

London Property Management Association (LPMA) INTERROGATORY #1

Interrogatory

Ref: Exhibit A, Tab 15, Schedule 1

Please update Tables 1, 2 and 3 to reflect the most recent forecasts from Global Insight.

Response

Tables 1, 2, and 3 below are updated with the most recent forecasts from Global Insight.

**Table 1
 Global Insight's Latest Forecast Released in May 2014
 (%)**

	Historical Years				Bridge Year	Test Years	
	2010	2011	2012	2013	2014	2015	2016
Transmission Cost Escalation for Construction	1.9	3.7	1.6	2.0	1.2	2.0	2.4
Transmission Cost Escalation for Operations & Maintenance	1.6	3.7	2.1	0.9	0.6	1.1	1.1

**Table 2
 Ontario CPI Forecast Released in June 2014
 (%)**

	Historical Years				Bridge Year	Test Years	
	2010	2011	2012	2013	2014	2015	2016
CPI – Ontario	2.4	3.1	1.4	1.1	1.8	2.0	2.0

Table 3
Exchange Rate Forecast Released in June 2014
(CDN\$ per US\$)

Description	Historical Years				Bridge Year	Test Years	
	2010	2011	2012	2013	2014	2015	2016
Exchange Rate	1.030	0.989	1.000	1.030	1.095	1.077	1.062

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1 **London Property Management Association (LPMA) INTERROGATORY #2**

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3 **Interrogatory**

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5 **Ref: Exhibit A, Tab 15, Schedule 1**

6
7 Had Hydro One incorporated any impact associated with the potential Ontario pension
8 plan proposal?

9
10 **Response**

11
12 Hydro One did not incorporate any impact associated with the “proposed Ontario pension
13 plan” (proposed by the Ontario Government in May 2014).

1 **London Property Management Association (LPMA) INTERROGATORY #3**

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3 **Interrogatory**

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5 **Ref: Exhibit B1, Tab 1, Schedule 1**

6
7 In the Report of the *Board on Cost of Capital for Ontario's Regulated Utilities* issued on
8 December 11, 2009, it was indicated that it was the OEB's intention to conduct its first
9 regular review in 2014 and any changes to the policy would apply to the setting of rates
10 for the 2015 rate year.

11
12 Is Hydro One proposing that any changes that may result from the 2014 review be
13 reflected in the cost of capital for 2015 and 2016 or is the Hydro One proposal strictly
14 based on the proposal shown at the bottom of page 1 and top of page 2?

15
16 **Response**

17
18 Hydro One will implement any applicable outcomes from the 2014 OEB review.

1 **London Property Management Association (LPMA) INTERROGATORY #4**

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3 **Interrogatory**

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5 **Ref: Exhibit B1, Tab 1, Schedule 1**

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7 Please update the deemed short term debt rates of 3.19% for 2015 and 4.45% for 2016
8 using the most recent Global Insight forecast available.

9
10 **Response**

11
12 The deemed short-term rate is 2.27% for 2015 and 4.00% for 2016 using the June 2014
13 Global Insight BA rate plus the average annual BA spread of 0.9125% as per the OEB's
14 Cost of Capital Parameters, dated November 25, 2013, for Rates effective in 2014.

15
16 As stated on page 2 of Exhibit B1-1-1, Hydro One assumes that the deemed short term
17 debt rate for each test year will be updated in accordance with the Cost of Capital Report,
18 upon the final decision in this case. Specifically, for 2015, the Board would determine
19 the deemed short term debt rate for Hydro One Transmission based on the September
20 2014 Bank of Canada data which would be available in October 2014 plus the average
21 spread obtained by Board Staff in 2014. Similarly, for 2016, the Board would determine
22 the deemed short term debt rate for Hydro One Transmission based on the September
23 2015 Bank of Canada data which would be available in October 2015 plus the average
24 spread obtained by Board Staff in 2015.

25

London Property Management Association (LPMA) INTERROGATORY #5

Interrogatory

Ref: Exhibit B1, Tab 2, Schedule 1

- a) Has Hydro One issued any of the debt for 2014 as shown in Table 2? If yes, please provide complete details of the issuances.
- b) Is the forecast of debt issuances shown in Table 3 for 2015 and 2016 still based on the most recent information and projected requirements? If not, please update Table 3 to reflect the most recent forecast.
- c) Please update Table 4 to reflect the most recent forecasts for the sources of the information listed.

Response

- a) Hydro One has issued the following fixed rate MTN's as shown in Table 2 during 2014:

During January 2014, Hydro One Inc. issued \$50 million of 50-year notes with a 4.29% coupon rate, of which \$30 million was mapped to Hydro One Transmission.

During June 2014, Hydro One Inc. issued \$350 million of 30-year notes with a 4.17% coupon rate, of which \$198 million was mapped to Hydro One Transmission.

- b) Table 3 is updated below to reflect the most recent forecast. Please see the response to part c) of this question for an explanation of how the coupon rates were derived.

**Table 3
 Forecast Debt Issues for 2015 and 2016**

2015			2016		
Principal Amount (\$Millions)	Term (Years)	Coupon	Principal Amount (\$Millions)	Term (Years)	Coupon
159.3	5	3.19%	197.5	5	4.09%
159.3	10	4.22%	197.5	10	5.12%
159.3	30	5.09%	197.5	30	5.99%

1 c) Table 4 is updated below to reflect the most recent forecast.

