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October 28, 2010

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

Dear Ms. Walli,

RE: EB-2010-0002 - Argument of the Building Owners and Managers Association of the Greater Toronto Area and the London Property Management Association

Please find attached the argument of the Building Owners and Managers Association of the Greater Toronto Area ("BOMA") and the London Property Management Association ("LPMA") in the above noted proceeding.

Yours very truly,

Randy Aiken

Randy Aiken
Aiken & Associates

c.c. Anne-Marie Reilly (Hydro One)
Donald Rogers, Q.C. (Rogers Partners LLP) (e-mail only)
Intervenors (e-mail only)

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.

BUILDING OWNERS AND MANAGERS ASSOCIATION OF THE GREATER TORONTO AREA ("BOMA")

AND

LONDON PROPERTY MANAGEMENT ASSOCIATION ("LPMA")

ARGUMENT

October 28, 2010

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1 **ARGUMENT OF**
2 **BUILDING OWNERS AND MANAGERS ASSOCIATION OF THE**
3 **GREATER TORONTO AREA**
4 **(“BOMA”)**
5 **AND**
6 **THE LONDON PROPERTY MANAGEMENT ASSOCIATION**
7 **(“LPMA”)**
8

9 # I. INTRODUCTION

10 This is the Argument of the Building Owners and Managers Association of the Greater
11 Toronto Area (“BOMA”) and the London Property Management Association (“LPMA”)
12 related to the setting of 2011 and 2012 transmission revenue requirement for Hydro One
13 Networks Inc (“Hydro One”). Hydro One proposed to change rates effective January 1,
14 2011 and January 1, 2012.
15
16 This Argument has been structured to reflect the major components of the Hydro One
17 evidence. Where readily available, BOMA & LPMA have attempted to provide the
18 impact of its submissions on the revenue requirement of Hydro One. However, a
19 comprehensive impact analysis has not been undertaken. If the Board accepts any or all
20 of the BOMA & LPMA submissions, it is assumed that the direct and indirect impacts
21 will be determined by Hydro One, with an opportunity for review by intervenors and
22 Board Staff. An example of a comprehensive impact analysis would include the direct
23 impact on rate base of a $1 million reduction in capital expenditures closed to rate base.
24 Depreciation expense would also be directly impacted by this change. The indirect
25 impacts would include the change in total cost of capital and taxes (due to CCA and
26 interest costs). Similarly there would be a direct impact of a change in OM&A expenses
27 on the revenue requirement, while the indirect impact would be the change in the working
28 capital allowance component of rate base.
29
30 Hydro One is forecasting a revenue requirement of $1,445.5 million in 2011 and $1,547.4
31 in 2012 (Exhibit E1, Tab 1, Schedule 1, Table 1). These figures represent increases in the
32 total revenue requirement of $188.2 million in 2011 (Table 2) from the OEB approved
33 level of $1,257.3 million for 2010 and a further incremental $102.0 million in 2012

1 (Table 4). The increase in 2011 is 15.0% over the 2010 approved level followed by a
2 further 7.0% increase in 2012. The cumulative increase in 2012 is 23.1% over the 2010
3 approved revenue requirement.
4
5 The rates revenue requirement, which is also shown in Exhibit E1, Tab 1, Schedule 1
6 (Tables 2 and 4) increases from $1,217.7 million as approved by the OEB for 2010 to
7 $1,405.8 million in 2011 and to $1,527.5 million in 2012. These increases are $188.1
8 million or 15.4% in 2011 and a further $121.7 million or 8.7% in 2012. The cumulative
9 increase in 2012 over the 2010 Board approved level is 25.4%. The rates revenue
10 requirements reflects the total revenue requirement with deductions for external revenues,
11 the export revenue credit and other cost charges and the addition of costs associated with
12 low voltage switch gear. These adjustments are shown in Tables 2 and 4 of Exhibit E1,
13 Tab 1, Schedule 1 for 2011 and 2012, respectively.
14
15 The impact on the uniform provincial transmission rates, which takes into account both
16 the increase in the revenue requirement and the impact of the change in the load forecast,
17 has been calculated by Hydro One to be an increase of 15.7% in 2011 and 9.8% in 2012
18 (Exhibit I, Tab 1, Schedule 18). These increases result in an increase in the average
19 customer's bill of 1.2% in 2011 and 0.7% in 2012 (Exhibit A, Tab 2, Schedule 1, page 3).
20
21 The submissions that follow reflect the areas where BOMA & LPMA believe that
22 adjustments should be made to Hydro One's forecasts and/or proposals. Submissions are
23 also provided on the Association of Major Power Consumers in Ontario ("AMPCO")
24 "High Five" proposal related to transmission rate design.
25

26 II. ECONOMIC FORECASTS & UPDATED INFORMATION

27 Hydro One's evidence was prepared based on economic indicators and assumptions that
28 are now 2 years old. As shown in Exhibit A, Tab 12, Schedule 2, transmission cost
29 escalation and consumer price index forecasts came from Global Insight's December,
30 2008 forecast (page 2), exchange rate forecasts came from the November 2009 edition of

Consensus Forecast and the Long-Term Forecast and Analysis from Global Insight of October 2008.

The economic reality of late 2008 is substantially different than it is today.

Hydro One's interest rate forecasts (long-term and short-term) were based on Consensus Forecasts from October and November, 2009. The rate used for the allowance for funds used during construction was based on forecasts from the October 2008 edition of Consensus Economics (page 6).

BOMA & LPMA submit that it is reasonable for the Board to direct Hydro One to update their cost estimates where updated information is available on the record in this proceeding. Specific examples are provided throughout the remainder of this submission where more recent forecast information has been provided.

III. THE IMPACT ON THE CUSTOMER

BOMA & LPMA urge the Board to keep the total bill impact on electricity consumers in mind as it makes its findings in this proceeding.

Hydro One has repeatedly stressed throughout this proceeding that the impact of the increase in the transmission rates is relatively small, at 1.2% in 2011 and 0.7% in 2012. With all due respect, this is an attempt to mask the increase of 15.7% and 9.8% for 2011 and 2012, respectively, on one of the components of a customer bill.

BOMA & LPMA note that the Board has previously indicated to Hydro One that the Board cannot ignore the overall impacts on customers. In particular, in the April 9, 2010 Decision with Reasons for EB-2009-0096 (Hydro One Distribution rates), the Board noted (at page 13) that:

> *"...the Board must take into account the overall increase and prospect of further increases in the commodity portion of the bill. While these charges are outside of the control of the applicant, they are no less real for consumers. In giving effect to the*

1 *Board's objective to protect the interests of consumers the Board*
2 *cannot ignore the overall impacts on customers."*
3
4 BOMA & LPMA note the significant impact on customer bills that has already taken
5 place as of September 1, 2010. Before tax, the currently monthly bill for a Hydro One
6 Distribution R1 residential customer consuming 1000 kWh has seen an increase of 9.4%
7 or more than $13 per month in September 2010 as compared to September 2009 (Exhibit
8 J6.4). On an after tax basis taking into consideration the change from the GST to the
9 HST, the increase for a typical residential customer is 17.7% or more than $26 per month
10 and amounts to nearly $315 on an annualized basis.
11
12 BOMA & LPMA note that this increase is not unique to either residential customers or to
13 Hydro One Distribution Customers. Aside from the distribution and regulatory asset
14 related costs, the increase reflects changes in line items related to the commodity price,
15 the change in the tax, other regulatory charges and, of course, the transmission related
16 costs that are the subject of the current proceeding.
17
18 For the Board to meet its stated objective of protecting the interests of consumers, it must
19 ensure that each of the bill components over which it has authority are just and reasonable
20 both on their own and in the context of the total impact on customers.
21
22 **IV. RATE BASE**

23 **a) Capital Expenditures**

24 Hydro One is forecasting a significant increase in the level of capital expenditures in
25 2011 and 2012, as shown in Table 1 of Exhibit D1, Tab 3, Schedule 1. Capital
26 expenditures are forecast to be $1,151.8 million in 2011 and $1,008.3 million in 2012.
27 This compares to levels that range from $559.5 million in 2007 to $930.0 million
28 projected for the 2010 bridge year.
29
30 However, as shown in Tables 2 and 3 of the same Exhibit, Hydro One continues to have
31 problems when it comes to investing in what they say they will. The following table is a
32 summary of the Board Approved and actual capital expenditures for 2009 and 2010. This

1 table also shows the actual versus Board Approved figures for 2007 and 2008 as provided
2 in the EB-2008-0272 proceeding.
3

Year	Actual	Board Approved	Variance
2007	559.5	711.6	(152.1)
2008	704.2	774.4	(70.2)
2009	917.8	936.5	(18.7)
2010	930.0	1,057.6	(127.6)
Total	3,111.5	3,480.1	(368.6)
Average	777.9	870.0	(92.1)

4
5 As shown in the above table, Hydro One under spent compared to the Board approved
6 figure in 2007, 2008, 2009 and forecasts that it will do so again in 2010. Over the four
7 year period shown, Hydro One spent 10.6% less than the Board approved budgets, a
8 variance of nearly than $370 million. Over the 2009 through 2010 period, the total
9 expenditures are 7.3%, or $146.3 million, below the Board Approved levels for those two
10 years.
11
12 With an increase in the level of capital expenditures forecast for 2011 and 2012 as
13 compared to the Board approved levels in 2009 and 2010, coupled with their performance
14 over the 2007 through 2010 period as shown above, BOMA & LPMA submit that there is
15 a real question as to whether Hydro One can achieve their forecast. While Hydro One
16 may have the best intentions to follow through on its expenditure plans, their actions have
17 shown a strong tendency to over forecast these expenditures, resulting in lower capital
18 spending than included in rate base for rate making purposes.
19
20 As noted above and as can be calculated from the above table, the capital expenditures in
21 2009 and 2010 were below the EB-2008-0272 Board approved levels by 7.3%. BOMA
22 & LPMA submit that this should cause great concern to the Board. Hydro One recovered
23 a cost of capital on nearly $150 million where there was no cost of capital. Hydro One
24 recovered depreciation expense on nearly $150 million in assets when there were no
25 assets to depreciate. Rates reflected significant costs that did not materialize.
26

1 BOMA & LPMA believe that any increase in rates must be backed by a track record that
2 justifies the forecast increase. When it comes to capital spending, Hydro One lacks this
3 track record. Indeed, their record is one of consistent under spending. BOMA & LPMA
4 submit that Hydro One has not provided any evidence to suggest that they have improved
5 their budgeting methodology to ensure it has become more accurate.
6 BOMA & LPMA submit that in the light of all of the above, a reduction in the capital
7 expenditures forecast by Hydro One in both 2011 and 2012 of 5% is reasonable and is a
8 conservative reduction given the under spending of more than 7% in 2009 and 2010.
9 This would reduce capital expenditures for 2011 to approximately $1,094.2 million (a
10 reduction of $57.6 million) and for 2012 to $957.9 million (a reduction of $50.4 million).
11
12 BOMA & LPMA believe these levels would be more manageable for Hydro One and
13 reduce the risk to ratepayers that they are paying for assets that do not materialize in the
14 test years, as was the case in 2007, 2008, 2009 and 2010.
15
16 BOMA & LPMA have also reviewed the response provided at Exhibit J2.3. This
17 response provided a corrected response to Exhibit I, Tab , Schedule 29 that, in part, dealt
18 with the minimum level of capital expenditures as identified in the Business Plan. Page 3
19 of the response provides a detailed comparison for each of 2011 and 2012 between the as
20 filed expenditures and the minimum level of expenditures. The following table is a
21 summary by major category of capital expenditures.
22

	2011			2012		
		Minimum			Minimum	
	Filed	Level	Variance	Filed	Level	Variance
Total Sustaining	424.0	339.8	84.2	443.4	379.7	63.7
Total Development	617.2	701.4	(84.2)	456.8	652.7	(195.9)
Total Operating	44.3	36.9	7.4	57.4	38.0	19.4
Total Shared Services	66.4	55.3	11.1	50.7	30.5	20.2
Total Transmission	1,151.9	1,133.4	18.5	1,008.3	1,100.9	(92.6)
Total excl. Development	534.7	432.0	102.7	551.5	448.2	103.3

