

Hydro One Networks Inc.

8th Floor, South Tower
483 Bay Street
Toronto, Ontario M5G 2P5
www.HydroOne.com

Tel: (416) 345-5700
Fax: (416) 345-5870
Cell: (416) 258-9383
Susan.E.Frank@HydroOne.com



Susan Frank

Vice President and Chief Regulatory Officer
Regulatory Affairs

July 7, 2009

BY COURIER

Ms. Kirsten Walli
Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700,
P.O. Box 2319
Toronto, ON.
M4P 1E4

Dear Ms. Walli:

**EB-2009-0152 – OEB Consultation on OEB Infrastructure Treatment- Hydro One Networks
Comments**

I have attached two (2) copies of Hydro One Networks' Comments on the Regulatory treatment of Infrastructure Investment for Ontario's Electricity transmitters and Distributors.

An electronic copy of Hydro One Networks' Comments have been filed using the Board's Regulatory Electronic Submission System (RESS) and the proof of successful submission slip is attached.

Sincerely,

ORIGINAL SIGNED BY ANDY PORAY

For Susan Frank

**SUBMISSION OF HYDRO ONE NETWORKS INC.
REGARDING THE BOARD'S PROCEEDING ON
THE REGULATORY TREATMENT OF
INFRASTRUCTURE INVESTMENT FOR
ONTARIO'S ELECTRICITY
TRANSMITTERS AND DISTRIBUTORS**

JULY 7, 2009

Contact Information

Ms. Anne-Marie Reilly
Regulatory Coordinator,
Regulatory Affairs, Hydro One Networks Inc.
483 Bay Street, 8th Floor, South Tower
Toronto, Ontario
M5G 2P5
Email address: regulatory@HydroOne.com

Hydro One Networks Inc. (“Hydro One”) recognizes the importance of the consultation process which the Ontario Energy Board (“the Board”) has initiated to address the significant issues associated with infrastructure investment for Ontario’s transmitters and distributors and appreciates the opportunity to participate in this consultation. Provided below are Hydro One’s comments on the Board Staff discussion paper (“DP”)¹. The comments are structured to provide an overall commentary as well as specific comments and responses to the issues to which Board Staff seek input in their DP. In addition, Hydro One has participated with other members of the Infrastructure Renewal Task Force to provide a submission to the Board on the subject matter².

General Comments

As Board Staff note in their DP, the issues around infrastructure investment continue to grow for Ontario’s transmitters and distributors. These are driven by a combination of needs, namely replacement of aging assets, deployment of smart meters, connection of new load and new generation, maintaining reliability and quality of service, and in response to initiatives driven by new legislation and regulations such as the *Green Energy and Green Economy Act 2009* (“GEGEA”). Hydro One continues to experience pressures for increased capital investments and has identified those in its recent transmission revenue requirement³ and distribution rate⁴ proceedings. In this respect Hydro One is pleased to see that Board Staff DP contains alternative regulatory mechanisms for addressing the increased capital investment requirements, some of which Hydro One promoted in its previous cost of service submissions.

Scope of incentive mechanisms

In general, Hydro One agrees with the alternative mechanisms identified by Board Staff in Section 3 of the DP. These appear to cover the range of mechanisms that are available within a regulatory framework for providing incentives in respect of capital expenditures. However, Hydro One notes that there are some omissions from the Federal Energy Regulatory Commission’s (“FERC”) Final Order No. 679⁵ which Hydro One believes should be included in

¹ EB-2009-0152; The Regulatory Treatment of Infrastructure Investment for Ontario’s Electricity Transmitters and Distributors; June 10, 2009

² *Ibid*; Submission of Infrastructure Renewal Task Force, July 7, 2009

³ EB-2006-0501 and EB-2008-0272

⁴ EB-2007-0681, EB-2008-0187 and EB-2009-0096

⁵ *Promoting Transmission Investment Through Pricing Reform*; Order No. 679; 116 FERC ¶ 61,057

the Board Staff proposal; these will be more fully discussed under the Specific Comments section of this submission.

Regulatory Oversight

Whilst understanding the Board's mandate to set just and reasonable rates and to balance the interests of ratepayers and utilities, Hydro One is concerned with the direction taken by Board Staff in proposing the regulatory oversight described in Chapters 4 and 5 of the DP.

