Independent Electricity System Operator (IESO) INTERROGATORY #1 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 8 and 9 of 28 it is stated that "…Designing an effective incentive regime, however, requires extensive analysis of costs in order to develop a strong empirical understanding of the cost functions that explain the industry's operations. Valid statistical and mathematical analysis is needed in order to design a model that is calibrated so as to balance the interests of shareholders and ratepayers equitably. In addition, appropriate quality of service measures and targets need to be developed that reflect the most critical requirements of transmission customers…"

Please explain what steps Hydro One will undertake to engage Board staff, the IESO, Ontario market participants and other relevant entities in the development of appropriate quality of service and other measures to develop an effective incentive regulation proposal?

Response

Hydro One has not developed any plans that would identify what steps would be taken by Hydro One to engage all parties mentioned in this Interrogatory in the development of an effective incentive regulation proposal for transmission. This is outside the scope of the current proceeding in which Hydro One has noted that since a great deal of effort is required in the design of an incentive regime, its proposal for an adjustment mechanism is an alternative that can be adopted in a timely manner to address the pressing needs for recovery of costs in 2009 and 2010 without the need to submit a full Cost of Service revenue requirement in those years.

Hydro One envisages that a process similar to the one that the Board has currently embarked on to develop an incentive regulation model for the natural gas distributors in Ontario might also apply to the development of an incentive regulation model for transmission.