23

1 The Total Development figures as filed for both 2011 and 2012 are below the minimum
2 levels because the minimum levels were not adjusted after Hydro One updated its May
3 filing for a number of green projects that have been suspended as a result of the Energy
4 Minister's letter to Hydro One of May 5th. In particular, the development work
5 associated with the major projects shown in Schedule A of the Minister's letter to Hydro
6 One of September 21, 2009 found in Appendix A of Exhibit A, Tab 11, Schedule 4 (Tr.
7 Vol. 2, page 36). This was explained in more detail by Mr. Young in a discussion with
8 Mr. Buonaguro (Tr. Vol. 2, pages 170-173).
9
10 Of particular importance with respect to the minimum levels of expenditures, Mr. Young
11 indicated that all of the development capital projects identified have been deemed to be
12 non-discretionary. He concluded that this meant that the filed level was equivalent to the
13 comparable minimum level.
14
15 BOMA & LPMA have taken this into account in the above table in the last line, labeled
16 "Total excl. Development". This line backs out the Total Development capital projects
17 and essentially assumes that the filed level for these projects is equivalent to the
18 minimum level.
19
20 This results in filed capital spending in excess of the minimum level (excluding
21 development capital) of $102.7 million in 2011 and $103.3 million in 2012.
22
23 As noted in the response to Exhibit I, Tab 4, Schedule 29, Hydro One indicates that using
24 the minimum as a point of reference is discouraged, as it does not represent a plan that is
25 in the best interest of the ratepayers and the province.
26
27 BOMA & LPMA agree that reducing the capital expenditures to the bare minimum may
28 not be appropriate. Hydro One states that reducing investments to the minimum level
29 would increase the likelihood of a severe event. It is not in the interest of ratepayers to
30 increase the likelihood of severe occurrences. However, it is also not in the interest of
31 ratepayers to increase rates as a result of capital expenditures beyond what is necessary

and affordable. BOMA and LPMA submit that a reduction in the non-development capital expenditures to a point midway between the as filed and the minimum level is appropriate as it balances the interests of ratepayers between an increase in the likelihood of a severe event and rising rates. This approach would result in a reduction of capital expenditures of $51.4 million in 2011 and $51.7 million in 2012. These figures are generally consistent with the reductions proposed of $57.6 million and $50.4 million for 2011 and 2012, respectively, based on the propensity to over forecast capital expenditures noted above.

b) Adjustments to Net Utility Plant

The net utility plant component of rate base is impacted by two adjustments proposed by BOMA & LPMA.

i) Reduction in Capital Expenditures

The first of the two adjustments is related to the reduction in capital expenditures proposed by BOMA & LPMA noted above in part (a). The reduction in capital expenditures will not have the same direct impact on rate base. This is because there is a significant difference between the capital expenditures in any year and the amount of in-service additions for the year. A comparison of Table 1 of Exhibit D1, Tab 3, Schedule 1 (capital expenditures) and Table 2 of Exhibit D1, Tab 1, Schedule 1 (in-service additions) highlights these differences. For example, the capital expenditures for 2011 and 2012 are $1,151.8 and $1,008.3, respectively, while the in-service additions to rate base for these two years are $871 million and $1,619 million, respectively. These differences reflect the impact of capital expenditures in one year that are included in construction-work-in-progress ("CWIP") until the assets are put into service in a following year.

BOMA & LPMA submit that the Board should direct Hydro One to appropriately reflect any changes to capital expenditures determined by the Board in the calculation of net utility plant.

1 ii) Allowance for Funds Used During Construction
2 The capital expenditure forecast shown in Table of Exhibit D1, Tab 3, Schedule 1
3 includes the costs associated with the allowance for funds used during construction
4 ("AFUDC"). It is submitted that in addition to any changes in the actual project costs, the
5 Board should direct Hydro One to reflect the lower AFUDC costs related to updated
6 AFUDC rates.
7
8 Hydro One has based its forecast for AFUDC on rates forecast based on information from
9 October, 2008 (see Section II above). The rates used were 4.9% for 2010, 5.6% for 2011
10 and 6.1% for 2012. The resulting AFUDC levels were forecast to be $73.6 million in
11 2010, $54.4 million in 2011 and $63.2 million in 2012. These figures are shown in Table
12 1 of Exhibit D1, Tab 4, Schedule 1. It was confirmed that these figures include the
13 AFUDC related to the Bruce to Milton project in 2010, but that the figures for 2011 and
14 2012 did not include the Bruce to Milton project or the other two projects listed in Table
15 3 of Exhibit A, Tab 11, Schedule 5 (Exhibit J6.7). These two other projects have
16 relatively small expenditures in the test year and as a result any AFUDC associated with
17 these projects would be very small.
18
19 BOMA & LPMA submissions with respect to the Bruce to Milton project, including the
20 appropriate amount of AFUDC are found later in this Section.
21
22 As shown in Exhibit J6.6, the amount of AFUDC for 2010 is forecast to be $67.2 million,
23 a reduction of $6.4 million from the original forecast. This reduction is based on the
24 actual AFUDC rate for 2010, which averages 4.34% in place of the 4.9% originally
25 forecast by Hydro One. BOMA & LPMA submit that this reduction should be reflected
26 in the calculation of rate base for 2011 and 2012 based on when this reduced level of
27 2010 AFUDC is closed to rate base.
28
29 Hydro One updated the AFUDC rates for 2011 and 2012 based on the most recent
30 information available in Exhibit I, Tab 6, Schedule 28. The rate for 2011 fell from 5.6%
31 to 5.21%, while the decrease in 2012 was from 6.1% to 5.91%. These rate reductions

1 result in a decrease in the level of 2011 AFUDC of $3.2 million to $51.2 million and a
2 reduction in the level of 2012 AFUDC of $2.1 million to $61.1 million.
3
4 BOMA & LPMA submit that the Board should direct Hydro One to reflect the lower
5 amounts in AFUDC when these amounts are forecast to be closed to rate base in 2011
6 and 2012.
7
8 <u>iii) Reduction Related to HST</u>
9 The introduction of the HST on July 1, 2010 reduces the cost associated with capital
10 expenditures. The provincial portion of the HST was included in the capital cost. Now
11 the provincial portion is deductible as an Input Tax Credit for HST reporting and
12 remitting purposes.
13
14 In response to Exhibit I, Tab 1, Schedule 91, Hydro One indicates the forecasted
15 reduction in capital expenditures resulting from this change is $42.6 million in 2011 and
16 $35.8 million in 2012. However, Hydro One is not proposing to reflect these reductions
17 in rate base or the resulting revenue requirement in either 2011 or 2012. Instead, Hydro
18 One proposes to record the revenue requirement impact of the estimated reduction in
19 costs in deferral account 1592.
20
21 Mr. Struthers estimated the revenue requirement impact of removing the HST from the
22 capital expenditures to be about $4 million in any one year (Tr. Vol. 6, page 113).
23 BOMA & LPMA accept this is a high level estimate of the impact on the cost of capital
24 and the depreciation expense.
25
26 BOMA & LPMA submit that the Board should direct Hydro One to use its forecast as set
27 out in Exhibit I, Tab 1, Schedule 91 to reduce the capital expenditures and the resulting
28 rate base and revenue requirement for 2011 and 2012 rather than recording the impact in
29 a deferral account to be rebated to customers at some point in the future. As noted earlier
30 in this Argument, Hydro One has a significant increase in the revenue requirement for
31 both 2011 and 2012. The impact of the HST is approximately $10 million per year ($4

1 million for capital expenditures, $5.2 million for OM&A, and $0.5 million for the impact
2 on the working capital requirement - the two latter figures are discussed in more detail in
3 following sections).
4
5 A $10 million reduction in the revenue requirement in both 2011 and 2012 is a significant
6 change in the revenue requirement and it is not appropriate, in the view of BOMA &
7 LPMA, to require ratepayers across the province pay more now and receive a rebate at
8 some future time. This would be bad policy at the best of times when Hydro One has
9 provided the Board and intervenors with a forecast of the impact of the HST. It is an
10 even worse policy when rates are rising significantly. Anything that helps mitigate the
11 increase should be considered by the Board.
12
13 BOMA & LPMA note that Hydro One indicates that impact of the HST is a forecast
14 amount and the figures provided in Exhibit I, Tab 1, Schedule 91 are the most recent
15 forecast that Hydro One has (Tr. Vol. 6, page 112). In this respect, BOMA & LPMA
16 note this is no different than any other forecast used in this application. It is the best
17 information currently available.
18
19 However, in the event that the Board determines that there may be some additional
20 uncertainty associated with this estimate that may not exist for other forecasts, BOMA &
21 LPMA submit that the Board should direct Hydro One to reflect the impact of the HST in
22 the 2011 and 2012 revenue requirements (rather than recording the impacts in a deferral
23 account to be given back to customers at a later time), and to set up a variance account
24 around the forecasts reflected in the reduction to the revenue requirement for 2011 and
25 2012. BOMA & LPMA would not be opposed to the use of a variance account.
26
27 The net result of using the forecast with a variance account will be the same in the long
28 run as not using the forecast and using a deferral account (interest aside). The advantage
29 of the forecast/variance account approach is that it helps mitigate the increase in rates to
30 customers immediately, in a time when all components of the rates paid by customers are
31 under increasing upward pressure.

1 In addition to the decreases in capital expenditure forecasts for 2011 and 2012, BOMA &
2 LPMA note that there is a revenue requirement impact of removing the provincial sales
3 tax ("PST") on capital expenditures for the last six months of 2010. Deferral account
4 1592 is tracking the impact of this change on the 2010 revenue requirement. However, it
5 is not clear if the reduction in costs in the 2010 capital expenditures and the associated
6 lower rate base and depreciation expenses that would flow out of this for 2011 and 2012
7 will also be recorded in the account.
8
9 The Board could either direct Hydro One to make an adjustment to the 2010 capital
10 expenditures and the subsequent impact on rate base in 2011 and 2012 and extend the use
11 of the proposed variance account around the adjustment made or continue to record the
12 impact in 2011 and 2012 of the HST for the last half of 2010 in the deferral account.
13
14 While BOMA & LPMA would prefer the former approach, it is not clear that there is a
15 figure on the record in this proceeding for the amount of the reduction in capital
16 expenditure costs for the last half of 2010. It could, however, be estimated that based on
17 a savings that average about $40 million in 2011 and 2012, that the reduction for half of
18 2012 would be approximately $20 million. The associated reduction in rate base of
19 approximately $10 million in 2011 and $20 million in 2012 would result in a decrease of
20 about $1 million in the 2011 revenue requirement and close to $2 million in 2012, taking
21 into account both the cost of capital and the associated depreciation. Again, these would
22 be significant reductions in the revenue requirement and the associated increase in rates
23 to customers.
24
25 **c) Adjustments to Working Capital**
26 i) Impact of the HST
27 Hydro One is requesting the approval of a working capital requirement component of rate
28 base of $7.1 million in 2011 and $5.0 million in 2010. The calculations used to derive
29 these amounts are based on the Navigant study that was accepted by the Board and
30 updated as part of this filing. BOMA & LPMA take no issue with the Navigant Study as
31 it pertains to the transmission working capital requirement calculation.

1
2 However, the working capital requirement calculated for 2011 and 2012 has not been
3 adjusted to reflect the impact of the harmonization of the PST and the goods and services
4 tax ("GST") into the HST. The impact on the working capital requirement of this change
5 is significant.
6
7 As shown in the response to Exhibit I, Tab 4, Schedule 41, the effect of the introduction
8 of the HST reduces the transmission working capital requirement from $7.1 million in
9 2011 to $0.8 million while the requirement in 2012 of $5.0 million drops to a net
10 reduction in rate base of $3.4 million. These changes reflect not only the direct impacts
11 on revenues, OM&A and other expenses, and capital expenditures, but also reflect the
12 indirect impacts on the level of OM&A and other expenses, the level of capital
13 expenditures and the amount of long-term debt that results from the reduction in cash
14 flow (Exhibit J6.10).
15
16 Hydro One does not propose to reflect the reduction in the working capital requirement of
17 rate base to reflect the forecasted impact of the HST (Tr. Vol. 6, pages 113-116), but
18 would include the revenue requirement impact in account 1592. Based on the
19 information in the previous paragraph, this reduction in rate base is approximately $6.3
20 million in 2011 and $8.4 million in 2012. Rather, Hydro One proposes to track the
21 revenue requirement impact of the reduction in rate base in a deferral account. Based on
22 the weighted average cost of capital of 7.4% to 7.5% (Exhibit B1, Tab 1, Schedule 1,
23 Table 1), the cost of capital associated with these reductions to rate base range from
24 approximately $0.5 million to $0.6 million per year.
25
26 As noted earlier in these submissions, BOMA & LPMA submit that the Board should
27 flow the reduction in the revenue requirement resulting from the HST impact to
28 customers now and approve the use of a variance account if it deems it necessary rather
29 than deferring the benefits to customers to a future period through the use of the deferral
30 account as proposed by Hydro One.
31

