



EB-2012-0136

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 just and reasonable rates and other
charges for electricity distribution effective January 1,
2013.

**Issues List Decision
and PROCEDURAL ORDER NO. 2
September 6, 2012**

Hydro One Networks Inc. (Hydro One) filed an application, dated June 15, 2012, with the Ontario Energy Board under section 78 of the *Ontario Energy Board Act, 1998, c.15*, Schedule B, and the Board's Incentive Regulation Mechanism (IRM) framework seeking approval for changes to the rates that Hydro One charges for electricity distribution, to be effective January 1, 2013. Hydro One has also applied for an adjustment to the rates it charges to accommodate proposed spending on projects contained in an Incremental Capital Module (ICM). The Board has assigned the application File Number EB-2012-0136.

The Board issued a Notice of Application and Hearing dated July 6, 2012. On August 10, 2012 the Board issued Procedural Order No.1, approving a list of intervenors and intervenor eligibility for cost awards. Procedural Order No. 1 also included a timetable for hearing events and a draft Issues List. The Board made provision for submissions on the draft Issues List by Hydro One and intervenors.

The Board received submissions from Hydro One, the Balsam Lake Coalition (BLC), Ontario Federation of Agriculture (OFA), Canadian Manufacturers and Exporters (CME), Energy Probe, School Energy Coalition (SEC), Vulnerable Energy Consumers Coalition

(VECC), Consumers Council of Canada (CCC) and the Association of Major Power Consumers (AMPCO). Hydro One also filed reply submissions on August 21, 2012.

Hearing Schedule

Hydro One expressed a concern regarding the timing of the interrogatory process and the potential dates for the Oral Hearing. Hydro One suggested that the overlap with the timelines in the Transmission Cost of Service rates case (EB-2012-0031) was a problem and suggested an alternative scenario, basically recommending a two week shift in the dates found in Procedural Order No. 1. In addition, Hydro One mentioned that its legal counsel would not be available in the month of October and indicated that the Transmission oral hearing could not begin until November 5, 2012. Therefore, Hydro One suggested the Distribution oral hearing not proceed until 2 weeks after the Transmission hearing is complete.

The other parties that commented on the schedule were largely supportive of Hydro One's suggestions. CCC, VECC and AMPCO also suggested an extension in the deadline for filing intervenor evidence (after interrogatory responses were filed).

Board Findings

The Board will amend the hearing schedule to accommodate the concerns raised by Hydro One and the intervenors. A revised schedule is presented below.

Issues List

Density Study

Hydro One submitted that the Board reconsider its decision to not include a review of the Density Study in this proceeding. Hydro One cited the fact that there was no negative feedback from stakeholders in the consultation on the Density Study and indicated that it had not yet determined if it will file a Cost of Service application in 2013 for 2014/15. Hydro One submitted that the Report of the Board for 3GIRM allows for revenue-to-cost shifts and that not acting on the study in the current proceeding would continue or exacerbate existing disparities.

Hydro One stressed that implementation of the study results now will mitigate future rate increases. Hydro One also cautioned that if the study was addressed at a future hearing there may be additional costs incurred to update the findings.

SEC also supported the inclusion of this issue and argued that the current situation is unfair to those customers who may have been paying rates that do not reflect the appropriate cost allocation. As Hydro One did not file in 2013 and now may not file another COS until 2014, that situation would continue. SEC submitted as follows:

“Since May 1, 2008, schools have to the end of this year paid almost \$5 million more than may have been appropriate if density had been reflected more suitably in the cost allocation. To continue to allow this problem to exist for a sixth and perhaps even seventh year following the point at which it was first brought to the Board’s attention is not, in our view, just and reasonable.

The Board originally ordered this Density Study to be filed on a schedule that would have implemented it two years later, in 2010. When the Board reiterated the order, it reasonably expected that it would be implemented for 2012 or at the latest for 2013. At no time did the Board anticipate that implementation of any necessary corrections would be delayed until 2015, and it is reasonable to expect that had the Board known that, it would have taken different action to ensure that it was dealt with earlier.”

CME, Energy Probe, OFA and BLC also supported Hydro One’s request to include the review of the Density Study in this proceeding.

VECC did not support the inclusion of this issue. VECC noted that the Board’s practice has been to implement revenue to cost ratio adjustments during the IRM period only if they have been fully reviewed and approved as part of an earlier cost of service proceeding so that the adjustments are purely mechanistic. In VECC’s view, the adjustments proposed by Hydro One do not represent the implementation of adjustments previously approved by the Board but arise from a study that has not been reviewed by the Board. In response to Hydro One’s comment on the future costs of updating the study, VECC argued that there will always be a need to update the study for future applications and that Hydro One will have to find a cost-effective way of updating the study over time in any event.

