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September 13, 2010

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Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th floor
Toronto, ON M4P 1E4

Dear Ms Walli,

Hydro One Networks Inc. ("Hydro One")
2011-2012 Transmission Rate Case
Board File No.: EB-2010-0002
Our File No.: 339583-000057

We attach the Interrogatory Responses of Canadian Manufacturers & Exporters ("CME") to Interrogatories of Board Staff, and the Vulnerable Energy Consumers Coalition ("VECC").

Yours very truly,

Peter C.P. Thompson, Q.C.

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enclosures
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CME RESPONSE TO BOARD STAFF INTERROGATORY # 1

Question

Reference: Issue 1.3

The evidence filed by CME indicates that electricity costs will be increasing substantially in the next 5 years due to a number of factors. As the EB-2010-0002 proceeding is a rates case which deals with only the transmission revenue requirement and rates for Hydro One Networks Inc., how does CME propose the Board apply this evidence in the present proceeding?

Response

I. Introduction

The question raises matters pertaining to the reliance that CME's counsel proposes to place on its evidence during the course of the oral hearing, including the Argument of Hydro One's Application. Moreover, this interrogatory response is being broadened to include the rationale for our position taken in the letter to the Board dated September 3, 2010, from CME counsel that Hydro One's criticisms of the scope of CME's evidence, contained in its September 3, 2010 letter to the Board (the "Letter"), are without merit. The responses to these questions pertaining to case management and the right of a witness to testify to support CME's evidence are being provided by CME counsel.

II. CME Total Bill Impact Analysis is Relevant and Admissible

In prior cases, Hydro One has repeatedly asserted that customer impacts are a matter of significance in its planning. The evidence in this case indicates that customer impacts prompted Hydro One's owner to scale back the total level of 2011 and 2012 spending initially planned by Hydro One and its affiliate, Ontario Power Generation ("OPG") in an attempt to produce revenue requirements and rate increases that fall within the bounds of reasonableness.

The pre-filed bill impact evidence submitted by Hydro One does not reflect the total bill impacts of all of the factors reflected in the spending plans for 2011 and 2012 that Hydro One asks the Board to approve. A consideration of total bill impacts is not limited to a consideration of the isolated effect of transmission spending plans on the delivery line item in the total bill, while holding all other bill components constant. This type of evidence does not reflect the material rate increases that consumers are experiencing in 2010 and facing in 2011, 2012 and years beyond, having regard to all of the factors upon which Hydro One's five year Business Plans are based.

CME's evidence presents a total bill impact analysis. Its scope is confined to estimating the total bill impacts customers are facing.

CME's evidence refers to a very significant increase in the total electricity bills electricity consumers have already experienced in 2010. We expect that the evidence at the hearing will establish that, for many, the total bill increases in 2010 fall within the 15% to 20% range.

The CME evidence is based on the reality that all of the factors reflected in Hydro One's five year Business Plans, from which the Application is derived, will produce further significant total bill increases in 2011, 2012 and years beyond over and above the 2010 total bill increases.

There are many external factors influencing Hydro One's spending plans that also have a material impact on the total electricity bill consumers will face in 2011, 2012 and years beyond. These external factors include Ministerial Directives related to the objectives of the *Green Energy and Green Economy Act ("GEA"),* covering renewable generation and Conservation and Demand Management ("CDM") initiatives. External factors that are reflected in Hydro One's five year Business Plans from which the Application is derived include the plans of the Ontario Power Authority ("OPA"), the Independent Electricity System Operator ("IESO"), and the Minister of Energy ("MOE"). All of these external factors are relevant to Hydro One's Application.

Having regard to the Board's obligation under the *Ontario Energy Board Act, 1998* (the *"OEB Act"*) to protect consumers with respect to electricity prices when carrying out its responsibilities under the *Act*, a consideration by the Board of evidence of the total bill impacts customers are experiencing and facing is mandatory.

It would be inappropriate for the Board to refrain from considering total bill impacts in this case because a generic proceeding might be scheduled, in the future, to consider a standardized approach to measuring total bill impacts, with or without a standardized approach to evaluating affordability. The outcome of such a generic proceeding, if and when it takes place, will influence the nature of evidence with respect to customer impacts that is filed in subsequent proceedings. However, the contingency of such a proceeding being scheduled in the future does not render CME's total bill impact analysis evidence inadmissible in this case, or in any other case the Board considers before any generic proceeding that might be scheduled has concluded.