1 ii) Normal Course Adjustments
2 BOMA & LPMA submit that any changes made by the Board in its Decision that have an
3 impact on the figures used to calculate the working capital allowance shown in Table 1 of
4 Exhibit I, Tab 4, Schedule 41 should be reflected in an updated calculation of the working
5 capital allowance.
6
7 **d) Materials and Supplies Inventory**
8 Hydro One is forecasting significant growth in the materials and supplies inventory
9 component of rate base in the 2011 and 2012 test years as compared to the levels
10 recorded in 2007 through 2010. In particular, inventory levels of $9.1 million in 2007
11 have grown to an estimated $12.7 million in 2010 and then surge to $17.4 million in 2011
12 and $21.7 million in 2012. These figures are shown in Table 1 of Exhibit D1, Tab 1,
13 Schedule 4.
14
15 As noted in Exhibit I, Tab 2, Schedule 55, the growth in inventory is much greater than
16 the growth in assets in service. Hydro One explains that the sustaining and development
17 programs are increasing substantially over the 2007 through 2012 period, driving the
18 increase in materials and supplies inventory. Hydro One further states that the 2011 and
19 2012 materials and supplies inventory is the required level of materials and supplies
20 inventory to be drawn on to complete the necessary SDO (sustaining, development,
21 operations) work through this period.
22
23 BOMA & LPMA submit that this increase forecast for 2011 and 2012 has not been
24 justified. BOMA & LPMA agree with Hydro One that there is likely to be a strong
25 relationship between the value of inventory and the level of SDO capital expenditures.
26 However, as illustrated in the table on the following page, this relationship does not
27 justify the increase in inventories forecast by Hydro One. In fact, it shows a significant
28 discontinuity in the Hydro One figures.
29
30 BOMA & LPMA also note that Hydro One has a poor track record in forecasting the
31 level of materials and supplies inventory. Table 3 of Exhibit D1, Tab 1, Schedule 1

1 shows that the actual level of materials and inventory in 2009 was $11.7 million,
2 significantly lower than the Board Approved level of $36.7 million. Similarly, Table 4 in
3 the same exhibit shows that the actual 2010 level is projected to be $12.7 million as
4 compared to the Board Approved level of $38.7 million. In both 2009 and 2010 the
5 forecasted level included in rate base, and ultimately reflected in rates, was more than
6 three times the actual level recorded.
7 The following table calculates the ratio of year-end inventory to the total SDO capital
8 budget. As the table shows, the ratio has declined from 2.1% in 2007 to 1.5% in both
9 2009 and 2010. This decline reflects improvements in Hydro One's inventory
10 management practices. However, Hydro One is forecasting a significant rise in this ratio
11 in 2011 and a further increase in 2012. The discontinuity noted on the previous page is
12 that despite a reduction of more than 10% in SDO capital budget between 2011 and 2012,
13 the year-end inventory level is forecast to increase by nearly 20%.
14

	2007	2008	2009	2010	2011	2012	Source
Year-End Inventory	10.0	11.0	12.3	13.1	21.7	26.0	D1/T1/S4/Table 1
SDO Capital Budget	487.3	614.4	836.2	856.3	1,085.5	957.6	D1/T3/S1/Table 1
Ratio	2.1%	1.8%	1.5%	1.5%	2.0%	2.7%	
Average 2007-2010				1.7%	1.7%	1.7%	
Year-End Based on Average					18.6	16.4	
Annual Average	9.1	10.5	11.7	12.7	15.8	17.5	

15
16 BOMA & LPMA submit that the Board should find that the level of materials and
17 supplies inventory forecast by Hydro One is excessive for both test years. In particular,
18 based on the average ratio of year-end inventory to the SDO capital budget of 1.7% over
19 the 2007 through 2010 period, the year-end inventory for 2011 should be $18.6 million
20 and $16.4 million for 2012. These figures produce annual averages to be included in rate
21 base of $15.8 million in 2011 and $17.5 million in 2012. These figures, which are shown
22 in the above table, result in a reduction to rate base of $1.6 million in 2011 and $4.2
23 million in 2012.
24
25
26

1 # V. ACCELERATED CWIP COST RECOVERY

2 **a) The Proposal**

3 Hydro One is proposing that its 500 kV Bruce to Milton Line project ("BxM") be subject
4 to accelerated cost recovery. This project has already been approved by the Board in a
5 Section 92 proceeding.
6
7 The accelerated cost recovery mechanism requested by Hydro One is an approach that
8 would treat 100% of the Construction Work In Progress ("CWIP") expenditures as if they
9 were added to rate base until the project is placed into service. The effect of this
10 approach is to include the cost of capital for annual CWIP expenditures as if the project
11 was declared partially in-service on an annual basis. No depreciation expense is included
12 in the revenue requirement until the project is actually in service.
13
14 **b) The Impact**

15 The accelerated CWIP cost recovery of the BxM project in 2011 and 2012 has a
16 significant impact on the increase in the revenue requirement in both years. The
17 following table provides a summary of this impact.
18

$ (million)	2011	2012	Source
Increase in Total Revenue Requirement	188.2	102.0	Ex. E1, Tab 1, Sch. 1, Table 2 & 4
Impact of BxM Project	43.6	26.0	Ex. I, Tab 3, Sch. 11
Percent of Total Revenue Requirement	23.2%	25.5%	

19
20 As the above table illustrates, the accelerated CWIP cost recovery proposal for the BxM
21 project represents approximately one-quarter of the total increase in the revenue
22 requirement in the two test years. In fairness, the 2012 figure does not reflect the
23 addition of the AFUDC to the 2012 rate base of a fully completed and in-service BxM
24 project. Hydro One currently projects that completion of the project in late 2012 (Exhibit
25 D2, Tab 2, Schedule 3). However, as the Hydro One evidence indicates, this timing is
26 still uncertain at best.
27
28

c) The Board Policy

The EB-2009-0152 Report of the Board on The Regulatory Treatment of Infrastructure Investment in Connection with the Rate-Regulated Activities of Distributors and Transmitters in Ontario dated January 15, 2010 ("Report") indicated that the accelerated cost recovery mechanism proposed by Hydro One would be one of the alternative cost recovery mechanisms that would be considered by the Board.

The Board stated at page 19 of the Report that a case-by-case approach would be the most effective to ensure that an appropriate balance is achieved between mitigating risks associated with unique investment challenges and protecting the interests of ratepayers.

The Board indicated that the applicant must demonstrate that there is a requisite relationship between the alternative mechanism proposed and the investment project, in the sense that the proposal is tailored to address the demonstrable risk and challenges faced by the applicant.

d) The Hydro One Rationale

The Hydro One rationale for proposing the accelerated CWIP approach to the BxM project is that it is beneficial to ratepayers. This rationale is explained in detail in the response provided in Exhibit I, Tab 1, Schedule 122.

The key component of the Hydro One analysis is the Net Present Value ("NPV") of the revenue requirement calculation provided in the response noted above. The revenue requirement represents the costs to ratepayers. The analysis shows that the NPV of the standard approach is $848.7 million (Attachment 2), while the NPV of the proposed CWIP in rate base approach is $839.0 million, a savings to ratepayers of $9.7 million.

e) Failure to Demonstrate

BOMA & LPMA submit that Hydro One has failed to demonstrate that their proposal is related to any risks and challenges faced by the applicant. In Exhibit A, Tab 11, Schedule 5, Hydro One indicates that there is a risk in further delays in the project completion. As

1 indicated in the response provided in Exhibit I, Tab 1, Schedule 122, a one year delay
2 would increase the costs to ratepayers using the standard approach because of the
3 increase in AFUDC that would be capitalized into rate base. However, a one year delay
4 would also increase the costs to ratepayers based on the proposed accelerated CWIP
5 proposal. Hydro One concludes that the increase under their proposal would be less than
6 the increase under the standard approach. However, this is a ratepayer risk, not a risk to
7 the applicant.
8
9 Hydro One also indicates in Exhibit A, Tab 11, Schedule 5, that their accelerated CWIP
10 proposal will provide a smoothing, or phased in effect on rates, mitigate the rate impact
11 that would otherwise take place when this large new facility comes into service, and also
12 reduce Hydro One borrowing costs to the benefit of ratepayers, due to the resulting
13 improved cash flow (page 6).
14
15 BOMA & LPMA submit that none of the issues identified by Hydro One are risks and
16 challenges faced by the applicant. They are risks and challenges faced by the ratepayers.
17 Hydro One has not provided any evidence to suggest that they cannot obtain the
18 additional financing required for the project or that the additional financing is at a higher
19 cost than the remainder of their debt requirements. Hydro One has not identified any
20 cash flow problems associated with the standard approach to including the project in rate
21 base when it is placed in service. Mr. Gregg confirmed that there were no obstacles that
22 Hydro One had to overcome in order to proceed with the project if the CWIP in rate base
23 proposal was denied by the Board (Tr. Vol. 3, pages 39-40).
24
25 **f) The NPV Justification**
26 As noted earlier, Hydro One relies on the projected NPV savings to customers in support
27 of their accelerated CWIP proposal. The NPV savings calculated by Hydro One of $9.7
28 million relies on the use of a discount rate of 6.62%, which is the after tax weighted
29 average cost of capital of Hydro One.
30

1 The response to Exhibit J6.9 shows that the NPV calculations are equal to one another
2 when the discount rate used is 7.81%. This means that the NPV is lower for the CWIP in
3 rate base approach when the discount rate is less than 7.81% and that it is higher for the
4 CWIP in rate base approach when the discount rate is greater than 7.81%.
5
6 The response to Exhibit J6.9 then goes on to illustrate the use of the Ontario Power
7 Authority`s Social Discount Rate of 4%, and that this social discount rate could be used
8 as proxy for the composite discount rate of Hydro One customers. The result, of course,
9 is that the NPV of the savings to ratepayers under the Hydro One proposal increases from
10 that shown in Exhibit I, Tab 1, Schedule 122.
11
12 BOMA & LPMA submit that use of a social discount rate as a proxy for the cost to
13 ratepayers of higher utility bills is inappropriate. Hydro One has not provided any
14 evidence in support of this statement.
15
16 Moreover, Hydro One has not presented any evidence to indicate that its after tax
17 weighted average cost of capital is an appropriate cost to ratepayers. BOMA & LPMA
18 submit that the real cost to ratepayers is in excess of 7.81%. The Hydro One CWIP in
19 rate base proposal is harmful to ratepayers in that the NPV of the costs under this
20 approach are more than the NPV of the costs associated with the standard regulatory
21 approach of including the project (including AFUDC) in rate base and in the revenue
22 requirement when the project is placed in service.
23
24 BOMA & LPMA submit that the Board should look at this issue based on three board
25 categories of ratepayers and what their real cost of capital is. These three categories are
26 large commercial and industrial customers, small and medium commercial and industrial
27 customers, and residential customers.
28
29 The Applicant is well aware that the cost of capital for regulated distributors and
30 transmitters is generally lower than it is for other large corporations. This is based on a
31 comparative risk analysis of a regulated entity to other large comparable entities. Thus,

1 BOMA & LPMA submit that there is no question that the cost of capital for large
2 commercial and industrial customers is greater than, or at least equal to that for Hydro
3 One.
4
5 Small and medium sized customers generally have a cost of capital that is higher than
6 large corporations. In fact, in the economic environment of today, many small and
7 medium sized businesses cannot access debt, at any cost.
8
9 Residential customers have a wide range of consumer debt instruments available to them
10 ranging from secured lines of credit to credit card debt. Hydro One seems to think it is
11 appropriate to consider a rate of 4% as an appropriate discount rate for customers,
12 including residential customers. This rate generally corresponds to the rate charged on a
13 secured line of credit. However, BOMA & LPMA submit that it would not be reasonable
14 to expect a residential customer to finance an increase in their electricity bills through the
15 use of a secured line of credit. Not all residential customers have access to a secured line
16 of credit or an unsecured line of credit. Furthermore, the discount rate used for the NPV
17 calculations is used over a long term horizon of 50 plus years. A secured line of credit
18 rate is tied to the prime interest rate, which is a short term debt rate.
19
20 A more appropriate interest rate to determine the NPV of the increased costs to
21 residential customers would be the rate charged on credit card balances, which currently
22 range from 9% to nearly 20%. This reflects the fact that the increase in utility costs will
23 increase consumer debt and will not be financed by secured assets.
24
25 In conclusion BOMA & LPMA submit that the cost of capital of ratepayers that should
26 be used in any NPV calculations related to the costs to be incurred by those ratepayers is
27 likely in excess of 7.81%. As a result it is submitted that the Board should deny the
28 CWIP in rate base approach because it has increased the costs to ratepayers.
29
30 BOMA & LPMA note that in its closing argument (Tr. Vol. 11, page 9), Hydro One
31 indicated that if the Board did not agree that customers would be better off by recovery of

accelerated CWIP, than it would be content to follow the traditional approach of capitalizing the allowance for funds used during construction.

g) Standard Approach

If the Board determines that it will not approve the accelerated CWIP approach, then BOMA & LPMA submit that there are two issues that the Board should determine using the standard approach when including the project in rate base. These two issues are the amounts and the timing.

With respect to the amounts, Hydro One has forecast the AFUDC to be $24.8 million for the period up to and including 2010, $26.4 million for 2011 and $40.9 million for 2012. These figures are shown in table on the bottom right hand corner of Attachment 2 to Exhibit I, Tab 1, Schedule 122. These figures total $92.1 million in AFUDC associated with the BxM project and were based on the original forecasted CWIP rates of 4.9%, 5.6% and 6.1% for 2010, 2011 and 2012, respectively (Exhibit D1, Tab 4, Schedule 1, Table 1).

