

**Hydro One Networks Inc.**

8<sup>th</sup> Floor, South Tower  
483 Bay Street  
Toronto, ON. M5G 2P5  
www.HydroOne.com

Tel: (416) 345-5913  
Fax: (416) 345-5866  
glen.e.macdonald@HydroOne.com

**Regulatory Affairs**

# facsimile

To	Mr. Michelle Mantha	Number of pages including cover	5
From	Glen MacDonald	Date	September 7, 2005
Regarding	File 175-A000-72-2	Fax	(403) 292-5503
Comments			

See attached letter with comments from Hydro One Networks re the NEB Cost Recovery for the Electricity Industry Initiative.

Call if there are questions please.

**Hydro One Networks Inc.**  
8<sup>th</sup> Floor, South Tower  
483 Bay Street  
Toronto, Ontario M5G 2P5  
www.HydroOne.com

Tel: (416) 345-5922  
Fax: (416) 345-5866  
david.curtis@HydroOne.com

**David B. Curtis**  
Director – Transmission Regulation  
Regulatory Affairs

MAIL ROOM  
SALLE DE COURIER

2005 SEP -7 P 2:53

NEB / ONE



BY FAX

September 7, 2005

Mr. Michelle Mantha  
Secretary  
National Energy Board  
444 Seventh Avenue  
Calgary, AB.  
T2P 0X8

Dear Mr. Mantha:

**File 175-A000-72-2 – National Energy Board Cost Recovery for the Electricity Industry – Hydro One Networks' Comments on the June 2005 Summary Report**

In response to your invitation of August 4, 2005, I have enclosed the comments of Hydro One Networks Inc. on the options presented in the summary report of the NEB's June workshop on Electricity Cost Recovery.

I understand that the Board is developing the cost recovery concept based on the options from the June workshop and the feedback received in communications such as ours. We look forward to attending the NEB's workshop planned for this fall when the Board presents its draft cost recovery concept.

Sincerely,

A handwritten signature in black ink, appearing to read "David B. Curtis".

David B. Curtis

Attach.

c. L. Formosa, Hydro One Networks

September 7, 2005

**Hydro One Networks Inc. Comment  
NEB's 2005 Electricity Cost Recovery Workshop**

**Introduction**

This document presents Hydro One Networks comments on the National Energy Board's (NEB, Board) Summary Report of the June 2005 Electricity Cost Recovery Workshop and the options presented in that report. Hydro One considers the Summary Report is an accurate reflection of the discussions at the June Workshop.

The next section provides an overall summary of Hydro One's comments followed by a section that details comments on the recovery of Application Costs. The subsequent section covers comments on the recovery of Non-Application Costs. The concluding section presents concerns Hydro One has about the magnitude of future NEB costs that are not driven by the volume of applications.

**Summary**

Hydro One Networks Inc. (Hydro One) supports recovery of NEB costs arising from applications following the 'user pay' principle. This principle should apply for both International Power Line (IPL) and Export applications. Even with unsuccessful applications, the applicant should be responsible for the costs associated with its application. Hydro One supports allocating costs based on the NEB's time tracking system that tracks individual staff hours for each application. As applications become routine, Hydro One supports the administrative efficiency gained by moving to a fixed or flat fee for individual applications.

For non-application costs, Hydro One supports allocating as fully as possible these costs to the beneficiaries of those costs. Market Monitoring and Export Returns are both areas where the beneficiaries should pay for the costs of these activities. Equity is the most important criteria for allocating these costs including those costs deemed "non-allocated costs".

If costs beyond those assigned as "user pay charges" are allocated to IPL owners, Hydro One would urge the Board to consider phasing in any such material increases in transmission costs because IPL owners can't necessarily quickly gain cost recovery from their regulator through adjusted rates.

Hydro One does have concern about NEB cost increases especially in the area of non-application costs. It is not apparent that the same level of review and control of cost and revenue requirement is applied to the NEB as is applied to regulated utilities. This initiative of the NEB to determine appropriate mechanisms for cost recovery is laudable but industry support for this initiative should not be taken as acceptance of increased NEB costs that are not driven by application activities.

### **Recovery of Application Costs**

Hydro One supports the general agreement at the NEB's Cost Recovery Workshop that costs the NEB incurs for reviewing applications should be paid for by the applicant. This would conform with the regulatory principle that the user or beneficiary should be responsible for the costs it causes and should not be cross-subsidized by other industry participants. This principle should be applied to all applications brought before the Board whether they are for IPL facilities or for export and whether they are successful or unsuccessful applications.

The NEB staff at the Workshop indicated the system for tracking staff hours can be modified to track those hours by application for both export permits and IPL certificates. Hydro One advocates that these changes be made and that staff hours become the allocation parameter for application costs.

As applications become more routine and standardized it may be possible to replace the staff hour tracking and basis for cost allocation with a standard fee approach. This should result in administrative cost savings and process simplification and provide applicants with greater certainty about costs for their application. However, before this step is taken, the NEB needs to be certain that costs are still fully recovered from applicants and there is no material cross-subsidization by other participants or between applicants.

### **Recovery of Non-Application Costs**

For recovery of Non-Application costs, Hydro One believes the principle criteria that should be applied is equity. This means that where costs can be assigned to beneficiaries of those costs, it should be only the beneficiaries that pay. Also, following this principle, where beneficiaries of non-application costs cannot be readily identified, then recovery of those costs should come from all beneficiaries of NEB programs in a uniform and equitable manner.

Market Monitoring and Export Returns were identified as the largest portion of the NEB's Non-Application costs. These are costs that Hydro One understands have identifiable beneficiaries and so should be recovered from those beneficiaries. The Board may have to develop ratios to perform the allocation and, so long as these ratios are developed in an equitable and transparent manner, Hydro One would support this method. There may be other Non-Application costs that also have identifiable beneficiaries and every effort should be made to separate these costs out.

For remaining Non-Application costs, which do not have identifiable beneficiaries, the allocation should be done in an equitable manner across all applicants. Hydro One does not view a fixed annual fee as a fair, equitable basis to recover such costs because of its arbitrary determination and lack of recognition of proportional benefit.

If the NEB determines that non-application costs are to be recovered, in part, from IPL owners, Hydro One would urge the Board to phase in these new charges over a reasonable period of time, say three years. IPL owners are typically regulated utilities who recover their costs through approved rates. A phase in of new transmission costs for NEB non-application charges would allow utilities a reasonable opportunity for submitting these costs to their regulator for cost recovery consideration.

### **Concerns**

Hydro One is concerned about the potential growth of NEB costs. At the June Workshop, Board staff identified a number of changes, such as the recent amendment to the NEB Act and the Board's recent interest in understanding electric system reliability issues. These changes and others that may come in the future could drive increases to NEB costs where there are not clearly identifiable beneficiaries.

This could result in significant cost increases being recovered from industry applicants where there is no clearly identified benefit to the industry. Another aspect of this concern is the potential for duplication of costs by different regulators. For example, the NEB may need to recover costs for a function it undertakes that overlaps with a function and resulting cost recovery of a Provincial regulator. Hydro One would urge that the NEB ensure that it would not be overlapping or duplicating what other regulatory jurisdictions require before it develops functions and processes that result in costs that it will need to recover. As well, Hydro One urges the NEB to control its costs especially those costs that are not driven by the number of industry applications.