

1 **Energy Probe INTERROGATORY #1 List 1**

2
3 **Interrogatory**
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5 Issue 1.2 – Are Hydro One’s economic and business planning assumptions for 2010/2011
6 appropriate?

7 Ref: Exhibit A, Tab 14, Schedule 3, Tables 1 & 2
8

- 9 a) Does Hydro One have a more recent forecast than the December, 2008 Global
10 Insight forecast?
11
12 b) If yes, please update Tables 1 & 2 to reflect the most recent Global Insight
13 forecast available.
14
15 c) Based on the most recent forecasts, does Hydro One believe any adjustments
16 should be made to its forecasts of costs? Please explain fully.
17

18 **Response**
19

- 20 a) Yes, Hydro One has more recent forecast from Global Insight.
21
22 b) Table 1 and Table 2 are updated below for 2008-2011.
23
24

Table 1

	Historic			Bridge	Test	
	2006	2007	2008	2009	2010	2011
Distribution Cost Escalation for Construction (%)	7.9	3.7	9.2	0.9	-0.1	1.4
Distribution Cost Escalation for Operations & Maintenance (%)	6.5	3.5	7.6	-2.3	0.1	2.3

1

Table 2

	Historic			Bridge	Test	
	2006	2007	2008	2009	2010	2011
CPI – Ontario (%)	1.8	1.5	2.3	0.9	1.7	2.0

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Source: Table 1 is based on forecast released by Global Insight in August 2009. Table 2 is based on forecast released by Global Insight in June 2009.

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c) Hydro One is not planning on updating its 2010/11 Distribution rate filing for changes in planning assumptions other than for cost of capital as noted in Exhibit A, Tab 3, Schedule 1, pages 2 and 3. If directed by the Board as part of the Rate Decision, Hydro One will incorporate any requested changes in planning assumptions in the final revenue requirement calculation.

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Energy Probe INTERROGATORY #2 List 1

Interrogatory

Issue 1.2 – Are Hydro One’s economic and business planning assumptions for 2010/2011 appropriate?

Ref: Exhibit A, Tab 14, Schedule 3, Table 4

The evidence indicates that Hydro One’s credit spreads over the Government of Canada bonds are based on the average of indicative new issue spreads for April, 2009 obtained from the Company’s MTN dealer group for each planned issuance term.

Please update Hydro One’s credit spreads over the Government of Canada bonds using September, 2009 information

Response

Please refer to Exhibit H, Tab 3, Schedule 27.

1 **Energy Probe INTERROGATORY #3 List 1**

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3 **Interrogatory**

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5 Issue 1.2 – Are Hydro One’s economic and business planning assumptions for 2010/2011
6 appropriate?

7
8 Ref: Exhibit A, Tab 14, Schedule 3, Table 6

- 9
10 a) Please confirm that the CWIP rate as calculated by the Board for the 4th quarter
11 of 2009 is 4.66%.
12
13 b) Please update Table 6 to reflect the September 2009 Consensus Forecasts and
14 the average September 2009 spread between the average actual 10-year
15 Government of Canada bond yield and the average DEX Mid Term Corporate
16 Bond Index – Yield inferred from the graph on www.pcbond.com.
17
18 c) What is the impact of the revised figures calculated in (b) above on the revenue
19 requirement in 2010 and 2011? Please explain.
20
21

22 **Response**

- 23
24 a) Confirmed
25
26 b) The forecasts for 2009 and 2010 in Table 6 below has been updated to reflect the
27 September 2009 Consensus Forecasts and the average September 2009 spread
28 between the average actual 10-year Government of Canada bond yield and the
29 average DEX Mid Term Corporate Bond Index – Yield inferred from the graph on
30 www.pcbond.com.
31

32 The forecast for 2011 in Table 6 below reflects the long term April 2009 Consensus
33 Forecasts (which is provided semi-annually in April and October) and has been
34 updated for the average September 2009 spread between the average actual 10-year
35 Government of Canada bond yield and the average DEX Mid Term Corporate Bond
36 Index – Yield inferred from the graph on www.pcbond.com.
37

Table 6

	Bridge	Test	
	2009	2010	2011
10-year Government of Canada %	3.60	3.90	4.40
All Corporate Mid-Term Bond Spread	1.33	1.33	1.33
CWIP Account Rate %	4.93	5.23	5.73

c) The impact of the revised figures calculated in Table 6 will lower revenue requirement in 2010 by approximately \$0.3M and 2011 by approximately \$1.1M. This reflects the lower CWIP account rates that would lower capital expenditures, in-service additions and depreciation. The resulting changes to the test year rate base are decreases of approximately \$2.2M in 2010 and \$6.9M in 2011.

1 **Energy Probe INTERROGATORY #4 List 1**

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3 **Interrogatory**
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5 Issue 1.2 – Are Hydro One’s economic and business planning assumptions for 2010/2011
6 appropriate?

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8 Ref: Exhibit A, Tab 14, Schedule 3, Table 6 &
9 Exhibit A, Tab 14, Schedule 1, Appendix A, pages 1 & 2
10

11 Please explain the difference between the CWIP account rates shown in Exhibit A, Tab
12 14, Schedule 3, Table 6 of 6.10%, 6.40% and 7.70% for 2009, 2010 and 2011,
13 respectively, with the figures of 6.93%, 7.58% and 7.98% shown in Exhibit A, Tab 14,
14 Schedule 1, Appendix A as interest capitalized rates for 2009, 2010 and 2011.
15

16 **Response**
17

18 The CWIP rates shown in Exhibit A, Tab 14, Schedule 1, Appendix A of 6.93%, 7.58%
19 and 7.98% for 2009, 2010 and 2011 respectively, are the rates that were used in the
20 Hydro One planning process that commenced in December of 2008.
21

22 The CWIP rates shown in Exhibit A, Tab 14, Schedule 3, Table 6 of 6.10%, 6.40% and
23 7.70% for 2009, 2010 and 2011 respectively, are based on the April 2009 Consensus
24 Forecast consistent with the assumption used for the Hydro One bond interest rate
25 forecast.

1 **Energy Probe INTERROGATORY #5 List 1**

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3 **Interrogatory**

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5 Issue 1.2 – Are Hydro One’s economic and business planning assumptions for 2010/2011
6 appropriate?

7
8 Ref: Exhibit A, Tab 14, Schedule 3, Table 7

- 9
10 a) Please confirm that the provincial tax rate shown for 2010 should be 13.0% and
11 for 2011 should be 11.75%.
12
13 b) Please confirm that Hydro One has used the rates shown in part (a) for the
14 calculation of income taxes in 2010 and 2011.
15

16
17 **Response**

- 18
19 a) Hydro One confirms that rates for 2010 and 2011 are as indicated above
20
21 b) Hydro One confirms that these rates have been used in the 2010 and 2011 revenue
22 requirement; see Exhibit C2, Tab 6, Schedule 1 Attachment A, page 1, line 24.

1 **Energy Probe INTERROGATORY #6 List 1**

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3 **Interrogatory**

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5 Issue 1.2 – Are Hydro One’s economic and business planning assumptions for 2010/2011
6 appropriate?

7
8 Ref: Exhibit A, Tab 14, Schedule 3, page 7 &
9 Exhibit A, Tab 14, Schedule 1, Appendix A, page 3

- 10
11 a) What is the impact on the revenue requirement in each of 2010 and 2011 if the
12 Management Compensation Plan annual increase is reduced from 3.0% to
13 2.5%?
14
15 b) Please provide the annual MCP increase for each of 2006, 2007, 2008 and
16 2009.

17
18
19 **Response**

20
21 a) As a result of its integrated Transmission and Distribution workforce, separate
22 workforce compensation data for Hydro One’s Distribution Business is not available.
23 As a result, it is not possible to determine the impact upon the proposed 2011 and
24 2012 Distribution Revenue Requirement of a reduction in the economic increases for
25 staff. This integrated workforce allows Hydro One to take advantage of economies of
26 scale and efficiencies that would not be available through separate transmission and
27 distribution operations.

28
29 b) Average MCP base increases were:

30
31 2006 3.4%
32 2007 3.3%
33 2008 3.8%
34 2009 1.5% (MCP staff either received 1.5% or no increase)

Energy Probe INTERROGATORY #7 List 1

Interrogatory

Issue 2.1 – Is the load forecast and methodology appropriate and have the impacts of Conservation and Demand Management initiatives been suitably reflected?

Ref: Exhibit A, Tab 14, Schedule 4, Table 2

- a) How has Hydro One reflected that some of the cumulative CDM impact shown in Table 2 for Hydro One Retail customers may be related to some commercial and/or industrial customers that have closed and no longer have any load?
- b) How has Hydro One reflected that some of the cumulative CDM impact shown in Table 2 for Embedded Direct and LDC Customers may be related to some commercial and/or industrial customers that have closed and no longer have any load?

Response

a) & b) Hydro One Distribution is using a net load impact approach to assess the CDM impacts. Please refer to Exhibit H, Tab 12, Schedule 2.

Hydro One Distribution is taking a conservative approach in accounting for CDM impacts and CDM results achieved to date show that the impact of CDM savings on Hydro One Distribution has exceeded the CDM forecast.

1 **Energy Probe INTERROGATORY #8 List 1**

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3 **Interrogatory**
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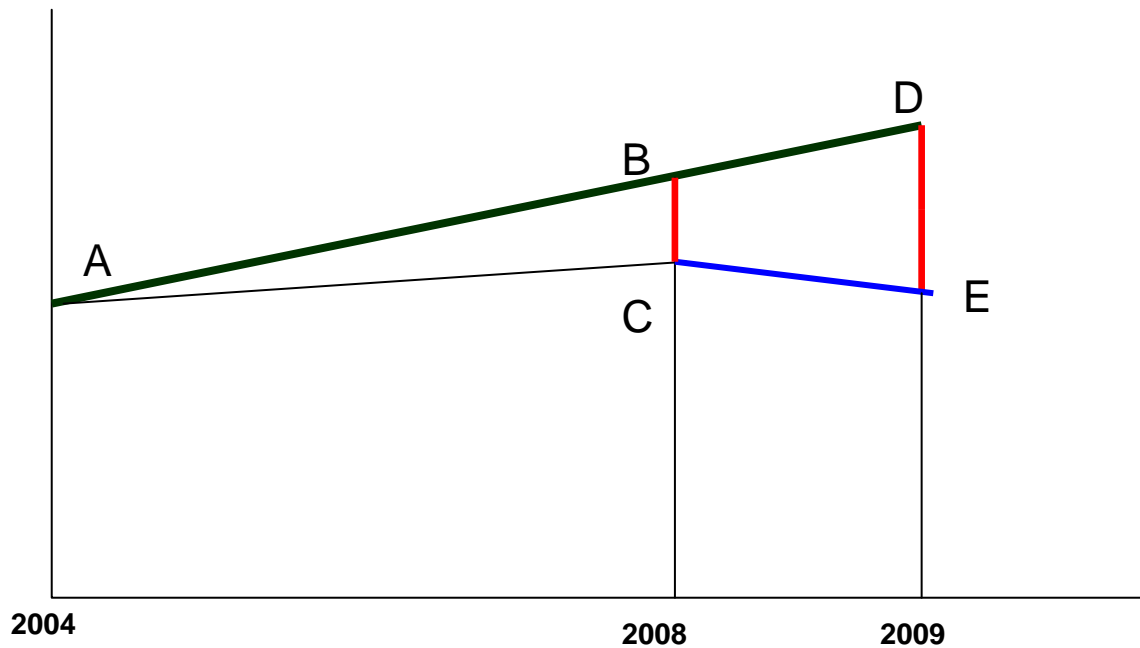
5 Issue 2.1 – Is the load forecast and methodology appropriate and have the impacts of
6 Conservation and Demand Management initiatives been suitably reflected?
7

8
9 Ref: Exhibit A, Tab 14, Schedule 4, page 14
10

- 11 a) Does the distribution load data used in the monthly econometric and annual
12 econometric models reflect the historical impacts of CDM? In other words, has
13 the actual load data been weather corrected and increased by the estimated
14 reduction due to CDM? If not, please explain why the cumulative CDM
15 reduction is used to reduce the forecast if the load data used already includes an
16 impact of CDM historically.
17
- 18 b) Given that the end-use model can explicitly reflect the unit energy consumption
19 per end use, why is it necessary to make a further adjustment to the forecast for
20 CDM?
21

22
23 **Response**
24

- 25 a) Yes. As stated in lines 4-5, page 14 of Exhibit A, tab 14, Schedule 4, historical load
26 impacts of CDM were added back to the weather corrected actual during the
27 modeling process. The following graph illustrates how historical CDM is added back
28 to the actual.
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- A: 2004 Actual
- C: 2008 Actual
- $B=C+BC$
- BC=cumulative CDM impact achieved in 2008
- D: Load forecast for 2009 assuming no CDM impact
- DE: Cumulative CDM forecast for 2009
- E: Load forecast after deducting CDM forecast for 2009

b) The unit energy consumption per end-use in Hydro One Distribution's end-use model uses the efficiency level in 2004 as the reference baseline and assumes no efficiency improvements after 2004. Adjustment therefore is required to account for CDM impact after 2004.

1 **Energy Probe INTERROGATORY #9 List 1**

2
3 **Interrogatory**

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5 Issue 2.1 – Is the load forecast and methodology appropriate and have the impacts of
6 Conservation and Demand Management initiatives been suitably reflected?
7

8
9 Ref: Exhibit A, Tab 14, Schedule 4, Table 4

- 10
11 a) Please provide the forecasts, in a format similar to Table 4, for each of the
12 individual top-down (econometric) and bottom-up (end-use) models used by
13 Hydro One.
14
15 b) What weighting factor does Hydro One apply to each of the models used to
16 arrive at the forecast figures shown Table 4?
17

18
19 **Response**

- 20
21 a) The requested information similar to Table 4 in Exhibit A, Tab 14, Schedule 4 for
22 annual econometric model forecast and monthly econometric forecast is presented in
23 Tables 4a and 4b, respectively, followed by end-use model forecast in Table 4c. For
24 embedded customers, only one forecast is produced and is included in all tables.

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Table 4a
Annual Econometric Load Forecast Before and After CDM Impact
(GWh)

Year	Retail Customers	Embedded Customers	Total
<u>Load Forecast Before Deducting Impact of CDM</u>			
2006	23,115	17,839	40,955
2007	23,278	17,808	41,085
2008	23,277	17,531	40,808
2009 (Bridge)	23,423	17,255	40,678
2010	23,326	17,334	40,660
2011	23,448	17,447	40,895
<u>Load Impact of CDM</u>			
2006	194	151	345
2007	311	245	557
2008	432	340	771
2009 (Bridge)	601	471	1,072
2010	1,325	1,035	2,360
2011	1,604	1,249	2,853
<u>Load Forecast After Deducting Impact of CDM</u>			
2006	22,921	17,688	40,609
2007	22,966	17,562	40,529
2008	22,845	17,191	40,036
2009 (Bridge)	22,822	16,784	39,606
2010	22,000	16,300	38,300
2011	21,844	16,198	38,043

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Note. All figures are weather-normal.

Table 4b

**Monthly Econometric Load Forecast Before and After CDM Impact
 (GWh)**

Year	Retail Customers	Embedded Customers	Total
<u>Load Forecast Before Deducting Impact of CDM</u>			
2006	23,115	17,839	40,955
2007	23,278	17,808	41,085
2008	23,277	17,531	40,808
2009 (Bridge)	23,230	17,255	40,485
2010	23,332	17,334	40,667
2011	n.a.	17,447	n.a.
<u>Load Impact of CDM</u>			
2006	194	151	345
2007	311	245	557
2008	432	340	771
2009 (Bridge)	601	471	1,072
2010	1,325	1,035	2,360
2011	1,604	1,249	2,853
<u>Load Forecast After Deducting Impact of CDM</u>			
2006	22,921	17,688	40,609
2007	22,966	17,562	40,529
2008	22,845	17,191	40,036
2009 (Bridge)	22,629	16,784	39,413
2010	22,007	16,300	38,306
2011	n.a.	16,198	n.a.

Note. All figures are weather-normal.

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Table 4c
End-Use Load Forecast Before and After CDM Impact
(GWh)

Year	Retail Customers	Embedded Customers	Total
<u>Load Forecast Before Deducting Impact of CDM</u>			
2006	23,115	17,839	40,955
2007	23,278	17,808	41,085
2008	23,277	17,531	40,808
2009 (Bridge)	23,340	17,255	40,594
2010	23,470	17,334	40,805
2011	23,578	17,447	41,025
<u>Load Impact of CDM</u>			
2006	194	151	345
2007	311	245	557
2008	432	340	771
2009 (Bridge)	601	471	1,072
2010	1,325	1,035	2,360
2011	1,604	1,249	2,853
<u>Load Forecast After Deducting Impact of CDM</u>			
2006	22,921	17,688	40,609
2007	22,966	17,562	40,529
2008	22,845	17,191	40,036
2009 (Bridge)	22,739	16,784	39,523
2010	22,145	16,300	38,444
2011	21,974	16,198	38,173

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Note. All figures are weather-normal.

1 b) Hydro One does not use the weighting factor approach in this load forecast. The way
2 alternative forecasts were taken into account in arriving at the final forecast is
3 described below.

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- For 2009, the annual econometric and end-use models predicted positive growth while the monthly econometric model predicted a negative growth. At the time of forecast, monthly load data was available for the first 3 months of 2009. The latest data indicated a negative growth for Hydro One Retail load resulting from the economic downturn. The annual models did not take into account of the latest information for 2009 as they are based on annual data ending in 2008. Consequently, for the year 2009, the forecast from the monthly econometric model was selected.
- For 2010, the annual econometric and end-use models, on average, predicted about 0.1% growth, while the monthly econometric model predicted 0.44% growth. The difference is essentially due to the fact that the load impact of the economic downturn was already taken into account by the monthly econometric model in 2009. Consequently, for the year 2010, the forecast from monthly econometric model was selected.
- For 2011, only annual forecasts were available for consideration because the monthly econometric model can only be used for short-term forecasting for up to 2 years. The growth rates from the annual econometric model and end-use model were similar. Consequently, for the year 2011, the growth rate from the econometric model was selected.

1 **Energy Probe INTERROGATORY #10 List 1**

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3 **Interrogatory**
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5 Issue 2.1 – Is the load forecast and methodology appropriate and have the impacts of
6 Conservation and Demand Management initiatives been suitably reflected?
7

8
9 Ref: Exhibit E1, Tab 1, Schedule 2, Updated
10

- 11 a) Please provide the most recent actual number of sentinel lights and sentinel
12 light poles in 2009, as shown in Table 4.
13
14 b) Please provide the most recent year-to-date volumes for the items listed in
15 Table 6, along with the corresponding year-to-date figures for 2008.
16
17 c) Please provide the late payment charge revenues for 2006 through 2008, along
18 with the forecast for 2009.
19
20 d) Please provide the year-to-date late payment charges for 2009, along with the
21 corresponding figure for 2008.
22
23 e) What is driving the decrease in late payment charges in 2011 relative to 2010?
24
25 f) Please provide the most recent year-to-date volume of new customer
26 connections and upgrades as shown in Table 10 for 2009 and the corresponding
27 period for 2008.
28
29 g) Please provide all studies and/or assumptions used to forecast the \$5 million in
30 revenues relating to the costs recoverable from MTO work involving distributed
31 generation work.
32

1 **Response**

2 a) Sentinel lights to June 30, 2009 are 36,372.
 3 Sentinel light poles to June 30, 2009 are 2,053.

4
 5 b) The following table has been updated to show the year-to-date values.
 6

	2008 Volumes As at September 2008	2009 Year-to-date Volumes As of September 2009
Dispute Meter Test	43	42
Collection of Account	2173	2,093
Disconnect/load Limiter/Reconnect Trips	11206	10,441
Account Set-up Charge	92726	88,549
In-Sufficient Funds (NSF) Cheque Charge	6166	5,836
Easement Charge for Unregistered Rights (approx)	608	675
Late Payment Charge applied to number of distinct accounts	N/A	N/A

7
 8 c) The Late payment charges for 2006 through 2008 along with the forecast for 2009 are
 9 presented in the table below.

10

(\$ millions)	Actual 2006	Actual 2007	Actual 2008	Projected 2009
LPC Revenues	\$12.4	\$14.2	\$13.7	\$13.4

11

12

13 d) The year-to-date late payment charge as of June 30, 2009 is \$7.0M.
 14 The late payment charge as of June 30, 2008 is \$7.3M.

15

16 e) In 2010 the late payment charge revenue of \$14.1M includes our assumption that
 17 sections of our customers will be impacted by the economic downturn and will be
 18 unable to settle their bills on a timely basis. The 2011 late fee charge revenue forecast
 19 of \$13.7M includes our assumption that as the economic situation gets better, sections
 20 of our customers will be better equipped to pay their bills as they come due.