BOMA & LPMA submit that the amounts of AFUDC included in the amount forecast to go into rate base when the project is complete should reflect the most recent forecast of the CWIP rates, including the actual CWIP rate for 2010. These rates are 4.34% for 2010 (Tr. Vol. 6, page 99), 5.21% for 2011 and 5.91% for 2012 (Exhibit I, Tab 6, Schedule 4).

Based on the response provided in Attachment 2 to Exhibit J6.8, the AFUDC for period up to and including 2010 is $19.2 million, $24.3 million for 2011 and $39.2 million for 2012, for a total AFUDC associated cost of $82.7 million. This is a reduction in the amount to be closed to rate base of $9.4 million.

The second issue noted above is the timing of the addition of the project to rate base. Hydro One is forecasting that this project will close to rate base in December of 2012.

1 However, the Hydro One evidence indicates that the primary risk to the project is a
2 further delay in the project completion (Exhibit A, Tab 11, Schedule 5, pages 5-6). In
3 particular, Hydro One indicates that the in-service date has already been delayed on year
4 past its original date of 2011 due to approval delays. The evidence indicates that Hydro
5 One is still waiting for some approvals and gives the Niagara Escarpment Commission
6 permit approval and OEB expropriation approval as examples. Both of these pose
7 schedule risk, with further risks listed as weather delays, third part interventions and
8 unforeseen construction delays such as poor or contaminated soil conditions or site
9 drainage issues.
10
11 On a half-year basis, the incremental rate base associated with the BxM project is $366.8
12 million (Attachment 2 to Exhibit I, Tab 1, Schedule 122). Hydro One`s forecasted 2012
13 rate base, excluding accelerated CWIP is approximately $8,845.6 million (Table 1 of
14 Exhibit D1, Tab 1, Schedule 1). In other words, the BxM project represents more than
15 4% of the projected 2012 rate base.
16
17 In light of the uncertainty surrounding the in-service date of this project and given the
18 large size of this project in relation to the total rate base of Hydro One, BOMA & LPMA
19 submit that the Board should direct Hydro One to establish a variance account to track the
20 change in the 2012 revenue requirement if the BxM project is not closed to rate base in
21 2012 as currently projected. This would provide ratepayers with protection in case the
22 project is delayed while allowing Hydro One to recover the associated revenue
23 requirement associated with the project if it is completed on time. Taking into account
24 the cost of capital, depreciation and tax impacts and the lower AFUDC amounts
25 discussed above, the revenue requirement of this project in 2012 is $29.2 million, as
26 shown in the 2012 column on line 24 of the first page of Attachment 2 to Exhibit J6.8.
27
28 It is submitted that the magnitude of the impact on the revenue requirement and the
29 uncertainty identified by Hydro One surrounding the completion date for the project
30 warrant the variance account protection for ratepayers requested by BOMA & LPMA.
31

h) Alternative Approach

If the Board determines that an alternative to the standard approach of including the project costs, including AFUDC, in rate base when the assets are put in service is warranted for the BxM project, then BOMA & LPMA submit that in place of the CWIP in rate base proposal advocated by Hydro One, the Board may want to consider an approach that allows the recovery of the AFUDC on an annual basis. This approach would essentially allow Hydro One, for regulatory purposes, to expense the AFUDC each year rather than capitalizing the amount and including it in rate base at later date. This would allow Hydro One to collect the carrying costs associated with the project in 2011 and 2012, enhancing their cash flow.

This approach is similar to the CWIP in rate base proposal in that it eliminates capitalized interest in 2011 and 2012 from being added to rate base when the project is put into service. It has the added benefit, however, of reducing the NPV of the cost to ratepayers from the approach recommended by Hydro One. This can be seen from the information provided in the response to Board Staff at Exhibit 1, Tab 1, Schedule 122.

The AFUDC for 2011 and 2012 is $26.4 million and $40.9 million, respectively, for a total of $67.3 million (Attachment 2 of Exhibit I, Tab 1, Schedule 122). Attachment 1 of the same response shows that the incremental amounts due to the accelerated CWIP recovery approach are $43.6 million and $26.0 million for 2011 and 2012, respectively, for a total cost of $69.6 million.

The expensing of AFUDC alternative, as recommended by BOMA & LPMA, costs ratepayers $2.3 million less over the 2011 through 2012 period than the Hydro One proposal. Beyond 2012, the revenue requirement based on the two approaches is identical since the same amount (excluding any AFUDC for 2011 and 2012) is included in rate base under either scenario. In addition, since the amount to be recovered from ratepayers is less in 2011 under the AFUDC expensing alternative relative to the CWIP in rate base approach and more in 2012, the NPV of the AFUDC expensing alternative is lower than the Hydro One proposal.

1 In summary, if the Board determines that the standard approach to including the BxM
2 project in rate base when it is placed into service is not sufficient for Hydro One, then
3 BOMA & LPMA respectfully submit that the expensing of the AFUDC in 2011 and 2012
4 is a better alternative than that of Hydro One. It allows Hydro One to recover its carrying
5 costs over this period, improving cash flow. It costs ratepayers, on an undiscounted
6 basis, $2.3 million less than the Hydro One proposal and on a discounted basis, the NPV
7 of the costs to the ratepayers is less than that of the Hydro One proposal as well.
8
9 As noted in part (g) above, BOMA & LPMA believe the Board should adjust the AFUDC
10 forecast for this project to reflect the most recent forecast of interest rates. This would
11 reduce the AFUDC to be collected in 2011 and 2012 in the BOMA & LPMA proposal to
12 $24.3 million and $39.2 million, respectively (Exhibit J6.8).
13

14 ## VI. GREEN ENERGY PLAN

15 **a) Variance Accounts**

16 The impact of the Green Energy Plan is relatively minor over the two test years (Tr. Vol.
17 11, page 5) with respect to the clearance of variance accounts. The impact includes the
18 recovery of $1.9 million that was actually spent in 2009 and placed in a Board-approved
19 variance account. BOMA & LPMA take no issue with this account or its recovery.
20
21 Amounts spent in 2010 up to the May 7, 2010 letter from the Minister of Energy to the
22 Ontario Power Authority will be placed in a variance account and Hydro One is expected
23 to ask the Board to allow to recover those amounts at its next rates case. There is no
24 effect on the current rates proceeding and Hydro One is not seeking any approval for
25 these 2010 amounts.
26

27 **b) Schedule B Projects**

28 The Schedule B projects are those projects listed in Schedule B to the September 21,
29 2009 letter from the Minister of Energy to Hydro One Inc. and are described as projects
30 to enable distribution system connected generation. These projects include upgrades to
31 the Leaside, Hearn and Manby stations.

Hydro One has indicated through its evidence and testimony about the need for the upgrades to facilitate distributed generation requirements. As part of the upgrades, Hydro One plans to refurbish parts of the facilities that have useful lives of up to five more years. BOMA & LPMA agree with Hydro One that given the relatively short remaining useful life of these assets, it makes no sense to defer refurbishment until the useful life of the facilities is completely exhausted. BOMA & LPMA also agree that the risk of waiting too long to complete the additional work is not justified. As a result, BOMA & LPMA support the inclusion of these projects in the 2011 and 2012 capital expenditures.

c) Approval of the Green Energy Plan

Hydro One is seeking approval of its Green Energy Plan (Tr. Vol. 11, pages 7-8). In particular, the company is requesting that the Board approve the plan conceptually. Hydro One also indicates that there is uncertainty as to whether it is obligated to file a green energy plan in transmission.

No approval is being sought for the individual projects (other than the Schedule B projects discussed above in part (b)). Hydro One also anticipates that it will be filing an updated five-year green energy plan in its next transmission rates case and indicates that any individual projects for which approval is sought will be subject to a Section 92 application or approval in a future rate application.

BOMA & LPMA do not believe there is any value in the Board approving the green energy plan on a conceptual basis. Without specific projects the green energy plan (excluding the Schedule B projects) is an empty shell waiting to be populated with projects as directed by the Minister of Energy or the OPA or by some other process. BOMA & LPMA see no value in the Board approving a shell to Hydro One, to the Board or to ratepayers. BOMA & LPMA recommend that the Board simply acknowledge that the green energy plan (excluding the Schedule B projects) is currently on hold pending review and new direction. In the absence of any clear direction at this time the Board should simply defer approval until more information is available.

1 # VII. OM&A EXPENSES

2 **a) Level of Forecast Expenses**

3 Hydro One has forecast an increase in the level of its OM&A expense in 2011 of 0.4% or
4 $1.8 million with a further increase of 3.1% or $13.7 million in 2012. Table 1 of Exhibit
5 C1, Tab 2, Schedule 1 shows these figures, along with the actual expenditures for 2007
6 through 2009 and the bridge year forecast for 2010. The OM&A costs include
7 sustaining, development, operations, shared services and other OM&A and property taxes
8 & rights payments.
9
10 BOMA & LPMA submit that the increases noted above, particularly, for 2011, are
11 misleading. As shown in Table 3 of the same exhibit, the bridge year forecast of OM&A
12 expenses is $8.3 million or 1.9% above the Board approved figure of $426.2 million. As
13 a result, the increase to $436.3 million in 2011 is an increase from the Board approved
14 figure for 2010 of 2.4% or more than $10 million. The cumulative increase in 2012 is
15 more than 5.5% or nearly $24 million over the Board approved 2010 level.
16
17 BOMA & LPMA note that the 2010 OM&A expenses appear to be coming in at a level
18 substantially below that forecast by Hydro One. The June 2010 year-to-date OM&A
19 expenses total $209.3 million (Exhibit I, Tab 6, Schedule 12). Doubling this to reflect a
20 full year of expenses would result in 2010 costs of $418.6 million. This is nearly $16
21 million lower than the bridge year forecast of $434.5 million.
22
23 BOMA & LPMA recommend an overall reduction in OM&A expenses of approximately
24 5% of the total OM&A forecasts for each of 2011 and 2012. This recommendation is
25 based on the specific reductions discussed in part (b) below.
26
27 **b) Specific Reductions**

28 BOMA & LPMA have reviewed the OM&A expenses and have noted a number of areas
29 where reductions appear to be appropriate. Each of these specific areas and reductions
30 are discussed below.
31

1 i) Reduction Related to HST
2 The introduction of the HST on July 1, 2010 reduced the cost associated with OM&A
3 expenses. The provincial portion of the HST was included in the cost. Now the
4 provincial portion is deductible as an Input Tax Credit for HST reporting and remitting
5 purposes.
6
7 In response to Exhibit I, Tab 1, Schedule 91, Hydro One indicates that forecasted
8 reduction in OM&A expenditures resulting from this change is $5.2 million in 2011 and
9 $5.3 million in 2012. However, Hydro One is not proposing to reflect these reductions in
10 the resulting revenue requirement in either 2011 or 2012. Instead, Hydro One proposes
11 to record the revenue requirement impact of the estimated reduction in costs in deferral
12 account 1592.
13 As noted earlier in this submission, BOMA & LPMA believe that in order to mitigate the
14 impact on customers, the Board should direct Hydro One to reflect the forecasted
15 reduction in the revenue requirement of the reductions related to the HST. This includes
16 the forecasted reduction in OM&A costs noted in the interrogatory response provided to
17 Board Staff.
18
19 ii) Adjustment to Compensation
20 In the last transmission proceeding (EB-2008-0272), the Board noted that the revenue
21 requirement would be $13 million less if it were based on the median compensation level
22 from the Mercer study (Decisions with Reasons, dated May 28, 2009, page 31). Of this
23 amount, the Board disallowed $4 million in the revenue requirement.
24
25 Hydro One has indicated that the results of the Mercer study are still valid (Tr. Vol. 5,
26 pages 186-187). BOMA & LPMA submit that, at a minimum, the Board should disallow
27 an amount related to compensation in both 2011 and 2012 consistent with the EB-2008-
28 0272 Decision with Reasons.
29
30 Mr. McDonnell indicated that Hydro One did the same analysis as it did in EB-2008-
31 0272 and by bringing the salary to the median level the impact on the revenue

1 requirement would be a reduction of $6.2 million in 2011 and $6.9 million in 2012 (Tr.
2 Vol. 4, pages 187-188). The response provided to Exhibit J5.10 explains the calculations
3 that result in these figures and assumes that the Board would disallow the same
4 proportion (4/13) as it did in EB-2008-0272.
5
6 iii) Government Policy Statement
7 BOMA & LPMA submit that in addition to the compensation adjustment consistent with
8 that from the EB-2008-0272 Decision, the Board should consider an additional reduction
9 to compensation costs.
10
11 The rationale for this additional reduction is that subsequent to the preparation of the
12 compensation forecast, the provincial government issued a policy statement that they
13 would like employers in the greater public sector and their bargaining units to reach net
14 zero compensation increases for two years following the expiration of their collective
15 agreements (Tr. Vol. 5, page 192).
16
17 While Hydro One did include a 0% increase for both 2011 and 2012 for management
18 employees in the calculation of the revenue requirement, it did not do so for the members
19 of the PWU. As noted in the response to part (g) of Exhibit I, Tab 6, Schedule 15, the
20 current collective agreement with the PWU expires on March 31, 2011. Hydro One has
21 forecast a 3% increase in 2011 and 2012 for the PWU members (Tr. Vol. 5, page 193).
22
23 The impact of a 1% change in the forecast for compensation costs is $0.7 million in 2011
24 and $1.6 million in 2012 (Exhibit I, Tab 6, Schedule 15, part (h)). It was clarified that
25 these figures were based on the changes applied to PWU members only (Tr. Vol. 5, pages
26 175-176).
27
28 A net zero compensation increase for PWU members in line with the government policy
29 statement in place of the 3% increase included in the application for these members
30 would result in a revenue requirement reduction of $2.1 million in 2011 and $4.8 million
31 in 2012.

