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November 21, 2008

**VIA COURIER AND EMAIL**

Ms. Kirsten Walli
Board Secretary
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli,

**Re: Vulnerable Energy Consumers Coalition (VECC)**
**EB-2008-0272 Hydro One Networks Inc. – Electricity Transmission Revenue Requirement Change**
**Submissions: Draft Issues List**

As Counsel for the Vulnerable Energy Consumers Coalition (VECC), I writing to provide comments regarding the Proposed Issues List distributed as part of Procedural Order No. 1 on November 14, 2008. The comments are set out below and are organized in accordance with the main topic areas identified in the proposed list.

## 1. GENERAL

*OEB Proposed Issues*

1.1 Has Hydro One responded appropriately to all relevant Board directions from previous proceedings?

*VECC's Comments*

VECC agrees with the wording of Issue 1.1. However, VECC submits that the following additional General Issues need to be added to the list:

1.2 Have there been any changes to the Affiliate Service Agreements since the 2007/08 Transmission Rates proceeding and are the Agreements consistent with the Affiliate Relationships Code?

Rationale: There have been changes to the Affiliate Relationships Code (ARC) since the last transmission rates proceeding and new agreements have been filed by Hydro One Networks. In VECC's view, there is a need, from due diligence perspective, to confirm that these new agreements are in accordance with the revised ARC.

1.3 Are Hydro One Networks' Economic and Business Planning Assumptions for 2008, 2009 and 2010 appropriate?

Rationale: Hydro One Networks' Economic and Business Planning assumptions are a key factor in the determination of load forecast as well as the annual escalation in OM&A and capital spending costs. VECC notes that the forecasts used by Hydro One Networks are generally based on forecasts prepared in April 2008. In VECC's view, particularly given current economic conditions, there is a need for the Board to specifically address the issue as to whether the planning assumptions used by Hydro One are appropriate.

1.4 Is the scope and timing of the study on Export Transmission Service Rates and the planned follow-up appropriate?

Rationale: The commitment to this study arises from the RP-2006-0501 Settlement Agreement. VECC notes that Hydro One Networks' Application does make reference to this issue (Exhibit A/Tab 18/Schedule 1) in the section dealing with previous Board directives. However, as the study is being undertaken by the IESO it is not immediately clear to VECC that it would be covered by the Board's proposed issue #1.1. Also, there appears to be discrepancies between the Settlement Agreement and Hydro One Networks' evidence regarding accountabilities following the completion of the IESO study that need to be addressed.

## 2. LOAD FORECAST AND REVENUE FORECAST

*OEB Proposed Issues*

2.1 Is the load forecast and methodology appropriate and have the impacts of Conservation and Demand Management initiatives been suitably reflected?

2.2 Are Other Revenue forecasts appropriate?

*VECC's Comments*

VECC agrees with the wording of Issue 2.1. In VECC view the consideration of "appropriate" includes the following:

- The appropriateness of HON's weather normalization methodology and the reasonableness of the weather normalization results.
- The consistency of HON's forecast with those prepared by other parties (e.g. the IESO) recognizing methodological and definitional differences.
- The translation of the load forecast into HON's Tx billing determinants.

VECC seeks confirmation that these points are included under Issue 2.1. VECC notes that the first two bullets are the subject of previous Board directives; while the last is meant to ensure consistency between the aggregate system peak and energy forecast and the billing determinant forecast used in setting rates.

With respect to Issue 2.2, the External Revenue section of Hydro One Networks evidence (Exhibit E1/Tab 1/Schedule 2) does not deal with export revenues, which are addressed later in the filing. For clarity, VECC suggests that either the issue be re-worded as follows or the Board clarify the "other revenues" include export revenues:

Revised Issue 2.2: Are Other Revenue (including export revenue) forecasts appropriate?

**3. OM&A**

*OEB Proposed Issues*

3.1 Are the proposed spending levels for Sustaining and Development OM&A in 2009 and 2010 appropriate, including consideration of factors such as system reliability and asset condition?

3.2 Are the proposed spending levels for Shared Services and Other O&M in 2009 and 2010 appropriate?

3.3 Are the compensation levels proposed for 2009 and 2010 appropriate?

*VECC's Comments*

VECC agrees with the wording for Issue 3.1.

VECC agrees with the wording of Issue 3.2. In VECC's view the determination of the appropriateness of the proposed spending levels for Shared Services includes consideration of the appropriateness of both the total Corporate O&M costs as well as the proportion allocated to the transmission business. VECC seeks confirmation that these points are included under Issue 3.2.

VECC generally agrees with the wording for Issue 3.3. In VECC's view the reference to compensation includes both staffing levels and per employee compensation. This could be clarified by changing the wording to "total compensation". VECC also notes that the revenue requirement includes pension and post-employment benefit costs. Since these are not strictly compensation items (i.e., related to current employees) VECC submits that the Board should either clarify that these items are included in the scope of Issue 3.3 or specifically address them through a separate issue.

In VECC's view the following OM&A related issues need to be added to the list.