21

22 f) Customer connections and upgrades to September 30, 2009 were 11,056.
 23 Customer connections and upgrades to September 30, 2008 were 12,899.

24

25

1 g) The external revenues of \$5 million in test years 2010 and 2011 recoverable from the
2 MTO does not represent work related to distributed generation. This instead
3 represents the amounts for requests for relocations of distribution lines from both the
4 MTO and Municipal Road Authorities.

5

6 The forecasted revenues are not supported by studies; they are based on a
7 combination of history and our anticipation of additional requests through the
8 Provincial Infrastructure incentive Programs that will result in increased road
9 relocations.

1 **Energy Probe INTERROGATORY #11 List 1**

2 **Interrogatory**

3
4 Issue 2.1 – Is the load forecast and methodology appropriate and have the impacts of
5 Conservation and Demand Management initiatives been suitably reflected?
6

7 Ref: Exhibit E1, Tab 1, Schedule 2, pages 12 & 13 &
8 Exhibit C1, Tab 2, Schedule 11, page 2, Updated
9

10 The evidence at Exhibit C1, Tab 2, Schedule 11, page 2, Updated indicates that that
11 Hydro One Distribution is expected to incur and recover costs amounting to \$1.7 million
12 for the provision of services to other Hydro One entities and that Hydro One is not adding
13 a markup for providing these services to other Hydro One related entities.
14

15 The evidence at pages 12 and 13 of Exhibit E1, Tab 1, Schedule 2 indicates that there is
16 \$1.5 million in revenues related to work for other Hydro One entities, with an additional
17 \$0.2 million in revenue for other third party work.
18

19 Please explain why Hydro One is charging \$1.5 million to other Hydro One entities for
20 work that costs \$1.7 million.
21

22 **Response**

23 Hydro One Distribution is expected to incur costs and recover revenue of \$1.7 million for
24 work and services performed for other Hydro One entities.
25

26 Work groups within Hydro One Networks such as - Lines, Engineering and Construction
27 Services, and Forestry will be undertaking work for other Hydro One entities within the
28 term of the Affiliate Relationship Code (ARC). Hydro One is also expected to incur and
29 recover administrative related costs from other Hydro One entities. The cost estimates
30 for 2010 and 2011 are as follows:
31

- 32 • Hydro One Remotes - \$ 1.0 million in both years;
33 • Other Hydro One entities - \$0.5 million in both years; and,
34 • Estimate for the recovery of administrative related costs from other Hydro One
35 entities - \$0.2 million.

1 **Energy Probe INTERROGATORY #12 List 1**

2
3 **Interrogatory**

4
5 Issue 3.1 – Are the overall levels of the 2010/2011 Operation, Maintenance and
6 Administration budgets appropriate?

7
8 Ref: Exhibit C1, Tab 1, Schedule 1 &
9 Exhibit A, Tab 17, Schedule 1, Appendix D, page 7

10
11 The evidence at Exhibit A states that:

12
13 “PST/GST harmonization will take place in 2010 and there is
14 considerable uncertainty as to the rules associated with tax
15 harmonization. Hydro One’s filing therefore does not address tax
16 harmonization impacts.”

- 17
18 a) Please confirm that Hydro One has not made any adjustments to the OM&A
19 forecasts shown in Exhibit C1 to reflect the elimination of the 8% provincial
20 sales tax.
21
22 b) Please provide the estimated costs of the provincial sales tax included in the
23 OM&A forecast for each of 2010 and 2011.
24
25 c) Please provide the amount of provincial sales tax paid by Hydro One in each of
26 2006, 2007 and 2008 on OM&A expenses.
27
28 d) What is the expected reduction in compliance costs that will result from the
29 reduction in the administrative burden on Hydro One to comply with two
30 separate sets of tax rules?
31
32

33 **Response**

- 34
35 a) Hydro One confirms that this is correct.
36
37 b) Hydro One does not track the PST relating to expenditures. However, a process will
38 be developed to estimate the savings in OM&A costs after July 1, 2010, that result
39 from the PST/GST harmonization. Such estimated savings will be reflected in the
40 deferral Account 1592. This information is not available at this time.
41
42 c) Hydro One does not track the PST relating to expenditures.
43

Filed: October 19, 2009

EB-2009-0096

Exhibit H

Tab 3

Schedule 12

Page 2 of 2

1

2 d) Until the proposed legislation and administrative rules are known, it is difficult to
3 determine whether there will be any reduction or increase in compliance costs.

4 However, it is anticipated that any change in costs would not be material.

Energy Probe INTERROGATORY #13 List 1

Interrogatory

Issue 3.6 – Is Hydro One’s depreciation expense appropriate?

Ref: Exhibit C1, Tab 6, Schedule 1, Tables 1 & 2, Updated

- a) Has Hydro One had any losses or gains on asset disposition as shown in Table 1 in 2009? If yes, please quantify.
- b) Please explain the increase over more than 100% in the environmental assets as shown in Table 2.

Response

- a) Hydro One has realized net gains on fixed asset dispositions totaling approximately \$0.04M as of the end of Q2, 2009.
- b) Hydro One Distribution’s regulatory asset for PCB removal is amortized on a basis consistent with actual spending. The submitted increase in environmental asset amortization expense in the test years compared to the bridge year reflects higher planned PCB spending in those years as a direct result of the change in federal PCB regulations issued late in 2008. The increase in planned spending is required to meet the 2025 deadline for removal of all PCB’s in concentrations 50 parts per million from the distribution system. (Please refer to Exhibit A, Tab 10, Schedule 1, Page 74, Note 12).

1 **Energy Probe INTERROGATORY #14 List 1**

2
3 **Interrogatory**

4
5 Issue 3.6 – Is Hydro One’s depreciation expense appropriate?

6
7 Ref: Exhibit C1, Tab 6, Schedule 1, page 1, Updated

8
9 The evidence states that Hydro One used the Foster methodology for determining the
10 depreciation rates currently in use.

- 11
- 12 a) Have any of the depreciation rates used in the current application changed from
13 those used in the EB-2007-0681 filing? If yes, please provide the current and
14 previous depreciation rate for each such asset category and provide a
15 calculation to show the impact on the revenue requirement.
 - 16
 - 17 b) Please also provide all information used to determine the new depreciation rate
18 and the Foster methodology used.
 - 19

20
21 **Response**

22
23 a) Hydro One Distribution has not changed its depreciation rates since the EB-2007-0681
24 filing.

25
26 b) N/A

Energy Probe INTERROGATORY #15 List 1

Interrogatory

Issue 3.6 – Is Hydro One’s depreciation expense appropriate?

Ref: Exhibit C2, Tab 5, Schedule 1, Updated

Please explain what is driving the increase in the major fixed asset depreciation rate and the minor fixed asset depreciation rate from 2008 through 2011. For example, what is the driver behind the increase in the minor fixed asset depreciation rate from 10.33% in 2009 to 11.97% in 2010?

Response

Both major and minor depreciation rate average changes are due only to asset mix. There has been no change in useful life determination or depreciation methodology since the EB-2007-0681 filing.

Higher in-service additions to computer hardware and software asset classes is the main factor causing the increase in major fixed asset average depreciation rate of 2.67% in 2009 to 2.97% in 2011. These asset classes have a higher depreciation rate than the average major fixed asset.

Higher in-service additions to the transportation equipment asset class is the main factor causing the increase in minor fixed asset average depreciation rate of 10.33% in 2009 to 11.97% in 2011. This asset class has a higher depreciation rate than the average minor fixed asset.

1 **Energy Probe INTERROGATORY #16 List 1**

2
3 **Interrogatory**
4

5 Issue 3.7 – Are the amounts proposed for capital and property taxes appropriate?

6
7 Ref: Exhibit C1, Tab 2, Schedule 12, pages 1 & 2
8

- 9 a) Property taxes are forecast to increase by more than 11% between 2008 and
10 2011. Please provide the underlying factors driving this increase.
11
12 b) Please provide the actual, or most recent information available, for the 2009
13 property taxes.
14
15 c) Please provide the total value assessment for all taxed properties for 2006
16 through 2008 and 2009 (if available). Please provide the forecast for 2009
17 through 2010 and explain the changes in the assessed values.
18

19 **Response**
20

- 21 a) The projected annual increases in property taxes are comprised of an increase for –
22 2% as result of increases in the assessed value of properties, and 2% due to municipal
23 tax increase for year 2009 and 2010.
24
25 b) The expected property tax actual expenditures in are in line with 2009 bridge year
26 forecast of \$3.8M.
27
28 c) The table below summarizes the total value assessment for all Hydro One Networks’
29 taxed properties for 2006 – 2010. The property assessments are conducted by
30 Municipal Property Assessment Corporation (MPAC). In years 2007 & 2008 re-
31 assessments were cancelled by the Province (Minister of Finance). The 2009 and
32 2010 forecast reflects recent property assessments that are being phased in over four
33 year period.
34

Year	2006	2007	2008	2009	2010
Assessed Values \$M	467	468	471	629	712

Energy Probe INTERROGATORY #17 List 1

Interrogatory

Issue 3.7 – Are the amounts proposed for capital and property taxes appropriate?

Ref: Exhibit C1, Tab 2, Schedule 12, Table 4

- a) Please explain the decrease in rights payments costs between 2006 and 2008.
- b) What is the actual rights payment for 2009?
- c) What is driving the increase in rights payments between 2008 and 2009?

Response

The correct table number is Table 3 on page 4

- a) The rights payments decrease in 2008 from the 2006 level is due to variables that include one time payments and timing of payments issued.
- b) The expected rights payments actual expenditures are in line with 2009 bridge year forecast of \$0.3M.
- c) Hydro One does expects the rights payments to be in the range of approximately \$0.3M across the bridge and test years.

Energy Probe INTERROGATORY #18 List 1

Interrogatory

Issue 3.8 – Is the amount proposed for income taxes, including the methodology, appropriate?

Ref: Exhibit C2, Tab 6, Schedule 1, Attachment B, Updated & Attachment D

Hydro One appears to calculate the CCA for Class 12 assets (computer software) in both 2009 and 2010 as if the half-year rule does not apply. Energy Probe is not aware of any changes to the half year rule for Class 12 assets. Energy Probe believes that the temporary change related to the half year rule is only applicable to the computers and systems software that would normally go into Class 50.

- a) Please provide any tax rulings or information that supports the temporary removal of the half year rule for Class 12 assets.
- b) Please recalculate the CCA for Class 12 assets for 2009, 2010 and 2011 assuming that the half year rule continues to apply. Please show the difference in the CCA for each of 2009, 2010 and 2011 compared to that calculated by Hydro One.
- c) Based on the response to part (b) above, what is the impact on the revenue requirement in each of 2010 and 2011 of continuing to use the half year rule for Class 12 assets?

Response

- a) Hydro One confirms that the temporary change related to the half year rule is only applicable to the computers and systems software that would normally go into Class 50 (new class 52 ~ 100%). Applications software that goes into class 12 continues to be subject to the half-year rule. Revised schedules Exhibit C2, Tab 6, Schedule 1, Attachment A, Attachment B & Attachment D are attached as Attachment 1, 2 and 3 respectively.

Please see revised schedules Exhibit C2, Tab 6, Schedule 1, Attachment B & Attachment D. Hydro One will reflect this updated information in our final rate order.

1 b)

	2009	2010	2011
CCA as Filed	364.0	323.7	307.8
Revised	317.7	346.2	330.6
Increase (decrease) in CCA	(46.3)	22.5	22.8

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c) See revised schedules Exhibit C2, Tab 6, Schedule 1, Attachment A.

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	2010	2011
Regulatory Income tax as Filed	12.7	39.5
Revised	2.5	30.5
Decrease in RR	10.2	9.0

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**EB-2009-0096 – EXHIBIT C2, TAB 6, SCHEDULE 1,
ATTACHMENT A**

HYDRO ONE NETWORKS INC.
DISTRIBUTION
Calculation of Utility Income Taxes
Forecast Years (2010 and 2011)
Year Ending December 31
(\$ Millions)

Line No.	Particulars	2010 (a)	2011 (b)
	<u>Determination of Taxable Income</u>		
1	Regulatory Net Income (before tax)	\$ 159.4	\$ 217.5
2	Book to Tax Adjustments:		
3	Other Post Employment Benefits expense	26.8	28.4
4	Other Post Employment Benefits payments	(26.8)	(28.5)
5	Inergi pension payments	0.0	0.0
6	Depreciation and amortization	259.2	291.3
7	Capital Cost Allowance	(346.2)	(330.6)
8	Removal costs	(1.9)	(1.9)
9	Environmental costs	(12.8)	(16.9)
10	Hedge loss - amortization	0.0	0.0
11	Non-deductible meals & entertainment	2.5	2.5
12	Capital amounts expensed under \$2K	1.0	1.0
13	Research & Development ITC	0.1	0.1
14	Ontario education credits	1.3	1.3
15	Capitalized overhead costs	(23.2)	(23.5)
16	Capitalized pension costs	(26.8)	(27.8)
17		<u>\$ (146.7)</u>	<u>\$ (104.6)</u>
18	Regulatory Taxable Income	<u>\$ 12.7</u>	<u>\$ 112.9</u>
19	Corporate Income Tax Rate	31.00 %	28.25 %
20	Subtotal	\$ 3.9	\$ 31.9
21	Less: R&D ITC / Ontario education credits	(1.4)	(1.4)
22	Regulatory Income Tax	<u>\$ 2.5</u>	<u>\$ 30.5</u>
	<u>Tax Rates</u>		
23	Federal Tax	18.00 %	16.50 %
24	Provincial Tax	13.00 %	11.75 %
25	Total Tax Rate	<u>31.00 %</u>	<u>28.25 %</u>

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**EB-2009-0096 – EXHIBIT C2, TAB 6, SCHEDULE 1,
ATTACHMENT B**

HYDRO ONE NETWORKS INC.
DISTRIBUTION

Calculation of Capital Cost allowance (CCA)
Test Years
2010 & 2011 Networks Allocation to DX
Year Ending December 31
(\$ Millions)

2010	<u>Opening</u>	<u>Net</u>	<u>UCC pre-</u>	<u>50% net</u>	<u>UCC for</u>	<u>CCA</u>		<u>Closing</u>
<u>CCA Class</u>	<u>UCC</u>	<u>Additions</u>	<u>1/2 yr</u>	<u>additions</u>	<u>CCA</u>	<u>Rate</u>	<u>CCA</u>	<u>UCC</u>
1	1,875.4	3.0	1,878.4	1.50	1,876.9	4%	75.1	1,803.3
2	350.3	0.0	350.3	-	350.3	6%	21.0	329.3
3	15.3	2.3	17.6	1.13	16.5	5%	0.8	16.8
6	8.5	1.2	9.7	0.59	9.1	10%	0.9	8.8
8	51.2	21.6	72.8	10.80	62.0	20%	12.4	60.4
9	1.9	0.4	2.3	0.22	2.1	25%	0.5	1.8
10	74.0	93.3	167.3	46.67	120.6	30%	36.2	131.1
12	46.3	47.6	93.9	23.80	70.1	100%	70.1	23.8
13	1.2	0.2	1.4	0.10	1.3	10 yrs	0.3	1.1
17	2.8	0.3	3.1	0.16	2.9	8%	0.2	2.9
42	0.3	0.0	0.3	0.02	0.3	12%	0.0	0.3
45	2.5	(0.0)	2.5	(0.01)	2.5	45%	1.1	1.4
47	1,187.6	449.0	1,636.6	224.50	1,412.1	8%	113.2	1,523.4
52	4.5	9.2	13.7	4.60	13.7	100%	13.7	-
Dx CCA	<u>3,621.7</u>	<u>628.2</u>	<u>4,249.9</u>	<u>314.08</u>	<u>3,940.4</u>		<u>345.6</u>	<u>3,904.3</u>
Dx CEC Continuity	<u>34.3</u>	<u>0.0</u>	<u>34.3</u>	<u>0.0</u>	<u>34.3</u>	<u>7%</u>	<u>2.4</u>	<u>31.9</u>
							Less goodwill portion	<u>(1.8)</u>
							Total CCA for RR	<u>346.2</u>
2011	<u>Opening</u>	<u>Net</u>	<u>UCC pre-</u>	<u>50% net</u>	<u>UCC for</u>	<u>CCA</u>		<u>Closing</u>
<u>CCA Class</u>	<u>UCC</u>	<u>Additions</u>	<u>1/2 yr</u>	<u>additions</u>	<u>CCA</u>	<u>Rate</u>	<u>CCA</u>	<u>UCC</u>
1	1,803.3	0.0	1,803.3	-	1,803.3	4%	72.1	1,731.2
2	329.3	0.0	329.3	-	329.3	6%	19.8	309.6
3	16.8	2.2	19.0	1.1	17.9	5%	0.9	18.1
6	8.8	1.1	9.9	0.6	9.4	10%	0.9	9.0
8	60.4	20.4	80.8	10.2	70.6	20%	14.1	66.7
9	1.8	0.2	2.0	0.1	1.9	25%	0.5	1.5
10	131.1	58.0	189.1	29.0	160.1	30%	48.0	141.1
12	23.8	13.4	37.2	6.7	30.5	100%	30.5	6.7
13	1.1	0.1	1.2	0.1	1.2	10 yrs	0.2	1.1
17	2.9	0.4	3.2	0.2	3.1	8%	0.2	3.0
42	0.3	0.0	0.3	0.0	0.3	12%	0.0	0.3
45	1.4	0.0	1.4	-	1.4	45%	0.6	0.8
47	1,523.4	432.4	1,955.8	216.2	1,739.6	8%	139.4	1,816.4
50	-	9.6	9.6	4.8	4.8	55%	2.6	7.0
	<u>3,904.3</u>	<u>538.0</u>	<u>4,442.3</u>	<u>269.0</u>	<u>4,173.3</u>		<u>330.0</u>	<u>4,112.3</u>
Dx CEC Continuity	<u>31.9</u>	<u>0.0</u>	<u>31.9</u>	<u>0.0</u>	<u>31.9</u>	<u>7%</u>	<u>2.2</u>	<u>29.6</u>
							Less goodwill portion	<u>(1.7)</u>
							Total CCA for RR	<u>330.6</u>

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**EB-2009-0096 – EXHIBIT C2, TAB 6, SCHEDULE 1,
ATTACHMENT D**

**HYDRO ONE NETWORKS INC.
 DISTRIBUTION**

Calculation of Capital Cost allowance (CCA)

Historic Years

2006 - 2009 Networks Tax Return Allocation to Distribution

Year Ending December 31

(\$ Millions)

2006	<u>Opening</u>	Net	<u>UCC pre-</u>	<u>50% net</u>	<u>UCC for</u>			<u>Closing</u>
<u>CCA Class</u>	<u>UCC</u>	<u>Additions</u>	<u>1/2 yr</u>	<u>additions</u>	<u>CCA</u>	<u>CCA Rate</u>	<u>CCA</u>	<u>UCC</u>
1	2,205.8	(0.4)	2,205.4	-	2,205.4	4%	88.2	2,117.2
2	448.7	-	448.7	-	448.7	6%	26.9	421.8
3	16.3	0.2	16.5	0.1	16.5	5%	0.8	15.7
6	9.1	0.1	9.2	0.1	9.1	10%	0.9	8.3
8	28.8	19.0	47.8	9.5	38.3	20%	7.7	40.1
10	56.5	25.7	82.2	12.9	69.3	30%	20.8	61.4
12	2.5	25.7	28.2	12.8	15.4	100%	15.4	12.8
13	2.4	(0.2)	2.2	-	2.2	10 yrs	0.4	1.8
17	2.3	0.1	2.4	0.1	2.3	8%	0.2	2.2
42	0.3	(0.0)	0.3	(0.1)	0.4	12%	0.0	0.3
45	7.9	7.9	15.8	3.9	11.9	45%	5.3	10.5
47	153.3	250.5	403.8	125.3	278.5	8%	22.3	381.5
Dx CCA	2,933.8	328.7	3,262.5	164.6	3,098.0		188.9	3,073.6
Dx CEC Continuity	45.7	0.1	45.8	-	45.8	7%	3.2	42.6