Chapter 4, which proposes conditions (criteria, performance, reporting, etc.) under which applications for the alternative mechanisms may be made, introduces requirements that would normally be considered under a cost of service proceeding. An applicant would be subject to stringent oversight up-front, when it applies for one of the identified regulatory mechanisms, as well as at the back-end, i.e. when it is applying for a subsequent cost of service to set rates. Similarly, Chapter 5 of the DP aims to establish additional filing guidelines, forcing an applicant to file detailed information when requesting regulatory treatment for an incentive mechanism and then to do so subsequently for a cost of service application. It appears to Hydro One that on the one hand the Board Staff agree to provide alternative mechanisms for incenting utilities to invest, but on the other hand, they temper the incentives by a far more onerous regulatory approvals framework.

Hydro One understands that the intent behind the proposal contained in the DP is to create a regulatory environment in which utilities can respond to pressures for capital investment in an efficient and effective manner. That is to say, the regulatory framework must be changed to encourage utilities to invest in infrastructure with greater than normal project risks, or where the capital program is of such magnitude that it is likely to put pressure on a utility's financial capacity. Some of the changes under consideration in the DP are consistent with the remarks made by the Chair of the Board in his April 3, 2009⁶ Statement and in his second Statement issued on June 1, 2009⁷. In both statements the Chair notes that there is a pressing need to look at more innovative ways of regulating utilities to ensure that capital investment is managed in an

⁶ Statement from the Chair re: Regulatory Framework for Approval of Investment in Infrastructure by Electricity Transmitters and Distributors, April 3, 2009

⁷ Statement from the Chair re: Initiatives to Implement an Integrated Regulatory Framework for Electricity Infrastructure Investment, June 1, 2009

efficient and effective manner. To Hydro One this means that the current cost of service and incentive regulatory mechanisms are not sufficient to deal with the increased capital investment pressures faced by utilities.

On the matter of whether the proposed regulatory mechanisms and process may be applied to distribution related capital investments, it appears to Hydro One that the bulk of the incentive mechanisms proposed in the Board Staff DP are more likely to be oriented towards transmission rather than distribution infrastructure investment projects. That is because in general distribution infrastructure projects typically have a much shorter construction timeline than transmission projects and are generally much more closely and/or directly associated with specific customers. The exception to this general consideration of distribution infrastructure investment is the development of the Smart Grid infrastructure which could be exposed to higher risks brought about by continual changes in technology, operating requirements to accommodate increased penetration by renewable distributed generation, uncertainty with regards to the structure of the Smart Grid and the like. This suggests that the regulatory mechanisms proposed in the Board Staff DP might be well suited to assist distributors in mitigating risks associated with implementing Smart Grid developments.

Specific Comments

Provided below are Hydro One's responses and comments to the issues raised in the Board Staff DP. The issue numbering is the same as that used throughout the DP and summarised in chapter 6 thereof. Where appropriate, Hydro One has grouped the issues identified within a chapter that address similar topics, to provide one set of responses that in essence speak to the same topic.

Chapter 1

Issue 1: Should the framework and mechanisms identified in this Discussion paper apply to other rate-regulated entities? If so why, and for what types of projects?

Hydro One is of the view that the regulatory framework and incentive mechanisms developed in the Board Staff DP should be equally applicable to investments other than those made in response to the GEGEA. The fundamental consideration in establishing a more flexible regulatory framework that contains alternative mechanisms is to address the riskiness of the

nature of the infrastructure investment projects proposed, irrespective of the applicant or the type of project. That is to say, it is the nature of the investment projects that drives the need for special considerations within a flexible regulatory framework. Restricting the provision of alternative mechanisms to address only GEGEA-related infrastructure investment fails to recognize the growing financial pressures faced by utilities in managing increasing capital investments due to a variety of circumstances, as noted by Board Staff in the opening paragraph of the DP.

Thus, whether transmitters, distributors or regulated generators make the investment, each should be able to make a submission invoking a particular alternative mechanism that best reflects the risks in undertaking the particular projects. In this respect, Hydro One is fully supportive of the Board Staff proposal to consider the application of the various alternative mechanisms discussed in the DP on a case-by-case basis. We believe that the utilities should then propose a particular treatment or set of treatments based on the risks to be managed. Given the variety of rate-regulated entities in Ontario, each responding to a different set of circumstances that characterise its business operation, the establishment of a rigid, common framework would not be appropriate.