3.4 Is Hydro One Networks' proposed transmission overhead capitalization rate appropriate?

Rationale: There is a need, from a due diligence perspective, to confirm that the proposed transmission overhead capitalization rate has been calculated in accordance with the approach previously reviewed by the Board.

3.5 Are the amounts proposed to be included in the 2009 and 2010 revenue requirements for income and other taxes appropriate?

Rationale: There is a need, from a due diligence perspective, to confirm that the proposed taxes (income and other) have been calculated appropriately in terms of both methodology and rates.

## 4. CAPITAL EXPENDITURES AND RATE BASE

*OEB Proposed Issues*

4.1 Are the proposed 2009 and 2010 Sustaining and Development and Operations capital expenditures appropriate, including consideration of factors such as system reliability and asset condition?

4.2 Are the proposed 2009 and 2010 levels of Shared Services and Other Capital expenditures appropriate?

*VECC's Comments*

VECC agrees with the wording of issue 4.1.

VECC agrees with the wording of Issue 4.2. In VECC's view, the determination of the appropriateness of the proposed capital spending levels for Shared Services includes consideration of the appropriateness of both the corporate asset allocation and the total costs being allocated. VECC seeks confirmation that these points are included under Issue 4.2.

In VECC's view the following capital spending and rate base related issues need to be added.

4.3 Are the actual net fixed asset values for 2006, 2007 and the projected values for 2008, 2009 and 2010 appropriate?

Rationale: The rate base for 2009 and 2010 is based not only on the capital spending in those years but also on the opening net fixed asset balance as of December 31, 2008. In its Decision regarding the 2007/08 transmission rates the Board approved a "forecast" level of capital spending and net fixed assets for 2006 through 2008. To the extent the actual values for 2006 and 2007 and the current forecast for 2008 differ from those approved in RP-2006-0501, there is a need for the Board to assess the appropriateness of changed values and the resulting net fixed asset values before it can make a determination regarding the rate base for 2009 and 2010.

Also, as Hydro One Networks' evidence notes (Exhibit D1/Tab 1/Schedule 1), there is a difference between the absolute amount of capital spending and in-service additions in any given year. Since it is the latter that determines rate base, it is necessary to consider the appropriateness of projected net fixed assets as defined by forecast in-service dates, planned retirements, etc.

4.4 Is the submitted Lead Lag study appropriate for the development of the Working Capital component of the Rate Base?

Rationale: There is a need, from a due diligence perspective, to confirm that the working capital has been calculated appropriately in terms of both methodology and inputs.

4.5 Is Hydro One Networks' proposed depreciation expense for 2009 and 2010 appropriate?

Rationale: VECC notes that the Application includes revised depreciation rates based on a study prepared by Foster. There is a need to confirm that the study's finding are reasonable and the results rates are appropriate for determining depreciation expense.

## 5. DEFERRAL AND VARIANCE ACCOUNTS

*OEB Proposed Issues*

5.1 Are the proposed amounts and disposition for each of the deferral and variance accounts appropriate?

5.2 Is the proposed continuation of the deferral/variance accounts appropriate?

5.3 Are the proposed new Deferral/Variance Accounts appropriate?

*VECC Comments*

VECC generally agrees with the wording of Issue 5.1. In VECC's view this issue covers the status and proposed disposition of all transmission-related deferral and variance accounts that are open as of December 31, 2008. For greater clarity, the wording should be revised as follows.

> Revised Issue 5.1: Are the proposed amounts and disposition of each of Hydro One's existing deferral and variance accounts appropriate?

VECC agrees with the wording of Issues 5.2 and 5.3.

## 6. COST ALLOCATION

*OEB Proposed Issues*

6.1. Would it be appropriate to make changes to cost allocation in response to the study submitted on line connection costs for customers directly connected to networks stations?

*VECC's Comments*

VECC agrees with the wording of Issue 6.1. In VECC's view the following issue should also be added.

6.2 Has Hydro One Networks' cost allocation methodology been applied appropriately?

> Rationale: There is a need, from a due diligence perspective, to confirm that the cost allocation methodology that was reviewed and adopted in RP-2006-0501 has been applied properly.

## 7. OTHER ISSUES

VECC notes that there are no issues on the proposed list regarding the Cost of Capital. In VECC's view there is one substantive issue in this area, namely the forecast cost of new long-term debt for 2008 and 2009. This could either be included under VECC proposed Issue 1.3 or set out as a separate issue. In the latter case, the issue could be stated as follows:

> VECC New Issue: Is the forecast of new long-term debt for 2008-2010 appropriate?

VECC recognizes that the capital structure, cost of equity and cost of short term debt are all established based on Board approved guidelines. Similarly, the retirement dates for existing debt are a matter of record. As a results, all that is required in these areas is a due diligence confirmation that the guidelines have been appropriately applied and the resulting cost of capital calculated correctly. The proposed Issues List should provide the scope to do this by including the following issue statement.

> VECC New Issue: Is the proposed cost of capital consistent with the Board approved guidelines.

If there are any questions or clarification required please contact either Bill Harper (416-348-0193) or myself (416-767-1666).

Yours truly,

Michael Buonaguro
Counsel for VECC