Less goodwill portion (2.4)
 Total ECE for RR 0.8

2007	<u>Opening</u>	Net	<u>UCC pre-</u>	<u>50% net</u>	<u>UCC for</u>			<u>Closing</u>
<u>CCA Class</u>	<u>UCC</u>	<u>Additions</u>	<u>1/2 yr</u>	<u>additions</u>	<u>CCA</u>	<u>CCA Rate</u>	<u>CCA</u>	<u>UCC</u>
1	2,117.2	2.6	2,119.8	-	2,119.8	4%	85.0	2,034.8
2	421.8	(0.1)	421.7	-	421.7	6%	25.3	396.4
3	15.7	-	15.7	0.1	15.7	5%	0.8	14.9
6	8.3	0.9	9.2	0.5	8.7	10%	0.9	8.3
8	40.1	15.1	55.2	7.5	47.7	20%	9.5	45.7
9	-	1.5	1.5	0.5	0.8	25%	0.2	1.3
10	61.4	25.8	87.2	12.9	74.3	30%	22.3	64.9
12	12.8	7.2	20.0	3.7	16.3	100%	16.3	3.7
13	1.8	(0.2)	1.6	-	1.6	10 yrs	0.1	1.5
17	2.2	0.7	2.9	0.3	2.6	8%	0.2	2.7
42	0.3	0.1	0.4	0.1	0.4	12%	0.0	0.3
45	10.5	2.8	13.3	1.4	11.9	45%	5.3	8.0
47	381.5	278.9	660.4	147.7	512.7	8%	41.0	619.4
50	-	7.6	7.6	3.8	3.8	55%	2.0	5.6
Dx CCA	3,073.6	342.9	3,416.5	178.5	3,237.9		209.0	3,207.5
Dx CEC Continuity	42.6	-	42.6	-	42.6	7%	3.0	39.6

Less goodwill portion (2.2)
 Total ECE for RR 0.8

HYDRO ONE NETWORKS INC.
DISTRIBUTION

Calculation of Capital Cost allowance (CCA)
Historic and Bridge Years
2006 - 2009 Networks Allocation to Distribution
Year Ending December 31
(\$ Millions)

2008	<u>Opening</u>	<u>Net</u>	<u>UCC pre-</u>	<u>50% net</u>	<u>UCC for</u>			<u>Closing</u>
<u>CCA Class</u>	<u>UCC</u>	<u>Additions</u>	<u>1/2 yr</u>	<u>additions</u>	<u>CCA</u>	<u>CCA Rate</u>	<u>CCA</u>	<u>UCC</u>
1	2,034.8	0.16	2,035.0	0.1	2,035.2	4%	81.3	1,953.6
2	396.4	-	396.4	-	396.4	6%	23.8	372.6
3	14.9	-	14.9	-	14.9	5%	0.7	14.1
6	8.3	0.81	9.1	0.4	8.7	10%	0.9	8.3
8	45.7	15.45	61.2	7.7	53.4	20%	10.6	50.6
9	1.3	3.54	4.8	1.8	3.1	25%	0.8	4.1
10	64.9	30.44	95.4	15.2	80.1	30%	24.0	71.3
12	3.7	60.37	64.1	30.2	33.9	100%	33.9	30.2
13	1.5	-	1.5	-	1.5	10 yrs	0.2	1.3
17	2.7	0.11	2.8	0.1	2.8	8%	0.2	2.6
42	0.3	-	0.3	-	0.3	12%	0.0	0.3
45	8.0	-	8.0	-	8.0	45%	3.6	4.4
47	619.4	326.74	946.1	163.4	782.8	8%	62.6	883.5
50	5.6	10.33	15.9	5.2	10.8	55%	5.9	9.9
Dx CCA	3,207.5	447.9	3,655.5	223.9	3,431.8		248.6	3,406.8
Dx CEC Continuity	39.6		39.6		39.62	7%	2.8	36.8
					Less goodwill portion		(2.1)	
					Total ECE for RR		0.7	

2009	<u>Opening</u>	<u>Net</u>	<u>UCC pre-</u>	<u>50% net</u>	<u>UCC for</u>			<u>Closing</u>
<u>CCA Class</u>	<u>UCC</u>	<u>Additions</u>	<u>1/2 yr</u>	<u>additions</u>	<u>CCA</u>	<u>CCA Rate</u>	<u>CCA</u>	<u>UCC</u>
1	1,953.64	-	1,953.6	-	1,953.6	4%	78.2	1,875.4
2	372.60	0.10	372.7	0.0	372.7	6%	22.4	350.3
3	14.15	1.95	16.1	1.0	15.1	5%	0.8	15.3
6	8.25	1.15	9.4	0.6	8.8	10%	0.9	8.5
8	50.57	11.93	62.5	6.0	56.5	20%	11.3	51.2
9	4.07	(1.37)	2.7	(0.7)	3.4	25%	0.8	1.9
10	71.32	28.28	99.6	14.1	85.5	30%	25.6	74.0
12	30.18	92.62	122.8	46.3	76.5	100%	76.5	46.3
13	1.33	0.17	1.5	0.2	1.5	10 yrs	0.3	1.2
17	2.60	0.40	3.0	0.2	2.8	8%	0.2	2.8
42	0.27	0.03	0.3	0.0	0.3	12%	0.0	0.3
45	4.40	(0.00)	4.4	(0.0)	4.4	45%	1.9	2.5
47	883.52	390.38	1,273.9	195.2	1,078.7	8%	86.3	1,187.6
50	9.91	6.99	16.9	7.0	16.9	55%	12.4	4.5
Dx CCA	3,406.8	532.6	3,939.4	269.9	3,676.7		317.7	3,621.7
Dx CEC Continuity	36.8		36.8		36.8	0.1	2.6	34.3
					Less goodwill portion		(1.9)	
					Total ECE for RR		0.6	

Energy Probe INTERROGATORY #19 List 1

Interrogatory

Issue 3.8 – Is the amount proposed for income taxes, including the methodology, appropriate?

Ref: Exhibit C2, Tab 6, Schedule 1, Attachment A, Updated

- a) Please indicate where in this schedule there are adjustments related to each of the following:
 - i) investment tax credits on SR&ED expenditures;
 - ii) co-operative education tax credit (CETC); and
 - iii) apprenticeship training tax credit (ATTC).
- b) Has Hydro One increased the CETC rate from 10% to 25% of salaries and wages paid and increased the limit from \$1,000 to \$3,000 per work placement?
- c) Has Hydro One reflect the in changes in the ATTC that now allow a deduction of 35% of wages and salaries paid to a maximum credit of \$10,000 per apprentice, and extending the period for the first 48 months of an apprenticeship?
- d) Please provide the calculations/information required to calculate the CETC and ATTC for each of 2008 through 2012 (where appropriate) using the rules (rates, maximums, etc.) that were in place in each year. Please note that the 2008 ATTC does not need to included, as it is found in Part 21 of the 2008 income tax return provided as Attachment A to Exhibit C2, Tab 6, Schedule 2.

Response

- a) The adjustments relating to investment tax credits for SR&ED expenditures, CETC and ATTC are reflected on line 21 of Exhibit C2, Tab 6, Schedule 1, Attachment A.
- b) Hydro One confirms that it has adjusted the estimated CETC for these changes.
- c) Hydro One confirms that it has adjusted the estimated ATTC for these changes.

1 d) Part 21 of the 2008 income tax return provided in Exhibit C2, Tab 6, Schedule 2,
2 Attachment A, pertains to the entity Hydro One Networks which includes both the
3 Transmission and Distribution business. The estimated Distribution benefits for
4 the years subsequent to 2008, relating to CETC and the ATTC, were based on the
5 Distribution portion of the 2008 return filed, adjusted for the estimated impacts of
6 changes noted in b) and c).

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8
9

The Distribution estimates were calculated as follows:

	2008	Estimate for each of 2010/2011
CETC	\$0.1M	\$0.3M
ATTC	\$0.8M	\$1.0M
ITC SRED	\$0.1M	\$0.1M
Total	\$1.0M	\$1.4M

10

Energy Probe INTERROGATORY #20 List 1

Interrogatory

Issue 4.1 – Are the amounts proposed for Rate Base appropriate?

Ref: Exhibit D1, Tab 1, Schedule 5

- a) Please reconcile the figure of 22.6 shown as the year end inventory level in 2006 in Table 1 with the figure of 23.1 shown for December, 2006 in Table 2.
- b) Please update Table 2 to reflect the most recent actual information available for the 2009 monthly inventory levels.
- c) Does Hydro One have a forecast for the monthly inventory levels in 2010 and 2011? If yes, please provide this forecast.
- d) Please reconcile the \$30.0 million shown in Table 1 for 2011 with the figures of \$10.5 million for materials and supplies and the \$19.3 million in Note 1, both in Exhibit D2, Tab 4, Schedule 1, Updated.

Response

- a) The 2006 year-end inventory levels of \$22.6 million shown in Table 1 do not include approximately \$500K for smart meter inventory. The amount of \$23.1 million in Table 2 includes the \$500K smart meter inventory.
- b) The updated table to June 2009 is shown below.

\$M	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2006	23.9	25.3	27.4	27.6	26.8	26.0	26.3	24.9	23.3	23.7	23.6	23.1
2007	24.1	23.9	26.0	27.1	28.0	28.1	28.5	28.3	28.7	27.2	28.8	28.5
2008	27.2	27.9	31.9	32.4	29.1	31.4	31.5	31.6	30.7	30.9	32.7	41.0
2009	35.3	37.4	38.9	39.1	39.2	41.6	30.0*	29.9*	29.8*	29.7*	29.5*	29.6*

* Forecasted levels.

- c) It is not Hydro One’s practice to forecast monthly inventory levels beyond the current calendar year. The inventory for test years 2010 and 2011 are forecasted at year-end levels.

Filed: October 19, 2009

EB-2009-0096

Exhibit H

Tab 3

Schedule 20

Page 2 of 2

- 1 d) For the requested reconciliation, the year-end inventory value of \$30.2 million should
- 2 be used rather than “Annual Average inventory value of \$30.0 million”. Note 1
- 3 should read \$19.6 for 2011, instead of \$19.3. [Therefore $\$19.6 + \$10.5 = \$30.1$], with
- 4 a rounding difference of (\$0.1).

Energy Probe INTERROGATORY #21 List 1

Interrogatory

Issue 4.1 – Are the amounts proposed for Rate Base appropriate?

Interrogatory # 21

Ref: Exhibit D1, Tab 3, Schedule 1 &
Exhibit A, Tab 17, Schedule 1, Appendix D, page 7

The evidence at Exhibit A states that:

“PST/GST harmonization will take place in 2010 and there is considerable uncertainty as to the rules associated with tax harmonization. Hydro One’s filing therefore does not address tax harmonization impacts.”

- a) Please confirm that Hydro One has not made any adjustments to the capital expenditure forecasts shown in Exhibit D1, Tab 3, Schedule 1 to reflect the elimination of the 8% provincial sales tax.
- b) Please provide the estimated costs of the provincial sales tax included in the capital expenditures included in rate base forecast for each of 2010 and 2011.
- c) Please provide the amount of provincial sales tax paid by Hydro One on capital expenditures included in rate base in each of 2006, 2007 and 2008.

Response

- a) Hydro One confirms that this is correct.
- b) Hydro one does not track the PST relating to expenditures. However, a process will be developed to estimate the savings in capital expenditures after July 1, 2010, that result from the PST/GST harmonization. Such estimated savings will be reflected in the deferral Account 1592. This information is not available at this time.
- c) Hydro One does not track the PST relating to expenditures.

1 **Energy Probe INTERROGATORY #22 List 1**

2
3 **Interrogatory**

4
5 Issue 4.5 – Are the inputs used to determine the Working Capital component of the Rate
6 Base appropriate and is the methodology used consistent with the
7 methodologies approved by the Board in previous Hydro One rate
8 applications?
9

10 Ref: Exhibit D1, Tab 1, Schedule 4, Updated

11
12 Please update Tables 1 & 2 to reflect the harmonization of the provincial sales tax with
13 the goods and services tax effective July 1, 2010. For the purposes of the calculation
14 please assume that the GST is effectively 9% for 2010 and 13% for 2011. Please also
15 reflect the removal of any provincial sales tax included in the expenses.
16

17
18 **Response**

19
20 Hydro One does not track the PST relating to expenditures and therefore cannot update
21 Table 1 and Table 2 to reflect the requested scenario. Refer to Exhibit H, Tab 3,
22 Schedule 12 and Exhibit H, Tab 3, Schedule 21.
23

24 In the OEB's EB-2008-0272 Decision (Hydro One Transmission's 2010/2011 Rate
25 Filing), the Board approved the continuation of Accounts 1592, 1508, 2405. The Board
26 acknowledged that Hydro One indicated that it would use Account 1592 to capture the
27 impacts of tax rate changes that may arise from the harmonization of PST and GST.
28 Refer to EB-2008-0272 Decision, section 8.2, page 56.

Energy Probe INTERROGATORY #23 List 1

Interrogatory

Issue 4.5 – Are the inputs used to determine the Working Capital component of the Rate Base appropriate and is the methodology used consistent with the methodologies approved by the Board in previous Hydro One rate applications?

Ref: Exhibit D1, Tab 1, Schedule 4, Table 1, Updated

- a) Please provide a table showing the detailed calculation of the cost of power figures of \$2,008.4 and \$1,994.6 for 2010 and 2011 into their component parts, including transmission costs and commodity costs. For each component, please show the volumetric figure used and corresponding rate used.
- b) For the commodity cost, please reconcile the volume figures used with the forecast of GWh provided in Table 4 of Exhibit A, Tab 14, Schedule 4.
- c) What is the volume associated with market participants served by Hydro One? Has Hydro One removed all the volumes for market participants before calculating the cost of power to be used in the working capital allowance? If not, why not?
- d) Did Hydro One use the average supply cost for RPP customers of \$60.72/MWh as set out in the April 15, 2009 Regulated Price Plan Price Report? If not, how did Hydro One determine the appropriate commodity price to use?
- e) If available before interrogatory responses are due, please update the cost of power and the associated working capital component of rate base to reflect any more recent Regulated Price Plan Price Report.

Response

a) Detailed calculation of the cost of power figures of \$2,008.4 and \$1,994.6 for 2010 and 2011 are as follows:

2010 Cost of Power	Rate		Volume	
	\$/MWh	\$/kW	GWh/GW	2010
Commodity	61.70		25,021	\$ 1,543.8
WMSC (Incl RRRP)	6.20		25,021	\$ 155.1
Tx Network	2.57		65	\$ 167.3
Tx Line Connection	0.70		55	\$ 38.6
Tx Transf Connection	1.62		64	\$ 103.6
Total COP				\$ 2,008.4

2011 Cost of Power	Rate		Volume	
	\$/MWh	\$/kW	GWh/GW	2011
Commodity	61.70		24,849	\$ 1,533.2
WMSC (Incl RRRP)	6.20		24,849	\$ 154.1
Tx Network	2.57		65	\$ 166.4
Tx Line Connection	0.70		55	\$ 38.3
Tx Transformation Connection	1.62		63	\$ 102.6
Total COP				\$ 1,994.6

b) Reconciliation of the volume figures used in the Cost of Power calculation and the forecast of GWh provided in Table 4 of Exhibit A, Tab 14, Schedule 4 is as follows:

In GWh's	2010	2011
Load Forecast After Deducting Impact of CDM		
Retail Customer Purchases - per Table 4, ExhA-14-4	22,007	21,851
Average Loss Factor	÷ 1.079	1.079
Net Retail Customer Sales	(A) 20,405	20,261
Embedded Non-Market Participant Purchases	2,997	2,981
Loss Factor	÷ 1.034	1.034
Net Embedded Non-Market Participant Sales	(B) 2,898	2,883
Total Sales	(A) + (B) 23,304	23,144
Total Average Loss Factor	x 1.074	1.074
Total Purchases used in COP calculation	25,021	24,849

c) The volume associated with market participants served by Hydro One is 13,302 GWh for 2010 and 13,217 GWh for 2011. Hydro One does not include the volumes for market participants in the calculation of cost of power.

1 d) The commodity price Hydro One used was a weighted average rate for both RPP and
 2 non-RPP customers. The rate used for RPP customers was \$60.72/MWh, consistent
 3 with the April 15, 2009 Regulated Price Plan Price Report. The rate used for non-
 4 RPP customers was \$63.88/MWh which was the sum of the forecasted HOEP
 5 \$49.62/MWh, consistent with the April 15, 2009 Ontario Wholesale Electricity
 6 Market Price Forecast, and the forecasted Global Adjustment of \$14.26/MWh,
 7 consistent with the April 15, 2009 Regulated Price Plan Price Report. The calculation
 8 is as follows:
 9

	Rate - \$/MWh	Weighting	WA Rate \$/MWh
* Forecasted Average HOEP	49.62		
** Forecasted Average Global Adjustment	14.26		
Forecasted Average non-RPP cost	63.88	31%	19.80
** Forecasted Average RPP cost	60.72	69%	41.90
Weighted Average Commodity Cost			61.70

Note:

* Per April 15, 2009 Ontario Wholesale Electricity Market Price Forecast

** Per April 15, 2009 Regulated Price Plan Price Report

10
 11
 12
 13

e) The Regulated Price Plan Price Report has not been updated since the April 15, 2009 submission.

1 **Energy Probe INTERROGATORY #24 List 1**

2 **Interrogatory**
3

4 Issue 5.1 – Is the proposed Capital Structure and Rate of Return on Equity for Hydro
5 One’s distribution business appropriate?
6

7 Ref: Exhibit B1, Tab 1, Schedule 1, page 1
8

9 The evidence states that Hydro One expects that if the Board changes the return on
10 equity, long term debt rate and/or short term debt rate as a result of the review of
11 the existing Cost of Capital policy (EB-2009-0084), that these values will be
12 reflected in the Board’s final decision on this application. Is the same true if the
13 Board were to change the capital structure, such as the amount of long term and
14 short term debt?
15

16
17 **Response**
18

19 Yes, Hydro One expects that the draft rate order would reflect any changes by the Board
20 to the capital structure as appropriate.

Energy Probe INTERROGATORY #25 List 1

Interrogatory

Issue 5.1 – Is the proposed Capital Structure and Rate of Return on Equity for Hydro One’s distribution business appropriate?

Ref: Exhibit B1, Tab 1, Schedule 1, pages 2 & 3

- a) Please update the return on equity for 2010 and 2011 based on the September 2009 Consensus Forecasts and Bank of Canada data for September 2009. Please provide the impact on the revenue requirement for both 2010 and 2011.
- b) Please update the 2010 short term debt rate based on the September 2009 Bank of Canada data and the 2011 short term debt rate using the most recent Global Insight forecast currently available. Please provide the impact on the revenue requirement for both 2010 and 2011.

Response

- a) The return on equity for 2010 and 2011 based on the September 2009 Consensus Forecasts and Bank of Canada data for September 2009 is found in the table below.

The 30 year Long Canada Bond yield forecast for 2010 is based on the September 2009 Consensus Forecast for the 10 year Canada yield plus the average difference between the 10 and 30 year Government of Canada bond yield during September 2009.

The 30 year Long Canada Bond yield forecast for 2011 is based on the long term April 2009 Consensus Forecast (provided semi-annually in April and October) for the 10 year Canada yield plus the average difference between the 10 and 30 year Government of Canada bond yield during September 2009.

	2010	2011
Initial ROE	9.35%	9.35%
30 year Canada	4.42%	4.92%
Less Initial 30 year Canada	5.50%	5.50%
Yield Change	-1.08%	-0.58%
Adjustment (75% of change)	-0.81%	-0.44%
ROE	8.54%	8.92%

1 This would result in an increase in revenue requirement for 2010 by approximately
2 \$12.1M. Revenue requirement in 2011 will decrease by \$4.9M.

3
4 Hydro One is not planning on updating its 2010/2011 Distribution rate filing for
5 changes in planning assumptions other than for cost of capital as noted in A-3-1,
6 pages 2 and 3. If directed by the Board as part of the Rate Decision, Hydro One will
7 incorporate any requested changes in planning assumptions in the final revenue
8 requirement calculation.

9
10 b) The short term debt rate forecast for 2010 is based on the September 2009 Consensus
11 Forecast for the 3 month T-bill yield plus the average difference between the 3 month
12 T-bill rate and 3 month Bankers Acceptance rate during September 2009 (based on
13 Bank of Canada data). The short term debt rate forecast for 2011 is based on the June
14 2009 (the most recent available) Global Insight forecast for the 3 month Bankers'
15 Acceptance rate.

16

	2010	2011
3 Month Bankers' Acceptance Rate	1.09%	2.49%
Fixed Spread (25 basis points)	0.25%	0.25%
Short Term Debt Rate	1.34%	2.74%

17

18 The impact on revenue requirement in 2010 would be an increase of approximately
19 \$0.3M. Revenue requirement in 2011 remains unchanged due to the minimal decrease
20 of the allowed return on short-term debt rate.

Energy Probe INTERROGATORY #26 List 1

Interrogatory

Issue 5.1 – Is the proposed Capital Structure and Rate of Return on Equity for Hydro One's distribution business appropriate?