2 **Table 4**
 3 **Forecast Yield for 2014-2016 Issuance Terms**

	2014		
	5-year	10-year	30-year
Government of Canada	1.98%	2.70%	3.23%
Hydro One Spread	0.71%	1.02%	1.35%
Forecast Hydro One Yield	2.69%	3.72%	4.59%
	2015		
	5-year	10-year	30-year
Government of Canada	2.48%	3.20%	3.73%
Hydro One Spread	0.71%	1.02%	1.35%
Forecast Hydro One Yield	3.19%	4.22%	5.09%
	2016		
	5-year	10-year	30-year
Government of Canada	3.38%	4.10%	4.63%
Hydro One Spread	0.71%	1.02%	1.35%
Forecast Hydro One Yield	4.09%	5.12%	5.99%

4
 5 Each rate is comprised of the forecast Canada bond yield plus the Hydro One Inc. credit
 6 spread applicable to that term. The ten-year Government of Canada bond yield forecast
 7 for 2014 is based on the 3 month forecast and for 2015 is based on the 12 month forecast
 8 from the June 2014 Consensus Forecast. The ten-year Government of Canada bond yield
 9 forecast for 2016 is based on the April 2014 Long Term Consensus Forecast. The five-
 10 and 30-year Government of Canada bond yield forecasts are derived by adding the June,
 11 2014 average spreads (five-year to ten-year for the five-year forecast and 30-year to ten-
 12 year for the 30-year forecast) to the ten-year Government of Canada bond yield forecast.
 13 Hydro One's credit spreads over the Government of Canada bonds are based on the
 14 average of indicative new issue spreads for June, 2014 obtained from the Company's
 15 MTN dealer group for each planned issuance term.

16
 17 Hydro One assumes that forecast debt issuance interest rates for each test year will be
 18 updated consistent with the ROE methodology, upon the final decision in this case. For
 19 rates effective January 1, 2015, the forecast interest rate for Hydro One Transmission
 20 debt issues will be based on the September 2014 Consensus Forecasts and the average of
 21 indicative new issue spreads for September 2014 which will be obtained from the
 22 Company's MTN dealer group for each planned issuance term. For rates effective
 23 January 1, 2016, the forecast interest rate for Hydro One Transmission debt issues will be
 24 based on the September 2015 Consensus Forecasts and the average of indicative new
 25 issue spreads for September 2015 which will be obtained from the Company's MTN
 26 dealer group for each planned issuance term. In addition Hydro One assumes that long

1 term debt rate will be updated to reflect and take into account the actual issuances of debt
2 since the time of original application consistent with the OEB's Decision on Hydro One
3 Transmission's 2013 and 2014 rate application in EB-2012-0031 and changes in the
4 interest rate forecast.

London Property Management Association (LPMA) INTERROGATORY #6

Interrogatory

Ref: Exhibit E1, Tab 2, Schedule 1

- a) How many months of actual expenditures are included in Table 1 in the 2014 Bridge column?
- b) Please update the 2014 Bridge column in Table 1 to reflect the most recent year-to-date figures available and the forecast for the remainder of 2014.
- c) Please provide the most recent year-to-date actual expenditures in the same level of detail as shown in Table 1 along with the figures for the corresponding period in 2013.

Response

a) 3 months of actual expenditures are included in Table 1 in the 2014 Bridge column.

b) External Revenues (\$ Millions)

\$M	2014	2014	2014	2014
	Bridge Original	YTD Actuals Q2	Remaining Forecast (July - Dec 2014)	Updated YE Forecast
Secondary Land Use	14.10	7.00	9.50	16.50
Station Maintenance	7.10	7.50	0.80	8.30
Engineering & Project Delivery	0.20	0.00	0.20	0.20
Other External Revenues	6.90	4.00	2.70	6.70
Totals	28.30	18.50	13.20	31.70

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c)

\$M	2014	2013
	YTD Actuals (Q2 2014)	YTD Actuals (Q2 2013)
Secondary Land Use	7.0	9.6
Station Maintenance	7.5	6.2
Engineering & Project Delivery	0.0	0.3
Other External Revenues	4.0	7.4
Totals	18.5	23.5

1 **London Property Management Association (LPMA) INTERROGATORY #7**

2
3 **Interrogatory**

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5 **Ref: Exhibit C1, Tab 7, Schedule 1**

- 6
7 a) Please provide a copy of the new depreciation study that can be found at Exhibit C1,
8 Tab 7, Schedule 1, Attachment 1.
9
10 b) What is the impact on the depreciation expense in each of 2015 and 2016 of the new
11 depreciation study relative to the existing rates?
12
13 c) Please provide the detailed depreciation schedules that are found at Exhibit C2, Tab
14 4, Schedule 1.

15
16 **Response**

- 17
18 a) Please refer to response to CME's interrogatory 10 at Exhibit I, Tab 2, Schedule 10,
19 part a.
20
21 b) Please refer to response to CME's interrogatory 10 at Exhibit I, Tab 2, Schedule 10,
22 part b.
23
24 c) Please refer to response to SEC's interrogatory 9 at Exhibit I, Tab 10, Schedule 10.
25

1 **London Property Management Association (LPMA) INTERROGATORY #8**

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3 **Interrogatory**

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5 **Ref: Exhibit C1, Tab 8, Schedule 1**

- 6
7 a) Please provide the tax credits (federal job creation, Ontario apprenticeship, Ontario
8 co-op education, etc.) claimed in each of 2011 through 2013 and the forecast for 2014
9 through 2016.
10
11 b) Please provide the calculation of the income tax schedules equivalent to Exhibit C2,
12 Tab 5, Schedule 1, Attachments 1 through 7 in EB-2013-0416 for the transmission
13 PILs.

14
15 **Response**

16
17 Please see the tax schedules filed as Attachment 1 to 8 to this interrogatory response for
18 part a) and b).