1 On behalf of Hydro One, Mr. Goldie indicated that the policy statement with respect to
2 net zero increases for employers in the greater public sector and their bargaining units is
3 not a legislated requirement. Mr. Goldie also noted that in a couple of recent arbitrations,
4 it has been ruled that the policy statement is not binding on employers and bargaining
5 agents.
6
7 BOMA & LPMA submit that the Board should uphold the intent of the government
8 policy statement. If Hydro One is not able to achieve a net zero outcome with the PWU
9 then any increase in costs would result in a lower return on equity to the owner, the
10 province. In the meantime, however, the impact on ratepayers would reflect the
11 government policy statement, as should be the case.
12 BOMA & LPMA recognize that there will be some overlap in the reduction related to the
13 government policy statement as it applies to the PWU members and the reduction in
14 compensation related to the median compensation based on the Mercer report. To
15 account for this overlap, BOMA & LPMA recommend that the Board reduce the
16 compensation costs by 50% of the figures noted above of $2.1 and $4.8 million related to
17 a 0% increase for PWU members. This results in an addition reduction in compensation
18 of $1.1 million in 2011 and $2.4 million in 2012 on top of the reductions related to the
19 median compensation discussed in part (ii) above.
20
21 iv) Property Taxes
22 Hydro One is forecasting an increase in property taxes from $58.3 million in 2009 to
23 $60.4 million in 2010, $61.8 million in 2011 and $63.2 million in 2012 (Exhibit C1, Tab
24 2, Schedule 13, Table 2). These increase are $2.1 million in 2010 and $1.4 million in
25 each of 2011 and 2012.
26
27 BOMA & LPMA accept the increases of $1.4 million in the test years as being
28 reasonable. However, BOMA & LPMA submit that the increase projected for 2010 and
29 upon which the 2011 and 2012 cost increases are based is too large.
30

As noted above, Hydro One is forecasting an increase in property taxes of $2.1 million in 2010 over the level recorded in 2009. However, as noted in the response to Exhibit I, Tab 6, Schedule 16, parts (a) and (b), the year-to-date second quarter actual payments in 2010 are only $0.5 higher than the corresponding figure for the same period in 2009. Projecting this to a full year for 2010, the increase is likely to be approximately $1.0 million over 2009, or a more than $1 million lower than the increase forecast by Hydro One.

In light of the smaller increase experienced through 6 months of 2010, BOMA & LPMA submit that an appropriate increase in property taxes in 2010 is $1.4 million, the same increase forecast for both 2011 and 2012. This would lower the forecasted property taxes by $0.7 million for 2010 and it is submitted that this decrease should be carried forward to both 2011 and 2012.

v) Rights Payments

Hydro One is forecasting an increase in rights payments from $2.4 million in 2009 to $4.5 million in 2010, 2011 and 2012 (Exhibit C1, Tab 2, Schedule 13, Table 1). In 2007 and 2008 the rights payment was in the $2.7 to $2.8 million range.

The rights payments are related to agreements or permits related to transmission line facilities that cross and/or occupy properties owned by railway companies and/or government bodies, including the Department of Indian and Northern Affairs for lines that cross and/or occupy First Nations Reserves.

Hydro One indicates that rights payments associated with the railway companies are currently under review and steps are being taken to reach new agreements (Exhibit C1, Tab 2, Schedule 13, pages 5-6).

BOMA & LPMA submit that the forecasted increase from $2.4 million in 2009 to $4.5 million in both test years is not supported by the evidence in this proceeding. In fact, the evidence supports a level of $2.8 million for each of the bridge and test years.

1 Hydro One states at page 5 of Exhibit C1, Tab 2, Schedule 13 that:

2 *"At this point Hydro One is not able to predict the outcome nor*
3 *the timing of the future negotiated agreements and the amount*
4 *that it will have to pay to secure the crossing or occupation rights*
5 *with railway companies. However, for planning purposes, the*
6 *rights payments for the 2011 and 2012 test years are budgeted to*
7 *be $3.0 million per year."*
8

9 A similar statement is made on page 6 with reference to the First Nations rights payments
10 which are budgeted at $1.5 million per year.
11

12 The response to Exhibit I, Tab 6, Schedule 17 indicates that the $2.4 million in rights
13 payments recorded in 2009 include $0.7 million for First Nations payments and $1.7
14 million for non First Nations payments, of which $1 million are payments made to
15 railway companies. In other words, Hydro One is forecasting an increase of more than
16 100% in First Nations payments ($0.7 to $1.5) and an increase of more than 75% in non
17 First Nations payments ($1.7 to $3.0). In both cases these increases are something that
18 Hydro One states that it is unable to predict in terms of outcome or timing.
19

20 As noted above, Hydro One also predicted an increase to $4.5 million to total rights
21 payments in the 2010 bridge year. However, as indicated in Exhibit I, Tab 6, Schedule
22 16, parts (a) and (b), all the 2009 rights payments for the year were made as of the second
23 quarter of 2009. As of the end of the second quarter of 2010, rights payments totaled
24 $2.8 million.
25

26 Hydro One has also indicated that it has not reached agreement to date related to the costs
27 associated with the rights payments which include crossing or occupational costs with
28 either railway companies or First Nations (part (c) of Exhibit I, Tab 6, Schedule 17).
29

30 BOMA & LPMA submit that there is no evidence to support the increase forecast by
31 Hydro One. Hydro One indicates that it is unable to predict the outcome and timing of
32 any changes that may result from ongoing negotiations. BOMA & LPMA submit that a
33 reasonable forecast in these circumstances is to use the most current costs. As noted

1 above, the cost in 2010 is $2.8 million. As a result a reasonable estimate of the 2011 and
2 2012 costs is also $2.8 million, which is consistent not only with 2010 but also with
3 2007, 2008 and 2009. This reduction results in a reduction in the revenue requirement of
4 $1.7 million in both of the test years.
5
6 BOMA & LPMA also note that Hydro One has indicated that it would not request a
7 variance account for these costs as it considers the forecast of rights payments to be part
8 of the test years' normal forecast process (part (d) of Exhibit I, Tab 6, Schedule 17).
9 Given the uncertainty surrounding the both the quantum and timing of any change in
10 rights payments, BOMA & LPMA would not be opposed to the Board directing Hydro
11 One to reduce the forecasted costs to $2.8 million and using a variance account to track
12 any difference between this figure and the actual costs in each of 2011 and 2012.
13
14 vi) Transmission Other Costs
15 Transmission Other Costs are shown in Table 15 of Exhibit C1, Tab 2, Schedule 7.
16 These costs are a component of the Shared Services and Other OM&A line shown in
17 Table 1 of Exhibit C1, Tab 2, Schedule 1.
18
19 Transmission Other Costs are material unexpected or non-recurring expenses (Exhibit
20 C1, Tab 2, Schedule 7). They include such items as insurance rebates, adjustments to
21 provisions, vacation reserves, Gregorian or fiscal adjustments and inventory adjustments.
22
23 As shown in the response to Exhibit I, Tab 6, Schedule 14, the actual Transmission Other
24 Costs in 2005 and 2006 were ($15.8) million and ($21.9) million respectively. As a
25 result, only 1 year in the 2005 through 2009 period had a net positive cost. Each of the
26 other 4 years had a net reduction in costs. However, Hydro One is forecasting a small net
27 reduction in costs of $2.4 million in 2010 and then a net positive cost of $0.4 million in
28 2011 and $2.1 million in 2012.
29
30 The explanation for this deviation from past actual experience, where the average
31 Transmission Other Costs recorded in 2005 through 2009 is a net reduction in costs of

1 $12.7 million, is provided in the response to Exhibit I, Tab 6, Schedule 14. In particular,
2 Hydro One indicates that it only includes recurring items like the Gregorian adjustment
3 and vacation reserve in its expense plans for Transmission Other Costs. It also indicated
4 that the historical results include unexpected and non-recurring events.
5
6 BOMA & LPMA submit that there is a serious disconnect in the actual results posted by
7 Hydro One and the forecast provided for 2011 and 2012. Indeed, this disconnect can be
8 seen in the forecast for the 2010 bridge year. Hydro One forecast a net reduction in costs
9 of $2.4 million for all of 2010, yet based on the interrogatory response referred to above,
10 the June year-to-date is already a net reduction of $9.5 million, a reduction in costs of
11 more than $7 million from that forecast.
12
13 BOMA & LPMA submit that it is not appropriate for Hydro One to simply not forecast
14 unexpected and non-recurring costs. As the historical evidence for 2005 through 2009
15 and the first six months of 2010 illustrate, there is a reasonable expectation of lower
16 Transmission Other Costs based on unexpected and/or non-recurring costs. There is no
17 reason that Hydro One should not estimate these costs (or reduction in costs) based on its
18 experience.
19
20 BOMA & LPMA submit that based on the average expense over the 2005 through 2009
21 period of ($12.7) million, the 2011 forecast is overstated by $13.1 million ($12.7 + $0.4
22 forecast) and the 2012 forecast is overstated by $14.8 million ($12.7 + $2.1 forecast).
23
24 At a minimum, BOMA & LPMA recommend that the Board decrease the forecast by
25 50% of these overstatements, or $6.5 million in 2011 and $7.4 million in 2012. BOMA
26 & LPMA further recommend that the Board establish a variance account around the
27 amounts included in the revenue requirement with the actual costs with any difference
28 cleared to customers in a future proceeding.
29
30 The need for a variance account is, in the view of BOMA & LPMA, similar to the need
31 for a variance account for export revenues that the Board approved in the May 28, 2009

1 Decision with Reasons for EB-2008-0272. In particular, in that Decision the Board
2 indicated that the export revenue was beyond Hydro One's control and that it was
3 appropriate to establish a variance account (page 12). In the same Decision, the Board
4 established a variance account for Secondary Land Use revenues (page 15) because
5 Hydro One had little control over these revenues and that the historical level of revenues
6 had been influenced significantly by one-time, and therefore unpredictable, events.
7 BOMA & LPMA submit that the same circumstances apply to Transmission Other Costs.
8
9 BOMA & LPMA believe that the establishment of a variance account around this one
10 OM&A line item is justified based on the need for protection for ratepayers from the
11 large variances between the forecasted amounts and the amounts actually recorded in the
12 account and the fact that many of the items affecting the costs are not able to be forecast,
13 being "unexpected or non-recurring" items. It should be noted that equal protection from
14 the variance account is provided to Hydro One.
15
16 In EB-2008-0272 (at Table 15 of Exhibit C1, Tab 2, Schedule 6), Hydro One forecast a
17 net cost of $2.1 million for 2009 and a net cost of $4.0 for 2010 for Transmission Other
18 Costs. The actual cost for 2009, as shown in Table 15 of Exhibit C1, Tab 2, Schedule 7
19 of the current application is ($12.2), a reduction in costs of more than $14 million.
20 Similarly, based on the June year-to-date figure of ($9.5), a reduction of $13.5 million.
21 These variances are significant. Neither ratepayers nor Hydro One should be at risk for
22 the significant variances from forecast like those that have occurred in the recent past.
23
24 vii) Summary
25 The following table provides a summary of the proposed reductions to OM&A as detailed
26 in parts (i) through (vi) above.
27

	2011	2012
i) Reduction Related to HST	5.2	5.3
ii) Adjustment to Compensation	6.2	6.9
iii) Government Policy Statement	1.1	2.4
iv) Property Taxes	0.7	0.7

v) Rights Payments	1.7	1.7
vi) Transmission Other Costs	6.5	7.4
Total	21.4	24.4

VIII. DEPRECIATION & AMORTIZATION

BOMA & LPMA note that depreciation & amortization costs make up a significant component of the overall revenue requirement. As shown in Table 1 in Exhibit E1, Tab 1, Schedule 1, depreciation & amortization costs represent 21.0% of the 2011 revenue requirement and 21.6% of the 2012 revenue requirement.

BOMA & LPMA accept the calculation of the depreciation & amortization expense as explained in Exhibit C1, Tab 6, Schedule 1, based on the capital expenditure forecast as proposed by Hydro One.

Elsewhere in this Argument, BOMA & LPMA submit that there should be significant reductions in the capital expenditures forecast for both 2011 and 2012. If the Board accepts any or all of those adjustments, it is the submission of BOMA & LPMA that the depreciation expense should be revised to reflect the Board approved capital expenditures.