Ref: Exhibit B2, Tab 1, Schedule 1, page 2, Updated

What is the impact on the revenue requirement in each of 2010 and 2011 if the notional long-term debt shown in the table were costed as short-term debt (i.e. only the actual cost of long-term debt was included in revenue requirement and any unfunded debt was treated as short-term debt)?

Response

Assuming notional long-term debt was costed as short-term debt in 2010 and 2011, revenue requirement would decrease by \$7.1M and \$0.7M, respectively. This was calculated by applying the short-term debt rate of 1.19% in 2010 and 2.76% in 2011 to the notional long-term debt amounts.

Energy Probe INTERROGATORY #27 List 1

Interrogatory

Issue 5.2 – Are Hydro One’s proposed costs and mix for its short and long-term debt for the 2010/2011 test years appropriate?

Ref: Exhibit B1, Tab 2, Schedule 1

Please update Table 4 to reflect the most recent Consensus Forecasts and the corresponding month average spreads, as well as the corresponding average of indicative new issue spreads obtainable from the Company’s MTN dealer group.

Response

Table 4 from Exhibit B1, Tab 2, Schedule 1 is updated below to reflect the Consensus Forecasts for the month of September and the corresponding month average spreads from the Company’s MTN dealer group.

**Table 4
 Forecast Yield for 2009-2011 Issuance Terms**

	2009		
	5-year	10-year	30-year
Government of Canada	2.83%	3.60%	4.12%
Hydro One Spread	0.73%	1.03%	1.42%
Forecast Hydro One Yield	3.56%	4.63%	5.54%
	2010		
	5-year	10-year	30-year
Government of Canada	3.13%	3.90%	4.42%
Hydro One Spread	0.73%	1.03%	1.42%
Forecast Hydro One Yield	3.86%	4.93%	5.84%
	2011		
	5-year	10-year	30-year
Government of Canada	3.63%	4.40%	4.92%
Hydro One Spread	0.73%	1.03%	1.42%
Forecast Hydro One Yield	4.36%	5.43%	6.34%

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Exhibit H

Tab 3

Schedule 27

Page 2 of 2

1 Each rate is comprised of the forecast Canada bond yield plus the Hydro One Inc. credit
2 spread applicable to that term. The ten-year Government of Canada bond yield forecast
3 for 2009 and 2010 is based on the September 2009 Consensus Forecasts, and for 2011 is
4 based on the long term April 2009 Consensus Forecast (provided semi-annually in April
5 and October). The five- and 30-year Government of Canada bond yield forecasts are
6 derived by adding the September 2009 average spreads (five-year to ten-year for the five-
7 year forecast and 30-year to ten-year for the 30-year forecast) to the ten-year Government
8 of Canada bond yield forecast. Hydro One's credit spreads over the Government of
9 Canada bonds are based on the average of indicative new issue spreads for September
10 2009 obtained from the Company's MTN dealer group for each planned issuance term.

Energy Probe INTERROGATORY #28 List 1

Interrogatory

Issue 5.2 – Are Hydro One’s proposed costs and mix for its short and long-term debt for the 2010/2011 test years appropriate?

Ref: Exhibit B1, Tab 2, Schedule 1, page 8 &
Exhibit B2, Tab 1, Schedule 2, Updated

The actual treasury OM&A costs for 2006 through 2008 range from \$0.7 million to \$0.8 million. The forecast for 2010 and 2011 is \$1.1 million.

- a) Please explain the nearly 40% increase in these costs for 2010 and 2011 from the 2008 level.
- b) Please provide the most recent year-to-date actual cost for 2009 and the corresponding period for 2008. Please explain any significant increase in the 2009 costs.

Response

- a) Treasury OM&A costs are increasing in the test years due to higher staff levels, not just wage levels, given the expectation that the borrowing program will increase significantly in the test period, as stated on page 55, of EB-2008-0272.
- b) Treasury OM&A attributable to Distribution for June 30, 2009 was \$0.35 million and \$0.41 million for June 30, 2008. The lower actual cost for 2009 is attributable to attrition and lag in hiring new staff.

1 **Energy Probe INTERROGATORY #29 List 1**

2 **Interrogatory**

3
4 Issue 5.2 – Are Hydro One’s proposed costs and mix for its short and long-term debt for
5 the 2010/2011 test years appropriate?

6
7 Ref: Exhibit B2, Tab 1, Schedule 2, page 4

8
9 The table for the 2009 bridge year shows the offering 10 year debt in June and September
10 of 2009. Please update this schedule to show the actual debt placed by Hydro One so far
11 in 2009, along with any additional placements forecast for the remainder of the year.

12
13
14 **Response**

15 Please see Attachment 1.

16 Lines 26 to 29 of Attachment 1 represent actual debt issues placed by Hydro One during
17 2009, while line 30 reflects the additional placement forecast for the remainder of 2009.

HYDRO ONE NETWORKS INC.
DISTRIBUTION
Cost of Long-Term Debt Capital
Bridge Year (2009)
Year ending December 31

Line No.	Offering Date (a)	Coupon Rate (b)	Maturity Date (c)	Principal Amount Offered (\$Millions) (d)	Premium Discount and Expenses (\$Millions) (e)	Net Capital Employed		Effective Cost Rate (h)	Total Amount Outstanding		Avg. Monthly Averages (\$Millions) (k)	Carrying Cost (\$Millions) (l)	Projected Average Embedded Cost Rates (m)
						Total Amount (\$Millions) (f)	Per \$100 Principal Amount (Dollars) (g)		at 12/31/08 (\$Millions) (i)	at 12/31/09 (\$Millions) (j)			
1	3-Jun-00	7.150%	3-Jun-10	121.6	1.6	120.0	98.70	7.34%	121.6	121.6	121.6	8.9	
2	3-Jun-00	7.350%	3-Jun-30	121.6	2.0	119.6	98.37	7.49%	121.6	121.6	121.6	9.1	
3	22-Jun-01	6.400%	1-Dec-11	76.0	(0.2)	76.2	100.28	6.36%	76.0	76.0	76.0	4.8	
4	22-Jun-01	6.930%	1-Jun-32	47.7	0.5	47.3	99.05	7.01%	47.7	47.7	47.7	3.3	
5	17-Sep-02	5.770%	15-Nov-12	213.0	1.0	212.0	99.55	5.83%	213.0	213.0	213.0	12.4	
6	17-Sep-02	6.930%	1-Jun-32	142.0	(5.3)	147.3	103.71	6.64%	142.0	142.0	142.0	9.4	
7	31-Jan-03	5.770%	15-Nov-12	111.0	(0.5)	111.5	100.48	5.70%	111.0	111.0	111.0	6.3	
8	31-Jan-03	6.350%	31-Jan-34	74.0	0.6	73.4	99.21	6.41%	74.0	74.0	74.0	4.7	
9	22-Apr-03	6.590%	22-Apr-43	105.0	0.8	104.2	99.26	6.64%	105.0	105.0	105.0	7.0	
10	24-Feb-04	3.950%	24-Feb-09	87.5	0.4	87.1	99.55	4.05%	87.5	0.0	13.5	0.5	
11	25-Jun-04	6.350%	31-Jan-34	48.0	(0.1)	48.1	100.22	6.33%	48.0	48.0	48.0	3.0	
12	20-Aug-04	6.590%	22-Apr-43	26.0	(2.1)	28.1	107.89	6.06%	26.0	26.0	26.0	1.6	
13	24-Aug-04	6.350%	31-Jan-34	26.0	(0.9)	26.9	103.48	6.09%	26.0	26.0	26.0	1.6	
14	19-May-05	5.360%	20-May-36	98.1	3.5	94.6	96.44	5.60%	98.1	98.1	98.1	5.5	
15	19-May-05	3.950%	24-Feb-09	45.0	(0.4)	45.4	100.90	3.69%	45.0	0.0	6.9	0.3	
16	3-Mar-06	4.640%	3-Mar-16	90.0	0.4	89.6	99.52	4.70%	90.0	90.0	90.0	4.2	
17	24-Apr-06	5.360%	20-May-36	62.5	0.8	61.7	98.68	5.45%	62.5	62.5	62.5	3.4	
18	22-Aug-06	4.640%	3-Mar-16	90.0	1.1	88.9	98.75	4.80%	90.0	90.0	90.0	4.3	
19	19-Oct-06	5.000%	19-Oct-46	45.0	0.3	44.7	99.29	5.04%	45.0	45.0	45.0	2.3	
20	13-Mar-07	4.890%	13-Mar-37	160.0	0.8	159.2	99.48	4.92%	160.0	160.0	160.0	7.9	
21	18-Oct-07	5.180%	18-Oct-17	75.0	0.3	74.7	99.63	5.23%	75.0	75.0	75.0	3.9	
23	3-Mar-08	5.180%	18-Oct-17	120.0	(2.1)	122.1	101.73	4.95%	120.0	120.0	120.0	5.9	
24	10-Nov-08	5.000%	12-Nov-13	160.0	0.8	159.2	99.53	5.11%	160.0	160.0	160.0	8.2	
25	19-Nov-08	3.890%	19-Nov-10	40.0	0.1	39.9	99.78	4.01%	40.0	40.0	40.0	1.6	
26	13-Jan-09	3.890%	19-Nov-10	35.0	(0.2)	35.2	100.67	3.51%	0.0	35.0	32.3	1.1	
27	14-Jan-09	5.000%	12-Nov-13	70.0	(2.0)	72.0	102.87	4.33%	0.0	70.0	64.6	2.8	
28	3-Mar-09	6.030%	3-Mar-39	105.0	0.6	104.4	99.43	6.07%	0.0	105.0	80.8	4.9	
29	16-Jul-09	5.490%	16-Jul-40	90.0	0.6	89.4	99.37	5.53%	0.0	90.0	41.5	2.3	
30	15-Nov-09	4.770%	15-Nov-19	12.6	0.1	12.5	99.50	4.83%	0.0	12.6	1.9	0.1	
31		Subtotal							2185.0	2365.1	2294.1	131.6	
32		Treasury OM&A costs										1.2	
33		Other financing-related fees										0.6	
34		Total							<u>2185.0</u>	<u>2365.1</u>	<u>2294.1</u>	<u>133.4</u>	<u>5.81%</u>

Energy Probe INTERROGATORY #30 List 1

Interrogatory

Issue 5.2 – Are Hydro One’s proposed costs and mix for its short and long-term debt for the 2010/2011 test years appropriate?

Ref: Exhibit B2, Tab 1, Schedule 2, pages 5 & 6, Updated

- a) What is the impact on the revenue requirement in each of 2010 and 2011 if the 30 year debt forecast to be issued in March of 2010 and 2011 was replaced with 5 and 10 year debt, with each consisting of 50% of the planned long term debt amount?
- b) What was/is the weighted average remaining term of the long-term debt based on the average of monthly averages for each of 2006, 2007, 2008, and as forecast by Hydro One for 2009, 2010 and 2011?
- c) What would be the weighted average remaining term of the long-term debt based on the average of monthly averages for 2010 and 2011 if the 30 year issues forecast for 2010 and 2011 were replaced with the 5 and 10 year issues as indicated in part (a) above?

Response

- a) Assuming that both 2010 and 2011 March 30 year debt issuances were replaced with 5 and 10 year debt issuances, the average cost of long-term debt would decrease to 5.63% and 5.56% in 2010 and 2011, respectively. Since the total amount of debt in the 30 year issuance will be spread out evenly across 5 and 10 year borrowing, there will be no change in the total debt outstanding. Due to the lower cost of long-term debt, revenue requirement will decrease by approximately \$2.3M in 2010 and \$4.5M in 2011. As stated on lines 12 to 14 on page 1 of Exhibit B1, Tab 2, Schedule 1, Hydro One Inc’s debt financing strategy takes into consideration the objectives of cost effectiveness, distributing debt maturities evenly over time, and ensuring the term of the debt portfolio is compatible with the long life of the Company’s assets.
- b) The chart below indicates the weighted average remaining term of the long-term debt based on the average of the monthly averages effective January 1, in each given year.

	2006	2007	2008	2009	2010	2011
Average Remaining Term (in years)	13.4	15.1	15.6	15.1	15.1	15.4

Filed: October 19, 2009

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Exhibit H

Tab 3

Schedule 30

Page 2 of 2

- 1 c) The chart below indicates the weighted average remaining term of the long-term debt
2 based on the average of the monthly averages effective January 1, assuming 30 year
3 debt is replaced with 5 year and 10 year debt issuance for the test years.

4

	2010	2011
Average Remaining Term (in years)	14.0	13.4

5

Energy Probe INTERROGATORY #31 List 1

Interrogatory

Issue 6.1 – Is the proposal for the amounts, disposition and continuance of Hydro One’s existing Deferral and Variance Accounts appropriate?

Ref: Exhibit F1, Tab 1, Schedule 1, page 2

Please update Table 2 to reflect the most recent information available for 2009, including use of the current Board’s prescribed interest rate.

Response

**Table 2
Distribution
Regulatory Assets Requested for Approval
Actuals as of June 30, 2009
Interest Improved to December 31, 2009 at Board Prescribed Rates
\$ Million**

<i>Description</i>	Dec 31, 2009
Retail Service Cost Variance Accounts	(2.1)
Smart Meter Minimum Functionality Under-recovery Jan 1 to Dec 31, 2008	0.9
Smart Meter Exceeding Min Functionality Under- recovery Jan 1 to Dec 31, 2008	1.1
Retail Settlement Variance Accounts	(7.1)
Regulatory Asset Recovery Phase I	(23.0)
Total Regulatory Assets for Approval	(30.2)

1 **Energy Probe INTERROGATORY #32 List 1**

2 **Interrogatory**
3

4 Issue 6.1 – Is the proposal for the amounts, disposition and continuance of Hydro One’s
5 existing Deferral and Variance Accounts appropriate?
6

7 Ref: Exhibit F1, Tab 1, Schedule 1, page 6
8

9 Please explain the significant drop in the balance in the RSVA account shown in
10 Table 6 from (20.9) at the end of 2008 to (2.9) at the end of 2009.
11

12
13 **Response**
14

15 Please refer to response at Exhibit H, Tab 1, Schedule 115.

Energy Probe INTERROGATORY #33 List 1

Interrogatory

Issue 6.1 – Is the proposal for the amounts, disposition and continuance of Hydro One’s existing Deferral and Variance Accounts appropriate?

Ref: Exhibit F1, Tab 1, Schedule 1, page 8

- a) Please provide the December 31, 2008 balance and the projected December 31, 2009 balance for each of the accounts shown on page 8.
- b) Why is Hydro One not requesting disposition of these accounts in this proceeding?

Response

a) Balance as at December 31, 2008:

RRRP	\$17.3M
Deferred Pension	\$0.0M
Regulatory Rate Rider 2	\$43.3M
Regulatory Rate Rider 3	\$(72.6)M
Regulatory Rate Rider 4	\$25.0M
Harmonization Mitigation Credit	\$0.0M

Forecast balances as at December 31, 2009:

RRRP	\$19.3M
Deferred Pension	\$1.5M
Regulatory Asset Recovery 2	\$19.7M
Regulatory Asset Recovery 3	\$(48.1)M
Regulatory Asset Recovery 4	\$18.2M
Harmonization Mitigation Credit	\$0.1M

- 1 b) Hydro One Distribution is not requesting disposition of the following accounts due to
2 the following reasons:
3
- 4 • Rural and Remote Electricity Rate Protection (RRRP) – Hydro One collects the
5 RRRP amount paid by all customers in Ontario, not just Hydro One customers.
6 Ontario Regulation 442/01 has an annual adjustment mechanism for the OEB to
7 revise the RRRP rate as needed. The balance in the RRRP variance account will
8 decrease with OEB approval of a new RRRP rate as of May 1, 2009.
 - 9 • Deferred Pension – There was no balance in the Deferred Pension accounts at
10 December 31, 2008.
 - 11 • Rate Rider #2 is scheduled to terminate April 30, 2010. Hydro One is proposing
12 that Rider #2 ends at the same time the new 2010 distribution rates are
13 implemented. Any over/under recovery will be cleared at a future Proceeding.
 - 14 • Rate Rider #3 is scheduled to terminate April 30, 2011.
 - 15 • Rate Rider #4 is scheduled to terminate April 30, 2011.
 - 16 • Bill Impact Mitigation – The Bill impact mitigation account is still active. Impact
17 mitigation continues to be applied to customers until January 31, 2010, so it
18 would be premature to clear this variance account in this Proceeding.

Energy Probe INTERROGATORY #34 List 1

Interrogatory

Issue 6.1 – Is the proposal for the amounts, disposition and continuance of Hydro One’s existing Deferral and Variance Accounts appropriate?

Ref: Exhibit F1, Tab 1, Schedule 1, Table 2

- a) Which of the accounts shown in Table 2 does Hydro One propose to continue for 2010 and 2011?
- b) Which of the accounts shown in Table 2 does Hydro One propose be closed at the end of 2011?

Response

- a) The Retail Cost Variance Accounts and Retail Settlement Variance Accounts will continue in 2010 and 2011.
- b) The Regulatory Asset Recovery Phase I account and the Smart Meter Accounts will be closed at the end of 2011.

Energy Probe INTERROGATORY #35 List 1

Interrogatory

Issue 6.1 – Is the proposal for the amounts, disposition and continuance of Hydro One’s existing Deferral and Variance Accounts appropriate?

Ref: Exhibit F1, Tab 1, Schedule 3, page 1

Please explain why there are no costs associated with stranded meters in 2010 or 2011. What is the net book value of the meters that are forecast to be removed from service in each of 2010 and 2011?

Response

Hydro One Distribution does not have stranded meter costs resulting from the deployment of smart meters. This is consistent with the Foster Associates Inc. recommendation made in EB-2005-0378 (Exhibit C1, Tab 7, Schedule 2. p. 11) that conventional meters be amortized on a straight-line basis over a 5 year period, which was approved as part of Hydro One’s 2006 Distribution Rate Application (EB-2005-0378) and was a settled issue in Hydro One’s 2008 Distribution Rate Application (EB-2007-0681).

Energy Probe INTERROGATORY #36 List 1

Interrogatory

Issue 6.1 – Is the proposal for the amounts, disposition and continuance of Hydro One’s existing Deferral and Variance Accounts appropriate?

Ref: Exhibit F1, Tab 1, Schedule 3, pages 9, 14, & 17

The note on page 17 explains why the CCA for Class 12 is only one half (page 14) of the capital expenditures on computer software (page 9) for 2011, while for the 2010 it is 100% of the expenditure.

- a) Please provide confirmation that the elimination of the half year rule applies to computer software in Class 12. Please provide any information that indicates that the elimination of the half year rule applies to Class 12 and not just Class 50 (computers and systems software).
- b) Please confirm that the computer software expenditures are properly included in Class 12 rather than in Class 50.

Response

- a) The elimination of the half year rule only applies to systems software previously included in class 50, now class 52 for acquisitions after January 27, 2009 and before February 2011. The half year rule continues to apply to applications software included in class 12. Hydro One incorrectly applied the elimination of the half year rule to class 12. This will be corrected in our final rate order, resulting in the smart meter adder being higher than initially submitted by \$0.01 (to \$2.18) in 2010 and being lower by \$0.58 (to \$3.87) in 2011.
- b) Computer software expenditures are properly included in class 50 (now class 52) and applications software is properly included in class 12. Please see Exhibit H, Tab 3, Schedule 18.

Energy Probe INTERROGATORY #37 List 1

Interrogatory

Issue 6.1 – Is the proposal for the amounts, disposition and continuance of Hydro One’s existing Deferral and Variance Accounts appropriate?

Ref: Exhibit F1, Tab 2, Schedule 1

- a) If rates cannot be in place for January 1, 2010, over what period does Hydro One propose to refund to customers the \$25.8 million?
- b) Hydro One states that it is proposing to establish a “Regulatory Asset Recovery Account” to track any difference between the amount of Regulatory Assets approved and the actual value of the Regulatory Assets detailed above as at December 31, 2009.
 - (i) Will this account include the variance between the \$25.8 million forecast for December 31, 2009 and the actual balance at December 31, 2009? If not, why not?
 - (ii) Will this account track the variance between the \$25.8 million forecast to be refunded to customers and the actual amount that is ultimately refunded to customers? If not, why not?

Response

- a) If rates cannot be implemented January 1st, 2010, Hydro One proposes that the refund of the \$25.8M (Rider #6) should coincide with the date change for future Distribution rates, which is currently expected to be January 1, 2012.
- b)
 - (i) No, Hydro One will only post approved amounts to Regulatory Asset Recovery Account (Rider #6). Therefore any difference will remain in the applicable Regulatory Asset account for future settlement.
 - (ii) Yes, at the end of the Rate Rider period, a true up will be done to ensure the actual amount is refunded to customers.