C2-05-01-01 - CALCULATION OF UTILITY INCOME TAXES

HYDRO ONE NETWORKS INC. TRANSMISSION

Calculation of Utility Income Taxes
Test Years (2015 and 2016)
Year Ending December 31
(\$ Millions)

Line No.	Particulars	2015 (a)	2016 (b)
	<u>Determination of Taxable Income</u>		
1	Regulatory Net Income (before tax)	\$ 467.0	\$ 503.5
2	Book to Tax Adjustments:		
3	Other Post Employment Benefits expense	22.8	20.4
4	Other Post Employment Benefits payments	(25.5)	(26.1)
5	Inergi pension payments	0.0	0.0
6	Depreciation and amortization	394.2	404.0
7	Capital Cost Allowance	(509.3)	(512.5)
8	Removal costs	(1.5)	(1.5)
9	Environmental costs	(6.3)	(6.0)
10	Hedge loss - amortization	0.2	0.2
11	Non-deductible meals & entertainment	3.7	3.7
12	Capital amounts expensed under \$2K	2.8	2.8
13	Research & Development ITC	0.7	0.6
14	Federal Apprenticeship Tax Credits	0.2	0.2
15	Capitalized overhead costs	(31.3)	(30.6)
16	Capitalized pension costs	(41.4)	(39.9)
17	Debt Issuance costs - amortization	1.7	1.7
18	Debt Issuance costs – 21(e) deduction	(2.6)	(2.9)
19	Premium/Discount - amortization	(0.7)	(0.9)
20	Bond discount deduction	(0.6)	(1.2)
21		\$ <u>(192.9)</u>	\$ <u>(187.8)</u>
22	Regulatory Taxable Income	\$ <u>274.1</u>	\$ <u>315.7</u>
23	Corporate Income Tax Rate	<u>26.50</u>	% <u>26.50</u> %
24	Subtotal	\$ <u>72.6</u>	\$ <u>83.7</u>
25	Less: R&D ITC / Federal Apprenticeship Tax Credits	<u>(0.9)</u>	<u>(0.8)</u>
26	Regulatory Income Tax	\$ <u><u>71.8</u></u>	\$ <u><u>82.8</u></u>
	<u>Tax Rates</u>		
27	Federal Tax	15.00 %	15.00 %
28	Provincial Tax	11.50 %	11.50 %
29	Total Tax Rate	<u>26.50</u> %	<u>26.50</u> %

**C2-05-01-02 - CALCULATION OF CAPITAL COST ALLOWANCE – TEST YEAR
(2015, 2016)**

**HYDRO ONE NETWORKS INC.
TRANSMISSION**
Calculation of Capital Cost allowance (CCA)
2015 Networks Allocation to Tx
Year Ending December 31
(\$ Millions)

2015 CCA Class	<u>Opening UCC</u>	<u>Net Additions</u>	<u>UCC pre- 1/2 yr</u>	<u>50% net additions</u>	<u>UCC for CCA</u>	<u>CCA Rate</u>	<u>CCA</u>	<u>Closing UCC</u>
1	2,141.0	47.5	2,188.5	23.8	2,164.7	4%	86.6	2,101.9
2	569.9	0.0	569.9	-	569.9	6%	34.2	535.7
3	225.1	0.0	225.1	-	225.1	5%	11.3	213.8
6	60.3	0.0	60.3	-	60.3	10%	6.0	54.3
7	0.0	0.0	0.0	-	0.0	15%	0.0	0.0
8	98.2	72.5	170.7	36.3	134.5	20%	26.9	143.8
9	0.7	0.0	0.7	-	0.7	25%	0.2	0.5
10	43.7	12.8	56.5	6.4	50.1	30%	15.0	41.4
12	8.4	7.3	15.6	3.6	12.0	100%	12.0	3.6
13	2.2	0.0	2.2	-	2.2	20%	0.4	1.7
17	53.8	7.0	60.7	3.5	57.3	8%	4.6	56.2
35	0.2	0.0	0.2	-	0.2	7%	0.0	0.2
42	71.8	0.0	71.8	-	71.8	12%	8.6	63.2
45	0.2	0.0	0.2	-	0.2	45%	0.1	0.1
46	7.1	0.0	7.1	-	7.1	30%	2.1	5.0
47	3,081.3	542.9	3,624.2	271.5	3,352.7	8%	268.2	3,356.0
50	44.3	13.6	57.9	6.8	51.1	55%	28.1	29.8
	<u>6408.1</u>	<u>703.6</u>	<u>7,111.7</u>	<u>351.8</u>	<u>6,759.9</u>		<u>504.4</u>	<u>6,607.3</u>
CEC	117.5	4.0	121.5	2.0	119.5	7%	8.4	113.1
	<u>6,525.5</u>	<u>707.6</u>	<u>7,233.2</u>	<u>353.8</u>	<u>6,879.3</u>		<u>512.7</u>	<u>6,720.4</u>
					First Nations		(0.3)	
					CCA not in rates		(3.1)	
					Total CCA for RR		<u>509.3</u>	

HYDRO ONE NETWORKS INC.
TRANSMISSION
Calculation of Capital Cost allowance (CCA)
2016 Networks Allocation to Tx
Year Ending December 31
(\$ Millions)

2016 CCA Class	Opening UCC	Net Additions	UCC pre- 1/2 yr	50% net additions	UCC for CCA	CCA Rate	CCA	Closing UCC
1	2,101.9	38.7	2,140.7	19.4	2,121.3	4%	84.9	2,055.8
2	535.7	0.0	535.7	-	535.7	6%	32.1	503.5
3	213.8	0.0	213.8	-	213.8	5%	10.7	203.1
6	54.3	0.0	54.3	-	54.3	10%	5.4	48.9
7	0.0	0.0	0.0	-	0.0	15%	0.0	0.0
8	143.8	43.3	187.1	21.6	165.5	20%	33.1	154.0
9	0.5	0.0	0.5	-	0.5	25%	0.1	0.4
10	41.4	14.3	55.7	7.2	48.6	30%	14.6	41.2
12	3.6	5.1	8.8	2.6	6.2	100%	6.2	2.6
13	1.7	0.0	1.7	-	1.7	20%	0.4	1.4
17	56.2	6.8	63.0	3.4	59.6	8%	4.8	58.2
35	0.2	0.0	0.2	-	0.2	7%	0.0	0.2
42	63.2	0.0	63.2	-	63.2	12%	7.6	55.6
45	0.1	0.0	0.1	-	0.1	45%	0.0	0.1
46	5.0	0.0	5.0	-	5.0	30%	1.5	3.5
47	3,356.0	448.3	3,804.3	224.2	3,580.2	8%	286.4	3,517.9
50	29.8	12.4	42.2	6.2	36.0	55%	19.8	22.4
	<u>6,607.3</u>	<u>569.0</u>	<u>7,176.3</u>	<u>284.5</u>	<u>6,891.8</u>		<u>507.6</u>	<u>6,668.7</u>
CEC	113.1	3.6	116.8	1.8	114.9	7%	8.0	108.7
	<u>6,720.4</u>	<u>572.6</u>	<u>7,293.1</u>	<u>286.3</u>	<u>7,006.8</u>		<u>515.7</u>	<u>6,777.4</u>
					First Nations		(0.3)	
					CCA not in rates		(2.9)	
					Total CCA for RR		<u>512.5</u>	