IX. INCOME TAXES

BOMA & LPMA have reviewed the calculation of income taxes and accept the resulting figures with the exceptions noted below.

a) Apprenticeship, Co-op Education and SR&ED Tax Credits

Hydro One is eligible for significant tax credits for apprenticeship training, co-operative education and scientific research & experimental development expenditures.

Hydro One has forecast tax credits associated with the Ontario Apprenticeship Training Tax Credit, the Federal Apprenticeship Training Tax Credit, the Ontario Co-op Education

Tax Credit and the SR&ED Tax Credit to total $2.2 million in both 2011 and 2012. This forecast is based on 120% of the actual tax credits claimed in 2008.

BOMA & LPMA submit that this methodology is flawed and substantially underestimates the total tax credits available to Hydro One in both 2011 and 2012. Further, there is sufficient information on the record for the Board to determine a more appropriate level of tax credits for the test years.

The methodology of grossing up the 2008 tax credits by 20% is flawed, in the view of BOMA & LPMA, for a number of reasons. First, it does not take into account the change in the number of eligible positions for the Ontario apprenticeship, Federal apprenticeship or Ontario co-op education tax credits from 2008 to 2011 and 2012. Second, despite the response to Exhibit J6.12, it cannot accurately reflect the doubling of the available Ontario apprenticeship tax credit per eligible employee from $5,000 to $10,000 that took place in March, 2009. Similarly, it cannot accurately reflect the tripling of the available Ontario co-op education tax credit per eligible employee from $1,000 to $3,000 that took place at the same time. It also cannot take into account the extension to four years from three for the Ontario apprenticeship tax credit.

One item that the response in Exhibit J6.12 that does not address, and therefore presumably does not capture, is the increase in the percentage of the wages paid to eligible employees in calculating the credit up to the maximum per employee noted above for both the Ontario co-op education tax credit and the Ontario apprenticeship training tax credit. Specifically, the Ontario co-op education tax credit was increased from 10% of salaries and wages paid to 25%. This means that an eligible employee for this credit only needs to earn $12,000 in order for Hydro One to claim the maximum $3,000 per eligible employee. Similarly the Ontario apprenticeship training tax credit was increased from 25% of salaries and wages paid to 35%. This means that an eligible employee for this credit only needs to earn approximately $28,600 in order for Hydro One to claim the maximum $10,000 per eligible employee. Both of these changes came into effect in March, 2009.

1 In support of the view that the forecasting methodology if flawed, the response to Exhibit
2 I, Tab 6, Schedule 18, Attachment 1, shows that the actual transmission related tax credits
3 for 2009 were more than $3.1 million, an increase of nearly 75% from the level recorded
4 in 2008. And it should be noted that the increase in the maximum credit per employee
5 and the percentages of wages noted above did not take place until March 29, 2009. In
6 other words, had the higher percentages and caps per employee been in place for all of
7 2009, the tax credits would have been even higher.
8
9 BOMA & LPMA provide the following table to provide a more accurate and reasonable
10 forecast for the value of the tax credits available to Hydro One in 2011 and 2012. Key
11 assumptions include the following. First, with respect to the SR&ED tax credit, it has
12 been assumed to remain at $374,000 in 2011 and 2012. This is the actual level recorded
13 in both 2008 and 2009 (as shown in Attachment 1 to Exhibit I, Tab 6, Schedule 18).
14 Second, the number of eligible transmission employees for the federal and provincial
15 apprenticeship tax credits are taken from the response provided in Exhibit J6.13. Third,
16 the number of eligible positions for the Ontario co-op education tax credit have been
17 estimated at 60% of the 300 students identified in Exhibit C1, Tab 3, Schedule 1, page 5.
18 The 60% figure reflects that in 2007 through 2009, 60% of the co-op students were
19 allocation to the transmission business as can be calculated from the numbers provided in
20 Attachment 1 to Exhibit I, Tab 6, Schedule 18.
21

	2011			2012		
	Eligible Positions	Maximum per Position	Total Credits	Eligible Positions	Maximum per Position	Total Credits
Federal Training	140	2,000	280,000	107	2,000	214,000
Ontario Training	273	10,000	2,730,000	270	10,000	2,700,000
Ontario Education	180	3,000	540,000	180	3,000	540,000
SR&ED			374,000			374,000
Total Tax Credits			3,924,000			3,828,000

22
23 BOMA & LPMA submit that use of the maximum credit per eligible position is a good
24 proxy to use in the estimation of the total tax credits. Some eligible positions may not

1 qualify for the maximum if they only exist for a few months in the tax year. However,
2 given the relatively low wages & salaries needed to qualify for the maximum this impact
3 is likely to be small. In addition, the analysis provided in the table assumes no increase in
4 the SR&ED tax credit from the level recorded in 2009. Any lower tax credits associated
5 with eligible positions not qualifying for the maximum credit may well be offset by an
6 increase in the SR&ED credit.
7
8 In summary. BOMA & LPMA submit that the Hydro One 20% increase to 2008 tax
9 credits does not adequately reflect the increases in tax credits and changes in the number
10 of positions eligible for such credits that have taken place since 2008. BOMA & LPMA
11 have provided an estimate of the tax credits available and respectfully submit that the
12 Board direct Hydro One to increase the tax credit forecast from $2.2 million in each of
13 2011 and 2012 to $3.9 million in 2011 and to $3.8 million in 2012.
14
15 **b) Ontario Small Business Deduction**
16 The Ontario small business corporate tax rate was reduced to 4.5% on the first $500,000
17 of business income effective July 1, 2010. In previous years, Hydro One was not able to
18 take advantage of the small business deduction because there was a surtax that clawed
19 back the reduction between the Ontario general corporate tax rate and the small business
20 tax rate on income between $500,000 and $1.5 million. In other words, at a taxable
21 income of $1.5 million and above, there was no reduction in Ontario corporate taxes.
22 However, effective July 1, 2010, the surtax claw back was also eliminated.
23
24 The net reduction in Ontario corporate taxes is calculated as the difference between the
25 Ontario general corporate tax rate and the small business tax rate. As indicated in Exhibit
26 C1, Tab 7, Schedule 1, the provincial general tax rate is 11.75% for 2011 and 11.25% for
27 2012. The reduction in provincial taxes is calculated to be $36,250 for 2011 ((11.75% -
28 4.5%) x $500,000), while for 2012 it is $33,750 ((11.25% - 4.5%) x $500,000).
29
30 The Ontario small business tax rate applies to Canadian-controlled private corporations
31 ("CCPC"). Hydro One has indicated that it qualifies as a CCPC (Exhibit I, Tab 6,

Schedule 5, part (d)). However, Hydro One claims in the same response that it does not qualify for the small business deduction as its taxable capital employed in Canada exceeds $10 million.

Hydro One is correct in that it does not qualify for the <u>federal</u> small business deduction because it has taxable capital in excess of $10 million. However, BOMA & LPMA submit that Hydro One is incorrect with regards to the <u>Ontario</u> small business deduction and that it does qualify for this reduction.

The $10 million in taxable capital limit applies to the federal small business deduction, not to the Ontario small business deduction. As noted earlier, in previous years Hydro One did not retain any of the benefits related to the Ontario small business deduction because the reductions were clawed back on taxable income between $500,000 and $1.5 million. With the elimination of this claw back, the benefits can now be retained by Hydro One.

It was clearly stated in Chapter 3 of the 2009 Ontario Budget documents (Reforming Ontario's Tax and Pension Systems) that all CCPCs would be taxed at the new small business rate of 4.5%, effective July 1, 2010, on the first $500,000 of active business income, <u>***regardless of income level***</u> (emphasis added).

BOMA & LPMA submit that the Board should direct Hydro One to reflect the impact of the Ontario small business deduction in the calculation of its income taxes.

<u>c) CCA Changes</u>

Hydro One acknowledged an error in the calculation of its capital cost allowance for 2010 in relation to classes 50 and 52 in the response to Exhibit I, Tab 6, Schedule 24 and provided corrected versions of the CCA calculations for 2010, 2011 and 2012 that result from the corrections. Mr. Struthers agreed that these revised figures shown in the interrogatory response were the figures that should be used (Tr. Vol. 6, page 126).

The impact of the revised CCA figures is to increase the CCA deductions in both 2011 and 2012. The original forecasts for 2011 and 2012 are shown in Exhibit C2, Tab 5, Schedule 1, Attachment 2 while the revised figures are shown in Attachment 2 to Exhibit I, Tab 6, Schedule 24. For the 2011 the original forecast of $377.8 million rises to $381.3 million, an increase of $3.5 million. The increase for 2012 is from $457.4 million to $458.5 million, an increase of $1.1 million. BOMA & LPMA submit that the Hydro One should use these revised figures (with adjustments for any changes in capital expenditures directed by the Board) as accepted by Hydro One.

X. REVENUES

BOMA & LPMA submit that export revenues and external revenues should be revised to reflect more realist forecasts than those provided by Hydro One.

a) Export Revenues

i) Forecast of Export Revenues

Hydro One has consistently forecast export revenues of $12 million per year for the period 2007 through 2010 (Exhibit I, Tab 9, Schedule 1 & EB-2008-0272 filing). This forecast has been shown to be consistently low. As shown in part (d) of the response to Exhibit I, Tab 9, Schedule 1, the mean variance of forecast as a percentage of actual is (36.3)% over the 2005 through 2009 period. Over this 5 year period, total forecasted export revenues were $50.4 million, while the actual export revenue was $80.8 million. Actual revenues were never lower than the forecast. On average, actual revenues were slightly more than $16 million per year, while the forecast average was only $10 million per year. In other words, actual revenues were, on average, 60% more than forecast over this period.

Hydro One is forecasting a reduction in export revenues from $12.0 million in 2010 to $10.1 million in 2011 and $10.2 million in 2012 (Exhibit E1, Tab 1, Schedule 1, Tables 2 & 4). Hydro One indicates in Exhibit I, Tab 6, Schedule 11 that this decrease is based on the IESO`s new 2011 forecast and that Hydro One has historically used the export volumes forecasted by the IESO.

1 Based on a consistent track record of under forecasting exports, BOMA & LPMA submit
2 that the Board should increase the export revenue forecast for both 2011 and 2012 to
3 $14.0 million. This is the average of the actual export revenue for 2005 through 2009,
4 but excluding the $24.6 million recorded in 2008, as shown in part (d) of Exhibit I, Tab 9,
5 Schedule 1. This would result in an increase in export revenues of $3.9 million in 2011
6 and $3.8 million in 2012 from that forecast by Hydro One. These increases are roughly
7 in line with the 36% under forecasting average for the 2005 through 2009 period.
8
9 ii) Need for Variance Account
10 In addition to the increase in the export revenue forecast as proposed by BOMA &
11 LPMA to $14 million in both test years, it is submitted that the continued use of a
12 variance account is appropriate.
13
14 In the May 28, 2009 EB-2008-0272 Decision with Reasons, the Board concluded that it
15 was appropriate to establish a variance account to capture any difference between the
16 forecast and actual revenues and that the account should be symmetrical (page 12).
17
18 In this proceeding, Hydro One has indicated that it is not proposing the continuation of an
19 Export Service Credit Revenue variance account in 2011 and 2012 (Exhibit I, Tab 6,
20 Schedule 11). The reason given for this is that Hydro One indicates that it has sufficient
21 history to allow for a more accurate forecast of this stream of revenue. BOMA & LPMA
22 submit that the evidence suggests the opposite.
23
24 As noted above, Hydro One has consistently under forecast export revenues by an
25 average of 60% or $6 million per year over the 2005 through 2009 period. Hydro One
26 has no history of accurately forecasting this revenue stream. The evidence is that it has a
27 terrible record of forecasting export revenues.
28
29 In coming to its conclusion in the EB-2008-0272 Decision with Reasons that a variance
30 account was appropriate, the Board stated with respect to export revenues:

1 *"This revenue source provides an important offset to the revenue*
2 *requirement to be collected from Ontario consumers. However,*
3 *the level of this revenue is beyond Hydro One's control and*
4 *therefore there is no opportunity to create an incentive*
5 *mechanism whereby Hydro One could be encouraged to increase*
6 *these revenues.*
7
8 *What remains is the requirement to forecast the revenue*
9 *accurately so as to ensure Ontario consumers receive the full*
10 *benefit. ...... The Board concludes that Hydro One has an*
11 *incentive to be conservative in its forecast so as to protect itself*
12 *from under-recovery. While the Board believes that it is*
13 *appropriate for customers to get the full benefit of these revenues,*
14 *the Board also believes that it would be inappropriate to expose*
15 *Hydro One to the risk of an overly generous revenue forecast."*
16
17 BOMA & LPMA submit that nothing has changed in the current proceeding from that in
18 EB-2008-0272. Hydro One continues to under forecast by significant amounts. The
19 2009 forecast from EB-2008-0272 was $12.0 million. The actual export revenues were
20 $16.8 million, or 40% above the forecast level. The need for a variance account is as
21 great today as it was in EB-2008-0272.
22
23 BOMA & LPMA also recommend that the variance account be used to account for any
24 change in export revenues that may arise from a change in the export rate, discussed
25 below.
26
27 iii) Increase in Export Rate
28 In addition to the increase in exports (at the current rate) and the need for a variance
29 account, BOMA & LPMA believe that the Board should increase the export rate in 2011
30 and 2012.
31
32 As part of the Settlement Agreement approved by the Board in EB-2006-0501 parties
33 agreed that the IESO would conduct a study of alternative Export Transmission Service
34 ("ETS") tariffs. The IESO study was completed and filed with the Board in August, 2009
35 and recommended no change to the current export tariff. By a letter dated October 6,
36 2009, the Board indicated that it would maintain the $1/MWh rate for the 2010 test year