Energy Probe INTERROGATORY #38 List 1

Interrogatory

Issue 6.1 – Is the proposal for the amounts, disposition and continuance of Hydro One’s existing Deferral and Variance Accounts appropriate?

Ref: Exhibit E1, Tab 1, Schedule 1, Attachment 1 & Exhibit F2, Tab 1, Schedule 2

- a) Does the disposition of the deferral accounts shown on line 4 of Exhibit E1, Tab 1, Schedule 1, Attachment 1 for 2010 and 2011 include the requested recovery of pending assets as shown in Exhibit F2, Tab 1, Schedule 2?
- b) Please reconcile the figures for 2010 and 2011 shown in Exhibit E1, Tab 1, Schedule 1, Attachment 1 with the figures shown in Exhibit F2, Tab 1, Schedule 2.
- c) Please identify the accounts that make up the figures provided in Exhibit E1, Tab 1, Schedule 1, Attachment 1 and the calculation of the amounts for each account.

Response

- a) Yes, the disposition of the deferral accounts shown on line 4 of Exhibit E1, Tab 1, Schedule 1, Attachment 1 for 2010 of \$11.9M and 2011 of \$45.2M includes the requested recovery of pending assets as shown in Exhibit F2, Tab 1, Schedule 2.

1 b)

2

2010 Rider (\$M)

Rider 6	
Rider 1	(11.5)
Retail Service Cost Variance Account	(1.0)
Retail Settlement Variance Account	(1.5)
Smart Meter Minimum Functionality up to Dec. 31, 2008	0.4
Smart Meter Exceeding Minimum Functionality up to Dec. 31, 2008	0.6
As per Exhibit F2, Tab 1, Schedule 2	(12.9)
Disposition of 2006 rate rider (RARA 2)	8.0
Disposition of 2008 rate rider (RARA 3)	(31.5)
Disposition of 2008 rate rider (RARA 4)	12.9
Disposition of 2009 rate rider (RARA 5)	4.3
Revenues from proposed smart meter adder	31.1
Total of Riders – As per Exhibit E1, Tab 1, Schedule 1, Attachment A	11.9

3

4

2011 Rider (\$M)

Rider 6	
Rider 1	(11.5)
Retail Service Cost Variance Account	(1.0)
Retail Settlement Variance Account	(1.5)
Smart Meter Minimum Functionality up to Dec. 31, 2008	0.4
Smart Meter Exceeding Minimum Functionality up to Dec. 31, 2008	0.6
As per Exhibit F2, Tab 1, Schedule 2	(12.9)
Disposition of 2008 rate rider (RARA 3)	(10.5)
Disposition of 2008 rate rider (RARA 4)	4.3
Revenues from proposed smart meter adder	64.3
Total of Riders – As per Exhibit E1, Tab 1, Schedule 1, Attachment A	45.2

5

6 c) Please see Rider 6 in part b)

1 **Energy Probe INTERROGATORY #39 List 1**

2 **Interrogatory**

3
4 Issue 6.2 – Are the proposed new Deferral and Variance Accounts appropriate?

5
6 Ref: Exhibit F1, Tab 1, Schedule 2

- 7
8 a) Please provide the rationale for the pension cost differential account to track the
9 difference between the forecast and actual pension costs.
10
11 b) Please provide the rationale for the OEB cost differential account to track the
12 difference between the forecast and actual OEB costs.
13

14
15 **Response**

- 16
17 a) Please refer to response at Exhibit H, Tab 1, Schedule 117.
18
19 b) Please refer to response at Exhibit H, Tab 1, Schedule 118.
20

Energy Probe INTERROGATORY #40 List 1

Interrogatory

Issue 6.2 – Are the proposed new Deferral and Variance Accounts appropriate?

Ref: Exhibit F1, Tab 1, Schedule 2, page 2 &
EB-2008-0408 Report of the Board

- a) Does Hydro One's application for 2010 and 2011 rates comply with the Filing and Reporting Requirements as set out in paragraphs 9.1.1 and 9.1.2 in the July 28, 2009 EB-2008-0408 Report of the Board Transition to International Financial Reporting Standards?
- b) Has Hydro One used the existing CGAAP based regulatory accounting for 2010 rates?
- c) Has Hydro One used the existing CGAAP based regulatory accounting for 2011 rates?
- d) Is Hydro One seeking rates based on modified IFRS accounting for either of 2010 or 2011 rates?
- e) For which years is Hydro One proposing that the account related to the impact of change in IFRS would apply?
- f) Please explain fully what impacts would be recorded in this account.

Response

- a) Yes, Hydro One's application for 2010 and 2011 rates complies with the Filing and Reporting Requirements as set out in paragraphs 9.1.1 and 9.1.2.
- b) Yes, Hydro One used the existing CGAAP based regulatory accounting for 2010 rates.
- c) Yes, Hydro One used the existing CGAAP based regulatory accounting for 2011 rates.
- d) Hydro One is seeking rates based on CGAAP which, given the IASB's exposure draft on rate regulated accounting, has been assumed to result in no difference from modified IFRS for 2010 or 2011 rates.

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Exhibit H

Tab 3

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- 1 e) Hydro One is proposing the account starting 2010.
- 2
- 3 f) Refer to Exhibit H, Tab 1, Schedule 119, part b.

Energy Probe INTERROGATORY #41 List 2

Interrogatory

Issue 1.3 - Is service quality based on the OEB specified performance indicators, acceptable?

Ref: Exhibit A, Tab 4, Schedule 1, pages 16-20

The Evidence in Section 6 - Reliability on these pages describes the company's reliability measurement indices SAIDI and SAIFI. The term "force majeure" is used to define an event that "impacts more than 10% of customers serviced by Hydro One Distribution".

- a) Please explain how the 10% criterion was arrived at.
- b) "Force majeure" is a legal term used in contracts to relieve parties from liability or the requirement to perform their obligations under a contract when specified events occur. These events are customarily understood to be outside the control of the parties. Is the use of this term in the company's reliability measurement system intended to convey an analogous condition i.e. that these events are outside the company's control?
- c) Do other utilities to which the company compares its reliability performance also use the term "force majeure" to segregate major events affecting reliability?
- d) Lines 15-16 of Page 19 note that defective equipment accounts for 22% of SAIDI. Of this, 8% is attributed to force majeure defective equipment. While high winds and ice loading of trees is conceptually understandable in a force majeure context, defective equipment is not so obvious. Please explain

Response

- a) Please refer to response at Exhibit H, Tab 1, Schedule 5 part b.
- b) Typically, these are caused by events such as large storms or the August 2003 Eastern North America blackout, which are outside Hydro One's control.
- c) Please refer to response at Exhibit H, Tab 1, Schedule 5 part a.
- d) Hydro One captures the cause for all interruptions under all conditions. The percentages indicate what types of interruptions occurred during Force and Non Force Majeure events. The percentages do not indicate that defective equipment was the reason for the Force Majeure; it just means that these types of interruptions occurred during Force Majeure events.

Energy Probe INTERROGATORY #42 List 2

Interrogatory

Issue 3.5 - Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref: Exhibit A, Tab 4, Schedule 1, page 3, Table 1

Table 1 sets out the company's strategic objectives and five year vision. Under the category of Recruitment Knowledge Transfer the five year vision is to "achieve and maintain top quartile employee engagement". Please provide details of:

- a) What does the company mean by "Recruitment Knowledge Transfer"?
- b) What does the company mean by "employee engagement"?
- c) What is meant by the "top quartile" of employee engagement?
- d) How is the top quartile measured?
- e) Where along this measurement continuum is the company presently situated in respect of employee engagement?
- f) What specific actions are required to achieve top quartile performance in employee engagement?

Response

- a) Recruitment knowledge transfer comprises a number of initiatives aimed at transferring knowledge from senior staff to our newest employees.
- b) By engagement, Hydro One means the extent to which employees commit to someone or something in their organization, how hard they work, and how long they stay as a result of that commitment.
- c) Top quartile employee engagement is the top quartile (75th percentile) of the Gallup overall company database.
- d) see (c) above.

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Tab 3

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- 1 e) Hydro One is currently ranked at the 22nd percentile of the overall Gallup database.
- 2
- 3 f) In 2009, every work group at Hydro One has developed action plans based on their
- 4 individual Gallup Survey results. Hydro One will be conducting the 2nd out of 3
- 5 annual surveys in October 2009 to measure progress from last years survey results.

Energy Probe INTERROGATORY #43 List 2

Interrogatory

Issue 3.5 - Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref: Exhibit A, Tab 4, Schedule 1, page 3, Table 1

Another strategic objective in Table 1 is Productivity with the five year vision being to "achieve top quartile unit cost in Distribution".

- a) Please provide details of the measurement criteria used for distribution costs.
- b) Please provide details of the plans in place or to be developed to achieve top quartile performance.
- c) What comparator distributors does the company compare its distribution unit costs to for the purposes of Productivity. Please provide any studies or analyses showing this comparison.

Response

- a) Measurement criteria are focused on Distribution Capital and O&M per km of distribution lines using the following criteria in selecting utilities:
 1. Service Territory Size- More than 100,000 sq km
 2. Customer count- Between 500,000 and 3 million
 3. Customer density- Fewer than 30 customers per sq km
 4. Customers per distribution km – Less than 40 customers per pole km
 5. Regional Location- Some where chosen for proximity to Hydro One thus sharing weather conditions, others were chosen for similar vegetation density
- b) Hydro One has initiated many programs to reach its goal of being “top quartile unit cost in Distribution”. A listing of several of these initiatives follows: (1) a shorter Vegetation Cycle is being adopted which should lead to reduced unit costs consistent with 2008 *Vegetation Management Program Review* report filed as Part of EB-2007-0681 in Exhibit H Tab 1 Schedule 14; (2) a new Customer Communication Program called “Right Tree, Right Place” is being launched to better educate customers; (3) a Herbicide Pilot is being planned; (4) new equipment is being adopted for greater efficiencies; (5) greater use of information, for example Asset Condition Assessments, for better planning which allows for more work bundling

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Tab 3

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- 1 c) The comparisons will be with peer Canadian and US distribution utilities.
- 2 The pool of distribution utilities can vary year over year depending on the
- 3 participation of individual distribution utilities within the benchmarking community.
- 4

Energy Probe INTERROGATORY #44 List 2

Interrogatory

Issue 3.5 - Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref: Exhibit A, Tab 4, Schedule 1, page 5

Lines 2-6 reference the company's service centers from which trouble call crews are dispatched.

- a) Please provide a list of these service centers showing geographical location, number and type of staff assigned to each center and territory serviced by each center.
- b) What is the organizational structure for managing these centers?

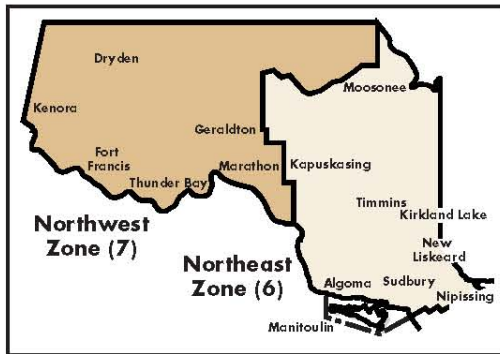
Response

- a) The geographical location and territory serviced by Hydro One's service centers is shown in the attached map. The number of staff at each service centre ranges from 5 to 40 depending on the size of the territory serviced. The type of staff at each service centre consists of engineering technicians (A DETs), meter readers, Powerline technicians, union trade supervisors, and Front Line Managers in some work centres.
- b) Hydro One service territory is divided into eight Distribution zones. Each zone has a Superintendent under which there are a number of Operations (OPS) managers. The OPS managers look after the staff described in part a) assigned to their service centre. Each Zone also has an On-call manager for after hours support to the field staff. The Superintendents report to the Director of the Provincial Lines organization.

Provincial Lines Zones - South



Provincial Lines Zones - North



Energy Probe INTERROGATORY #45 List 2

Interrogatory

Issue 3.5 - Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref: Exhibit A, Tab 4, Schedule 1, pages 10 & 11

Lines 26-28 on page 10 and lines 1-3 on page 11 describe the time required for trouble call response on the company's system. Response time on the rural part of the system is noted as up to 4 hours due to travel requirements.

- a) Do trouble crew staff receive full hourly wage rates for time spent traveling?
- b) Are staff paid travel time from the time they leave their residence upon receiving a call out or from the time they arrive at the service center?
- c) Does the company have any standards or requirements on how long trouble crew staff have to arrive at the service center after receiving a call out?
- d) Does the company keep statistics or other records of how long it takes on average for trouble crew staff to reach a reporting center after receiving a call out? If so, please provide a summary.

Response

The interrogatory mentions "4 hours due to travel requirements". Hydro One clarifies that the 4 hours does not refer to the time required for its on-call crews to get from their place of residence to the work centre. The 4 hour response time is due to significant travel required for the on-call crew to get to the location of outage due to the rural nature of Hydro One's customer base, and the time required to get to the next trouble call location.

- a) There is no provision for travel time when responding to trouble calls. Staff are paid from the time they leave home until the time they return home as per the terms of the Collective Agreement.
- b) See response to part a).
- c) The requirement for on-call work is for the staff to be available within 30 minutes of our Service Centre.

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Exhibit H

Tab 3

Schedule 45

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1

2 d) No.

Energy Probe INTERROGATORY #46 List 2

Interrogatory

Issue 3.5 - Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref: Exhibit C1, Tab 3, Schedule 2, pages 5 & 6

Table 1, starting on page 5, tabulates changes to the collective agreement between Hydro One and the PWU over a number of negotiating periods. For the period April 1, 2001 - March 31, 2002 please clarify the following changes to the collective agreement:

- a) Modified staff reduction plan
 - i) How did the new plan differ from the previous one?
 - ii) Is the new plan negotiated here still in effect in the current collective agreement?
- b) Winter meal allowance
 - i) What period did the previous winter meal allowance cover and what period did the new meal allowance period cover?
 - ii) What was the stipend for meal allowance during the subject term and what is it in the current collective agreement?
 - iii) Are employees required to submit receipts to claim this expense?
 - iv) Which Hydro One employee classifications have the benefit of winter meal allowances?
 - v) What is the rationale for paying winter meal allowance?
 - vi) Does Hydro One know of other LDCs that pay winter meal allowance to their employees?
 - vii) Is the reduced winter meal allowance period negotiated here still in effect in the current collective agreement?
- c) Purchase Service Agreements
 - i) What are Purchase Service Agreements?
 - ii) What do the 14 PSAs referred to cover?
 - iii) Are the PSA provisions negotiated here still in effect in the current collective agreement?
- d) Hiring hall employees
 - i) Who provides hiring hall employees with pension and other benefits?

- 1 ii) Does Hydro One provide any compensation to either the hiring hall
2 directly or to the hiring hall employees to offset the cost of pension or
3 other benefits?
4
5 e) Lines staff second shift
6 i) What is meant by "renewed ability" to have line staff on second shift?
7 ii) Was this the first instance of Hydro One negotiating a second shift for line
8 staff?
9 iii) Is Hydro One aware of other LDCs having second shifts for line staff?
10 iv) Is the second shift provision for line staff still in effect in the current
11 collective agreement?
12
13

14 *Response*

- 15
16 a)
17 i) The surplus staff procedure was modified to allow over complement staff to
18 terminate with a severance prior to the company activating the corporate wide
19 surplus procedure. This is advantageous because it saves a costly and time
20 consuming exercise of displacing other staff.
21
22 ii) Yes
23
24 b)
25 i) The period of time where winter meals are allowed was reduced by two months.
26 Commencing in 2001, winter meals were provided between December 1 and
27 March 31st south of the French River and November 1 to April 30th for areas
28 North of the French River.
29
30 ii) There has been no change in the amount of reimbursement for meals. Only the
31 period of eligibility has been reduced.
32
33 iii) Yes
34
35 iv) Field Maintenance staff including Regional Maintainers – Lines and Forestry.
36
37 v) Field maintenance staff work outside and away from the work centers. The winter
38 meal provision provides a warm meal during the cold winter months.
39
40 vi) We are not familiar with the practice of other LDC's with respect to winter meals.
41
42 vii) Yes
43

- 1 c)
2 i) Purchase Service Agreements (PSA's) are agreed upon decisions to use a
3 contractor to perform work otherwise performed by PWU represented employees.
4
5 ii) The 14 Province wide PSA's include:
6
7 Janitorial work
8 Snow Removal
9 Grass Cutting and General Grounds Clean-up
10 Heavy Equipment Operator (Backhoe etc.)
11 Specialized Equipment Operator(Rock Drilling) etc.
12 Printing Services
13 Data Centre
14 Water Heater Maintenance, Installation and Removal
15 Office/Furniture Moves
16 Office Services provided by the landlord
17 First Nations Contractors working on and adjacent to First Nations Land where
18 a significant majority of the contract work is on First Nations Land
19 Drive back and delivery services
20 Minor fleet maintenance
21 Minor office modifications
22
23 iii) Yes
24
25 d)
26 i) The PWU provide pension and benefits to hiring hall employees.
27
28 ii) Yes, Hydro One remits to the PWU amounts for benefits and pension. The PWU
29 administers the pension and benefit funds for hiring hall employees. Hydro One
30 has no on going obligation with respect to these pension or benefit plans.
31
32 e)
33 i) When the lines second shift was first introduced into the collective agreement, it
34 was a limited term. In 2001 collective bargaining, the parties agreed to extend the
35 pilot project for a further term.
36
37 ii) See e) i)
38
39 iii) Other LDC's do have a 2nd shift.
40
41 iv) Yes

Energy Probe INTERROGATORY #47 List 2

Interrogatory

Issue 3.5 - Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref: Exhibit C1, Tab 3, Schedule 2, pages 5 & 6

Table 1, starting on page 5, tabulates changes to the collective agreement between Hydro One and the PWU over a number of negotiating periods.

For the period April 1, 2002 - March 31, 2003 please clarify the following changes to the collective agreement:

- a) Temporary Work Headquarters
 - i) How did the new clause for temporary work headquarters differ from the previous one?
 - ii) How is a temporary work headquarters defined?
 - iii) What criteria must an employee meet to qualify for travel allowance to temporary work headquarters?
 - iv) Do any employees asked to report to temporary work headquarters receive room and board? What determines who receives travel allowance and who receives room and board?
 - v) Is the temporary work headquarters provisions negotiated here still in effect in the current collective agreement?
- b) Lineperson second shift
 - i) Is the permanent provision for lines person second shift still in effect in the current collective agreement?
- c) Meter Reader B
 - i) What distinguishes a Meter Reader B from any other meter reader position?
 - ii) Is the lower cost Meter Reader B provision still in effect in the current collective agreement?

1 **Response**

2
3 a) Temporary Work Headquarters

4
5 i) The new clause established a set “per diem” for all costs associated with travel to
6 and from temporary work HQ, including mileage, travel time, meals, etc. It is
7 much easier for Managers to administer, ensures consistent application of travel
8 payments and reduces the number of grievances regarding appropriate temporary
9 work HQ payments to zero.

10
11 ii) a temporary work headquarters is the work location at which an employee is
12 directed to work while carrying out his/her duties away from his/her regular work
13 headquarters.

14
15 iii) An employee must be directed to report to a temporary work headquarters. The
16 employee must commute daily and be present at the temporary work headquarters
17 during their normal working hours (i.e. all travel is on their own time).

18
19 iv) If a temporary work headquarters is 50km or more from their regular work
20 headquarters, the employee may elect to stay rather than commute daily. The
21 employer can deny employees the right to commute daily if the commuting time
22 is deemed excessive or extreme weather conditions exist.

23
24 v) Yes

25
26 b) Linesperson Second Shift

27
28 i) Yes

29
30 c) Meter Reader B

31
32 i) Please see Exhibit H, Tab 3, Schedule 58.

33
34 ii) Yes

Energy Probe INTERROGATORY #48 List 2

Interrogatory

Issue 3.5 - Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref: Exhibit C1, Tab 3, Schedule 2, pages 5 & 6

Table 1, starting on page 5, tabulates changes to the collective agreement between Hydro One and the PWU over a number of negotiating periods.