C2-05-01-03 - CALCULATION OF UTILITY INCOME TAXES HISTORIC YEARS

HYDRO ONE NETWORKS INC. Transmission

Calculation of Utility Income Taxes
Historic Years
Calculation of Utility Income Taxes Historical Years (2011, 2012, 2013)
Year Ending December 31
(\$ Millions)

Line No.	Particulars	2011	2012	2013*
<u>Calculation of Federal and ON Taxable Income</u>				
1	Net Income Before Tax (NIBT)	\$ 457.8	\$ 536.4	\$ 598.1
2	<u>Required Adjustments to accounting NIBT</u>			
3	Recurring items included in Revenue Requirement (RR):			
4	Other Post Employment Benefit expense greater than payments	8.3	(0.5)	1.2
5	Depreciation and amortization	301.5	320.3	326.5
6	Capital Cost Allowance	(389.3)	(448.1)	(487.8)
7	Cumulative Eligible Capital	(4.3)	(9.8)	(9.2)
8	Removal costs	(2.0)	(2.9)	(3.7)
9	Environmental costs paid	(6.9)	(5.9)	(6.1)
10	Non-deductible items (50% Meals & entertainment / interest)	4.3	3.6	4.9
11	R & D Fed ITC/ Apprenticeship (prior yr addback)	0.9	1.4	1.8
12	Capitalized overhead costs deducted	(26.0)	(30.6)	(29.8)
13	Capital additions deducted for accounting	0.4	5.5	12.5
14	Capitalized Pension cost deductions	(23.2)	(42.4)	(50.1)
15		\$ (136.3)	\$ (209.4)	\$ (239.8)
16	Deferral accounts not part of RR:			
17	RSVA/RRRP	0.0	0.0	0
18	Restricted Depreciation	19.0	16.3	1.9
19	Smart meter costs deferred	0.0	0.0	0
20	Tx Export credit/Deferred export Rev	9.3	8.3	9.3
21	Deferred Pension	(1.2)	(1.9)	(5.9)
22	Deferral a/c's etc.	1.9	2.4	0.7
23	Tax Changes deferral a/c s	0.0	(0.8)	0
24	Riders 3/6/8	0.0	0.0	0
25	Station Revenue and Secondary Use	0.0	14.0	9.6
26		\$ 29.0	\$ 38.3	\$ 15.6
27	Reversal of accounting adjustments not part of RR:			
28	Contingent liability movement	(5.6)	0.8	1.9
29	Capitalized interest deductible for tax	(45.9)	(39.6)	(32.3)
30	Capitalized SRED deducted for tax	0.0	(6.8)	0.0
31		\$ (51.5)	\$ (45.6)	\$ (30.4)
32				

HYDRO ONE NETWORKS INC.
Transmission

Calculation of Utility Income Taxes
Historic Years

Calculation of Utility Income Taxes Historical Years (2011, 2012, 2013)
Year Ending December 31
(\$ Millions)

Line No.	Particulars	2011	2012	2013*
33	Recurring items not part of RR:			
34	Capital Contribution (CCRA True up)	0.0	8.4	0.0
35	First Nations (CCA)	(0.3)	(0.3)	(0.3)
36	CCA on Capital Contributions and OPA directed projects	0.0	0.0	(2.9)
37		\$ (0.3)	\$ 8.1	\$ (3.2)
38	Immaterial items not in business plan detail:			
39				
40	Reverse Insurance proceeds included in NIBT	(1.0)	(4.1)	0.0
41	Net Underwriting/Finance costs	(2.5)	(2.6)	(0.3)
42	WSIB	(0.8)	0.0	0.0
43	Tenant Inducement	0.7	(0.9)	(0.9)
44	Capital tax paid vs. accrued	0.4	0.0	0.0
45	Other	3.2	0.3	(3.4)
46		\$ 0.0	\$ (7.3)	\$ (4.6)
47				
48	NET Adjustments to Accounting NIBT	\$ (158.8)	\$ (215.9)	\$ (262.4)
49				
50	Taxable Income	\$ 299.0	\$ 320.5	\$ 335.7
51				
52	NOTE:			
53	Transmission includes Five Nations data			
54				
55	Taxable Income	\$ 299.0	\$ 320.5	335.7
56				
57	Corporate Income Tax Rate	28.25 %	26.5 %	26.5
58				
59	Subtotal	\$ 84.5	\$ 84.9	89.0
60	Less: Tax credits	(5.5)	(4.7)	(4.3)
61	Income Tax	\$ 79.0	\$ 80.2	84.7
62				
63				
64				
65				
66	Tax Rates			
67	Federal Tax	17.0 %	15.0 %	15.0
68	Provincial Tax	11.25 %	11.5 %	11.5
69	Total Tax Rate	28.25 %	26.5 %	26.5

* 2013 Numbers based on estimates as tax returns have not been finalized.