Chapter 2 – Investment type

Hydro One has grouped these issues together as each speaks to the matter of what type of investments would qualify for the alternative treatments put forward in the DP.

Issue 2 - Are there other broad classifications for investment, beyond “routine”, “non-routine incremental”, and/or “GEGEA-related” that should be considered? If so, what are they and what are the specific underlying drivers for such investment?

Issue 3 – Should the mechanisms identified in this Discussion Paper apply to the recovery of costs incurred by electricity transmitters or distributors for investments to accommodate renewable generation or to develop the smart grid, or both? Why or why not?

Issue 5 - Should the mechanisms set out in this Discussion paper be applied to infrastructure investment in smart grid technology while it is at an early stage of development and where governing standards are yet to be developed? Why or why not?

Issue 6 - Should “routine” investment made by a transmitter or distributor be eligible for one or more of the alternative treatments identified in this Discussion paper? Why or why not?

Issue 7 - Should the mechanisms identified in this Discussion Paper be presumed to apply to certain types of investments (for example, to accommodate renewable generation)? Why, or why not?

Issue 8 - Should the Board be more prescriptive as to which type of investment may qualify and which will not? If so, what criteria might the Board use to make a determination on which type of investment would qualify?

Hydro One agrees with the Board Staff that “*Precise breakdown of complex capital projects into “routine” versus “non-routine incremental” versus “GEGEA-related” investments may not be practical or absolutely necessary.*”⁸

Hydro One’s view is there is no cookie-cutter approach that can be adopted to segregate capital investment into “routine” and “non-routine” categories. Rather, all capital infrastructure investment made by distributors and transmitters is related to the utilities’ obligations to their customers in ensuring reliability and quality of service which is also demanded by licence, various codes and industry standards requirements, as well as fulfilling government directives. Therefore, the driving factor for assessing the type of capital investment that should be allowed under a particular alternative treatment should be related to the risks of making such an investment rather than attempting to categorize which type of investment should be eligible.

Hydro One believes that the application of any one of the alternate mechanisms should be driven by the risk factors associated with the particular investment or series of investments; the riskier the investment, or the greater the impact on a utility’s financial capacity from a single large project or set of projects, the greater the need to consider the alternative mechanisms. Therefore, to the extent that wires infrastructure investments to enable new renewable generation projects exhibit lower or higher risk factors, Hydro One advocates a case-by-case approach to determine whether consideration of alternative mechanisms is appropriate in respect of the risk encountered, rather than a blanket approach.

⁸ EB-2009-0152; Staff Discussion Paper, Chapter 2, page 5

The situation is somewhat different when considering treatment of investment in respect of Smart Grid development. Hydro One agrees that Smart Grid projects are at an early stage of development and that there are many unknowns. There is a considerable level of uncertainty in terms of the technology that will be used and the scope of application of this technology. Thus technology evolution will have to be accounted for in the investments that will be made by distributors and transmitters. Added to that would be the other risks such as implementation costs, abandonment, cost prudence and the like that increase the level of uncertainty.

The high level of uncertainty suggests that the proposed alternative mechanisms included in the Board Staff DP are precisely the types of mechanisms that lend themselves to addressing the various risks that may be associated with these projects. However, the GEGEA places licence obligations on transmitters and distributors to develop plans and come forward with investment proposals for approval. This implies that there is no time to wait for technology developments to advance or for governing standards to be fully developed. In fact the pressure to move forward with the projects may be the driver that will accelerate the governance standards. Therefore, transmitters and distributors have no choice but to move forward with Smart Grid projects.

On the matter of how prescriptive the Board should be as to which type of investment may qualify, the overriding principle should be the efficiency of the regulatory framework for implementing the required infrastructure investment. Hydro One understands the intent of the proposals in the Board Staff DP is to provide incentives for transmitters and distributors to come forward with plans and infrastructure investment projects. To that end the essence of the proposals must be to create a streamlined regulatory process to enable these investments to take place. As such Hydro One expects the Board to clarify the principles and rationale that will apply in the specific circumstances in which alternative mechanisms are requested but not to then surround these principles with prescriptive requirements that in essence negate the incentives offered in the first place. The expectation is that a utility will undergo one approval process to test prudence of costs and that subsequent approval processes will examine only material departures from the forecast costs and deal with those in a prospective manner. A more prescriptive process which creates higher review tests will result in a disincentive for a

submitting utility. This would be a major departure from the intent in the Board Chair's Statements to implement a more innovative process for regulating utilities that are willing to make much needed infrastructure investments.