For the period April 1, 2003 - March 31, 2005 please clarify the following changes to the collective agreement:

- a) Streamlined staff reduction process
 - i) What comprised the "streamlined staff reduction process" and how did it differ from the previous process?
 - ii) Under what conditions could management "invoke" the streamlined process?
 - iii) Has Hydro One taken advantage of this streamlined process? If yes, please describe how, when and what cost savings accrued?
 - iv) Is the streamlined process negotiated here still in effect in the current collective agreement?
- b) Hiring hall meter readers
 - i) Prior to this direct call out procedure how were hiring hall meter readers acquired by the company?
 - ii) If hiring hall meter readers were always available albeit by a different call out process, how was direct access to them an improvement?
- c) On call for helicopter pilots and air engineers
 - i) How were after hours requirements for helicopter pilots and air engineers managed prior to having them on call?
 - ii) As on call payments are normally an incremental cost to no on call payments, how was the establishment of on call for helicopter pilots and air engineers a cost savings for the company?
- d) Continue Temporary work headquarters provisions
 - i) Was the original temporary work headquarters provision only a temporary provision?
 - ii) If not, why did the provisions need to be continued in this agreement?

- 1
2 e) CMS shift work provisions
3 i) What does CMS stand for?
4 ii) Did this group previously not work shifts?
5 iii) Why was a mid term agreement necessary to establish shift work for this
6 group?
7 iv) Is the provision negotiated here for CMS shift work still in effect in the
8 current collective agreement?
9
10 f) Health and Dental cost study
11 i) What was the outcome of the joint review of health and dental costs?
12 ii) Was a report prepared by the team? If so, please provide a copy. If not
13 how were recommendations made to management? What were they?
14 iii) Were any of the recommendations implemented by the company?
15 iv) What were the estimated savings?
16

17 **Response**

- 18
19 a)
20 i) Hydro One gained the ability to invoke a modified layoff/termination process.
21 The previous process involved all PWU employees in Hydro One. The
22 streamlined process only involves the small number of impacted employees.
23 Restricting the number of employees involved reduces the cost and time to run the
24 process and also minimizes the negative disruption associated with running a full
25 layoff/termination process.
26
27 ii) The number of employees to be laid off/terminated must be 40 or less.
28
29 iii) It has not been used to date as we have been able to accommodate situations
30 where we have too many staff through redeployment to other work locations.
31
32 iv) Yes, it remains in effect.
33
34 b)
35 i) The Company would put in a requisition to the PWU Hiring Hall, who would
36 have reviewed the requisition and then put out a call for workers. Ideally, three
37 days prior to the start date, the PWU Hiring Hall would send the list of referrals to
38 Hydro One's Workforce Acquisition department. Providing no issues were
39 identified, referrals would be sent out to work on the start date. They would go
40 through the sign on procedure, and complete any required training.
41
42 ii) The previous process did not allow Hydro One to meet immediate staffing needs.
43 It always took a number of days, and Hydro One had no guarantee of getting
44 employees that could start work without any additional training. Under the direct

1 call out procedure, the PWU provides a list of Hiring Hall Meter Readers that can
2 be called out to work on short notice and without first contacting the PWU Hiring
3 Hall Business Representative. This enables Management to address short notice
4 understaffing situations immediately and thereby increase the ability to read
5 meters within the 4 day cycle window.

6
7 c)
8 i) Prior to having the on call provisions, the collective agreement provided
9 management with two options: either call employees and ask them to work when
10 after hours work was required and hope they answered/agreed to work, or, place
11 employees on standby and pay them premium pay for all hours that they held
12 themselves available even if they didn't work. Management did attempt to try
13 another informal approach however, that was grieved as it was viewed as being
14 outside the collective agreement.

15
16 ii) The previous option was to pay standby for all hours the person kept themselves
17 available. The implementation of on-call allowed the company to have the
18 workers available for a minimal cost, which is only half an hour's pay per
19 weekday, and an hour's pay for Saturdays, Sundays, and statutory holidays.

20
21 d)
22 i) The temporary work headquarters provisions that were introduced in 2002 were to
23 expire on March 31, 2003. Through collective bargaining in 2003, these
24 provisions were extended to March 31, 2005.

25
26 ii) N/A

27
28 e)
29 i) Central Maintenance Shops, which are located in Pickering, Ontario
30
31 ii) The limited provisions for this group to work shifts were set to expire on March
32 31, 2003, and therefore required renewal to remain in effect.

33
34
35 iii) The parties often document specific items as mid term agreements if the
36 provisions of the agreement only apply to a limited group of employees, which is
37 the case with CMS.

38
39 iv) Yes, the midterm agreement establishing CMS shift work is still in effect and all
40 mid term agreements form part of the collective agreement.

41

- 1 f)
2 i) The committee discussed a number of administrative and educational issues,
3 however, no actual changes were made to the level of health and dental benefits
4 provided to employees as that was outside the committee's mandate and can only
5 be achieved during bargaining.
6
7 ii) See i)
8
9 iii) See i)
10
11 iv) See i)

Energy Probe INTERROGATORY #49 List 2

Interrogatory

Issue 3.5 - Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref: Exhibit C1, Tab 3, Schedule 2, pages 5 & 6

Table 1, starting on page 5, tabulates changes to the collective agreement between Hydro One and the PWD over a number of negotiating periods.

For the period April 1, 2005 - March 31, 2008 please clarify the following changes to the collective agreement:

- a) PWD annual incentive plan
 - i) How long was the incentive plan in operation before being cancelled?
 - ii) How much did the plan cost over its lifetime?
 - iii) Is Hydro One aware of any other Ontario LDCs that make incentive plan payments to its unionized employees? If so, please provide whatever details the company has.
 - iv) What did the PWD get in return for agreeing to drop the incentive plan?
 - v) Does the current collective agreement have any incentive plan provisions for unionized employees? Does Hydro One have any incentive plan outside the collective agreement that applies to any unionized employees?
- b) Three day weekend shift for lines
 - i) How did the new shift provisions differ from the old provisions?
 - ii) Why was it necessary to make a three day weekend shift when weekends are ordinarily only two days long?
 - iii) How did this new provision reduce costs for the company?
 - iv) Is this provision for a three day weekend shift for lines still in effect in the current collective agreement?
- c) Switching agent classification and midnight shift
 - i) What is a switching agent?
 - ii) How did this lower costs compared to previous arrangements for switching?
 - iii) What is the significance of the midnight shift? Ie. why is there any switching in the middle of the night? How was it previously attended to?
 - iv) Is the provision negotiated here still in effect in the current collective agreement?

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- d) Afternoon shift for fleet mechanics
 - i) How did this provision compare to previous provisions for shift work in this group?
 - ii) How did this improve cost efficiency?
 - iii) Is the provision negotiated here still in effect in the current collective agreement?

Response

- a)
 - i) The PWU Incentive Plan was started on July 1, 2000 and operated for the later half of 2000 plus all of 2001 through 2004 inclusive. It was terminated in 2005 and there was no payout that year.
 - ii) \$27M for the four and a half years that it operated.
 - iii) Not aware
 - iv) The cancellation of the PWU Incentive Plan was only one part of the overall agreed upon terms of the 2005-2008 Collective Agreement. It is impossible to specify any particular item that the PWU gained as a result of its cancellation. The overall package of agreed upon items was approved by both parties.
 - v) The current PWU collective agreement does not have an Incentive Plan nor are there any incentive plans outside the terms of any of Hydro One's collective agreements.
- b)
 - i) There was no 3-day weekend shift provision previously and therefore all work on weekends was paid at overtime rates.
 - ii) The three-day shift involves 3 shifts of 10 hours each and those 30 hours are the employee's work week.
 - iii) Without the weekend shift language most of the hours would be worked at premium rates. Previously, employees would have received 51 hours of pay (Friday 8 hours straight time plus 2 hours at 1.5 time plus Saturday and Sunday at 10 hours double time each day) for the 30 hours that Hydro One now pays 40 hours.
 - iv) Yes

- 1 c)
2 i) A switching agent goes into field locations and switches (isolates) electrical
3 equipment so that other work groups can work on the equipment safely.
4 Switching is often done before the day shift in order to maximize the time that the
5 other work groups can work on the equipment.
6
7 ii) Previously, a higher paid tradesperson or technician would perform the switching
8 duty. In addition, if the switching was done before the day shift, overtime rates
9 would be paid to the tradesperson or technician. The new switching agent is paid
10 at a lower base rate and does not attract premium pay for work performed on the
11 night shift.
12
13 iii) By performing the switching during the midnight shift, the equipment is ready for
14 the other work groups to work on during day shift when they are paid straight
15 time rates. Previously, a higher paid tradesperson or technician would perform
16 switching duties at premium overtime rates.
17
18 iv) Yes
19
20 d)
21 i) There was no provision that allowed the work to be performed at straight time
22 rates during the hours in question.
23
24 ii) Allowed employees to work the afternoon shift on straight-time as opposed to
25 overtime. Allowed work peaks to be accomplished on straight-time. Also allows
26 vehicles to be repaired during the afternoon and therefore be ready for use by the
27 work crews the next morning.
28
29 iii) Yes

Energy Probe INTERROGATORY #50 List 2

Interrogatory

Issue 3.5 - Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref: Exhibit C1, Tab 3, Schedule 2, pages 5 & 6

Table 1, starting on page 5, tabulates changes to the collective agreement between Hydro One and the PWU over a number of negotiating periods.

For the period March 31, 2008 - March 31, 2011 please clarify the following changes to the collective agreement:

- a) Greater flexibility for University and College students
 - i) How did this provision compare to previous provisions for hiring university and college students?
 - ii) How did this provision improve cost efficiency for the company?
- b) Security clearances for new hires
 - i) How did this provision differ from the previous practice regarding security clearances for new hires?
 - ii) What prompted the need for a security clearance for new hires?
 - iii) What investigation of a prospective hire's background is conducted?
 - iv) How does this provision result in better cost efficiency for the company?
- c) Pre hire assessment tool for apprentices
 - i) How did this provision differ from previous practices to assess candidates for apprenticeships in the company?
 - ii) Why was it necessary to negotiate this practice with the union to assess individuals who are not yet company employees or union members?
 - iii) How did this provision improve cost efficiency for the company?
- d) Threshold for post retirement benefits
 - i) How did this provision differ from previous provisions regarding post retirement benefit qualification?
 - ii) How does this new threshold compare to other Ontario LDC post retirement qualification thresholds?
 - iii) What are the estimated cost savings attributable to the new provisions?

1 *Response*

- 2
- 3 a)
- 4 i) Before this change, Hydro One had only the option of hiring for either a 4 or 16
5 month work term. This change allows Hydro One to hire university and college
6 students for any length of time between 4 and 16 months.
- 7
- 8 ii) With greater flexibility in work terms, Hydro One has access to a greater number
9 of University and College programs.
- 10
- 11 b) Correction: the security clearance has been introduced for existing staff, not new
12 hires. Security clearances for new staff already existed.
- 13
- 14 i) Previously, Hydro One did not perform security clearances for existing Hydro
15 One employees.
- 16
- 17 ii) Regulatory requirements as mandated by the Independent Electricity System
18 Operator (IESO) require Hydro One to comply with NERC Cyber Security
19 Standards. In those standards are requirements for personnel risk assessments
20 (security clearances) for all persons who have either physical or electronic access
21 to critical cyber assets (CCA). There are no grandfathering provisions in these
22 NERC standards therefore existing staff who have this CCA access require
23 personnel risk assessments to be completed.
- 24
- 25 iii) The security clearance will review the employee's criminal record.
- 26
- 27 iv) No cost efficiencies gained.
- 28
- 29 c)
- 30
- 31 i) Before the Apprentice Assessment tool was negotiated with the PWU, the parties
32 manually assessed thousands of applications for the various trades apprentice
33 vacancies.
- 34
- 35 ii) The apprentice hiring is a joint hiring process with the PWU. Any change in
36 recruitment practice would require joint agreement. Trades apprentices are part of
37 the PWU hiring hall until such time as they become regular employees.
- 38
- 39 iii) The trades assessment tool will have behavioral questions that will facilitate the
40 ranking of candidates. The assessment tool will be first used in first quarter 2010
41 but it is anticipated that with a more rigorous assessment tool, better selections
42 will result in the selection of the best available candidates.
- 43

- 1 d)
2 i) Before this change, pensioners and surviving pensioners who remarried could add
3 dependents.
4
5 ii) We are not familiar with the practice at other LDC's with respect post retirement
6 benefits.
7
8 iii) The savings will depend upon factors too difficult to determine but this change
9 does limit liability by not allowing new dependents for remarried pensioners or
10 surviving pensioners.

Energy Probe INTERROGATORY #51 List 2

Interrogatory

Issue 3.5 - Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref: Exhibit C1, Tab 3, Schedule 2, page 9

Lines 20-22 report that Networks work program is expected to increase by 33% over the 2009-2011 period while regular staff is expected to increase by only 16%. Table 3 on the same page shows base payroll over the same period increasing from \$543.9 M to \$791.8 M, an increase of approximately 45%.

Please explain why base payroll costs should be increasing by 45% when staff is only expected to increase by 16%.

Response

The base payroll costs include wages for regular, temporary and casual construction employees. The 16% increase in staff over this time period is only for regular employees. Exhibit H, Tab 7, Schedule 67 shows the breakdown by employee groups and regular or temporary/casual staff.

Energy Probe INTERROGATORY #52 List 2

Interrogatory

Issue 3.5 - Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref: Exhibit C1, Tab 3, Schedule 2, page 9

On lines 24-25 the company reveals its goal of "reducing overall wages, pension and benefits for future new hires":

- a) Has the company made any agreements with the PWU to achieve this goal? If yes, please describe the agreements?
- b) If no, how far in the future does the company expect such agreements to be made?

Response

- a) Please refer to response at Exhibit H, Tab 10, Schedule 39.
- b) The labour strategy for the next round of PWU bargaining has not been established at this time.

Energy Probe INTERROGATORY #53 List 2

Interrogatory

Issue 3.5 - Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref: Exhibit C1, Tab 3, Schedule 2, page 10

On lines 5-6 the statement is made that "several management staff have left the company in recent years".

- a) What does Hydro One consider to be normal turnover in its employee base?
- b) The word "several" implies 2 or 3 people have left the company. Does Hydro One consider this a serious drain of its resources given the number of management staff employed?
- c) Was Hydro One able to recruit replacements for the management staff that left?
- d) Why does Hydro One believe it must only recruit "the top people"? How does it distinguish "top people" from the pool of otherwise competent people?
- e) In Hydro One's view, does attracting "top people" depend primarily on offering the highest compensation?

Response

- a) The rate of turnover or attrition will change from year to year. Hydro One would expect an attrition rate between 2% and 4% . In 2008, the attrition rate for regular staff was 3.5%.
- b) In 2007 and 2008, 23 and 25 MCP regular employees left Hydro One respectively. Yes, this would be a serious drain of MCP resources since experienced staff are not easily replaced given the tight labour supply facing the electrical industry.
- c) For the majority of staff who left, replacements have been found. However, these replacements would typically have a learning curve as they move into these new roles.
- d) Hydro One provides an essential service to the Province of Ontario. Employees work in a very complex and often dangerous work environment. Given this, it is important

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EB-2009-0096

Exhibit H

Tab 3

Schedule 53

Page 2 of 2

- 1 that the best possible external applicants are attracted. The demographic challenge
2 facing Hydro One also presents an opportunity to recruit 'top' employees to further
3 the effort to nurture the continuous improvement culture at Hydro One.
4
5 e) Hydro One does not want to attract 'top people' if their only interest is compensation.

Energy Probe INTERROGATORY #54 List 2

Interrogatory

Issue 3.5 - Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref: Exhibit C1, Tab 3, Schedule 2, page 11, Lines 9-12

These lines describe Hydro One's ability to acquire trades skill comparable to its own regular staff, "when appropriate", from a union hiring hall at reduced cost because no pension or other benefits are paid.

- a) What are the "appropriate" conditions under which Hydro One can take advantage of this option?
- b) As a percentage of total skilled trades staff, how many hiring hall employees does the company employ on average during the year?
- c) Are there limits in the collective agreement with the PWU for the use of this option?
- d) If skilled trades staff are available from the hiring hall, why does Hydro One need to expend the time, effort and money to rebuild its aging workforce as referred to in lines 1-3 of page 10 and elsewhere in the evidence.

Response

- a) The Hiring Hall enables Hydro One to supplement the regular workforce with a mobile and contingent workforce to perform seasonal and supplemental trades maintenance work.
- b) Approximately 30% of PWU trades work is performed by Hiring Hall staff.
- c) The PWU collective agreement specifies which trades may be resourced from the Hiring Hall.
- d) The purpose of the Hiring Hall is not to replace the regular workforce. If Hydro One determines an on going vacancy exists, there are contractual requirements to use regular staff. Hiring hall staff are used mostly for a specific skill while the regular trades use their multi skilled training to perform more complex work.

Energy Probe INTERROGATORY #55 List 2

Interrogatory

Issue 3.5 - Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref: Exhibit C1, Tab 3, Schedule 2, page 11, Lines 14-23
Exhibit C1, Tab 3, Schedule 2, page 12, Lines 1-5

In line 16 reference is made to "multi skilled employees". An example is cited as "Regional Maintainer - Lines, Mechanical or Electrical".

- a) Please clarify what is intended by the words "Mechanical or Electrical" i.e. does this refer to mechanical and electrical components of a RML's work; or does it refer to Regional Maintainer - Mechanical Mtce and Regional Maintainer - Electrical Mtce; or does it mean Regional Maintainers Lines are also qualified to perform the work of Mechanical and Electrical Maintainers normally working on stations?
- b) If the reference is to a RML's work components, is the company suggesting that its' line staff is multi skilled because they perform both mechanical and electrical work on lines?
- c) What comprises the mechanical and electrical components of the line maintainer's work and how do they differ from the work of an LDC line maintainer's work?
- d) The reference in line 19 to LDC work being "typically based-on dry land" suggests that Hydro One's work is not based on dry land. Please explain.
- e) What comprises the "varied landscapes that exist at Hydro One" referred to in lines 19-20? How does this make a line maintainer's job more difficult or require greater skills than an LDC line maintainer?
- f) What comprises the "off road equipment" referred to in line 21? Why does this make a line maintainer's job more difficult or require greater skills than an LDC line maintainer?
- g) Is the inclusion of CVOR equipment in line 21 as a differentiating feature of Hydro One line maintainers intended to suggest that LDC line staff do not have commercial vehicle operator registration? If yes, please explain the basis for this

- 1 conclusion. If no, why is CVOR included as a differentiating characteristic for
2 Hydro One line maintainers?
3
- 4 h) Lines 21 and 22 state that RMLs can work on both distribution and transmission
5 lines. What proportion of Hydro One's line maintainers are qualified to work on
6 both distribution and transmission lines?
7
- 8 i) Line 21 states that RMLs can work on "overhead, underground and submarine
9 cables". Is this intended to suggest that LDC line maintainers do not work on
10 overhead, underground and submarine cables? If so, what is the basis for that
11 conclusion? If not, why is this presented as a differentiating characteristic of
12 Hydro One line maintainers?
13
- 14 j) Line 1 on page 12 refers to live line work performed by RMLs. Is Hydro One
15 suggesting that LDC line maintainers do not work on live lines? If so, what is the
16 basis for that conclusion? If not, why is it included as a differentiating
17 characteristic of Hydro One line maintainers?
18
- 19 k) Lines 7-10 on page 12 describe how some work at Hydro One is assigned to
20 lower rated classifications than at LDCs. Please provide evidence for this
21 statement.
22
23

24 **Response**
25

- 26 a) The reference to 'multi skilled employees i.e. Regional Maintainer - Lines,
27 Mechanical or Electrical is meant to provide examples of 3 separate multi skilled
28 positions – RM- Lines, RM- Electrical and RM- Mechanical that exist at Hydro One.
29
- 30 b) No. A Regional Maintainer – Lines is considered multi skilled because in addition to
31 the core duties of a Powerline Maintainer (performing a range of mechanical and
32 electrical duties), the RM- Lines will also perform lead hand, work protection,
33 contract monitoring, troubleshooting, technical, environmental, customer service and
34 chainsaw duties.
35
- 36 c) See b) above
37
- 38 d) Hydro One RM- Line staff work on land but in addition, they are required to work in
39 and around swamps, lakes, working off barges and boats. Unique to Hydro One is the
40 fact that our RM- Lines work in the air off a helicopter. Hydro One is the only utility
41 that performs work off the Air Stair platform. Working in the air as our crews do is
42 something that typically LDC staff are not trained to do. Such work requires special
43 training in order to work in a safe manner.
44

- 1 e) See d)
2
3 f) Given the variety of landscapes Hydro One staff work in, RM- Lines need to be
4 aware and be able to operate a variety of equipment to access work locations. Since
5 work is not often located just off the road like it is with other LDC's, Hydro One
6 RM-Line staff often do not have the mechanical means like a crane to perform their
7 work. As such, Hydro One staff need to be trained and competent in a variety of other
8 rigging methods to accomplish the work.
9
10 g) Any operation of a vehicle over 4600 kg requires a CVOR certificate so other LDC's
11 would have similar requirements.
12
13 h) Approximately 45% of Regional Maintainer – Lines are equally proficient on our
14 Transmission and Distribution assets. All other Regional Maintainer – Lines have
15 basic transmission training.
16
17 i) LDC staff would work on overhead and underground cables. To a lesser extent, they
18 may work on submarine cables. Hydro One RM- Lines staff are qualified and are
19 required to work on overhead, underground and submarine cables at any given time.
20 As such, staff must keep their skill level current so they can work on any type of these
21 cables. Submarine cables are a particular challenge since the work typically involves
22 laying a large amount of cable and trenching and moving heavy equipment under
23 inhospitable conditions.
24
25 j) LDC staff would do live line work on the systems they work on. Hydro One RM-
26 Lines staff are qualified to perform live line work on the 2400 v to 500 kV systems.
27 LDC staff would not work on live line at the high voltages Hydro One staff work on.
28 Specialized training and experience is required to perform live line work on the 500
29 kV line.
30
31 k) The basis for this statement is information provided by Hydro One Lines staff who
32 are familiar with LDC operations.

