Consumers Council of Canada and the Vulnerable Energy Consumers Coalition (CCC) and (VECC) INTERROGATORY #6 List 1

Interrogatory

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Issue 4.0
Issue: Cost of Capital/Capital Structure

Topic: Regulatory Risks

Request:

Please indicate whether Ms. McShane's recommendation for an increase in the common equity ratio and allowed ROE will increase or decrease Tx's rates and how this squares with her assertion of regulatory risks meaning that "a rate increase is no longer the default position." Please provide a detailed comparison of Tx's rate structure and design, and regulatory model with that of Altalink.

Response

All other things being equal, yes rates would increase.

Ms. McShane does not see any inconsistency between her recommendation for a capital structure and return on equity that are intended to meet the criteria for a fair and reasonable return with the statement referenced.

AltaLink's tariffs are determined as follows: The company forecasts its revenue requirement; it is reviewed by the EUB, and the approved amounts submitted to the AESO. AltaLink receives 12 monthly payments from the AESO for the amount of the approved revenue requirement. The company has a deferral account for capital projects assigned by the AESO. Companies in Alberta typically apply for revenue requirement approval for two or three test years. AltaLink does not operate under any type of performance-based regulation, and indicated in its 2005 Annual Information Form that it did not intend to pursue any such model at this time.

Hydro One's regulatory model and rate structure is as follows:

Hydro One applies to the Board for approval of its revenue forecast requirement; the Board approves the test year revenue requirement and forecast load, and uses these inputs, along with equivalent inputs for other transmitters in Ontario, to set uniform provincial rates. Rates were last set in 2002 based on 2000 data for Hydro One.

There are three parts to Transmission tariffs: the network rate, the line connection rate and the transformation connection rate. The network rate relates to assets used by all customers for transmission from generation sites to load areas, and is based on the higher of a customer's coincident peak demand or 85% of their non-coincident peak demand, net of any embedded generation they may have. The Network rate is paid by all customers in the province. The line connection rate is for the use of lines dedicated to one or several specific customers for the purpose of connecting to network stations, and is based on a customer's non-coincident peak demand. The transformation rate is for the use of transformation station assets that step-down electricity from above 50 kV to below 50 kV (from transmission to distribution levels), and is based on a customer's non-coincident peak demand. The total transmission tariff revenue collected by the IESO is allocated to all transmitters in proportion to their revenue requirements.

The current filing describes the proposed methodology for forecasting the revenue requirement for 2009 and 2010 in Exhibit A, Tab 13, Schedules 1-4; the proposal for treatment of specific supply mix capital expenditures is described at Exhibit D, Tab 1, Schedule 4. Hydro One has also indicated that it intends to pursue performance-based regulation, consistent with the regulatory model that the Board has espoused.