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January 25, 2011

DELIVERED BY HAND AND BY ELECTRONIC SUBMISSION

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli:

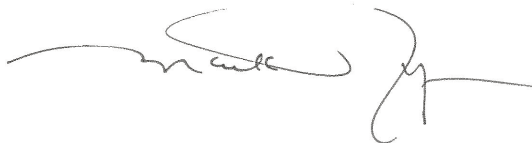
**Re: OPA 2011 Revenue Requirement – HQ Energy Marketing Inc.
Interrogatories
OEB File Number EB-2010-0279**

We are counsel to HQ Energy Marketing Inc. ("HQEM") in the above-captioned matter. Please find attached two paper copies of HQEM's interrogatories in relation to this matter as required pursuant to the Board's *Issue Decision and Procedural Order No. 2* dated January 11, 2011. Electronic copies are also being filed today through the Board's Regulatory Electronic Submission System.

We trust that this is satisfactory to the Board.

Yours truly,

BORDEN LADNER GERVAIS LLP



J. Mark Rodger
JMR/ld
Encl.

copy to:

Mr. Michael Bell, Case Manager, Ontario Energy Board (by email)
Mr. Michael Millar, Counsel, Ontario Energy Board (by email)
Applicant and Intervenors of Record (by email)

ONTARIO POWER AUTHORITY (EB-2010-0279)
INTERROGATORIES FROM HQ ENERGY MARKETING INC. (“HQEM”)

Interrogatory #1

Reference:

Exhibit D, Tab 1, Schedule 1, page 2.

Preamble:

The evidence filed by the OPA in support of its proposed usage fees for export customers is limited to a single paragraph in its application. In Ex. D, Tab 1, Sch. 1, page 2 the OPA states:

“In past years, the OPA has recovered its fees from Ontario consumers only. The addition of export volumes for calculating the usage fee considers that export customers also benefit from the planning, conservation and procurement activities undertaken by the OPA. The OPA therefore proposes to recover its fees from export customers, in addition to Ontario customers. This is consistent with the practice used by the IESO for recovery of its fees.”

The OPA references the practice used by the IESO as a basis which justifies the OPA’s proposal to impose a new fee on export customers. The *Electricity Act* identifies the objects and character of both the IESO and the OPA. With respect to the IESO section 5 states:

The objects of the IESO are,

- (a) to exercise the powers and perform the duties assigned to the IESO under this Act, the market rules and its licence;
- (b) to enter into agreements with transmitters giving the IESO authority to direct the operation of their transmission systems;
- (c) to direct the operation and maintain the reliability of the IESO-controlled grid to promote the purposes of this Act;
- (d) to participate in the development by any standards authority of standards and criteria relating to the reliability of transmission systems;
- (e) to work with the responsible authorities outside Ontario to co-ordinate the IESO’s activities with their activities;

(f) to collect and provide to the OPA and the public information relating to the current and short-term electricity needs of Ontario and the adequacy and reliability of the integrated power system to meet those needs; and

(g) to operate the IESO-administered markets to promote the purposes of this Act.

Section 25.2 of the Act described the objects and character of the OPA :

The objects of the OPA are,

(a) to forecast electricity demand and the adequacy and reliability of electricity resources for Ontario for the medium and long term;

(b) to conduct independent planning for electricity generation, demand management, conservation and transmission and develop integrated power system plans for Ontario;

(c) to engage in activities in support of the goal of ensuring adequate, reliable and secure electricity supply and resources in Ontario;

(d) to engage in activities to facilitate the diversification of sources of electricity supply by promoting the use of cleaner energy sources and technologies, including alternative energy sources and renewable energy sources;

(e) to establish system-wide goals for the amount of electricity to be produced from alternative energy sources and renewable energy sources;

(f) to engage in activities that facilitate load management;

(g) to engage in activities that promote electricity conservation and the efficient use of electricity;

(h) to assist the Ontario Energy Board by facilitating stability in rates for certain types of consumers;

(i) to collect and provide to the public and the Ontario Energy Board information relating to medium and long term electricity needs of Ontario and the adequacy and reliability of the integrated power system to meet those needs.

It is clear that the IESO and OPA have very different objectives and purposes.

Questions:

- (a) Given the differences between the IESO and the OPA, on what basis does the OPA believe that:
 - (i) the OPA has the jurisdiction to seek to impose usage charges on export customers, and
 - (ii) the OEB has the jurisdiction to approve an OPA fee which imposes usage fees for export customers?
- (b) Has the OPA obtained a legal opinion on the question of whether the OPA/OEB has the legal jurisdiction to grant the relief sought by the OPA with respect to imposing the usage fee on export customers? If yes, is the OPA prepared to provide that legal opinion? If no, does it intend to obtain such legal opinion?