Energy Probe INTERROGATORY #56 List 2

Interrogatory

Issue 3.5 - Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref: Exhibit C1, Tab 3, Schedule 2, page 12

In lines 24 to 27 the company proposes that the Board evaluate the prudence of Hydro One's collective agreements by considering "the history of gains made through collective bargaining". In lines 25 to 27 the company suggests that this approach is valid because benchmarking compensation levels to other utilities is also subjective.

- a) Please explain why comparing compensation for similar positions in other utilities is a subjective exercise.
- b) If benchmarking is a subjective exercise, why, in Hydro One's view, do so many companies engage in it to measure their performance?
- c) Does Hydro One now take the view that the Mercer study on compensation levels is not a relevant comparison?

Response

- a) As Hydro One stated in Exhibit C1, Tab 3, Schedule 2, page 12, "comparing Hydro One compensation levels to other utilities with different histories and facing different challenges and responsibilities" is subjective by its very definition.
- b) Hydro One's view is that benchmarking, despite its shortcomings, is a valuable tool and continues to utilize it as many other companies do.
- c) The Mercer study on compensation is relevant but it is not the only relevant information that the Board should consider. Bargaining gains should be considered, as these gains are no less objective than benchmarking studies. Both have their shortcomings but nonetheless offer valuable insight as to the progress Hydro One is making. The history of collective bargaining does assist in assessing the reasonableness of the collective agreements. The analysis found at Exhibit C1, Tab 3, Schedule 2, page 14-16 is also useful to compare progress at Hydro One against the successor companies.

Energy Probe INTERROGATORY #57 List 2

Interrogatory

Issue 3.5 - Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref: Exhibit C1, Tab 3, Schedule 2, page 13

In lines 3 - 5 the company proposes comparing wage scales for "similar PWU and Society classification in the Ontario Hydro successor companies".

- a) Why should compensation for positions at power generating companies be comparable simply because they use a similar nomenclature for categorizing positions?
- b) Why is it not more relevant to compare Hydro One positions to similar positions with similar work in other utilities?

Response

- a) Positions at OPG or Bruce Power are more comparable for reasons other than just similar nomenclature to categorize positions. The field trade positions listed in Exhibit C1, Tab 3, Schedule 2, page 14 were deemed both by the company and the PWU as equal classifications when Ontario Hydro existed. For instance the Regional Maintainer – Mechanical at Ontario Hydro performed work on the Transmission system (Hydro One) and in Fossil Stations (now OPG). At Ontario Hydro, the wage rate was identical. Since the demerger of Ontario Hydro the same classification is paid substantially more at both OPG and Bruce Power.
- b) In Ontario, there is no other utility similar to Hydro One. While there are large utilities such as Toronto Hydro, London Hydro or Ottawa Hydro, none of these utilities match the size and complexity of the work performed by Hydro One employees. There are large Transmission and Distribution Utilities in other provinces, and while these companies would be relevant comparators, the reality is that Hydro One competes for staff and is vulnerable to losing experienced employees more so in Ontario. As such, the compensation at the successor companies is more relevant.

Energy Probe INTERROGATORY #58 List 2

Interrogatory

Issue 3.5 - Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref: Exhibit C1, Tab 3, Schedule 2, page 17

On lines 16-17 the following statement appears " ... overall costs have been minimized by the simplification of required job skills and pay levels where appropriate."

- a) Please provide some examples of the "simplification of required job skills" referred to in this quote?
- b) What is meant by the "simplification ... of pay levels"? Please provide some examples of this.

Response

a) The introduction of the Meter Reader B and the Switching Agent allowed Hydro One to simplify jobs at the same time as reducing costs. The Meter Reader B does not perform the higher skills of meter installation, verification, or disconnects. The Switching Agent classification was created to have a dedicated resource who only performed switching duties. Previously, the higher skilled Regional Maintainer or Technician would perform switching duties.

b) As a result of creating these new classifications, a lower wage rate was established.

1 **Energy Probe INTERROGATORY #59 List 2**

2
3 **Interrogatory**

4
5 Issue 3.5 - Are the 2010/2011 Human Resources related costs (wages, salaries, benefits,
6 incentive payments, labour productivity and pension costs) including
7 employee levels, appropriate? Has Hydro One demonstrated improvements in
8 efficiency and value for dollar associated with its compensation costs?
9

10 Ref: Exhibit C1, Tab 3, Schedule 2, page 17, Lines 21-26

11
12 In these lines, the company states that its ability to restrict compensation is affected by its
13 need to compete for skilled workers with OPG, Bruce Power and the IESO.

- 14
15 a) Do any of OPG, Bruce Power or the IESO employ Regional Lines Maintainers?
16
17 b) Do OPG or Bruce Power employ power system control room operators?
18
19 c) Has Hydro One encountered any difficulty recruiting apprentices to any of its
20 trades classifications?
21

22 **Response**

- 23
24 a) No. OPG and Bruce Power do have classifications that are comparable to
25 classifications at Hydro One. Please see Exhibit C1, Tab 3, Schedule 2, page 14-15.
26
27 b) No
28
29 c) No

Energy Probe INTERROGATORY #60 List 2

Interrogatory

Issue 3.5 - Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref: Exhibit C1, Tab 3, Schedule 2, Appendix A

Pension costs are reviewed in this appendix.

- a) Does Hydro One have any plans to alter its' pension benefit for future hires from defined benefit to defined contribution?
- b) In the current defined benefit plan or in any retirement compensation arrangement plans, does Hydro One offer any employees more pensionable service years than the number of actual years worked? (e.g, the so called 2 for 1 or 3 for 1 arrangements provided to one or more prior executives). If yes, please provide details including the positions in the company that qualify for this additional pensionable service.

Response

- a) No.
- b) No.

Energy Probe INTERROGATORY #61 List 2

Interrogatory

Issue 9.2 - Has Hydro One appropriately addressed the Green Energy Plan expenditures in the context of its overall Capital and OM&A budgets.

Ref: Exhibit A, Tab 4, Schedule 1, page 4

Lines 18-22 describe the OPA's RESOP program as having resulted in approximately 2300 new generation projects under 10 MW that could potentially connect to Hydro One's distribution system. The statement is made that "it is expected that many of these will go forward and connect to the system".

- a) What is the total proposed capacity of these 2300 projects in MW?
- b) Please provide a breakdown of these projects by renewable energy category ie, wind, solar, biomass, hydroelectric.
- c) What is the basis for the assumption that many of these projects will "go forward and connect to the system"?
- d) Over what time frame does the company expect these connections to occur?

Response

- a) The 2300 projects that could potentially connect to Hydro One's distribution system add up to a total of 19,843 MW. It is known that some of these projects are duplicates, but Hydro One cannot tell the extent of duplication among these applications as proponents used different names.
- b) See response at Exhibit H, Tab 3, Schedule 63.
- c) The basis for the assumption that many of these projects will go forward and connect is the fact that much of the allocated capacity is at stations which have desirable locations for the renewable generation projects. Even though one specific project may withdraw or not fulfill its obligations under the Distribution System Code to maintain its allocated capacity, it is expected that this project would be quickly replaced by another similar project that applies for the same capacity.
- d) Hydro One cannot forecast the time frame that these connections are expected to occur, as the connection process and in-service dates, especially prior to the recent amendments to the Distribution System Code related to the generation connections process, were controlled very much by the proponents.

1 **Energy Probe INTERROGATORY #62 List 2**

2
3 **Interrogatory**

4
5 Issue 9.2 - Has Hydro One appropriately addressed the Green Energy Plan expenditures
6 in the context of its overall Capital and OM&A budgets.

7
8 Ref: Exhibit A, Tab 14, Schedule 2, page 5

9
10 Lines 20-22 state:

11
12 Hydro One's corporate strategy drives the Plan's vision for a conservation-
13 oriented and more environmentally-conscious culture.

14
15 Please provide the meaning of this quotation.

16
17
18 **Response**

19
20 Hydro One's corporate strategy consists of four key strategic drivers of Innovation,
21 Stewardship, Excellence and Safety. Key initiatives to upholding these drivers include
22 investing proactively in distribution infrastructure to enable major additions of renewable
23 distributed generation in a timely manner and seeking ways to leverage new technologies
24 and knowledge from international organizations to reduce Hydro One's carbon footprint
25 and improve overall system performance. Hydro One advances these initiatives through
26 its Green Energy Plan which aims at incorporating renewable energy generation,
27 developing Hydro One Distribution's Smart Grid and effectively promoting energy
28 conservation to its customers. The Plan aims at adopting a more conservation-oriented
29 and environmentally-conscious approach to system planning by investing in more CDM
30 programs, once the *Green Energy and Green Economy Act* objectives with respect to
31 CDM are operationalized, and by facilitating the connection of renewable distributed
32 generation in the Province.

Energy Probe INTERROGATORY #63 List 2

Interrogatory

Issue 9.2 - Has Hydro One appropriately addressed the Green Energy Plan expenditures in the context of its overall Capital and OM&A budgets.

Ref: Exhibit A, Tab 14, Schedule 2, page 6

The chart on this page summarizes projects resulting from RESOP that have requested Connection Impact Assessments (CIA). The total number of CIAs to the end of April 2009 is noted in column 2 as 1553. Comparing the number of CIAs in this chart to the number of possible projects referenced in Exhibit A, Tab 4, Schedule 1, page 4 (2300) indicates that about 67% of possible projects progress to the CIA stage. Of these 645 or 42% are outside the company's distribution connection threshold criteria leaving about 908 projects that qualify for connection to the distribution system (the "eligible projects"). This comprises about 39% of possible projects.

- a) Does Hydro One agree that 39% of possible projects represents a reasonable maximum for the number of projects that might have to be connected to the distribution system?
- b) Of the 908 projects that could be connected to the distribution system, 869 are noted as having CIAs completed but only 127 of these have connection agreements completed. This represents about 14% of eligible projects and 5.5% of possible projects. Does Hydro One agree that 5.5% of possible projects is a reasonable estimate of the projects that will ultimately be connected to the distribution system?
- c) What is the total capacity for the 908 projects that are eligible for connection to the distribution system?
- d) What is the total capacity for the 127 projects that have connection agreements completed?
- e) For those projects that fall outside the distribution connection threshold, how many does Hydro One estimate will be connected to the transmission system? Please explain the basis for the estimate provided.

Response

- a) The 2,300 possible projects referenced in Exhibit A, Tab 4, Schedule 1, page 4 refers to the number of CIA applications and IFA applications. The CIA application is an application to connect a generator the distribution system; the IFA is a request for

1 information for a project. Of the 1553 CIA applications, 908 were eligible for
 2 connection, meaning that there was capacity for them to connect to the existing
 3 distribution system. This shows that there was existing capacity on the distribution
 4 system to connect 58.5% of the CIA applications.
 5

Technology		CIAs
Hydraulic Turbine	Number of Projects	70.0
	Sum of Proposed Total Capacity (MW)	324.9
Other (CHP, Biomass, Diesel, Gas)	Number of Projects	119.0
	Sum of Proposed Total Capacity (MW)	632.3
Solar	Number of Projects	463.0
	Sum of Proposed Total Capacity (MW)	4211.2
Wind Turbine	Number of Projects	711.0
	Sum of Proposed Total Capacity (MW)	6450.9
Total Number of Projects		1363
Total Sum of Proposed Total Capacity (MW)		11619

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- b) No, Hydro One does not agree that 5.5% of possible projects is a reasonable estimate of the projects that would ultimately be connected to the distribution system. It only represents the proportion of generator projects that, under the Distribution System Code existing at the same time, had progressed to the stage where they had an executed connection agreement. Hydro One believes that the recent amendments to the Distribution System Code for the generation connections process will facilitate getting generators to the stage where they will execute a connection agreement.
- c) Partway through July 2009, Hydro One had completed 908 CIAs. These 908 CIAs cumulatively make up over 5,820MW.
- d) 998 MW of generation cumulatively.
- e) Hydro One cannot estimate how many of the projects that fall outside the distribution connection threshold will be connected to the transmission system. The decision to connect to either the distribution or transmission system rests with the proponent and not the Distributor nor the Transmitter.

Energy Probe INTERROGATORY #64 List 2

Interrogatory

Issue 3.1 - Are the overall levels of the 2010/2011 Operation, Maintenance and Administration budgets appropriate?

Ref: Exhibit C1, Tab 2, Schedule 2, page 5

Table 2 shows Planned Station Maintenance expenditures in 2009 at \$13.5 M which is close to the average spent per year in the previous three years.

- a) How much PCB testing of stations equipment was done in 2009?
- b) If Environment Canada regulations require removal of 500 ppm PCBs by 2009, why was there not a greater emphasis by Hydro One on testing in 2008 and 2009?
- c) What penalties is Hydro One subject to if it fails to meet the removal deadlines set out in the Environment Canada regulations?

Response

- a) PCB testing will take place in 2009 on stations that have been scheduled for planned maintenance outages. These tests will leverage the previously planned outages and will enable testing to proceed at a minimal cost, which is why the costs for PCB testing is not appreciable during 2009.
- b) The new regulations were passed in September of 2008 at which time it was recognized by both Hydro One and Environment Canada that addressing PCBs in the stations environment would take a multi-year effort. Achieving the 2009 deadline was unattainable due to the complexities involved and the need to take station outages to enable PCB-related work. Given the reality of the situation, Hydro One applied to Environment Canada for an extension to the 2009 end-of-use deadline in accordance with the provisions under Part 2, Section 17 of the PCB Regulations. The extension requested is to allow the continued use of greater than 500 ppm PCB equipment until December 31, 2014. As a result, Hydro One Distribution did not place greater emphasis on testing in 2008 and 2009 and is planning an aggressive increase in PCB activities beginning in 2010.
- c) The compliance and enforcement penalties that could be assessed against a company in the event of an alleged violation of the PCB Regulations are varied and would be determined on an incident-specific basis.

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Exhibit H

Tab 3

Schedule 64

Page 2 of 2

1 The PCB Regulations are under the Canadian Environmental Protection Act (CEPA)
2 1999 and as such the associated CEPA Compliance and Enforcement Policy would be
3 applied when verifying compliance with the Regulations. The Policy sets out a range
4 of possible responses to alleged violations, which may include: warnings, directions,
5 environmental protection compliance orders, ticketing, ministerial orders, injunctions,
6 prosecution, and environmental protection alternative measures.

Energy Probe INTERROGATORY #65 List 2

Interrogatory

Issue 3.1 - Are the overall levels of the 2010/2011 Operation, Maintenance and Administration budgets appropriate?

Ref: Exhibit C1, Tab 2, Schedule 2, page 8

Lines 17-28 describe PCB testing requirements for stations transformer bushings. This is reported to be a "very time consuming process (i.e. several days)" partly because of the need to transfer load to a mobile substation before a transformer outage can be taken.

- a) The evidence discusses transformer bushings. Have all station transformers been tested for PCB content?
- b) What is the procedure for taking an oil sample from a transformer bushing?
- c) Is there any correlation between PCB content in transformer insulating oil and the oil in the transformer bushings? i.e. is it possible to infer the PCB content of bushings by analyzing the PCB content of oil in the main tank?
- d) What percentage of distribution stations have two transformers?
- e) For two transformer stations, is it possible to run the station on a single transformer while the other one is tested rather than installing an MUS i.e. by doing the testing during low load times of the year?
- f) Are there any records from manufacturers to assist in determining which transformer bushings contain more than 500 ppm PCB in the insulating oil?
- g) When did manufacturers cease using oil containing PCBs? How many of the 1005 distribution and regulating stations transformers were purchased after that time and can be assumed to be PCB free?

1 **Response**

2
3 a) No. Page 22 of Exhibit D1, Tab 2, Schedule 1 outlines the percentages of station
4 transformers and bushings that have been tested.

5
6 b) The procedure is as follows:

- 7
8 1. A transformer outage is taken and the transformer is taken out of service. Proceed
9 to step 2 or step 3 below.
10 2. If the bushing has a sampling port, then an oil sample is extracted by way of the
11 port.
12 3. If the bushing does not have a sampling port, then an oil sample is not easily
13 extracted and the bushing is removed from the transformer and replaced.

14
15 c) No. The transformer main tank and bushing oil reservoirs are separate and not
16 interconnected for the vast majority of transformers. A very small percentage of
17 transformers within Hydro One Distribution's fleet do have an interconnected
18 reservoir, where the bushing shares the transformer oil. In these limited situations,
19 the PCB oil test would be representative of both the transformer and bushing oil.

20
21 d) Approximately 3%.

22
23 e) Yes, it is possible. However, the possibility depends upon the total load that is being
24 served by the station and the capacity of the transformers installed at the station. If
25 the total station load exceeds the individual transformers' ratings, then it would not be
26 possible.

27
28 f) No.

29
30 g) The manufacture, process, import, and offer for sale of PCBs and equipment
31 containing liquid with a PCB concentration of greater than 50 ppm (50 mg/kg) was
32 prohibited in Canada in 1977 by way of the *Chlorobiphenyls Regulations (1977)*.
33 However, Hydro One Distribution has identified a limited number of oil-filled
34 equipment that was manufactured between 1977 and 1984 with PCB results greater
35 than 500 ppm PCB oil. As such, Hydro One Distribution has decided to test all
36 equipment that was manufactured prior to 1985 for PCBs.

37
38 Hydro One Distribution has 528 transformers and regulators that were manufactured
39 after 1977. These units cannot be considered "PCB free" as they may have been
40 retrofitted with older bushings that contained greater than 50 ppm PCB oil.

Energy Probe INTERROGATORY #66 List 2

Interrogatory

Issue 3.1 - Are the overall levels of the 2010/2011 Operation, Maintenance and Administration budgets appropriate?

Ref: Exhibit C1, Tab 2, Schedule 2, pages 16-18

Table 5 shows line maintenance costs for historical, bridge and test years. The amount spent on Line Patrols, Wood Pole Assessment and Asset Data Collection is quite variable.

- a) Please explain the variation in costs in this category for the historical years 2006, 2007, 2008.
- b) Lines 1-12 on p.18 describe Hydro One's program for inspecting and recording data from its lines. The evidence states that 330,000 poles per year have been captured in the data collection process since 2005 and that 360,000 poles are forecast to be captured in 2010. Why is the cost in 2009 and 2010 so much higher than that in the historical years?

Response

- a) The expenditures for Line Patrols, Wood Pole Assessment & Asset Data Collection can vary from year to year depending on a number of factors.

Among historic years, 2007 required the greatest expenditure as over 400,000 poles were patrolled, inspected, and data collected in that year. This is by far the greatest number of poles since the data collection initiative was commenced in 2005.

The 2008 expenditure was lower as fewer than 350,000 poles were inspected and data collected in that year. Variations in the number of poles from one year to the next is expected given that different feeders will be patrolled in different years and that these feeders will have different numbers of poles per kilometre. The reduced expenditures in 2008 were also influenced by the fact that crews in that year were more successful in assessing pole condition during the initial inspection and did not require as much follow up pole testing as in previous years.

- b) Expenditures are increasing in 2009 and 2010 as a result of: 1) emphasis on the new submarine cable testing program; and 2) the anticipated need for pole testing related to the 'Red Pine' pole issue. The need driving these expenditures is described at the bottom of pages 17 and 18 in Exhibit C1, Tab 2, Schedule 2.

Energy Probe INTERROGATORY #67 List 2

Interrogatory

Issue 3.1 - Are the overall levels of the 2010/2011 Operation, Maintenance and Administration budgets appropriate?

