Consumers Council of Canada (CCC) INTERROGATORY #9 List 2

Interrogatory

Ref: A/T13/S1

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

Under HON's approach to establish its revenue requirement for 2009 and 2010, at what point will the Board and stakeholders have an opportunity to assess the prudence of actual capital expenditures? Please explain the proposed process to ensure that the revenue requirements reflect actual additions to rate base and not a proxy.

Response

The prudency of the IPSP-related Development Capital projects applicable in 2009 and 2010 will be assessed as part of the approval process for the OPA's IPSP. The non-IPSP Capital projects will reflect the work that Hydro One expects to carry out in 2009 and 2010 and that is incremental to the approved 2008 Capital expenditures. On this basis the Board will approve the incremental revenue requirement for 2009 and 2010. It is not proposed that the Board should assess the prudency of the actual Capital expenditures prior to their occurrence. It should be noted that on the capital projects that require the construction of new transmission lines Hydro One will continue to be subject to regulations associated with Section 92 activities.

As noted in Hydro One's response to VECC Interrogatory J-5-020, Hydro One's proposal is for capital spending to be reflected in the rate base in the year that this is forecast to occur and not when it actually occurs. Therefore, it is not the intent to use actual capital additions to adjust the revenue requirement components. That would defeat the purpose of the proposed adjustment mechanism.

Hydro One proposes that the adjustment mechanism will be in place for two years. This will be followed by a Cost of Service review at which time the Board and the stakeholders will have an opportunity to review the actual capital expenditures that were incurred in 2009 and 2010.