Board Findings

The Board will include the Density Study on the Issues List. Although it is not the Board’s practice to include such substantive items in an IRM proceeding, the Board notes that a significant amount of time will have passed between the ordering of this study and its adjudication if it is not examined in this proceeding. Since the intervenors were generally supportive of the issue’s inclusion (with the exception of VECC), the Board is prepared to depart from its normal practice and include the issue.

As the implementation of the findings of the proposed Density Study will impact Seasonal Class customers, the Board will direct Hydro One to serve a copy of the Notice of these proceedings directly on the Federation of Ontario Cottagers Associations (FOCA) as FOCA has in the past shown an interest in the Density Study.

Other Issues

SEC proposed the addition of a number of issues on the basis that it was not certain whether the items were subsumed under existing issues. Specifically, SEC proposed that the following issues be added in relation to the Incremental Capital Module and its implementation:

1. Is Hydro One's proposal with respect to the capital contribution allocated to Hydro One Transmission appropriate?

SEC acknowledged that this might be subsumed within Issue 2.1, but submitted that as this payment is an internal allocation to the transmission business, it would be clearer if it were a standalone issue.

2. Is Hydro One's proposal with respect to the treatment of the CIS project for 2013 and 2014 appropriate?

SEC noted that Hydro One proposes a non-standard approach to calculating the revenue requirement for the CIS, and that this does not appear to be captured in the current wording of either Issue 2.1 or 2.2.

3. Is Hydro One's proposal to calculate revenue requirement for all of the proposed ICM projects, except CIS, based on full year depreciation, appropriate? In the event that Hydro One files on a cost of service basis for 2014, is an adjustment required, and if so should a deferral account be set up at this time to capture any such adjustment?

SEC noted that Hydro One proposes to use full year depreciation, but has not committed to whether its next cost of service is for 2014 or 2015. In SEC's view, this leaves uncertainty with respect to the calculation of the ICM revenue requirement and with respect to future adjustments if the ICM rate adder turns out to be overstated because Hydro One files a cost of service application for 2014.

4. Is the proposed calculation of the ICM rate rider, including the cost of capital parameters used in the calculation, appropriate?

SEC acknowledged that this may be included within the ambit of Issue 2.2 but added this suggestion in order to provide clarity.

SEC also proposed a number of implementation issues, noting that it is unlikely that a rate order will be in place in time to implement new rates on January 1, 2013.

6. Implementation Issues

6.1. What is the appropriate effective date for new rates under this Application? If the effective date is prior to the date of actual implementation, what methods should be used to ensure that the amounts collected are consistent with the approved effective date?

6.2. *If new rates cannot be implemented by January 1, 2013, should the Hydro One's rates be declared interim, and if so from and after what date?*

6.3. *What are the terms, if any, of any true-up between the amounts collected under the ICM rate rider and the actual revenue requirement associated with approved ICM projects, and how should any difference between the proposed effective date of January 1, 2013 and the actual effective date approved by the Board be reflected in that true-up calculation?*

SEC also proposed that the following two rate design issues be added:

7. Rate Design

7.1 Are the proposed retail transmission service rates appropriate?

7.2 Is the proposed Tariff of Rates and Charges for 2013 appropriate?"

CCC also suggested an additional issue in Section 2: Is the proposed treatment of individual capital projects appropriate? CCC also suggested adding an additional section addressing the question of whether the proposed rates are appropriate.

VECC submitted that Issue 2.1 be reworded to read: Has Hydro One appropriately applied the Board's ICM criteria? In VECC's view this would allow a broader examination of areas of the threshold test and other potential revenues.

CME was concerned with the total electricity bill increases that consumers will face during 2013. CME requested that the Board add to its Issues List an appropriately worded question to allow that topic to be scrutinized in this proceeding.

In its reply submission, Hydro One indicated that it was not opposed to expanding the Issues List with the suggestions of SEC, VECC and CME as Hydro One felt that suggestions were subsumed in the current draft list.

Board Findings

The Board will include the issues proposed by SEC, with the exception of proposed Issue 7.1 which is already included under existing draft issue 3.4. The Board notes that to a large extent these matters could be addressed under one of the issues in the draft Issues List, however, Hydro One does not oppose their inclusion and the Board accepts that their inclusion may provide greater clarity.

Given these additions, the Board concludes that the addition proposed by CCC is unnecessary. The Board will not make the revision proposed by VECC; the Board is satisfied that the current wording is sufficiently broad to include the concerns identified by VECC. CME's concern can be addressed within the existing issues, as modified.

Interrogatory Process

As shown in Procedural Order No. 1, the Board has made provision for written interrogatories. The Board reminds parties that interrogatories must reference the pre-filed evidence and, in accordance with *Chapter 2 of the Filing Requirements for Transmission and Distribution Applications* ("Filing Requirements"), parties must sort their interrogatories and responses by issue. The Board encourages parties to use a continuous (sequential) numbering system to facilitate subsequent referencing of the interrogatories. For greater clarity this means that parties should not start at number "1" for each issue but rather have continuous numbering throughout all of the issues.