Ref: Exhibit C1, Tab 2, Schedule 2, page 21

This section discusses the sentinel light maintenance program. Annual costs to maintain sentinel lights are \$1.4 M. The evidence states that Hydro One is contractually obligated to maintain the historic sentinel light program.

- a) Please provide a copy of the standard sentinel light contract that governs the parties in this relationship.
- b) Has Hydro One studied the possibility of providing incentives to sentinel light customers to end the contract? If so, what were the results of the study? If not, how does Hydro One know that it has no options other than honouring the contracts?
- c) Are sentinel light maintenance costs recovered 100% from the customers with sentinel lights? If not, why not?

Response

a) The sentinel light contracts were entered into by the former Ontario Hydro. Hydro One Distribution does not have copies of specific contracts with individual customers from that time period. Hydro One's obligations with respect to sentinel lights is specified in OReg 116/02 as detailed in Section 3.1 of Exhibit A, Tab 6, Schedule 1.

b) No, Hydro One Distribution has not studied the possibility of providing incentives.

Through relationships developed with sentinel light customers over the years, Hydro One Distribution understands that these customers rely on the service as an affordable means to illuminate their property and to mitigate safety hazards. These customers are prepared to pay the charges associated with the service and are unlikely to cancel the service in response to incentives. As a result, Hydro One Distribution's best available option is to honour the contracts in accordance with its obligations specified in OReg 116/02.

c) Yes, as shown in Schedule 11-2b of Exhibit G2, Tab 93, Schedule 1 the sentinel light charges are based on the full recovery of associated costs.

Energy Probe INTERROGATORY #68 List 2

Interrogatory

Issue 3.1 - Are the overall levels of the 2010/2011 Operation, Maintenance and Administration budgets appropriate?

Ref: Exhibit C1, Tab 2, Schedule 2, page 23

This section describes the pole and padmount transformer PCB testing program.

- a) Line 1 states that "Hydro One Distribution has resumed inspecting and testing lines equipment in response to the new PCB regulations."
 - i) When did Hydro One suspend its previous testing program?
 - ii) What drove the suspension?
 - iii) How much inspecting and testing was done under the old program?
 - iv) Is the data from that program still available and relevant?
- b) Line 5 states that the location of the company's 440,000 pre 1985 pole mounted transformers needs to be verified.
 - i) How does Hydro One plan to do this?
 - ii) Has this data been included in data collection referred to earlier in the evidence under the heading of line patrols and data collection?
 - iii) Does Hydro One have customer accounts and meter numbers cross referenced to supply transformers? If so, is the location not already known by the street addresses of the customer accounts?
 - iv) How does Hydro One know that of the 440,000 pre 1985 transformers in the system only about 240,000 are likely to be contaminated by PCBs?
- c) What is the procedure for inspecting and testing pole and padmounted transformers for PCB contamination? How many of each can a crew accomplish in a day? What size of crew is required to conduct the inspection and testing for PCBs?

Response

- a)
 - i) Hydro One Distribution suspended its planned PCB Inspection and Testing Program on lines assets in 2004.
 - ii) As noted in previous applications to the OEB, Hydro One Distribution suspended its PCB programs in 2004 pending the new PCB regulations from Environment Canada. Draft regulations had been issued a few years prior and Hydro One

1 Distribution was concerned that the proposed new regulations were subject to
2 change and that changes may lead to different requirements and the need for
3 either re-work or less work. Given the “draft” nature of the regulations, Hydro
4 One Distribution suspended the program and elected to wait for certainty and
5 clarity in the form of finalized regulations. The finalized regulations were passed
6 in September 2008.

7
8 iii) Under the previous program from 1997 to 2003, over 85,000 transformers were
9 inspected and over 45,000 were tested.

10
11 iv) Yes, the data is available and is relevant and has been factored into the current
12 plans.

13
14 b)

15 i) As stated on page 23 of Exhibit C1, Tab 2, Schedule 2, approximately 240,000 of
16 Hydro One Distribution’s 440,000 pole mounted transformers are estimated to
17 have been manufactured prior to 1985 and are at risk of being PCB contaminated.
18 Hydro One Distribution’s plan is to:

- 19
20 • Use available data (e.g. older inspection and testing data, feeder
21 demographics) to identify newer installations and remove them from the list
22 of transformers that need to be inspected.
23 • Send line crews to locations of transformers whose manufacture date is
24 unknown to determine the exact age of the unit.
25 • Take oil samples from units that have been verified through inspections to
26 have been manufactured prior to 1985 and test the oil for PCB content.

27
28 ii) Data Collection efforts that were referred to in the evidence are a separate activity
29 that is not related to PCB activities. However, the data collected by those efforts
30 has been relied on to provide the location of each transformer but not the age of
31 each transformer as this information is unattainable from the ground during a
32 routine patrol.

33
34 iii) Yes, Hydro One Distribution does have the customer accounts and meter numbers
35 cross referenced to supply transformers. The locations of individual transformers
36 are known but what is missing is information about each transformer’s
37 manufactured date. The inspections are designed to capture the manufactured
38 date.

39
40 iv) The estimate is based on demographics information and is confirmed by the ratio
41 of units tested to those inspected by previous PCB inspection programs (i.e. 1997
42 to 2003).

43

1 c) The first step in the procedure is for a line crew to visit the transformer location. For
2 pole mount transformers, the line crew must use a bucket truck to access the
3 transformer. The bucket truck is set up at the base of the pole and the lines person
4 would go aloft to examine the nameplate of the transformer. If the date is pre-1985
5 the unit is drilled, oil sampled and plugged. The sample is sent to a lab for analysis
6 and the results of the analysis are returned at a later date. If a transformer test
7 positively for PCB contamination above 50 ppm, then it is logged and scheduled for
8 future replacement.

9

10 The number of units accomplished per day will vary based on numerous factors
11 including the distance (i.e. driving time) between transformer locations and the nature
12 of the location (i.e. busy road or rural environment) of the transformer along with the
13 ease of set up for a bucket truck. Another factor is the number of customers
14 connected to the transformer. All sampling is completed with the transformer
15 removed from service, which will require customer notifications of outages. Given
16 these factors, the number of transformers accomplished by a crew in a given day can
17 vary from a few to over 12. A typical crew would be made up of two line persons.

Energy Probe INTERROGATORY #69 List 2

Interrogatory

Issue 3.1 - Are the overall levels of the 2010/2011 Operation, Maintenance and Administration budgets appropriate?

Ref: Exhibit C1, Tab 2, Schedule 2, page 26

Reference is made in this section to increased spending in the test year due to "increases in Health and Safety programs to support the company's strategic safety goals."

Please elaborate on what these programs consist of and how they do a better job of supporting the company's strategic safety goals than previous programs.

Response

Please see response in Exhibit H, Tab 1, Schedule 24.

Energy Probe INTERROGATORY #70 List 2

Interrogatory

Issue 3.1 - Are the overall levels of the 2010/2011 Operation, Maintenance and Administration budgets appropriate?

Ref: Exhibit C1, Tab 2, Schedule 2, pages 28-29

This section discusses retail meter maintenance. Costs are noted as \$4.9 M in 2010 and \$6.2 M in 2011. Elsewhere in the evidence, it is stated that all 1.2 million retail meters will be replaced by smart meters by the end of 2010.

- a) Why are the costs in 2010 not lower than 2009 as a result of the declining number of legacy meters in the system?
- b) Please confirm that the costs shown in 2011 of \$6.2 M are all related to smart meter reverification.
- c) How many smart meters were installed in 2006? How many of those will be reverified in 2011?
- d) How does the procedure for and frequency of reverification of smart meters differ from that for legacy electromechanical meters?
- e) Does Hydro One have its own meter shop authorized by Measurement Canada to perform reverification tests?

Response

- a) Please refer to Exhibit H, Tab 1, Schedule 25.
- b) The 2011 "Customer Retail Meters" cost of \$6.2M are not all related to Smart Meter re-verification. The majority of the costs are for field metering services, meter and relay services at the central shop, and inventory sustainment for all meter types including non-smart meters. The expenditure does include a small number (i.e. 600) of smart meter re-verifications.
- c) There were 27,600 meters installed in 2006. Please refer to the response for part b) above.

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Exhibit H

Tab 3

Schedule 70

Page 2 of 2

- 1 d) There is no change to the Measurement Canada metrology sample/re-verification
- 2 requirements. The expectation is that most of the smart meter types will have a 10-
- 3 year seal period although some will have a 6-year seal period. These requirements
- 4 have yet to be finalized.
- 5
- 6 e) Yes, Hydro One does have a fully accredited shop to test, reverify and reseal meters.

Energy Probe INTERROGATORY #71 List 2

Interrogatory

Issue 3.1 - Are the overall levels of the 2010/2011 Operation, Maintenance and Administration budgets appropriate?

Ref: Exhibit C1, Tab 2, Schedule 4, page 8

This section summarizes the reasons for increased spending on distribution system operations "as a result increased focus on Distribution elements in alignment with distributed generation, smart meter, and smart grid influences".

- a) How much additional staff will be required for this increased effort? Has this staff been hired yet?
- b) What is the training period required to get this new staff to a journeyman level of performance?

Response

- a) In 2009, one additional staff was hired as a result of distributed generation. The current forecast is to hire twelve additional staff in 2010 and eight in 2011 for additional work related to the Green Energy Plan.
- b) Depending on the role and the experience of the individual hires, the training period required varies from six months to three years.

Energy Probe INTERROGATORY #72 List 2

Interrogatory

Issue 3.1 - Are the overall levels of the 2010/2011 Operation, Maintenance and Administration budgets appropriate?

Ref: Exhibit C1, Tab 2, Schedule 5, page 8

This page describes the transition from manual to automated meter reading over the bridge and test years.

- a) How many meter readers does Hydro One currently have on regular staff?
- b) How many meter readers does Hydro One expect will be needed after smart meters are fully deployed in 2010?
- c) What is Hydro One's plan for dealing with surplus meter readers?

Response

a) Currently there are 75 meter readers on regular staff. The number of meter readers on staff is declining with attrition and redeployment. Regular positions are not being backfilled, but rather temporary resources are being used (e.g. from hiring hall) to complete the program for 2009.

b) As stated in Exhibit C1, Tab 2, Schedule 5, page 8 Section 2.1.2, the migration of customers to automated meter reading will continue throughout 2010 and to the end of 2011. Post activation of smart meters there will continue to be manual meter readings required at remote locations where smart meter communications is not available, to check read at customer requests, or for meter investigations.

Hydro One's 2011 plan includes a requirement for 40 meter readers on regular staff, and the use of temporary resources.

c) The majority of meter readers will be moved to new duties, including meter changes, final reads, high bill complaints, cable locates, data collection, cut in/cut out activities.

Energy Probe INTERROGATORY #73 List 2

Interrogatory

Issue 3.1 - Are the overall levels of the 2010/2011 Operation, Maintenance and Administration budgets appropriate?

Ref: Exhibit C1, Tab 2, Schedule 8
Exhibit C2, Tab 2, Schedule 1

Page 1 and 2 of the C2 T2 S1 present a table showing comparison of OM&A expense by major category. Shared services and other costs are shown as increasing from \$92.4 M in 2009 to \$123.2 M in 2010 and \$119M in 2011.

- a) A significant part of the increase is attributable to Common Asset Management Costs. One of the categories within this group of costs is Real Estate and Facilities which has increased costs that are attributed to "new space - accommodation requirements driven by the increasing work programs across the Company" according to lines 14-16 on page 16 of C1 T2 S8. Please provide details of what new "space - accommodation" is needed and why.
- b) Information management services shows increased cost from \$69.3 M in 2009 to \$79.1 M in 2010 and \$81.9 M. Although there is considerable material presented in the evidence to explain OM&A costs in IT, it is confusing and difficult to interpret why costs are increasing. Please provide a succinct explanation for the overall increase in this category.
- c) Cornerstone costs in the table are shown as net of expected savings which results in credit entries in 2009, 2010 and 2011. Because OM&A costs are intuitively positive numbers, the entries in Cornerstone for the bridge and test years do not appear to make sense i.e, it looks like the company will actually generate revenue from OM&A activities required to support this system. Please explain why the costs are presented in this way.

Response

- a) Please refer to the interrogatory response in Exhibit H, Tab 9, Schedule 24.
- b) The increase from 2009 to 2010 is \$9.8M or 14%. This increase is caused by:
 - Incremental application support and maintenance of SAP resulting from the completion of Cornerstone Project.

- 1 • Re-organizational transfer of the Information Asset department from Asset
2 Management to IT. Please refer to interrogatory response in Exhibit H, Tab 1,
3 Schedule 51
- 4 • Small projects deferred until the completion of the Cornerstone phase 1 and phase
5 2 projects are now proceeding with the highest priority projects in this category.
- 6 • Increase in Telecom Services cost due to the GEGEA work program assessment
7 and the projected head count increases.

8

9 The forecasted increase in 2010 to 2011 is \$2.8M. We have applied a 3.5% increase
10 to 2010 to be in-line with estimated COLA increases in labour and sustainment costs
11 for 2011.

12

- 13 c) The Cornerstone OM&A costs, identified in Table 1 Exhibit C1, Tab 2 Schedule 10,
14 page 1, show Cornerstone OM&A savings to be greater than the associated OM&A
15 Development cost for 2010 and 2011. The total costs are presented in this manner to
16 show net effect/offset on the total Shared Services and Other Cost shown in Exhibit
17 C2, Tab 2, Schedule 1, page 2.

Energy Probe INTERROGATORY #74 List 2

Interrogatory

Issue 3.1 - Are the overall levels of the 2010/2011 Operation, Maintenance and Administration budgets appropriate?

Ref: Exhibit C1, Tab 3, Schedule 1

This schedule is concerned with corporate staffing. Although an explanation of staffing needs is presented no staffing levels are provided.

If this is elsewhere in the evidence please advise where it can be found. If it is not in the evidence, please provide an analysis of staffing levels broken down into appropriate employee groups such as PWU, Society, Management, Executive etc. for historical, bridge and test years along with an explanation for staffing increases or decreases.

Response

See Exhibit H, Tab 7, Schedule 67.

Energy Probe INTERROGATORY #75 List 2

Interrogatory

Issue 3.1 - Are the overall levels of the 2010/2011 Operation, Maintenance and Administration budgets appropriate?

Ref: Exhibit D1, Tab 3, Schedule 3, page 14
Exhibit D2, Tab 2, Schedule 3, Project D27

On page 14 of the first reference, the statement is made that "The benefit to load customers is estimated to be about 15% of the cost for connection of generators in the large (>10MW) and mid-size (500kW to 10MW)".

- a) How did Hydro One arrive at this estimated benefit?
- b) The benefit to ratepayers ascribed to Project D27 in the second reference appears to be 85%. Why is this benefit different than the estimated 15%?

Response

a) & b) The evidence associated with the two references stated in this interrogatory was revised as part of the Update filed by Hydro One Distribution on September 25, 2009.

The methodology used by Hydro One to estimate the benefit to load customers for different types of investments is described on pages 17-19, for Expansion investments, and on pages 21-23, for Renewable Enabling Improvements (REI) investments, of the updated Green Energy Plan filed at Exhibit A, Tab14, Schedule 2.

Energy Probe INTERROGATORY #76 List 2

Interrogatory

Issue 3.1 - Are the overall levels of the 2010/2011 Operation, Maintenance and Administration budgets appropriate?

Ref: Exhibit D1, Tab 3, Schedule 7

Page 4 of this schedule states that savings from Cornerstone Phase 1 will be about \$200 SM. An explanation for the bulk of the savings appears in lines 5-17 on page 5. These total only about \$120 M.

- a) Please explain where the other \$80 M in savings is expected to come from.
- b) For each of the three bullet points in the explanation appearing at lines 717 on page 5 please explain in detail how the expected savings were calculated.
- c) Does Hydro One have a methodology to confirm these savings as they occur? If so please explain it. If not, how will Hydro One be able to conclude that it achieved the savings?

Response

a) The three Cornerstone Phase 1 deliverables described on page 5 provide the majority of the expected savings (i.e. 60%). A number of other initiatives make up the balance of the expected savings. These include:

- Leverage technology and information systems to achieve efficiency
- Improved inventory performance
- Increased back office productivity (Planner / Designer / Clerical)
- Improved Evaluated Receipts Settlement processes – through better automation
- Better work planning and bundling for maintenance and project work
- Improved system reliability through higher quality asset data
- Improved warehouse shipping processes and payment reconciliation with carrier
- Greater control governance around one-time setup vs. regular Accounts Payable vendor setup
- Improved large Tx customer satisfaction through more detailed reporting and improved connection process

b) Expected Cornerstone savings were determined by a value realization team comprised of representatives from various business units. The team assessed the impact of Cornerstone on each Hydro One business processes. The results were reviewed and approved by Hydro One senior management.

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The expected savings for each of the three bullets is determined as follows:

- Optimize O&M and Capital spend through enhanced asset analysis and maintenance by managing operational risks over the asset life cycle (Expected Savings \$50.3M).

Optimize O&M/Capital asset investments to manage operational risks over the asset life cycle. SAP core functionality will provide for the first time, a real-time defect management system, financial and technical reporting capabilities at the asset level to facilitate O&M / Capital tradeoffs for optimizing asset life cycle and improving decision making for all assets. This will allow planners to optimize asset useful service life by (1) readily identifying/eliminating the "lemons" of the fleet & those assets that are at the edge of the "bath-tub" curve; and (2) supporting maintain/refurbish/replace life cycle decisions on the "entire" fleet of assets.

- Enhanced crew productivity due to better materials availability through more efficient forecasting, planning and execution. The contribution to improvement in crew productivity results from having the right materials available at the right time and the right location (Expected Savings \$35.5M).

The benefit measures Supply Chain's contribution to crew productivity, by having the right materials available at the right time and the right location. This is enabled by developing a materials classification scheme, providing differentiated service levels, decreasing lead-time violations and increasing order fill rate. In addition, this benefit requires better coordination and integration between the LOBs and Supply Chain. This assumes that the field crews will use the gains in productivity to increase work throughput.

- Improve internal & supplier contract compliance through reduction in non – Purchase Order spend for direct purchase of materials and services. This benefit is derived from all users purchasing standardized materials and services off negotiated contracts at agreed prices and terms (Expected Savings \$35M).

This benefit is derived from all users purchasing standardized materials and services off negotiated contracts at agreed prices, terms, etc. (i.e. no maverick spend). Today, users unfamiliar with policies often bypass the process if supplier discounts are not available or time consuming to find. The ability to more effectively monitor supplier contract compliance will improve as more spend is against contracts for future analysis.

c) Yes.

1 Many of the Cornerstone savings are related to process improvements. Hydro One
2 tracks these process improvements to record the achievement of expected savings.

3

4 For further information on Cornerstone and associated savings please see EB-2007-
5 0681, Exhibit H, Tab 1, Schedule 38 and RP-2005-0020/EB-2005-0378, Exhibit H,
6 Tab 4, Schedule 64.

Energy Probe INTERROGATORY #77 List 2

Interrogatory

Issue 3.1 - Are the overall levels of the 2010/2011 Operation, Maintenance and Administration budgets appropriate?

Ref: Exhibit D1, Tab 3, Schedule 7

Line 17 on Page 8 through line 16 on page 9 of this schedule presents an explanation for the estimated \$50 M in savings estimated for Phase 2 of the Cornerstone project. For each of the bullet points in the two categories of savings shown in these lines please explain in detail how the expected savings were calculated.

Response

Please see response at Exhibit H, Tab 3, Schedule 76 b).

1 **Energy Probe INTERROGATORY #78 List 2**

2
3 **Interrogatory**

4
5 Issue 3.1 - Are the overall levels of the 2010/2011 Operation, Maintenance and
6 Administration budgets appropriate?

7
8 Ref: Exhibit D1, Tab 3, Schedule 7

9
10 Lines 1-4 on page 11 of this schedule show estimated savings for Phase 3 of the
11 Cornerstone project at \$130 M. These savings are attributable to "improved processes,
12 elimination of duplicative data systems and improved transparency across the
13 organization." Please explain in detail how these savings were calculated.

14
15 **Response**

16
17 Please see response in Exhibit H, Tab 3, Schedule 76 b).

Energy Probe INTERROGATORY #79 List 2

Interrogatory

Issue 3.1 - Are the overall levels of the 2010/2011 Operation, Maintenance and Administration budgets appropriate?

Ref: Exhibit D1, Tab 3, Schedule 7

Total estimated savings from the Cornerstone project are \$380 M arrived at by adding the savings from the previous three IRs together.

Does Hydro One have a methodology for measuring these savings as they occur over the 7 year time period? If yes, please explain the methodology in detail. If no, how will Hydro One determine if it achieved the expected savings?

Response

Please see response in Exhibit H, Tab 3, Schedule 76 b).