**C2-05-01-04 - CALCULATION OF CAPITAL COST ALLOWANCE -
HISTORIC (2011, 2012, 2013)**

**HYDRO ONE NETWORKS INC.
TRANSMISSION**

Calculation of Capital Cost allowance (CCA)
2011 Networks Allocation to Transmission
Year Ending December 31
(\$ Millions)

2011 CCA Class	Opening UCC	Net Additions	UCC pre- 1/2 yr	50% net additions	UCC for CCA	CCA Rate	CCA	Closing UCC
1	2,489.7	1.6	2,491.3	-	2,491.3	4%	99.7	2,391.6
2	729.9	-	729.9	-	729.9	6%	43.8	686.1
3	235.6	6.8	242.4	3.7	238.7	5%	11.9	230.4
6	52.4	21.3	73.7	10.6	63.1	10%	6.3	67.4
7	-	-	-	-	-	15%	-	-
8	36.2	8.5	44.7	4.3	40.4	20%	8.1	36.6
9	2.3	(0.1)	2.2	-	2.2	25%	0.5	1.6
10	61.9	10.6	72.5	5.0	67.5	30%	20.3	52.3
12	7.6	20.3	27.9	9.8	18.1	1	18.1	9.8
13	0.2	0.9	1.1	0.4	0.6	N/A	0.1	0.9
17	25.7	11.2	36.9	5.6	31.3	8%	2.5	34.4
35	0.3	-	0.3	-	0.3	7%	-	0.3
42	92.9	3.4	96.3	1.7	94.6	12%	11.4	85.0
45	2.1	-	2.1	-	2.1	45%	0.9	1.1
46	4.6	-	4.6	-	4.6	30%	1.4	3.2
47	1,523.6	549.6	2,073.2	270.6	1,802.9	8%	144.2	1,929.2
50	5.3	62.4	67.7	31.2	36.5	55%	20.1	47.6
52	-	0.3	0.3	-	0.3	100%	0.3	-
Total CCA	5,270.3	696.8	5,967.1	342.9	5,624.4		389.6	5,577.5
						Less First Nations	(0.3)	
						Total CCA for RR	389.3	
CEC	61.2	0.3	61.5	-	61.5	7%	4.3	57.2

HYDRO ONE NETWORKS INC.
TRANSMISSION
Calculation of Capital Cost allowance (CCA)
2012 Networks Allocation to Transmission
Year Ending December 31
(\$ Millions)

2012 CCA Class	Opening UCC	Net Additions	UCC pre- 1/2 yr	50% net additions	UCC for CCA	CCA Rate	CCA	Closing UCC
1	2,391.60	0.5	2,392.10	0.3	2,391.90	4%	95.7	2,296.5
2	686.1	-	686.1	-	686.1	6%	41.2	644.9
3	230.4	23.6	254	11.8	242.2	5%	12.1	241.9
6	67.4	5.6	73	2.8	70.2	10%	7	66.0
7	-	-	-	-	0	15%	0	0.0
8	36.6	6.9	43.5	5.7	37.9	20%	7.6	36.0
9	1.6	-	1.6	-	1.6	25%	0.4	1.2
10	52.3	11.2	63.5	5.6	57.9	30%	17.4	46.1
12	9.8	18.9	28.7	9.4	19.3	100%	19.3	9.5
13	0.9	0.2	1.1	0.1	1	20%	0.4	0.7
17	34.4	15.2	49.6	7.6	42	8%	3.4	46.3
35	0.3	-	0.3	-	0.3	7%	0	0.3
42	85	13.9	98.9	7	91.9	12%	11	87.9
45	1.1	-	1.1	-	1.1	45%	0.5	0.6
46	3.2	1.9	5.1	0.9	4.2	30%	1.3	3.9
47	1,929.20	786.5	2,715.70	389.3	2,326.40	8%	186.1	2,529.6
50	47.6	71.4	119	37	82	55%	45.1	73.9
Total CCA	5,577.5	955.8	6,533.3	477.5	6,056.0		488.4	6,085.1
						First Nations	(0.30)	
						Total CCA for RR	448.1	
CEC	57.2	82.3	139.5		139.5	7%	9.8	129.7

HYDRO ONE NETWORKS INC.
TRANSMISSION
Calculation of Capital Cost allowance (CCA)
2013 Networks Allocation to Transmission
Year Ending December 31
(\$ Millions)

2013 CCA Class	Opening UCC	Net Additions	UCC pre- 1/2 yr	50% net additions	UCC for CCA	CCA Rate	CCA	Closing UCC
1	2,296.5	(16.1)*	2,280.4	2.6	2,277.7	4%	91.1	2,189.3
2	644.9	0.0	644.9	-	644.9	6%	38.7	606.2
3	241.8	7.4	249.2	3.7	245.5	5%	12.3	236.9
6	66.0	8.1	74.0	4.0	70.0	10%	7.0	67.0
7	0.0	0.0	0.0	-	0.0	15%	0.0	0.0
8	36.0	19.4	55.3	9.7	45.6	20%	9.1	46.2
9	1.2	0.0	1.2	-	1.2	25%	0.3	0.9
10	46.1	13.8	59.9	6.9	53.0	30%	15.9	44.0
12	9.4	24.4	33.8	12.2	21.6	100%	21.6	12.2
13	0.7	2.3	3.0	1.2	1.8	20%	0.4	2.6
17	46.3	7.9	54.2	3.9	50.2	8%	4.0	50.1
35	0.3	(0.1)	0.2	-	0.2	7%	0.0	0.2
42	87.9	4.5	92.4	2.3	90.1	12%	10.8	81.6
45	0.6	0.0	0.6	-	0.6	45%	0.3	0.3
46	3.9	8.8	12.7	4.4	8.3	30%	2.5	10.2
47	2,529.6	439.1	2,968.7	213.5	2,755.2	8%	220.4	2,748.3
50	73.9	57.7	131.6	28.9	102.7	55%	56.5	75.1
Total CCA	6,085.1	577.0	6,662.1	293.3	6,368.9		491.0	6,171.2
						First Nation	(0.3)	
						Less CCA not in rates	(2.9)	
						Total CCA for RR	487.8	
CEC	129.7	2.1	131.8	-	131.8	7%	9.2	122.6