Chapter 2 - Other

Issue 4 - Should the mechanisms set out in the Discussion Paper be applied to infrastructure investment if the cost of the investment is potentially recoverable through Province-wide cost recovery mechanism? Why, or why not?

As noted elsewhere in this response the choice of the alternative mechanisms should be directly related to the risks associated with the investment project at hand. Risk assessment captures the level of uncertainty associated with changes in construction costs, abandonment of facilities, cost recovery, technology change, and obtaining regulatory approvals, to mention a few. The level and nature of risks associated with the infrastructure project will determine which alternative mechanisms are best suited for application to mitigate the risks. The details of the availability, method of risk mitigation or timing of Province-wide cost recovery mechanisms are not prescribed by GEGEA and are not yet available. Therefore it is premature to dismiss *a priori* consideration of alternative mechanisms for projects that may be eligible for Province-wide cost recovery. Rather, Hydro One advocates retaining as much flexibility in the regulatory framework as possible to ensure it can be used efficiently to address the particular infrastructure investment projects on a case-by-case basis.

Chapter 3 – Alternative mechanisms

Hydro One generally agrees with the various alternative mechanisms discussed by Board Staff in the DP. With a few exceptions these appear to describe accurately and cover the range of mechanisms that are available for application within a regulatory framework.

Issue 9 - Should the Board permit applicants to request confirmation from the Board that prudently incurred costs associated with any abandoned projects will be recoverable in rates if such abandonment is outside the control of management? Why or why not?

Yes, this would be consistent with reducing the regulatory burden and eliminating an uncertainty that would act as a disincentive to infrastructure investment.

Hydro One expects that the Board will review the prudence of infrastructure investment projects only once, which should be at the time of submission, whether this submission is under the auspices of an Expansion Plan, Cost of Service or Section 92 application. This will ensure the applicant obtains the necessary funding when making the submission. Subsequent to the submission the Board should establish a monitoring system for the purpose of tracking only material variations from the forecast costs, which variations would then be addressed on a prospective basis at the time of future rebasing.

Issue 10 - Should the Board allow for full CWIP to be placed in rate base during construction of transmission facilities to accommodate the connection of renewable generation and/or develop the smart grid? Why or why not? Should the Board allow this particular treatment for distribution investment? If so, on what basis?

Hydro One agrees with the concept of allowing CWIP to be placed in rate base on a forecast cash flow basis. However, Hydro One is of the view that this mechanism should be considered commensurate with the level of risk associated with the specific project under consideration, irrespective of whether it addresses connection of renewable generation and/or smart grid investment. Therefore, application to place CWIP into rate base should be made available to help in mitigating the risks inherent in the particular project which the applicant has identified.

Under normal circumstances Hydro One does not think it necessary to consider applying the CWIP into rate base treatment in respect of distribution or transmission investment projects where construction of facilities entails a relatively short period (i.e. one year or less) such that facilities are placed in service (and added to the rate base) in the year of construction. These short-duration projects carry a relatively lower risk as the utility has a shorter period to wait for cost recovery related to the investment. However, there may be unusual circumstances that justify application of CWIP into rate base for distribution related projects and as such the regulatory framework should be flexible to allow for this on an as needed basis.

Issue 11 - Should the Board allow depreciation to be adjusted to match a contract term or the useful life of the connecting renewable generation facility? Why or why not?

Hydro One notes that the FERC incentive regarding accelerated depreciation is not tied into commercial contract length per se. Rather, “*accelerated depreciation increases the cash flow of public utilities thereby providing an incentive to undertake transmission investment The applicant must demonstrate a nexus between its proposal and the facts of its particular case e.g. the need for additional cash flow produced by accelerated depreciation **in order to fund new transmission investment** (emphasis added)”⁹. So, in keeping with the FERC approach, accelerated depreciation should be considered when it would incent a utility to go forward with an investment as it would generate needed additional cash flow, rather than be tied to the length of the underlying commercial contract for the customer.*

Further, as noted earlier, Hydro One is of the view that a mechanism should not be limited to infrastructure investments concerning renewable generation projects, but rather it should also be available for infrastructure projects that have a commensurate risk associated with such investment.