The evidence of CME describes the total bill impact facing electricity consumers as a result of all of the external factors that Hydro One says are relevant to a consideration of its application.

CME evidence, using a five year planning horizon to derive an estimate of the annualized total bill increases, is analogous to Hydro One's use of a five year planning horizon to derive its plans that form the basis for the application for Board approval of 2011 and 2012 transmission revenue requirement and rate increases. The electricity price increases, stemming from CME's adoption of the same five year planning horizon from which Hydro One's Application is derived, are annualized to provide a levelized estimate, including the years 2011 and 2012, of the total bill impacts likely to be experienced over the same five year planning horizon Hydro One uses.

We reiterate that CME's total bill impact evidence is relevant and admissible. The fact that a generic proceeding might be scheduled in the future to develop a standardized approach cannot be relied upon to exclude oral testimony from CME's witness, Mr. Sharp, pertaining to total bill impact analysis as Hydro One contends in the Letter. Hydro One's request that the Board prevent Mr. Sharp from testifying to support his total bill impact analysis is without merit.

III. Reliance upon CME's Evidence at the Hearing

At the hearing, counsel for CME plans to rely upon the CME evidence in the manner described in the subsections that follow below.

(a) Cross-Examination of Hydro One's Witnesses

CME's evidence pertaining to customer impacts will be used as a comparator in CME's cross-examination of Hydro One witnesses. We will be seeking to determine the precise nature of the customer impact information that was considered by Hydro One in its five year planning process leading to the plans initially approved for inclusion in the 2011 and 2012 transmission revenue requirement and rate increase request.

Using the CME evidence as a comparator, we will be seeking to determine the precise nature of the customer impact information that Hydro One considered in May 2010 when revising the application initially contemplated.

We expect to be using the CME evidence as a comparator when cross-examining Hydro One witnesses on the implied assertions in its evidence that no one engaged in the integrated planning that is essential for achieving the government's policy objectives, including the MOE, the OPA, IESO, OPG, Hydro One, and other large distributors, and/or the OEB, either prepares or considers total bill impact analysis of the type CME presents.

(b) Deficiencies in Hydro One's Planning Processes

In argument, we expect to be relying upon the CME evidence to support a submission that Hydro One's failure to prepare or consider, in its planning process, a total bill impact analysis of the type CME presents is a material deficiency.

(c) Unreasonableness of Total 2011 and 2012 Spending

The CME evidence is relevant to the Board's consideration of the reasonableness of total spending, as well as the reasonableness of particular line items of proposed spending.

(i) Total Planned Spending is Unreasonable

We expect to be relying upon the CME evidence to support a submission that the revisions made in May 2010 to the 2011 and 2012 total spending plans were insufficient to bring total spending and consequential revenue requirement and rate increases within the bounds of reasonableness. We expect to rely on the CME evidence to submit that some further "belt tightening" needs to be imposed by the Board. We expect that the CME evidence will be relied upon to support submissions of this nature with respect to elements of the Green Energy Plan Hydro One proposes.

(ii) *Specific Line Items of Spending are Unreasonable*

We also expect to be relying upon the total bill increases facing consumers as one of the factors that should prompt the Board to refrain from approving in full various line item amounts reflected in the 2011 and 2012 test year revenue requirements. For example, we expect to rely upon the total bill impact evidence to support an argument that it would be inappropriate to approve Hydro One's Customer Work in Progress ("CWIP") proposal at this time.

After the oral hearing has concluded, we expect that there will be other line item amounts that we will be suggesting should be scaled back having regard to a consideration of a number of factors, including customer impacts and the spending discretion Hydro One can exercise.

(iii) *Deferral Accounts*

We also expect to rely on the total bill impact analysis evidence as an item to be considered when determining whether some of Hydro One's existing deferral accounts should be continued and whether additional deferral account relief Hydro One seeks should be granted.

(d) Hydro One's Control Over Factors Influencing its Spending Plans

In the Letter, Hydro One contends that its planned spending is reasonable because it lacks control over the external factors that prompt the high levels of its budgets. The assertion that Hydro One lacks control over many of these external factors is inaccurate in that the Government of Ontario, as Hydro One's owner, does have control over most of these external factors. Moreover, both Hydro One management and its owner have control over the total spending that is planned in each year to respond to these external factors. The duration over which Hydro One plans to respond to the external factors that affect its spending will, to some degree, influence the pace at which others spend.