After its review of interrogatory responses, the Board will determine the next steps.

The Board considers it necessary to make provision for the following matters related to this proceeding. Although the date for the oral hearing is not currently specified, it is expected that the oral hearing will take place in early December, 2012. The Board will issue further procedural orders from time to time.

THE BOARD ORDERS THAT:

1. Hydro One serve a copy of the Notice of this proceeding directly on the Federation of Ontario Cottagers Associations (FOCA).
2. The Approved Issues List for this proceeding is attached as Appendix A to this Order.
3. Board staff seeking information and material that is in addition to the Hydro One's pre-filed evidence, and that is relevant to any matter at issue in the hearing, shall request the same by written interrogatories filed with the Board and delivered to all parties on or before Thursday, September 20, 2012.

4. Intervenors seeking information and material that is in addition to Hydro One's pre-filed evidence, and that is relevant to any matter at issue in the hearing, shall request the same by written interrogatories filed with the Board and delivered to all parties on or before Tuesday, September 25, 2012.
5. Responses by Hydro One to interrogatories shall be filed with the Board and delivered to all parties on or before Thursday, October 11, 2012.
6. Any intervenor that intends to file evidence shall notify the Board of its intention, no later than Tuesday, October 16, 2012 and shall copy all parties.
7. Board staff and intervenors who wish to file evidence shall do so, on or before Friday, October 26, 2012 and deliver it to all parties.
8. Any party seeking information and material that is in addition to the intervenor or Board staff evidence, and that is relevant to any matter at issue in the hearing, shall request the same by written interrogatories filed with the Board and delivered to all parties on or before Monday, November 5, 2012.
9. Responses to the interrogatories on intervenor or Board staff evidence shall be filed with the Board and delivered to all parties on or before Monday, November 12, 2012.

All filings to the Board must quote file number EB-2012-0136, be made through the Board's web portal at www.errr.ontarioenergyboard.ca, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Please use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.ontarioenergyboard.ca. If the web portal is not available you may email your document to the address below. Those who do not have internet access are required to submit all filings on a CD or diskette in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

Address

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ISSUED at Toronto, September 6, 2012

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

Appendix A

**Hydro One Networks Inc.
Distribution
2013 Rates**

EB-2012-0136

APPROVED ISSUES LIST

September 6, 2012

**Appendix A
Hydro One Networks Inc.
Distribution
2013 Rates**

EB-2012-0136

APPROVED ISSUES LIST

IRM Methodology

1. Has Hydro One appropriately applied the IRM mechanism as specified by the Board?

Incremental Capital Module/Rate Rider

2. Should the proposed capital projects be approved for ICM treatment?
3. Is Hydro One's proposal with respect to the capital contribution allocated to Hydro One Transmission appropriate?
4. Is Hydro One's proposal with respect to the treatment of the CIS project for 2013 and 2014 appropriate?
5. Is Hydro One's proposal to calculate revenue requirement for all of the proposed ICM projects, except CIS, based on full year depreciation, appropriate? In the event that Hydro One files on a cost of service basis for 2014, is an adjustment required, and if so should a deferral account be set up at this time to capture any such adjustment?
6. Is the proposed rate implementation for projects approved under the ICM, if any, appropriate?
7. Is the proposed calculation of the ICM rate rider, including the cost of capital parameters used in the calculation, appropriate?

Other Rate Riders and Adders

8. Is Hydro One's proposed disposition of Group 1 Deferral and Variance Accounts appropriate?
9. Is Hydro One's proposed rate rider to share the impact of the income tax decrease with customers appropriate?

10. Is Hydro One's proposed Smart Grid rate adder appropriate?
11. Are the proposed adjustments to the Retail Transmission Service rates appropriate?

Final Step of Harmonization Plan

12. Is Hydro One's proposal to implement the final adjustments of the Harmonization Plan in accordance with the Board's directions?

Density Study

13. Is Hydro One's proposal for the implementation of the Density Study findings appropriate?

Implementation Issues

14. What is the appropriate effective date for new rates under this Application? If the effective date is prior to the date of actual implementation, what methods should be used to ensure that the amounts collected are consistent with the approved effective date?
15. If new rates cannot be implemented by January 1, 2013, should Hydro One's rates be declared interim, and if so, from and after what date?
16. What are the terms, if any, of any true-up between the amounts collected under the ICM rate rider and the actual revenue requirement associated with approved ICM projects, and how should any difference between the proposed effective date of January 1, 2013 and the actual effective date approved by the Board be reflected in that true-up calculation?

Rate Design

17. Is the proposed Tariff of Rates and Charges for 2013 appropriate?