Issue 12 - In light of a legislative context in which the Board may mandate infrastructure investments, are incentives necessary or appropriate in Ontario?

Hydro One is of the view that irrespective of whether or not there is a Board or government mandate for infrastructure investment, the fact remains that such a mandate may not remove all of the risks associated with a specific infrastructure project. Although there may indeed be circumstances where individual projects may not need to utilize the incentive mechanisms proposed herein, nevertheless, experience points to the fact that the incentive mechanisms are necessary and appropriate in Ontario to further infrastructure investment. For example the construction of a transmission line could be impeded by third party action in which case the transmitter may not be able to complete the project and thus would not be able to recover the costs in a timely manner, as is the case for Hydro One’s Niagara Reinforcement Project (NRP).

⁹ FERC Final Order 679, page 83 Para 146

Furthermore, Hydro One can envisage other circumstances where sole reliance on mandates may be insufficient to mitigate the associated risks. For example:

- Recovery of substantial development costs.
- Managing cash flows for large multi-year projects.
- Incenting formation of partnerships through better return premiums.

Development costs can be substantial for projects that involve long lead times, coordinated planning. For example, generation and transmission/distribution development involves consideration of alternatives and options; waiting for cost recovery until facilities are placed in rate base, creates uncertainty for the applicant. Similarly, multi-year projects, particularly those involving major infrastructure investments, require significant funding on an annual basis. In these cases, waiting for cost recovery until facilities go into service is risky and may create financial pressures. Finally, the GEGEA includes the provision for formation of partnerships with respect to specific infrastructure investment projects. Consequently, an attractive return premium must be available to attract potential investors who may not otherwise materialize.

Issue 13 - If the Board were to provide incentives, should it allow project-specific ROE? If so, should the Board consider adopting a range rather than a specific adder? Further, how might the Board determine an appropriate range for the ROE adder?

As noted in responses to Issues 3 and 5 above, Hydro One is supportive of the Board Staff proposal to treat the application for alternative cost recovery mechanisms on a case-by-case basis. Hydro One believes that the Board should consider allowing ROE adders on a project specific basis. Also, to enhance the potential for establishing project specific partnership arrangements, consideration regarding a suitably motivating ROE adder is needed.

Hydro One believes that each infrastructure project will likely exhibit different risk profiles, in which case the preferred approach would be to determine the ROE adder based on the circumstances at hand. Establishing a range of ROE adders will likely be difficult, given the little experience in the province with infrastructure investment that merits such an approach. Given that Ontario distributors and transmitters operate in a North American financial market

context, Hydro One suggests that U.S. experience, where FERC has established ROE adders based on the specific projects requirements, could prove useful.

Issue 14 - If the Board were to provide for incentives, should it allow project-specific capital structures?

Yes, this would be consistent with recognizing the risk characteristics of individual projects, especially with respect to enabling projects that require the formation of partnerships. Such arrangements are encouraged by the GEGEA and accordingly, will become much more prevalent in the near future.

Issue 15 - What other alternative mechanisms, if any might the Board consider be made available to applicants? Why?

One possible mechanism that may also be considered in the context of transmission and distribution infrastructure investment, and Smart Grid investment, is the allowance for recovery of Development Costs. Specifically, the Board may wish to consider the establishment of specific variance accounts which could be used at the discretion of utilities to allow the tracking of unexpected and unusual levels of development costs for application of new technologies. Utilities would thus have some level of assurance of recovering prudently incurred development costs which have not been covered in current rates.

Chapter 4

Hydro One is concerned that the considerations and conditions proposed by Board Staff in this chapter will deter infrastructure and/or Smart Grid investment proposals. For example, the four considerations listed in Section 4.1 create additional regulatory oversight generally exercised at the time of rebasing or cost of service review, at which juncture an applicant generally has more discretion in choosing the projects in which to invest. This is not the case here, where we are dealing with specific projects that address infrastructure investment. Furthermore, it is not clear to Hydro One how the imposition of the potential criteria can be used to measure efficient utility management, alignment of responsibility for risk, sound planning and timely investment in the

context of single projects. Accordingly subjecting a utility to such regulatory oversight clearly creates a disincentive for coming forward with specific projects.