The fact that a utility may lack control over external forces influencing its spending does not detract from the obligation to confine total yearly spending levels within the limits of reasonableness. The duration of planned spending may need to be extended to maintain total spending within reasonable limits.

Accordingly, the fact that matters affecting the total bill increases that consumers are experiencing and facing, such as HST, are beyond the control of a Board regulated utility, does not detract from the bill impacts that need to be considered. High overall customer bill impacts, regardless of their causes, are a factor that should influence Hydro One's planning as is evident from the decision of Hydro One's owner to require a rollback of the level of increases reflected in its initial plans.

Similarly, high overall customer bill impacts, regardless of their causes, are a factor that the Board should consider when determining whether the full amount of the increases in the revenue requirement and rates Hydro One seeks for the 2010 and 2011 prospective test years fall within reasonable limits. The Board's refusal to approve elements of proposed spending plans on grounds that their reasonableness has not been demonstrated does not constitute a "denial of cost recovery" as Hydro One suggests in the Letter. Rather, such disallowances of planned spending are a determination made to confine revenue requirement and rate increases within the limits of reasonableness.

The Board has clear jurisdiction to determine whether all of the planned spending in a particular year is reasonable. Hydro One's alleged lack of control over external factors that influence its spending plans does not oust the Board's jurisdiction to limit total spending within reasonable limits to, *inter alia*, influence the pace at which total bill impacts of planned spending will be experienced by consumers.

IV. <u>Summary and Conclusion</u>

The foregoing summarizes the extent to which we envisage CME evidence being used during the course of the hearing. CME's evidence pertaining to total bill impacts is relevant and admissible. Hydro One's request that the Board prevent Mr. Sharp from testifying to support its total bill impact analysis is without merit and should be denied.

If Hydro One regards the total annualized and levelized bill increase impacts that Mr. Sharp has estimated for 2011 and 2012 to be inappropriately excessive, then it should submit pre-filed reply evidence and then cross-examine Mr. Sharp on the analysis he prepared. At the moment, the only "on the record" estimates of the total bill impacts of all of the factors reflected in Hydro One's five year Business Plans, from which the Application is derived, is contained in the total bill impact analysis prepared by Mr. Sharp.

CME RESPONSE TO BOARD STAFF INTERROGATORY # 2

Question:

Has CME used an estimate of inflation over the 2011 to 2015 period in the analysis? What is the inflation rate that is estimated over this time period?

Response:

We did not estimate an inflation escalator per se. We used escalators in estimating the following:

- Bruce Power (existing) prices (Appendix C, Table T4)
- Bruce Power (existing) prices (Table T5; the related note is incorrect – it should read "escalated at 2%")
- OPG prices (Table T6)
- Non-Utility Generators prices (Table T8)
- Distribution (non-GEA) revenues (Table T11)

CME RESPONSE TO VECC INTERROGATORY # 1

Question

Reference: Page 4 and Appendix C, Tab 9

(a) Please explain how the forecast cost for CDM programs were established and indicate whether the costs are meant to reflect the increased spending required to meet the Minister's Directive regarding CDM targets for electricity distributors.

Response

Yes, the costs are meant to reflect the increased spending required to meet the Minister's Directive regarding CDM targets for electricity distributors.

As noted on page 1 of our report, if we had access to broader OPA Business Plan details, we would not have to use as many estimates and perhaps would require none. An explanation follows for how the forecast cost for CDM programs were established.

Facts used were as follows:

- 2009 CDM program cost spending of $ 224 million (2009 OPA Annual Report)
- 2010 CDM program cost spending of $ 287 million (OPA 2010-2012 Business Plan)
- Low-income program information: 733,000 eligible households, 2006/7 pilot cost of $ 1,290 per household (OPA presentation, August 19, 2010)

Assumptions used were as follows:

- OPA CDM-related operating costs:
  - 2009, 2010 - are estimates
  - 2011 – is an estimate and projects increased costs due to greater LDC-involvement
  - 2012 and beyond – escalated at $ 1 million per year (~ 3%)
- LDC operating cost assumptions:
  - 2011: relatively slow build
  - 2012: build to slightly above OPA expenditures
  - 2013 and beyond – escalated at $ 1 million per year (~ 2.5%)
- Program costs, excluding low-income:
  - Estimates only
- Program costs, low-income:
  - Per household expenditure of $ 1,000
  - Percentages of households retrofitted each year: 5%, 10%, 15%, 20%, 20% (total = 70% of households retrofitted, not 50% as indicated in table T9 note)

CME RESPONSE TO VECC INTERROGATORY # 2

Question

References: Page 4 and Appendix C, Tab 11

(a) Please explain the basis for the 2009 Distribution Revenue figure. The OEB's 2009 Statistical Yearbook reports a value of $2,877 M for Total Revenue less Cost of Power and Related Costs.