*Due to audit adjustments which resulted in reclassification of CCA Class

1 **C2-05-01-05 - CALCULATION OF CAPITAL COST ALLOWANCE**
2 **BRIDGE YEAR 2014**

HYDRO ONE NETWORKS INC.
TRANSMISSION

Calculation of Capital Cost Allowance (CCA)
2014 Networks Allocation to Transmission
Year Ending December 31
(\$ Millions)

2014 CCA Class	<u>Opening UCC</u>	<u>Net Additions</u>	<u>UCC pre- 1/2 yr</u>	<u>50% net additions</u>	<u>UCC for CCA</u>	<u>CCA Rate</u>	<u>CCA</u>	<u>Closing UCC</u>
1	2,189.3	40.1	2,229.4	20.0	2,209.3	4%	88.4	2,141.0
2	606.2	0.0	606.2	-	606.2	6%	36.4	569.9
3	236.9	0.0	236.9	-	236.9	5%	11.8	225.1
6	67.0	0.0	67.0	-	67.0	10%	6.7	60.3
7	0.0	0.0	0.0	-	0.0	15%	0.0	0.0
8	46.2	68.1	114.3	34.0	80.2	20%	16.0	98.2
9	0.9	0.0	0.9	-	0.9	25%	0.2	0.7
10	44.0	15.2	59.2	7.6	51.6	30%	15.5	43.7
12	12.2	16.7	28.9	8.4	20.5	100%	20.5	8.4
13	2.6	0.0	2.6	-	2.6	20%	0.4	2.2
17	50.1	8.0	58.1	4.0	54.1	8%	4.3	53.8
35	0.2	0.0	0.2	-	0.2	7%	0.0	0.2
42	81.6	0.0	81.6	-	81.6	12%	9.8	71.8
45	0.3	0.0	0.3	-	0.3	45%	0.2	0.2
46	10.2	0.0	10.2	-	10.2	30%	3.1	7.1
47	2,748.3	575.9	3,324.2	288.0	3,036.2	8%	242.9	3,081.3
50	75.1	14.5	89.6	7.3	82.3	55%	45.3	44.3
	<u>6,171.2</u>	<u>738.5</u>	<u>6,909.6</u>	<u>369.2</u>	<u>6,540.4</u>		<u>501.6</u>	<u>6,408.0</u>
CEC	122.6	3.6	126.2	1.8	124.4	7%	8.7	117.5
	<u>6,293.7</u>	<u>742.0</u>	<u>7,035.8</u>	<u>371.0</u>	<u>6,664.8</u>		<u>510.3</u>	<u>6,525.5</u>
					First Nations		(0.30)	
					CCA not in rates		(3.4)	
					Total CCA for RR		<u>506.5</u>	

**C2-05-01-06 - CALCULATION OF APPRENTICESHIP AND EDUCATION
TAX CREDIT TEST YEARS**

HYDRO ONE NETWORKS INC.
Transmission
Calculation of Apprenticeship and Education Tax Credit
Tax Credit Test Years (2015, 2016)
Year Ending December 31
(\$ Thousands)

Line No	Particulars	2015	2016
1	ON Coop Education Credit	\$ 560	\$ 560
2	Eligible Positions	189	189
3			
4	ON Apprenticeship Credit	\$ 2,448	\$ 2,448
5	Eligible Positions	293	293
6			
7	Ontario Business Research		
8	Institute Credit	\$ 62	\$ 62
9			
10	Federal Apprenticeship Credit	\$ 200	\$ 200
11	Eligible positions	137	137
12			
13	SR&ED	700	600
14			
15	TOTAL TAX CREDIT	\$ 3,970	\$ 3,870
16			
17			
18	Tax Credit included in tax expense (1)	\$ 900	\$ 800
19	Tax Credit included in OM&A (1)	\$ 3,070	\$ 3,070
20	Total	\$ 3,970	\$ 3,870

(1) In accordance with US GAAP, refundable tax credits included are recorded in OM&A and non refundable tax credits are recorded as a reduction to tax expense. Consequently, the tax credits relating Ontario Co-op, Ontario, Apprenticeship, and Ontario Business Research are recorded in OM&A

**C2-05-01-07 - CALCULATION OF APPRENTICESHIP AND EDUCATION
TAX CREDIT - HISTORIC YEARS**

HYDRO ONE NETWORKS INC.

TRANSMISSION

Calculation of Apprenticeship and Education Tax

Historic Years

2011, 2012

Year Ending December 31

(\$ Thousands)

Line No	Particulars	2011	2012
1	ON Coop Education Credit	\$ 690	\$ 525
2	Eligible Positions	230	175
3			
4	ON Apprenticeship Credit	\$ 3,127	\$ 2,303
5	Eligible Positions	341	288
6			
7	Federal Apprenticeship Credit	\$ 342	\$ 169
8	Eligible positions	177	99
9			
10	SR&ED	\$ 1,327	\$ 1,738
11			
12	TOTAL TAX CREDIT	\$ 5,486	\$ 4,735

HYDRO ONE NETWORKS INC.

Transmission

Calculation of Utility Income Taxes
Tax Credit Test Years (2014, 2015)
Year Ending December 31
(\$ Thousands)

Line No	Particulars	2013*	2014
1	ON Coop Education Credit	\$ 655	\$ 560
2	Eligible Positions	218	189
3			
4	ON Apprenticeship Credit	\$ 2,443	\$ 2,448
5	Eligible Positions	313	293
6			
7	Ontario Business Research		
8	Institute Credit	\$ 53	\$ 62
9			
10	Federal Apprenticeship Credit	\$ 310	\$ 200
11	Eligible positions	163	137
12			
13	SR&ED	1,065	700
14			
15	TOTAL TAX CREDIT	<u>\$ 4,526</u>	<u>\$ 3,970</u>
16			
17			
18	Tax Credit included in tax expense	\$ 1,375	\$ 900 (1)
19	Tax Credit included in OM&A	\$ 3,151	\$ 3,070 (1)
20	Total	<u>\$ 4,526</u>	<u>\$ 3,970</u>

* 2013 numbers based on the 2013 Tax returns filed for Hydro One Networks

(1) In accordance with US GAAP, refundable tax credits included are recorded in OM&A and non refundable tax credits are recorded as a reduction to tax expense. Consequently, the tax credits relating Ontario Co-op, Ontario, Apprenticeship, and Ontario Business Research are recorded in OM&A.