1 and that this matter should be considered in the Hydro One Transmission rate hearings
2 for the 2011 and 2012 test years.
3
4 The ETS tariff has not changed since its inception in 1999 (Exhibit H1, Tab 5, Schedule
5 2, page 1). BOMA & LPMA submit that a change is long overdue. While the
6 transmission rates charged to ratepayers in Ontario have increased dramatically since
7 1999 no such increase has been taken place for exports that have the effect of reducing
8 the revenue requirement to be collected from Ontario ratepayers.
9
10 The report filed by the IESO in August, 2009 (Exhibit H1, Tab 5, Schedule 2, Attachment
11 1) indicates that the "*quantitative and qualitative analysis indicates that Option 2 (i.e. a*
12 *tariff based on Average Embedded Network Transmission cost) would be the tariff option*
13 *that best satisfied the four selection principles of simplicity of implementation,*
14 *consistency with rates in neighbouring markets, fair and equitable and net Ontario*
15 *benefit, principally through shifting of a portion of transmission network cost recovery*
16 *from the domestic consumer to the exporting parties."* (page 9)
17
18 The ETS tariff under Option 2 was estimated to be $5/MWh (Exhibit H1, Tab 5,
19 Schedule 2, page 5.
20
21 In its recommendation to maintain the status quo tariff of $1/MWh, the IESO expressed
22 concerns that a number of factors have changed since undertaking the study including
23 load deterioration due to economic conditions, changes related the Green Energy and
24 Green Economy Act, and increased occurrences of surplus base-load generation
25 conditions. Of these factors, the surplus base-load generation appears to be major factor
26 that influenced the IESO to deviate from the recommendation of implementing Option 2.
27 The IESO concluded that the $1/MWh tariff should remain in place until such time as
28 conditions change.
29
30 BOMA & LPMA submit that the IESO recommendation should be ignored. The IESO is
31 essentially saying that conditions need to change and that it has no experience with any

1 impact that a change in the tariff may have on operational issues. Neither of these
2 reasons is sufficient, in the view of BOMA & LPMA, to maintain the status quo for an
3 indefinite period.
4
5 The electricity market in Ontario is undergoing continuous change. For the IESO to say,
6 stop, do not do anything until conditions change, borders on the ridiculous. If the Board
7 were to adopt this mentality then it is submitted that it should deny Hydro One any
8 increase in rates until conditions change and the economy is growing rapidly and
9 ratepayers can afford the increases sought not only by Hydro One Transmission, but by
10 distributors as well. The electricity market in Ontario is constantly evolving, growth in
11 the economy fluctuates and political mandates come and go. There is no reason why
12 exports and the ETS tariff should not be part of the change and evolution that is occurring
13 everywhere else.
14
15 The second reason for maintaining the status quo is that the IESO has no experience with
16 the impact that a change in the ETS tariff would have on operational issues associated
17 with changes in the level of exports. With all due respect, the status quo will not provide
18 the IESO and other participants in the export market with any new information from
19 which to learn and improve. Only by changing the tariff and experiencing the impact of
20 the change in exports on operational issues will the IESO gain the valuable experience
21 that it currently lacks.
22
23 In light of the above, and recognizing that a move from $1/MWh to $5/MWh in one
24 discrete step may be a shock to the market, BOMA & LPMA recommend that the Board
25 approve a phase-in of an increase in the ETS tariff. In particular, it is recommended that
26 the Board approve an increase in the tariff to $2/MWh effective January 1, 2011 followed
27 by a provisional increase to $3/MWh effective January 1, 2012. The 2012 increase
28 would be provisional in that the IESO would have the opportunity to identify any
29 significant operational issues or concerns arising from the $2/MWh tariff in 2011. If such
30 issues or concerns are identified, the 2011 tariff would remain in place in 2012, giving the

1 IESO more time to learn and adjust. In the absence of any issues or concerns being
2 identified by the IESO, the 2012 increase to $3/MWh would take place automatically.
3
4 Any decision to maintain the ETS tariff rate at the 2011 level in 2012 would have no
5 impact on the implementation of 2012 rates for Hydro One since this impact would be
6 captured through the variance account recommended above.
7
8 BOMA & LPMA further submit that the Board should direct the IESO to file a report in
9 time to be dealt with at the next Hydro One Transmission rates case that indicates what
10 issues and concerns have arisen as a result of the increase in the ETS tariff and how the
11 IESO has responded to them.
12
13 **b) External Revenues**
14 BOMA & LPMA believe that net revenue forecast generated by external revenues is too
15 low. BOMA & LPMA have divided external revenues into two components. The first
16 deals with the net revenues generated by station maintenance and engineering &
17 construction. The second deals with the revenues generated by secondary land use.
18 BOMA & LPMA accept the forecasts for Other External Revenues of $3.2 million per
19 year in 2011 and 2012 as appropriate as they are in line with recent historical data.
20
21 Exhibit E1, Tab 1, Schedule 2, , Table 1 shows the actual external revenues for 2007
22 through 2009 and the forecast for the 2010 bridge year and the 2011 and 2012 test years.
23 Exhibit C1, Tab 2, Schedule 11, Table 1 shows the actual costs associated with external
24 work for 2007 through 2009, with forecasts for the bridge and test years.
25
26 i) Station Maintenance and Engineering & Construction
27 The following table provides a summary of the gross revenue, costs and net revenue
28 associated with external revenues associated with station maintenance and engineering &
29 construction work.
30
31

$M	2007 Actual	2008 Actual	2009 Actual	2010 (1) Bridge	2011 Forecast	2012 Forecast
Gross Revenue	18.2	21.9	17.8	16.6	15.6	9.0
Cost of Sales	14.5	20.5	12.6	15.3	14.4	8.0
Net Revenue	3.7	1.4	5.2	1.3	1.2	1.0

1 (1) 2010 figures taken from Exhibit I, Tab 6, Schedule 8
2
3 As shown in the above table, Hydro One is forecasting a reduction of $4.0 million in
4 2011 as compared to the last year of actual information, 2009. This reduction carries
5 forward into 2012 as well.
6
7 BOMA & LPMA note that the EB-2008-0272 margin forecast for 2009 was $0.8 million,
8 whereas the actual margin was $5.2 million (Exhibit I, Tab 6, Schedule 8). This
9 represents a significant forecast error, with the actual figure being 650% of that forecast.
10
11 In the EB-2008-0272 Decision, the Board found that this was not an activity which Hydro
12 One should be incented to undertake and not an activity which Hydro One should be
13 actively pursuing (page 14). The Board then went on to conclude that even though the
14 amounts are not large, customers should receive the full benefit of these revenues and
15 Hydro One should not be at risk for its forecast. The Board concluded that as with export
16 revenues, ratepayers' interests were best protected by establishing a variance account to
17 ensure that the full extent of these revenues was to the benefit of ratepayers while at the
18 same time protecting Hydro One.
19
20 As part of this proceeding Hydro One is not requesting the continuation of the External
21 Station Maintenance and E&CS Revenue Account, stating that the Board established this
22 variance account in EB-2008-0272 for 2009-2010 rates only (Exhibit I, Tab 6, Schedule
23 9, part (b)).
24
25 BOMA & LPMA submit that nothing has changed since EB-2008-0272. As
26 demonstrated by the 2009 results, Hydro One is still unable to accurately forecast the
27 revenues, costs and resulting margins associated with these activities. The $4.4 in margin
28 over and above the forecast for 2009 is included in the variance account and will be

1 refunded to customers as part of this proceeding. It is therefore submitted that the Board
2 continue this variance account to track any variance between the actual margins and the
3 forecasted levels for 2011 and 2012.
4
5 <u>ii) Secondary Land Use</u>
6 As shown in Table 1 of Exhibit E1, Tab 1, Schedule 2, revenues from secondary land use
7 have ranged from $14.2 million to $22.0 million over the 2007 through 2009 period. The
8 forecast for the test years, of $12.6 million and $12.5 million, are lower than any of the
9 historical years shown.
10
11 BOMA & LPMA note that based on the information provided for 2009 and 2010 in
12 Exhibit I, Tab 6, Schedule 8, Hydro One under forecast the revenues from secondary land
13 use in 2009 by $2.8 million or 25% from the level forecast in EB-2008-0272. The bridge
14 year forecast has also increased relative to that forecast in EB-2008-0272 for the 2010
15 test year. This increase is $1.2 million or nearly 11%.
16
17 In the EB-2008-0272 Decision, the Board found that Hydro One has little control over
18 these revenues and that the historical level of revenues has been influenced significantly
19 by one-time unpredictable events (page 15). The Board concluded that customers should
20 receive the full benefit of secondary land use revenues and Hydro One should not be at
21 risk for the forecast. The Board therefore concluded that ratepayers' interests were best
22 protected by establishing a variance account to ensure that the full extent of these
23 revenues was to the benefit of ratepayers while at the same time protecting Hydro One.
24
25 As part of this proceeding Hydro One is not requesting the continuation of the External
26 Secondary Land Use Revenue Account, stating that the Board established this variance
27 account in EB-2008-0272 for 2009-2010 rates only (Exhibit I, Tab 6, Schedule 9, part
28 (a)).
29
30 BOMA & LPMA submit that nothing has changed since EB-2008-0272. As
31 demonstrated by the 2009 results, Hydro One is still unable to accurately forecast the

1 revenues, costs and resulting margins associated with these activities. The $2.8 in
2 revenue over and above the forecast for 2009 is included in the variance account and will
3 be refunded to customers as part of this proceeding. It is therefore submitted that the
4 Board continue this variance account to track any variance between the actual margins
5 and the forecasted levels for 2011 and 2012.
6
7 # XI. DEFERRAL AND VARIANCE ACCOUNTS

8 **a) Planned Disposition of Regulatory Assets**

9 i) Disposition Amount

10 BOMA & LPMA do not take issue with the total amount of regulatory assets of $7.4
11 million to be rebated to customers (Exhibit F2, Tab 1, Schedule 1), but note that in the
12 absence of the three variance accounts approved in EB-2008-0272 (export revenue,
13 secondary land use rental and station maintenance and E&CS revenue), customers would
14 be paying $5.1 million rather than receiving $7.4 million. This difference of $12.5
15 million underscores the importance, in the view of BOMA & LPMA of continuing these
16 accounts in 2011 and 2012.
17
18 ii) Disposition Period

19 Hydro One proposes to rebate the $7.4 million to customers over the 2011 through 2012
20 period using a rather unorthodox approach of rebating $10.0 million to customers in 2011
21 and then charging them $2.6 million in 2012 (Exhibit F2, Tab 1, Schedule 2). The
22 rationale for this approach is provided at lines 17 through 19 of page 5 of Exhibit E1, Tab
23 1, Schedule 1. Since the increase in the revenue requirement is larger in 2011 (both in
24 terms of amount and percentage), Hydro One proposes to use the disposition of the
25 regulatory credits for rate mitigation purposes in 2011.
26
27 BOMA & LPMA submit that it does not make sense to give customers more than they
28 are entitled in one year and claw a portion of it back the following year. It is
29 recommended that Hydro One rebate the $7.4 million to which ratepayers are entitled in
30 2011, with no adjustment for 2012. This approach still provides rate mitigation in the
31 year it is most needed and does not require customers to give a portion back in 2012.

iii) Regulatory Asset Accounts Requested

Hydro One is requesting approval to continue or establish new deferral accounts as outlined at Exhibit F1, Tab 1, Schedule 2. BOMA & LPMA support the request for the accounts that are a continuation of accounts approved by the Board in previous years.

BOMA & LPMA have submitted elsewhere in these submissions that the export service credit revenue account, the secondary land use revenue account and the station maintenance and E&CS revenue account should be continued for 2011 and 2012.

Hydro One is requesting the establishment of two new accounts, for 2012 only, that are IFRS related. These accounts are the Impact for Changes in IFRS Account and the IFRS - Gains and Losses Account, both of which are described in Exhibit F1, Tab 1, Schedule 2. BOMA & LPMA accept the establishment of these accounts but reserve their right to review and contest any amounts included in the accounts in 2012 at a future proceeding.