As stated by Board Staff at the outset of Chapter 4 of the DP the intent of utilising the various incentive mechanisms put forward in Chapter 3 is to “*facilitate the achievement of government’s policy objectives as reflected in the GEGEA while protecting the interests of ratepayers.*” Revising the process to increase the Board’s review oversight so that the same issues are reviewed twice will not protect ratepayers’ interests; it will add to the regulatory burden and increase the time taken to achieve the government’s objectives.

As note above in Hydro One’s response to Issue 9, it is expected that the Board will examine the suitability of the specific project and prudence of the project costs at the time of application for the incentive mechanism treatment and will do so on the merits of the project per se. Thereafter, the Board will monitor for any major deviations from the forecast expenditures which will be addressed on a prospective basis in the subsequent cost of service proceeding. This process will ensure that ratepayers’ interests are protected.

Issue 16 - In addition to the potential considerations identified, are there any other matters that the Board might consider in making decisions on requests for alternative treatment?

Issue 17 - What performance conditions, if any, should be established?

Issue 18 - Are the reporting requirements suggested appropriate and adequate?

Hydro One is of the view that each one of the above issues potentially increases the regulatory burden and thus creates barriers to the proposed incentive mechanisms.

In respect of the potential considerations proposed in the DP (Section 4.1), the Board should focus on clarity of the principles which it might apply. For example, the Board might consider the following as examples of principles that could be used to consider the applicability of any incentive mechanisms in the context of the application submitted:

- Is the proposal for infrastructure investment consistent with the utility’s transmission and/or distribution plans previously approved by the Board?
- Does the proposed infrastructure investment further the development of the Smart Grid?

- Are the specific risks identified for the project deserving of special treatment?

In summary, Hydro One believes that the regulatory framework in consideration of the proposed incentive mechanisms should focus on the “*objectives of promoting and facilitating such activities*” stated on page 2 of the DP. At the end of the day, it is Hydro One’s view that FERC in its Final Rate Order 679 got it right: “*The applicant must demonstrate a nexus between its proposal and the facts of its particular case.*” This is clearly the ultimate test – an applicant may fulfill numerous principles, but these principles are irrelevant if this nexus cannot be proven.

The monitoring process which the Board has already established allows for regular reporting which provides utility information to the regulator. The suggestion to include incremental performance and/or progress conditions (Section 4.2.2 of DP) creates a higher test than would normally be the case for investment projects that are included in a cost of service proceeding. In effect what is being proposed is a multiple review check, once at the application stage and then again at the time of subsequent rebasing. This creates an unnecessary oversight that acts to deter potential investment. As noted above, tracking of performance should be restricted to monitoring for significant departures from forecast cost and if such a departure is noted this would be addressed in a prospective manner at the subsequent cost of service review.

Finally, the proposal to increase reporting requirements (Section 4.2.3 and illustrated in Appendix A to the DP) to help the Board monitor the success of alternative treatments is also a concern. Increasing the reporting requirements beyond what already exists, raises the regulatory burden and diverts a utility’s attention from projects at hand. Hydro One fails to see where such a proposal adds benefit or efficiency to the use of incentive mechanisms and how it helps to facilitate timely and appropriate investment. Any need for additional information specific to infrastructure investment should be kept to a minimum and focus on the risks giving rise to the particular treatment. The Board should clearly stipulate the principles and benefits of its provision, with such benefits accruing to the Regulator, ratepayers and the applicant.

Issue 19 - Are there any other conditions that the Board might need to establish in relation to an approved alternative mechanism referred to in the Discussion paper to protect ratepayer interests?

Issue 20 - Beyond those already reflected in the Board's existing filing guidelines (e.g., the Z-factor test of causation, materiality, and prudence) and in the Board's jurisprudence, is there a specific test that successful applicants should be required to meet in order to be granted an alternative treatment?