1 **London Property Management Association (LPMA) INTERROGATORY #9**

2
3 **Interrogatory**

4
5 **Ref: Exhibit A, Tab 15, Schedule 1**

- 6
7 a) Please provide the percentage salary increases that are "consistent with ratified
8 collective agreement over the length of the agreement" for Society Staff and PWU
9 Staff.
10
11 b) What is the impact on the revenue requirement if the assumed net annual increase for
12 both 2015 and 2016 is reduced by one percentage point in both years for the Society
13 Staff and PWU Staff?
14
15 c) What is the impact on the revenue requirement if the assumed annual increase for
16 MCP staff is reduced in each of 2015 and 2016 by one percentage point?
17
18 d) Please provide Exhibit C1, Tab 4, Schedule that is referred to on page 6.

19
20 **Response**

- 21
22 a) In the most recent PWU settlement, the negotiated salary increases are 2.5% and
23 2.5% for 2013 and 2014. In the most recent Society settlement , negotiated salary
24 increases are 2%, 2.25% and 2.25% for 2013, 2014 and 2015 respectively.

25
26 **Note** – The deadline for response to this IR does not allow enough time to do the
27 analysis for parts b and c. On a best efforts basis, answers have been prepared based
28 on the previous Transmission filing.

- 29
30 b) During Hydro One’s EB-2012-0031 Transmission rate filing, the Consumers Council
31 of Canada asked what the revenue requirement impact would be if wage escalations
32 were reduced by 1% for Society, PWU, and MCP. Hydro One estimates that the
33 impact on 2015 and 2016 revenue requirement would be in the same range as the
34 previously filed responses. The EB-2012-0031 responses can be found in I-7-10.01
35 CCC 23, I-7-10.02 CCC 24, and I-7-10.03 CCC 25, and are summarized in the table
36 below.

1 Revenue Requirement impact of a 1% change in wage escalation rates, by Representation

(\$ millions)	2013	2014
Society	0.40	0.45
PWU	0.85	0.96
MCP	0.23	0.26

2

3 c) See part b)

4

5 d) Please see Attachment 1 to this interrogatory.

1 **2.0 TOTAL COMPENSATION STUDIES**

2
3 In EB-2006-0501, the Board directed Hydro One to file a total compensation study that
4 “will provide useful and reliable information concerning Hydro One’s compensation
5 costs, and how they compare to those of other regulated transmission and/or distribution
6 utilities in North America”. Following stakeholder sessions to obtain input on how this
7 study would be conducted, Mercer undertook a Compensation Cost Benchmarking Study
8 (the “2008 Study”) and the results were filed in EB-2008-0272.

9
10 In EB-2010-0002, the Board directed Hydro One “to revisit its compensation cost
11 benchmarking study in an effort to more appropriately compare compensation costs to
12 those of other regulated transmission and/or distribution utilities in North America.
13 Further stakeholder sessions took place and Mercer once again conducted a total
14 compensation study (the “2011 Study”) that was filed in EB-2012-0031.

15
16 Responding to a stakeholder request for an updated study in the EB 2013-0416
17 application, Hydro One requested Mercer to conduct another study (the “2013 Study”).

18
19 Table 1 compares the study results for all three studies.

1
 2
 3

Table 1
Mercer Compensation Benchmarking Study Results vs. Market Median
Total Compensation

Employee Group	2013 Survey Results	2011 Survey Results	2008 Survey Results	Total Change from 2008 to 2013
Management	-1%	-17%	-1%	0%
Society	9%	5%	5%	4%
PWU	12%	18%	21%	-9%
Overall	10%	13%	17%	-7%

4
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 11
 12

The 2013 study findings show that on an overall weighted average, Hydro One is positioned approximately 10% above market median. This is an improvement relative to the 2008 Mercer study where Hydro One’s overall weighted average was found to be 17% above market median. Mercer stated the shift towards market median was notable, especially given the peer group, like Hydro One, had worked to minimize labour costs through the substantial economic downturn which began in 2008. In other words, Hydro One improved its standing against others in the peer group who were also attempting to reduce compensation costs.

13
 14
 15
 16
 17
 18
 19
 20
 21

For the individual groups, Hydro One management classifications surveyed were found to be 1% below market median. Compared to the 2011 study, this shows that non-represented compensation has moved toward market median. The 2011 study result was mainly due to the impact of a two year wage freeze on non-represented compensation. The 2013 study results would indicate that non-represented classifications are closer to the desired non-represented compensation policy of being at the 50th percentile. Professionals (Society of Energy Professionals – “the Society”) classifications were found to be 9% above market median. Power Workers’ Union (PWU) represented

1 classifications were found to be 12% above market median, a significant improvement
2 from the 2008 result of 21% above market median reflecting the increased use of hiring
3 hall staff and the increased pension contributions negotiated as part of the new collective
4 agreement.

6 **3.0 THE UNIONIZED ENVIRONMENT**

7
8 Approximately 90% of the Hydro One work force is unionized. Hydro One has collective
9 agreements with the Power Workers' Union (PWU), The Society of Energy Professionals
10 (The Society), the Canadian Union of Skilled Workers (CUSW), and each of the 15
11 Building Trade Unions (BTUs) (via EPSCA).

12
13 The collective agreements establish the terms and conditions of the employment
14 relationship for a fixed period of time. It is critical to understand that Hydro One
15 inherited collective agreements from Ontario Hydro which established terms of
16 employment. These legacy collective agreements established a 'floor' upon which future
17 negotiations were based. While legacy collective agreements continue to strongly
18 influence current Hydro One collective agreements, Hydro One has done much to change
19 the status quo. Hydro One has been successful in incrementally reducing costs and/or
20 increasing productivity through collective bargaining. Obtaining dramatic compensation
21 reductions in the environment facing Hydro One is unrealistic.