XII. COST OF CAPITAL

a) Return on Equity

Hydro One has assumed that the return on equity for each test year will be updated in accordance with the December 11, 2009 Cost of Capital Report. In particular, for rates effective January 1, 2011, the Board would determine the ROE based on the September 2010 Consensus Forecasts and Bank of Canada data which would be available in October 2010 along with the change in the spread of the A-rated Utility Bond Yield available from Bloomberg. For rates effective January 1, 2012, the Board would determine the ROE based on the September 2011 Consensus Forecasts and Bank of Canada data which would be available in October 2011 along with the change in the spread of the A-rate Utility Bond Yield available from Bloomberg.

BOMA & LPMA support the timing of the information used to determine the ROE for both test years.

1 **b) Short Term Debt Rate**
2 Hydro One has assumed that the deemed short term debt rate will be determined by the
3 Board based on September 2010 Bank of Canada data plus the average spread for the
4 2011 rates and on September 2011 Bank of Canada data plus the average spread for the
5 2012 rates.
6
7 It is not clear to BOMA & LPMA whether or not the Hydro One proposal assumes the
8 average spread of a typical short-term loan for an R1-low utility over the 3-month
9 Bankers' Acceptance rate would be updated in September of each year or whether the
10 average spread from the previous January would be used.
11
12 BOMA & LPMA submit that the Board should update the average spread in September
13 of each year and add this to the average September 3-month Bankers' Acceptance rate to
14 ensure consistency of the timing of the data used.
15
16 **c) Long Term Debt Rate**
17 The calculation of the weighted average cost associated with the third party long term
18 debt for the 2011 and 2012 test years is shown in Exhibit B2, Tab 1, Schedule 2, pages 5
19 & 6. The total cost for 2011 is $260.6 million with an average embedded cost rate of
20 5.67%. The carrying cost for 2012 is $291.7 million with an average embedded cost rate
21 of 5.64%.
22
23 BOMA & LPMA agree with this calculation of the embedded cost rates with the
24 exceptions noted below.
25
26 i) Amount of Long Term Debt
27 Hydro One has based its forecasted cost of long term debt in the 2011 and 2012 test years
28 upon the forecasted amounts and rates shown in Tables 2 & 3 in Exhibit B1, Tab 2,
29 Schedule 1. Table 2 deals with the forecasted amounts and rates for additional long term
30 debt forecast to be issued in 2010 while Table 3 deals with the forecasted amounts and
31 rates for additional long term debt forecast to be issued in 2011 and 2012.

1 BOMA & LPMA accept the amount of long term debt forecast to be obtained in 2010,
2 2011 and 2012 as being reasonable, but note that significant changes in capital
3 expenditures approved by the Board may have an impact on the amount of debt required
4 by Hydro One.
5
6 ii) Mix of Long Term Debt
7 Table 3 shows that the mix of the debt to be obtained by Hydro One is an equal mix in
8 each of 2011 and 2012 of terms of 5, 10 and 30 years. BOMA & LPMA submit that this
9 is an appropriate forecast mix for the test years. It provides a reasonable forecast average
10 cost of additional long term debt. While the cost would be lower in the short term if all
11 the new debt to be issued was 5 year debt, this approach is not appropriate as it may result
12 in higher debt costs when this debt is replaced. At the other extreme, if all the new debt
13 issued was 30 year debt, ratepayers would end up paying for a higher carrying cost over
14 the short and medium term.
15
16 iii) Cost of New Long Term Debt
17 BOMA & LPMA submit that the Board should require Hydro One to update the
18 forecasted 5, 10 and 30 year term rates to reflect the most recent information available.
19
20 As described on pages 4 & 5 of Exhibit A, Tab 12, Schedule 2, the Hydro One bond
21 interest rates are comprised of the forecast Canada bond yield plus the Hydro One Inc.
22 credit spread applicable to that term. The 10 year Government of Canada bond yield for
23 2010 was based on the November 2009 Consensus Forecasts while the corresponding rate
24 for 2011 and 2012 was based on the October 2009 Consensus Forecasts. The 5 and 30
25 year Government of Canada bond yield forecasts were derived by adding the November
26 2009 average spreads (5 year to 10 year and 10 year to 30 year) to the 10 year
27 Government of Canada bond yield forecast. The Hydro One Inc. credit spreads over the
28 Government of Canada bonds were based on the average of indicative new issue spreads
29 for November 2009 for each issuance term.
30

1 These forecasts are now a year old and in the submission of BOMA & LPMA should be
2 replaced with more recent information that is available in this proceeding.
3
4 First, with respect to the issuances in 2010, BOMA & LPMA submit that the cost of long
5 term debt should be updated to reflect the actual debt issued in September of 2010.
6
7 As shown in Table 2 of Exhibit B1, Tab 2, Schedule 1, Hydro One had forecast debt
8 issues in the remainder of 2010 of $100 million for a 5 year term at a rate of 3.56% and
9 $100 million for a 10 year term at a rate of 4.68%. These issues would have had a
10 blended rate of 4.12%. As indicated by Mr. Struthers (Tr. Vol. 6, page 117) Hydro One
11 actually issued debt in September of this year with a 5 year and 30 year term. In
12 particular, $250 million was issued for a 5 year term at a rate of 2.95% and a further $250
13 million was issued for a 30 year term at a rate of 4.95%. These issues have a blended rate
14 of 3.95%.
15
16 BOMA & LPMA submit that the Board should direct Hydro One to update its cost of
17 capital for 2011 and 2012 to reflect these actual debt issues in 2010. It is not clear to
18 BOMA & LPMA whether the total of $500 million issued in September was all for
19 Hydro One Transmission or whether only a portion of this amount has been mapped to
20 the transmission business. BOMA & LPMA invite Hydro One to clarify this issue in
21 their Reply Argument. The Board should then direct Hydro One to include the
22 appropriate amount in the calculation of the 2011 and 2012 cost of long term debt based
23 on the actual amount mapped to the transmission business.
24
25 BOMA & LPMA also submit that a comparison of the 2010 forecast rates and the actual
26 rates obtained by Hydro One illustrate the need to update the forecasts for 2011 and 2012
27 to reflect the most recent information available. The actual rate on the 5 year bond was
28 2.95%, 61 basis points, or 17% lower than the forecasted rate of 3.56%. The rate on the
29 30 year bond was 4.95%, only 27 points higher than the forecasted rate for a 10 year
30 term. A review of Table 4 in Exhibit A, Tab 12, Schedule 2 shows that the forecast for a

1 30 year bond in the 2010 bridge year was 5.71%, 76 basis points or 15% above the actual
2 rate paid.
3
4 Turning to the forecasted rates to be used for the 2011 and 2012 long term bonds, BOMA
5 & LPMA submit that the Board should direct Hydro One to update the overall cost of
6 long term debt for 2011 and 2012 to reflect the most recent information available. Based
7 on the response provided in Exhibit I, Tab 4, Schedule 49, Hydro One does not propose
8 to update the long term debt cost for 2011 and 2012.
9
10 In particular, it is recommended by BOMA & LPMA that the rates for 5, 10 and 30 year
11 bonds be updated to reflect the information provided in Table 4 of the response to Exhibit
12 I, Tab 6, Schedule 4. This information reflects both a decrease in the Government of
13 Canada bond yield forecasts across all terms and an increase in the Hydro One credit
14 spread over all terms.
15
16 The following table provides a summary of the change in rates based on the original
17 evidenced filed in Tale 4 of Exhibit A, Tab 12, Schedule 2 with the information provided
18 in Table 4 of the response to the BOMA & LPMA interrogatory noted above. These
19 forecasts were based on July 2010 information.
20

Term	2011		2012	
	Original	Updated	Original	Updated
5 year	4.26	4.00	4.76	4.70
10 year	5.38	5.09	5.88	5.79
30 year	6.41	5.94	6.91	6.64
Average	5.35	5.01	5.85	5.71

21
22 The average shown in the above table is the simple average of the 5, 10 and 30 year term
23 figures and reflects the Hydro One proposal to issue equal amounts of debt over these
24 three terms.
25
26 The reductions shown in the above table result in a significant change in the cost of long
27 term debt that is ultimately included in the revenue requirements for 2011 and 2012.

1 The long term debt rate calculated by Hydro One is 5.67% for 2011 and 5.64% for 2012
2 (pages 5 & 6, respectively, of Exhibit B2, Tab 1, Schedule 2). When updated to reflect
3 the more recent rate forecasts, the long term debt falls to 5.62% in 2011 and to 5.56% in
4 2012 (pages 2 & 3, respectively, of Attachment 1 to Exhibit I, Tab 6, Schedule 33).
5
6 The resulting reduction of 5 basis points in 2011 and 8 basis points in 2012, when applied
7 to the deemed long term debt levels shown in the table on page 2 of Exhibit B2, Tab 1,
8 Schedule 1 of $4,599.3 million in 2011 and $5,175.1 million in 2012 result in a reduction
9 in long term debt costs of $2.3 million in 2011 and $4.1 million in 2012. Mr. Struthers
10 confirmed these estimates as being reasonable (Tr. Vol. 6, pages 118-119). Any further
11 impact resulting from the lower debt costs associated with the actual debt issued in 2010
12 compared to that included in the forecast would be in addition to these reductions.
13
14 BOMA & LPMA submit that the Board should use the most recent forecast information
15 available when approving a cost of long term debt forecast. This is no different than
16 using the most recent information available to calculate the deemed short term debt rate
17 to be used. It would not be reasonable, in the view of BOMA & LPMA, to use
18 September 2010 information to set the deemed short term debt rate in place of the
19 information from January 2010 that was used by the Board to set rates effective May 1,
20 2010 for distributors, but continue to use October and November 2009 based forecasts for
21 long term debt rates in place of the July 2010 information on the record in this
22 proceeding.
23
24 BOMA & LPMA further note that the Board will be updating the deemed long term debt
25 rate based on September 2010 information for those distributors that require the use of
26 this deemed rate in the setting of rates effective January 1, 2011. Consider as an example
27 a distributor that forecasts that it will be issuing both new affiliate debt and new third
28 party debt. It would not be reasonable in these circumstances that new affiliate debt not
29 yet issued would be costed based on forecast information based on September 2010 rates
30 while new third party debt not yet issued would be costed based on an interest rate
31 forecast that is a year old, despite there being more recent information on the record in

the relevant proceeding. There is no valid reason for such a dichotomy in approach to the cost of long term debt.

Finally, Hydro One has applied the weighted average long term debt rate to its notional debt that is required to match the actual amount of long term debt to the deemed amount of long term debt, consistent with the approach determined by the Board in EB-2008-0272 (Exhibit B1, Tab 1, Schedule 1, page 3). BOMA & LPMA support the continuation of this approach.

XIII. HIGH FIVE

BOMA & LPMA have reviewed the submissions of Board Staff dated October 22, 2010 related to the High 5 Rate Design Proposal and adopt those submissions.

BOMA & LPMA are particularly concerned about distributors being allocated a greater proportion of the network costs with the customers of the distributors having very limited, if any, ability to reduce their network transmission costs by shifting load in the same manner that would be available to the customers that are directly connected to the transmission system. This advantage of one group of customers over another would be neither just nor reasonable in the view of BOMA & LPMA. If and when the Board determines that the introduction of a new methodology for allocating network costs is appropriate, it is submitted that all customers should be treated fairly and equitably and have similar incentives to shift their use of the system.

BOMA & LPMA are also concerned that the High 5 proposal seeks to allocate all the network related costs of the transmission system based on the system coincident peaks. This would mean, for example, that a customer that consumed nothing during the five highest system coincident peaks would not pay anything for the use of the transmission system. This approach, it is submitted, ignores the fact that not all of the network transmission system costs are driven by peak demands. BOMA & LPMA note that a disaggregation of network costs into a number of categories such as for meeting peak

1 demand, adding renewable generation, and base load transmission may result in a
2 significantly different allocation than that under the High 5 proposal.
3
4 BOMA & LPMA also support the need for additional alternatives. These alternatives
5 could include the establishment of firm and interruptible contracted demand quantities
6 similar to those used by the natural gas distributors in Ontario. This approach allows
7 individual customers to contract for a firm level service, usually on an annual basis, that
8 the gas distributor is required to provide on any given day, including a peak day.
9 Interruptible service either by itself or in addition to the firm service allows customers to
10 consume gas in non-peak times without the distributor having to ensure capacity exists to
11 serve the customer and without the customer paying for a firm service. Such a concept
12 could be modified to have monthly or seasonal contracted demands.
13
14 BOMA & LPMA endorse the Board Staff recommendation that the Board direct Hydro
15 One to develop several alternative charge determinants for its network revenue
16 requirement and to present the analysis at its next transmission rate case.
17

18 XIV. COSTS

19 BOMA & LPMA request that they be awarded 100% of their reasonably incurred costs.
20 The consultant to BOMA & LPMA worked with other intervenors to ensure that all the
21 issues were adequately covered through the interrogatory process and the oral hearing
22 without any unnecessary duplication. Attendance at the oral hearing was limited to the
23 panels for which cross examination to clarify a number of issues was required.
24

25 **ALL OF WHICH IS RESPECTFULLY SUBMITTED**
26
27 **October 28, 2010**
28
29 *Randy Aiken*
30
31 **Randy Aiken**
32
33 **Consultant to BOMA & LPMA**