



RP-2005-0020
EB-2005-0378

IN THE MATTER OF the *Ontario Energy Board Act* 1998,
S.O.1998, c.15, (Schedule B);

AND IN THE MATTER OF an Application by Hydro One Networks
Inc. for an Order or Orders approving or fixing just and reasonable
rates for the distribution of electricity to be implemented on May 1,
2006.

PROCEDURAL ORDER NO. 2

Hydro One Networks Inc. ("Hydro One" or the "Company" or the "Applicant") filed an application, dated August 17, 2005, with the Ontario Energy Board under section 78 of the *Ontario Energy Board Act*, S.O. 1998, c.15, Schedule B. The Board has assigned file number RP-2005-0020/EB-2005-0378 to the application and has issued a Notice of Application dated August 30, 2005.

At the Issues Conference, held on October 4, 2005, parties agreed to all but five of the issues on the Proposed Issues List. At the Issues Day, held on October 7, 2005, the Board reviewed the non-contested issues and accepted them as listed with the exception of Issue 4.6, Capital Budget or other implications arising from RP-2004-0203/EB-2005-0198 (third tranche reallocation) if any, which was made a sub-issue under Issue 4.4, Capital Budget for 2006 Test Year.

The Board also heard submissions on contested issues. Although five contested issues originally appeared on the list, the request to include contested issue 4, Rate Impact on Communities, was withdrawn by its proponent, the City of Greater Sudbury. The Board was also assisted by the identification on the list of issues that could be of generic application. The following are the Board's reasons for the determination of the issues list that is attached to this procedural order.

Contested Issues 1, 2, and 3: Conservation and Demand Management ("CDM")

Several intervenors, particularly Pollution Probe and the Green Energy Coalition, requested that three issues be added to the Proposed Issues List. Each of these issues would involve a consideration by the Board as to whether Hydro One should be required to spend funds on CDM programs beyond the \$39.5 million amount that the distributor proposes to spend from its third tranche MARR earnings.

The Board in its Report on the 2006 Electricity Distribution Rate Handbook said the following regarding post third tranche spending (at pages 104 and 105):

"Most parties agreed that there should be no mandatory minimum expenditure target. The Board agrees that mandating spending is not appropriate, as distributors have already made commitments for a three year period. However, the question remains whether there should be a range of permissible spending above that commitment and whether that level should be defined...

The Board concludes that it is appropriate for Ontario's distributors to continue with their existing commitments, but that a specific target for 2006 is not appropriate. A distributor may apply for additional spending (above the 3rd tranche) as part of its 2006 distribution rate application, but this spending must meet the Total Resource Cost test established in the Board's Conservation Manual."

Hydro One did not apply for additional spending above the third tranche amounts in its rate application.

The Board will not include the CDM issues on the issues list for this proceeding, as it finds that to consider in this individual rate case the questions posed by the contested issues would be too narrow and specific a treatment of these important questions.

The Board recognizes the value of conservation, and has moved quickly to facilitate third tranche spending. In evaluating third tranche spending, the Board has generally adopted the Demand Side Management model used by Ontario gas distributors in order to provide some foundation for consideration of electricity CDM spending. However, the Board has not yet developed a comprehensive policy on electricity CDM. The Board finds that the Hydro One distribution rate application is not the best venue for this policy work to occur.

The Board heard the arguments of several parties that the proposals that would be brought forward if these contested issues were added to the list are utility specific. However, the questions of whether a distributor should be required to undertake CDM programs proposed by a third party, under what circumstances such an order is appropriate, and the acceptable level of spending or rate impact, are important to many distributors in addition to Hydro One. Not all the potentially affected distributors are parties to this case. Further, many CDM programs that could be proposed for Hydro One are not unique, but could be equally applicable to other distributors.

Hydro One has not proposed any spending in addition to its \$39.5 million third tranche amount in 2006. The CDM issues in this case will be addressed only in the context of line loss reduction as discussed below. Although the Board believes that it is important to consider whether distributors, including but not limited to Hydro One, should be doing more to encourage CDM, the Board does not believe that this case is the appropriate forum to do so. The Board does not normally announce other proceedings in a decision. However, for clarity in this case, we advise that the Board will soon announce a more generic process on CDM issues.

