***Independent Electricity System Operator (IESO) INTERROGATORY #2 List 1***

***Interrogatory***

Issue Number: 1.3
Issue: Is the proposal to establish a revenue requirement beyond the 2007 and 2008 test years without a separate cost of service approval appropriate?

Ref: A/T13/S1

On Page 9 of 28 it is stated that "…Although it is not realistic to try to develop a robust incentive regulation model for the 2007 to 2010 period, there is an opportunity to start down the road to incentive regulation for transmission during this period.…"

a) Does the Hydro One Business Plan identify sufficient resources to develop an incentive regulation proposal for 2009 and 2010? If not, why not?

b) Are there any barriers to the development of an incentive regulation proposal for 2009 and 2010? If so, what does Hydro One propose to overcome such barriers?

***Response***

a) Hydro One is not advocating an incentive regulation proposal for 2009 and 2010 for the reasons referred to in this interrogatory, and also as noted in Hydro One's response to IESO Interrogatory J-8-001. Rather, Hydro One's proposal is to employ a mechanical adjustment mechanism that relies on the use of a formula to adjust the revenue requirement components using a number of adjustment factors. This process is similar to that employed in incentive regulation models used elsewhere. Therefore, Hydro One's has sufficient resources identified in its business plan to manage the workload associated with the Hydro One's proposal in this submission.

b) Hydro One's evidence[1] identifies the barriers to the development of an incentive regulation model for 2009 and 2010. Rather than pursue development of incentive regulation proper, Hydro One's proposal is to employ a mechanical adjustment mechanism for 2009 and 2010.

[1] Exhibit A, Tab 13, Schedule 1, Section 3.5, pages 8-10