Interrogatory #2

HQEM would like to understand the origin and background within the OPA concerning why it is advancing the proposed new usage fee on exporters. Specifically please explain the following:

Questions:

- (a) What is the rationale underlying the OPA's proposal to introduce this fee on exporters at this time? What is different in this application as opposed to all the other fee proposals the OPA has filed with the OEB since the OPA's inception?
- (b) What has changed in the OPA's business and operational environment that is driving the proposed change to charge export customers when compared to the OPA's historical and existing practice?

Interrogatory #3

Reference:

General

Questions:

- (a) Please confirm that the OPA does not provide electric supply procurement-related services and conservation-related services to entities located outside the Province of Ontario. If not, please specify to which entities the OPA provides such services, the jurisdiction where they are located, which services those entities availed themselves of, whether the OPA collects any revenues from these entities, and how much.

- (b) Please confirm that the direct costs of the various electric supply contracts procured by the OPA are being recovered from Ontario end users only. In this question, the term “direct costs” relates only to the cost of the electric supply itself, as agreed to between the OPA and the suppliers, and does not relate to the OPA’s own administration costs related to procurement and contract management which are being taken into account to develop its fee proposal.
- (c) Please confirm that the direct costs of the conservation programmes developed and managed by the OPA are recovered from Ontario end users only. In this question, the term “direct costs” relates only to the cost of the programmes themselves (e.g., labour, materials, marketing, etc.), and does not relate to the OPA’s own administration costs which are being taken into account to develop its fee proposal.

Interrogatory #4

Reference:

Exhibit D, Tab 1, Schedule 1, page 2, line 6 to page 3, line 2.

Questions:

- (a) Does the OPA agree that one of the main cost allocation and rate design principles applied in the utility industry in setting rates and/or tariffs is based on the principle of cost causality, that is, in order to establish just and reasonable rates customers or entities that impose costs on utilities should be responsible for those costs? If the OPA does not agree, please explain why not.
- (b) Has the OPA conducted a cost allocation study similar to the OEB’s recommended cost allocation study used by distributors to allocate their distribution revenue requirement, to determine which of OPA’s customers or entities impose OPA’s costs? If yes, please provide the study. In the OPA’s view, has the OPA allocated OPA’s costs to these customers or entities based on cost causation principles?
- (c) Please provide a review of the various cost allocation models used by natural gas utilities in Canada (in Ontario and elsewhere) and electric utilities in Canada outside the Province of Ontario to allocate and recover their own overhead and administration costs related to network planning, conservation programmes and supply procurement across their various classes of customers.

Interrogatory #5

Reference:

Exhibit B, Tab 1, Schedule 1, page 3, line 23 to page 4, line 5.

Question:

Would the OPA agree that of the OPA's five (5) Strategic Objectives, the only Objective which deals with transmission planning is Strategic Objective # 1 and that, more specifically, only initiative # 4 of Strategic Objective # 1 is related to transmission planning? If the OPA does not agree, please identify which other Strategic Objectives and initiatives relate to transmission planning.

Interrogatory #6

Reference:

Exhibit B, Tabs 1 to 5, Schedule 1.

Question:

Would the OPA agree that based on cost causality principles exporters and external loads would only impose on the OPA costs related to Transmission planning? If the OPA does not agree, please explain why not.

Interrogatory #7

Reference:

Exhibit D, Tab 1, Schedule 1, page 2, Table 1.

Questions:

The OPA has identified three variance accounts that are included in its Net Revenue Requirement,

- (a) **Forecast Variance Deferral Account ("FVDA")** was established to record 2010 revenue variances and any cost variances not otherwise incorporated into the revenue requirement submission of the prior year.
- (b) **Retail Contract Settlement Deferral Accounts ("RCSDA"):** sections 25.34 (1) and (2) of the Act require the OPA to make payments to retailers with respect to certain contracts with low-volume and designated consumers. These legislative provisions ensure that retailers will be held whole by the OPA for contracts with low-volume and designated consumers, entered into before prices were frozen by legislation in 2002. To ensure that

the retailers receive the same amounts that they would have received under those contracts, the OPA and the retailer settle any differences between the Hourly Ontario Electricity Prices (“HOEP”) and the contract price. The settlement of these retail contracts is carried out on a monthly basis.

- (c) **Government Procurement Costs Deferral Account (“GPCDA”)** records government transfer costs associated with section 25.18 of the Act.

Please describe how these three variance accounts are related to exporters and external loads based on cost causality principles, and indicate why the balances of these variance accounts should be recovered also from exporters and external loads, as being recommended by the OPA.

Interrogatory #8

Reference:

Exhibit A-3-1, page 23 of 56.

Question:

In Exhibit A-3-1, page 23 of 56, (page 81 of PDF document), the OPA states that: “Stakeholder involvement remains a central part of virtually all of the OPA’s initiatives and activities.” Did the OPA consult with exporters with respect to the new proposal to recover OPA revenue requirement from exporters?