Intervenors and Board staff in the Hydro One proceeding may not ask interrogatories or file evidence on these topics at this time. The topics do not appear on the attached Board-approved issues list for the 2006 rates case.

Contested Issue 3: Line loss reduction

The issue regarding line losses is slightly different. Although reducing line losses is considered a CDM program, it is also a responsibility of each electricity distributor to make the most efficient use of its distribution assets. Hydro One, in another proceeding before this Board, has submitted evidence that \$4 million beyond the \$8 million it proposes to spend as part of its CDM third tranche spending could be economically invested in line loss reduction. Hydro One has not included this additional \$4 million in its capital spending amounts in this case.

The Board will permit inquiry into this issue under 8.0 Other Issues. To assist that inquiry, the Board directs Hydro One to file in this proceeding that part of its July 8, 2005 submission to the Board in RP-2004-0203/EB-2005-0198 that dealt with line loss reduction. In addition, Hydro One may choose at this time to file an explanation of why it believes \$8 million to be the upper limit of spending which could be accommodated

within the relevant period. This filing must be received by the Board and copied to all intervenors by October 21, 2005. Parties that wish to submit interrogatories on this supplemental filing must do so by October 26, 2005.

Contested Issue 5: The proposed 2007 rate-setting mechanism

Hydro One, in the evidence filed in its 2006 rates application, proposed that the Board approve a formula for setting 2007 rates. No party submitted that the proposal should not be considered by the Board, but several intervenors took the position that an examination of 2007 costs was a prerequisite to the Board's approval of such an incentive mechanism. In addition, it was argued that a ratepayer protection mechanism that dealt with potential over-earning by the utility should be considered as part of the mechanism. Hydro One took the position that an extensive examination of 2007 costs was not necessary.

All parties agreed that the approval of a formulaic rate setting mechanism for Hydro One could be regarded as a precedent for the treatment of other distributors' 2007 rates. It was suggested that this issue could become part of a generic proceeding, or be moved to a second phase of the Hydro One rates proceeding. It was noted that the Board had made public statements that an incentive mechanism would be considered for 2007 rates for electricity distributors.

The Board finds that the proposal by Hydro One for a formulaic rate setting mechanism should be considered in a more generic process. The Board recognizes the interest the issue holds for other parties, particularly other distributors, who have not intervened in this case. The Board is not declining to hear the proposal from Hydro One. However, this proposal should not be reviewed as part of the main 2006 rates case. The Board will consider the best way to convene a generic process to determine a rate setting mechanism for electricity distributors in 2007, and inform Hydro One, and other electricity distributors and stakeholders of that process.

Therefore, parties in the Hydro One proceeding may not ask interrogatories or file evidence on this topic at this time. The topic does not appear on the attached Board-approved issues list for the 2006 rates case.

Date for filing intervenor evidence

The Board heard from Mr. Shepherd, on behalf of several intervenors, that the date in Procedural Order No. 1 for the filing of intervenor evidence would be difficult, if not impossible, to meet. Hydro One agreed that all the timelines in the procedural order are tight, but urged the Board not to delay the proceeding unduly.

The Board finds that an appropriate compromise would be to amend Procedural Order No. 1 to give intervenors an additional week to file evidence. This is a little over two weeks from the date that Hydro One's interrogatory responses are due. The new filing date for intervenor evidence will be November 18, 2005.

The Board has already stated its view that the list provided to it on Issues Day is a list of topics, not a list of issues. The Board has approved, by way of this procedural order, the list of topics for the Hydro One distribution rates case. The Board reminds parties that it expects a refined list of actual issues that the Board must determine, to be presented to the Board as soon as such a list can be developed, and in any event, well in advance of the commencement of the oral hearing.

The Board considers it necessary to make provision for the following procedural matters. Please be aware that further procedural orders may be issued from time to time.

