruce-to-Milton project falls within the scope of
9 the Board's Regulatory Treatment of Infrastructure
10 Investment report.

11 In addition, the Board wants to highlight that it is
12 not clear at this stage, before any of the interrogatories
13 have been filed and have been asked or answered, as to what
14 the Board is being asked to decide with respect to
15 accelerated cost recovery or any other aspect of the Green
16 Energy projects described in the application.

17 It appears on the record as it stands that it is the
18 company's proposal to advance accelerated cost recovery
19 proposals in the course of Section 92 proceedings
20 associated with the Green Energy projects.

21 If that is so, it is unclear as to what this Panel
22 could decide with respect to any of those projects.

23 The Board does, however, want to facilitate the
24 development of the record in this respect, and has
25 accordingly adopted the applicant's proposal.

26 With respect to Issue 5.2, SEC proposed a revision,
27 which in its view would include the appropriateness of the
28 results of the methodologies used to determine return on

1 equity and the rate for short-term debt, not merely the
2 methodology itself.

3 Hydro One responded with a revised Issue 5.2, which
4 would read as follows:

5 "Is the proposed timing and methodology for
6 determining the return on equity and short-term
7 debt prior to the effective date of rates
8 appropriate?"

9 The Board will accept Hydro One's proposal, but with
10 the observation that the Board considers the
11 appropriateness of the outcome of the methodology to be
12 inherently included in the issue.

13 With respect to Issue 6.2, the Board notes that VECC
14 sought to include specific reference to the proposed
15 amounts for disposition within this issue. The Board
16 considers the issue of the amounts to be disposed of as
17 included in 6.2 as it is currently written. That is the
18 issue related to deferral accounts and variance accounts.

19 With respect to Issue 7.1, the Board accepts SEC's
20 proposal to amend that issue so as to read:

21 "Is the cost allocation proposed by Hydro One
22 appropriate?"

23 I beg your pardon, let me reread that.

24 With respect to issue 7.1, the Board accepts SEC's proposal
25 to amend that issue so as to read, quote:

26 "Is the cost allocation proposed by Hydro One
27 appropriate?"

28 This change is consistent with the previous changes,

1 which make it open to intervenors to submit interrogatories
2 addressing the appropriateness of the allocation, not
3 simply its consistency with the Board-approved methodology.

4 The Board wants to observe that in making the
5 appropriateness of these allocations fair game, from an
6 interrogatory point of view, does not mean that the Board
7 has itself any specific concerns with respect to the Board-
8 approved methodology. The Board does consider it
9 reasonable, however, to enable questions addressing this
10 aspect.

11 The Board will of course be making a determination
12 with respect to section 8.1, which we have now made in our
13 earlier decision, the decision delivered earlier today.

14 In addition to 8.1, AMPCO has also proposed the
15 addition of an issue which it numbered 8.2, addressing the
16 export transmission service tariff. The Board received
17 fairly detailed and voluminous submissions on this point
18 from a variety of intervenors, and this issue has
19 considerable history within the regulatory community in
20 general and the Board in particular.

21 Most notably, from the Board's points of view, the
22 Board Panel in the previous transmission application
23 specifically referenced the appropriateness of a review of
24 the IESO report which was developed as part of a
25 consultative involving a wide range of stakeholders. There
26 is also correspondence from the Board secretary's office
27 which, in this Panel's view, makes a review of the IESO
28 report appropriate.

1 Hydro One, for its part, has indicated that it
2 considers the issue to fall under the scope of issue 1.1,
3 which addresses the adequacy of its responses to Board
4 directions from previous proceedings.

5 The Board agrees, but with the following important
6 observation. The Board does not see a value in a
7 fundamental reconsideration of the IESO report de novo.
8 The Board recognizes the very systemic consultation
9 undertaken by IESO in developing its report and the
10 application of its very considerable expertise in the
11 subject matter.

12 The Board will permit questions addressing the subject
13 matters canvassed in the proposed new issues list and will
14 take -- I beg your pardon.

15 The Board will permit questions respecting the IESO
16 report which are in the nature of a review of the report,
17 but not a fundamental reconsideration of it.

18 With respect to section 9, the Board is persuaded that
19 section 9.1 is unnecessary and can be deleted from the
20 ^issues list. In doing so, the Board wants to ensure that
21 the parties understand that the Board's view of section 9.2
22 is that it includes, as part of the, quote, "appropriate
23 planning criteria", end quote, subject matter the variety
24 of instructions and directions of whatever character or
25 kind have been provided to Hydro One by the government, in
26 whatever capacity, and other regulatory or governmental
27 agencies, such as the OPA.

28 The Board has already addressed the question of the

1 inclusion of the new issue numbered by Hydro One as 9.3,
2 which addresses the accelerated cost recovery proposals of
3 the applicant.

4 Finally, with respect to the proposed new section 10
5 of the issues list, the Board received detailed submissions
6 from CME with respect to consumer impacts and affordability
7 issues.

