Consumers Council of Canada (CCC) INTERROGATORY #7 List 2

Interrogatory

Ref: A/T13/S1/p. 9

Issue Number 1.4
Issue: Is Hydro One's proposal to establish a revenue requirement beyond the 2007 and 2008 test years appropriate?

As part of the 2009- 2010 proposal would HON be willing to implement an earnings sharing mechanism. If not, why not especially given the fact HON is a publicly-owned utility?

Response

Hydro One does not see a need for including an earnings sharing mechanism in its proposal for revenue requirement adjustments planned for 2009 and 2010. The purpose behind Hydro One's proposal for an adjustment mechanism is to make the process mechanistic to maintain simplicity and reduce the regulatory burden for 2009 and 2010. This is particularly so given that Hydro One would have recently completed a detailed public review of its Cost of Service for 2007 and 2008.

Hydro One's proposal entails annual submissions of the adjusted revenue requirement for Board approval which will require Hydro One to submit the adjustment factors and expected capital expenditures for the year.

As such, Hydro One's proposal for transmission revenue requirement adjustment is somewhat similar to the Board's 2nd Generation IRM for electricity distributors in the province, i.e. a simple mechanism for mechanically adjusting distribution rates that reduces the regulatory burden. The Board's 2nd Generation IRM does not include an earning sharing mechanism in the price cap model. Under the Board's plan some distributors will be subject to a price cap adjustment mechanism over a 2-year period. Hydro One also proposes that it be subject to a 2-year adjustment mechanism in respect of its transmission revenue requirement.

The appropriateness of the use of an earnings sharing mechanism should be based entirely on the benefits such an approach brings to a utility and its customers and not on considerations of the ownership of the utility.