Hydro One believes that for the incentives to work and attract investment, the regulatory framework should not negate the incentives by attaching more onerous conditions for approval. Hydro One would encourage the Board to not increase the regulatory burden through setting special conditions and additional measurement and reporting requirements, but rather, to adopt a more light-handed approach to approving incentives associated with infrastructure investment. This would better balance the regulatory framework to achieve its intended outcomes and respect the direction set by the Board Chair in his statements of April 3rd, 2009 and June 1st, 2009.

In concert with its response to Issue 19 above, Hydro One would advise against introducing any specific tests for applicants under the proposed alternative treatment, because this will act as a disincentive to the applicant. Rather, Hydro One would encourage the Board to establish clear unambiguous principles that set the framework for the application of incentive mechanisms. In the end, and as stated earlier, it is Hydro One's view that the FERC approach in which "*The applicant must demonstrate a nexus between its proposal and the facts of its particular case*" is the ultimate test that must withstand scrutiny, thus negating any need for other specific tests.

The existing mechanisms should be sufficient to protect ratepayer interests and there is no need to include further mechanisms at other times.

Chapter 5

Issue 21- Are the Board's existing filing guidelines for electricity transmitters and distributors sufficient to support the case-by-case approach discussed in this Discussion Paper? If not, what additional information should an applicant provide?

Hydro One proposes that the existing filing requirements are a good starting point for an applicant to provide relevant information in support of requesting regulatory treatment of specific infrastructure investment projects. Hydro One does not see what additional information would be required by the Board to give approval, given that the existing filing guidelines establish comprehensive information provision by regulated utilities that the Board has relied on for rate setting purposes. If there is a need for additional information the Board should provide a clear rationale for it and how this benefits the Board in carrying out its regulatory mandate whilst simultaneously benefiting both the ratepayers and the applicants, through ensuring an efficient process which incents infrastructure investments.

Issue 22 - Should the process for applying for the regulatory treatment of infrastructure investment discussed in this Discussion Paper be more prescriptive (e.g., the timing, sequencing, and/or combining of applications)? If so, why and in what way?

No, Hydro One does not believe there is a need to make the process more prescriptive. The process should retain the flexibility to allow applications that deal with the particular circumstances specific to the project, which is what is intended with the proposal to use the range of incentive mechanisms. Making the process more prescriptive presupposes that all projects need to be treated in a similar manner which is not the case. The burden of proof clearly lies with the applicant which means there is no need for the Board to make the process more prescriptive.

Issue 23 - Should the Board permit applicants to seek approval prior to construction of the facilities to determine whether the facilities qualify for the requested alternative treatment(s)? Why or why not?

Yes, as the submitting applicant must be assured, prior to embarking on any such project, that the Board approves the use of any of the alternative mechanisms available within the regulatory framework. These measures go to the heart of the issue of project financing, and the applicant must have the Board's decision on the mechanism before the project can proceed. Lack of pre-approval subjects the applicant to considerable uncertainty that increases the level of risk to cost recovery, thus putting obstacles in the path of efficient infrastructure investment.

Issue 24 - What are the implications, if any, of using the single-issue rate review process?

From a utility perspective, the availability of a single-issue rate review is helpful, as it does allow the utility to respond to changing circumstances more readily than is available under the current regulatory approval framework. This certainly would be an element of streamlining the process.

It is appropriate for the Board to use the single-issue rate review process since the Board already has experience in dealing with single-issue processes, given its mandate for review and approval of Section 86 or Section 92 applications in the electricity sector and other such applications for the natural gas industry.

Chapter 5 Rate Riders or Rate Base

As these issues deal with the same principle, Hydro One will address them together.

Issue 25 - Is the use of rate riders an appropriate approach for implementing rate adjustments associated with alternate treatments identified in this Discussion paper? Alternatively, should the adjustments be made directly to base rates?

Issue 26 - Should the Board allow participants to seek approval of multi-year rate riders or should the applicant be required to apply every year to adjust its rate riders to reflect any changes in project costs?

It is the Company's view that it should be left to the discretion of the applicant to request whether an adjustment should be made directly to rate base, or multi-year or single year rate riders applied for cost recovery. Again, it would be inappropriate for the Board to apply a cookie-cutter approach to all applications. Rather, the unique circumstances of each application should be considered by the OEB in reaching its decision. Obviously, it would be within the Board's discretion to require in its decision that an applicant applies every year to adjust its rate riders, if the facts of the specific application deemed this to be an appropriate approach.