THE BOARD ORDERS THAT:

1. The Issues List for this proceeding is attached as Appendix "A" to this Order.
2. Hydro One shall file its supplemental evidence on Line Loss Spending by Friday, October 21, 2005.
3. Parties that wish to file interrogatories on Hydro One's supplemental Line Loss Spending filing must do so by Wednesday, October 26, 2005.
4. Procedural Order No. 1 is amended to extend the date for submission of intervenor evidence to Friday, November 18, 2005.

5. All filings with the Board noted in the Order must be in the form of 10 hard copies and received by the Board by 5:00 p.m. on the stated date. The Board requires all correspondence to be in electronic form as well as paper. Therefore, all parties must also e-mail an electronic copy of their filings in MS Word to the Board Secretary at Boardsec@oeb.gov.on.ca. Parties must also include the Case Manager, Harold Thiessen harold.thiessen@oeb.gov.on.ca and Board Counsel, Jennifer Lea jennifer.lea@oeb.gov.on.ca on all electronic correspondence related to this case.

An updated list of Intervenor is attached as Appendix "B" to this Procedural Order.

ISSUED at Toronto, October 18, 2005

ONTARIO ENERGY BOARD

Original Signed by

Peter H. O'Dell
Assistant Board Secretary

APPENDIX "A"

TO PROCEDURAL ORDER NO. 2

BOARD FILE NO. RP-2005-0020/EB-2005-0378

DATED: October 18, 2005

ISSUES LIST

**Hydro One Networks Inc.
Test Year 2006 Distribution Rates
RP-2005-0020/EB-2005-0378**

**ISSUES LIST
(Approved Topics)**

1.0 CORPORATE OVERVIEW

- 1.1 Planning Process
- 1.2 Policy Changes
- 1.3 Economic Forecast

2.0 REVENUE FORECAST

- 2.1 Load Forecast
 - Including Weather normalization, CDM and LRAM
- 2.2 Revenue from other services

3.0 OM&A EXPENDITURES

- 3.1 OM&A levels for 2006
- 3.2 Sustaining
- 3.3 Development
- 3.4 Operations
- 3.5 Customer Care
- 3.6 Shared Services

3.7 Other OM&A and Taxes

3.7.1 Income Taxes

3.7.2 Other Taxes

3.8 Corporate Cost Allocation - Allocation Methodology for common costs

3.8.1 Service Level Agreements

3.9 Compensation, Benefits and Staffing Levels

4.0 RATE BASE

4.1 Distribution Asset Level/ Rate Base

4.2 Working Capital

4.2.1 Lead/ Lag Study

4.3 Asset Condition Assessment

4.4 Capital budget for 2006 test year

4.4.1 Capital Budget or other implications arising from RP2004-0203/EB2005-0198 (third tranche reallocation) if any

4.4.2 All other Capital Budget Items

4.5 Depreciation study

5.0 COST OF CAPITAL

5.1 Estimates of the cost and mix of short-term and long-term debt for the 2006 Test Year

5.2 Cost of Equity

5.3 Capital Structure

6.0 REGULATORY ASSETS

- 6.1 Low voltage regulatory assets level and period for recovery
- 6.2 Other regulatory assets level and period for recovery

7.0 RATE IMPLEMENTATION

- 7.1 Line Loss Derivation methodology and Amount
- 7.2 Acquired Utility Rate Harmonization Plan
- 7.3 Retail Transmission Service Rates
- 7.4 Rate Levels, Bill Impacts and Mitigation Plans
- 7.5 Determination of Rate Riders to Recover Regulatory Assets
- 7.6 Miscellaneous Charges

8.0 OTHER

- 8.1 Inergi Contract - Agreement
- 8.2 Service Quality Performance – Adequacy of Funding
- 8.3 Line Loss Reduction Capital Expenditures

APPENDIX "B"

TO PROCEDURAL ORDER NO. 2

BOARD FILE NO. RP-2005-0020/EB-2005-0378

DATED: October 18, 2005

INTERVENTION LIST (updated)

**HYDRO ONE NETWORKS INC.
2006 ELECTRICITY DISTRIBUTION RATES
RP-2005-0020
EB-2005-0378**

APPLICANT & LIST OF INTERVENTIONS

Draft – October 18, 2005

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