(b) What is the basis for the assumption that distribution revenues will increase at 3% per annum in 2010 – 2012 and then 1.5% thereafter.

Response

(a) As noted on page 4 of our report and Appendix C, table T11, we used data from the OEB 2009 Distributors Yearbook (an Excel workbook). Our 2009 total distribution revenue assumption of $ 2.601 billion was the combined total of the Distribution Revenues for the four customer groups identified in the "Stats by Customer Class" workbook sheet. The higher value of $ 2,877 million referenced in the interrogatory came from the "IS 2009" sheet. Had we used this higher value, the distribution (non-GEA) cost increase to 2015 would have risen to $ 324 million, from our report value of $ 291 million.

(b) These are estimates only. In general, the values reflect an allowance for inflation, combined with a productivity/efficiency gain. The higher value of 3% reflects a belief that lower LDC throughput arising from the economic downturn and CDM will put added upward pressure on rates. As noted on page 1 of our report Aegent does not have access to the five (5) year Business Plans of LDCs. If we did, we would have access to information that would allow us to better align our estimates with LDC projections.

CME RESPONSE TO VECC INTERROGATORY # 3

Question

Reference: Pages 7 – 8

(a) Please confirm whether the IESO energy forecast represents the MWhs billed to consumers. If not, please confirm that, in order to estimate consumer impacts, the value used (142.9 TWh) would need to be reduced to account for losses.

(b) Please confirm that the determination of the unit cost impacts does not account for the fact that the distribution costs only apply to a portion of the total kWh sold, i.e., do not apply to transmission-connected end-use customer such as large industry.

(c) If possible, please restate the unit cost impacts distinguishing between:

i) Non-Residential (Transmission Connected);

ii) Non-Residential (Distribution Connected); and

iii) Residential.

Response

(a) The IESO forecast energy consumption includes IESO-grid loads plus transmission losses. IESO-grid loads include, for distributor-served customers, loads plus distributor-grid losses. We feel the IESO volume used was appropriate and that no adjustment related to the treatment of losses is required.

Further explanation follows.

The analysis required a volume to use in estimating the unit cost rise, once the total dollar increase was determined.

Given the dominance of Global Adjustment (GA)-related cost increase items, we felt using the IESO forecast energy consumption as a proxy for the denominator in calculating the GA unit rate was appropriate for our analysis (the exceptions being refinements arising from questions Q3b and Q3c below). Additional logic follows.

The GA denominator is equal to the Allocated Quantity of Energy Withdrawn ("AQEW") plus output from embedded generation. The IESO consumption forecast is equivalent to what the IESO refers to as "Ontario Demand", which is in turn the total of all loads served by the IESO plus losses on the IESO grid. We understand that IESO grid losses are 2 – 3%, i.e. about 2.5%. We estimate embedded generation output to be about the same as IESO grid losses, i.e. an average of 400 MW. If IESO grid losses and embedded generation output are the same, then it follows from our denominator assumption that AQEW is equivalent to Ontario load (as defined by the IESO).

(b) Confirmed, the analysis did not reflect this, i.e. distribution-related cost increases were spread across the total provincial energy quantity of 142.9 TWh, when they should have been spread across a lesser total distribution volume.

(c) In answering this question we assume that loss-inclusive distribution consumption will be 124.2 TWh (OEB 2009 Distributors Yearbook, “Stats by Customer Class” workbook sheet total volume for all LDCs).

In continuing to answer these questions, we considered the total cost increase out to 2015 and assumed the only cost increase elements that apply to distribution customers in isolation are CDM (estimated 80% of increase) and Distribution (non-Green *Energy Act*) and Distribution (*Green Energy Act* estimated at 30% of increase):

i) The resulting final unit cost increase for Non-Residential (Transmission Connected) customers is $ 49.02/MWh.

ii) and iii) Our analysis did not differentiate between Non-Residential (Distribution Connected) and Residential customers, other than the HST impact felt by the latter group.

Non-Residential (Distribution Connected) and Residential customers would experience a final unit cost increase of $ 54.93/MWh, excluding HST. Residential customers would experience an HST-inclusive increase of $ 62.07/MWh.