8 The Board considers that the consumer impacts and
9 affordability issues are subsumed under the revised section
10 1.3, with the following observation. The Board is prepared
11 to enable intervenors to pose interrogatories respecting
12 consumer impacts and affordability with considerable
13 latitude. However, the Board does not see this proceeding
14 as the appropriate forum for the development of measures to
15 evaluate consumer impacts and affordability, as suggested
16 by CME in its proposed new 10.2.

17 It is the Board's view that the development of
18 objective measures or specific methodologies for the
19 evaluation of customer impacts and affordability is a
20 subject matter that falls outside the scope of this case.

21 As I indicated, Board Staff will distribute to the
22 parties the approved issues list, which will be in
23 conformity with this decision, in due course.

24 Are there any questions arising?

25 I think that concludes our business today. Thank you
26 all for your very thoughtful and helpful submissions, and
27 we are adjourned. Thank you.

28 --- Whereupon the hearing concluded at 11:18 a.m.

APPENDIX B

**HYDRO ONE NETWORKS INC
TRANSMISSION REVENUE REQUIREMENT AND
RATE HEARING**

EB-2010-0002

**APPROVED
ISSUES LIST**

**HYDRO ONE NETWORKS INC.
EB-2010-0002
APPROVED ISSUES LIST**

1. GENERAL

- 1.1 Has Hydro One responded appropriately to all relevant Board directions from previous proceedings?
- 1.2 Are Hydro One's economic and business planning assumptions for 2011/2012 appropriate?
- 1.3 Is the overall increase in 2011 and 2012 revenue requirement reasonable?

2. LOAD FORECAST and REVENUE FORECAST

- 2.1 Is the load forecast and methodology appropriate and have the impacts of Conservation and Demand Management initiatives been suitably reflected?
- 2.2 Are Other Revenue (including export revenue) forecasts appropriate?

3. OPERATIONS MAINTENANCE & ADMINISTRATION COSTS

- 3.1 Are the proposed spending levels for, Sustaining, Development and Operations OM&A in 2011 and 2012 appropriate, including consideration of factors such as system reliability and asset condition?
- 3.2 Are the proposed spending levels for Shared Services and Other O&M in 2011 and 2012 appropriate?
- 3.3 Are the 2011/12 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?
- 3.4 Are the OM&A development costs allocated to the "IPSP and Other Preliminary Planning Costs" deferral account for 2009, 2010, 2011 and 2012 appropriate?
- 3.5 Are the methodologies used to allocate Shared Services and Other O&M costs to the transmission business and to determine the transmission overhead capitalization rate for 2011/12 appropriate?
- 3.6 Are the amounts proposed to be included in the 2011 and 2012 revenue requirements for income and other taxes appropriate?

- 3.7 Is Hydro One Networks' proposed depreciation expense for 2011 and 2012 appropriate?

4. CAPITAL EXPENDITURES and RATE BASE

- 4.1 Are the amounts proposed for rate base in 2011 and 2012 appropriate?
- 4.2 Are the proposed 2011 and 2012 Sustaining and Development and Operations capital expenditures appropriate, including consideration of factors such as system reliability and asset condition?
- 4.3 Are the proposed 2011 and 2012 levels of Shared Services and Other Capital expenditures appropriate?
- 4.4 Are the methodologies used to allocate shared services and other capital expenditures to the transmission business, appropriate?
- 4.5 Are the inputs used to determine the working capital component of the rate base and the methodology used appropriate?
- 4.6 Does Hydro One's Asset Condition Assessment information and Investment Planning Process adequately address the condition of the transmission system assets and support the O&MA and Capital expenditures for 2011/12?

5. COST OF CAPITAL/CAPITAL STRUCTURE

- 5.1 Is the proposed capital structure appropriate?
- 5.2 Is the proposed timing and methodology for determining the return on equity and short-term debt prior to the effective date of rates appropriate?
- 5.3 Is the forecast of long term debt for 2010-2012 appropriate?

6. DEFERRAL/VARIANCE ACCOUNTS

- 6.1 Are the proposed amounts, disposition and continuance of Hydro One's existing Deferral and Variance accounts appropriate?

6.2 Is the proposed disposition of the “IPSP and Other Preliminary Planning Costs” deferral account for 2009 appropriate?

6.3 Are the proposed new Deferral and Variance Accounts appropriate?

7. COST ALLOCATION

7.1 Is the cost allocation proposed by Hydro One appropriate?

8. CHARGE DETERMINANTS

8.1 Is it appropriate to implement “AMPCO’s High 5 Proposal” in place of the status quo charge determinants for Network service?

9. GREEN ENERGY PLAN

9.1 Are the OM&A and capital amounts in the Green Energy Plan appropriate and based on appropriate planning criteria?

9.2 Are Hydro One's accelerated cost recovery proposals for the Bruce-to-Milton line and for Green Energy projects appropriate?