22
23 Collective Agreements are legal contracts. In labour agreements, more so than
24 commercial contracts, parties must also consider their longer term relationship. Hydro
25 One's Human Resources strategy is to negotiate fair and reasonable collective
26 agreements to foster and promote healthy union-management relationships.

1 **4.0 COLLECTIVE BARGAINING**

2
3 **4.1 PWU**

4
5 The PWU represents over 70% of Hydro One employees. The PWU is an industrial
6 union that represents the trades, controllers, technicians and clerical workers. Its
7 members perform line work, forestry, electrical, mechanical, protection and control,
8 meter reading, stock keeping, system operation, technical and clerical/administrative
9 work.

10
11 An attempt by Hydro One to achieve significant cost reductions in wages, benefits and
12 pension would likely result in a strike. The last PWU strike was in 1985 and lasted 12
13 days. It was handled by placing management and Society-represented staff in key
14 functions to maintain operations/service to the extent possible. However, as a result of
15 numerous downsizing programs, and reorganization of work, there is fewer management
16 staff available today with the requisite skills and experience to occupy key PWU
17 positions during a strike. Furthermore, unlike other industries, Hydro One does not have
18 a product that can be stockpiled. As a result, the Company would be unable to continue
19 operations for a sustained period of time during a PWU strike.

20
21 Rather than risk jeopardizing the supply of reliable electricity, the company has sought to
22 achieve overall cost reductions by negotiating increased management flexibility to run
23 the operations, as opposed to wide scale reductions in wages, benefits and pensions.

24
25 **4.2 The Society of Energy Professionals**

26
27 The Society represents approximately 20% of Hydro One employees. Society-represented
28 staff performs engineering, high level technical and administrative work as well as
29 supervisory functions. The majority of the Society-represented employees in Hydro One

1 have either post-secondary education (university degrees) and/or post-graduate education.
2 These include graduate engineers, finance and telecommunication specialists.

3
4 In 2005, the Society initiated a fifteen week strike in response to Hydro One's desire to
5 reduce wages and benefits and increase hours of work for new employees. Hydro One
6 was requested by the Shareholders to enter into mediation-arbitration to end the strike.
7 The arbitration award resulted in some cost savings for future hires, highlighted with less
8 costly pension provisions for new Society employees.

9 10 **5.0 COLLECTIVE BARGAINING**

11
12 The collective bargaining relationships at Hydro One are very complex and sophisticated.
13 Hydro One and the bargaining agents with whom the Company negotiate are
14 professionals and very seasoned in the area of collective bargaining. Hydro One has been
15 able to achieve reasonable settlements with incremental cost reductions and increased
16 flexibility in a variety of areas in every round of collective bargaining since 2001.
17 Examples include:

- 18
- 19 • elimination of costly incentive pay plans
 - 20 • reasonable economic increases;
 - 21 • reductions and cost containment in benefit improvements;
 - 22 • introduction of new salary schedules with lower starting rates and lower maximum
 - 23 rates;
 - 24 • introduction of a less costly pension plan;
 - 25 • increased employee pension contributions;
 - 26 • increased flexibility to contract out work;
 - 27 • reduction in the hourly rate for a variety of jobs;
 - 28 • increased flexibility to move staff;

- 1 • increased utilization of contingent workers;
- 2 • introduction of less costly classifications;
- 3 • greater shift scheduling flexibility; and
- 4 • reduction in temporary work headquarter costs.

5.1 Recent Negotiation Highlights

5.1.1 PWU Negotiations

9
10 In 2013, a new 2 year collective agreement was successfully negotiated by the bargaining
11 committees of Hydro One and the PWU and ratified by the PWU-represented staff. The
12 term of this collective agreement ends on March 31st, 2015. Modest economic increases
13 were negotiated (2.5% in each year). To lessen the cost impact of these increases, they
14 were phased in on April 1st and October 1st in 2013 and 2014.

15
16 Employee pension contributions were also increased. In the last Transmission Decision,
17 the Board commented that it expects to see demonstrated measurable progress towards
18 increasing employee pension contributions. The Board stated that “Hydro One must
19 demonstrate measurable progress towards having its pension contributions reflect those
20 prevailing in the public sector generally. The evidence suggests that an employee
21 contribution level of 50% is the norm”. In 2011, Hydro One negotiated a 0.5% increase to
22 the PWU employee pension contributions and in the most recent negotiations, employee
23 contributions have increased by a further 0.75% in 2013 and 1.0% in 2014.

24
25 To address rising benefit costs, the parties agreed to the requirement to use mandatory
26 generic prescribed drugs and to establish a joint committee to make recommendations to
27 reduce costs in the area of biological and other expensive drugs.

1 Increased resourcing flexibility was achieved by negotiating enhancements to use more
2 temporary staff and to contract out more work.

3
4 **5.1.2 Society Negotiations**

5
6 In 2013, a new three year collective agreement was successfully negotiated by the
7 bargaining committees of Hydro One and the Society and ratified by the Society-
8 represented staff. The term of this collective agreement ends on March 31st, 2016.

9
10 Modest economic increases were negotiated (2%, 2% and 2.25%). Employee pension
11 contributions were increased by 0.75%, 1% and 0.75% in each year of the term of the
12 collective agreement.

13
14 Increased flexibility was achieved by increasing the length of new hire probationary
15 periods and formalizing the deletion of the Purchase Service Agreement so that
16 contracting out can be fully utilized when appropriate.

17
18 **6.0 MANAGEMENT (MCP) COMPENSATION**

19
20 Changes to management compensation are wholly at the discretion of senior
21 management. The management compensation structure is comprised of two key
22 programs, merit pay and short term incentive pay.

23
24 **Merit Pay**

25 Merit pay is designed to reflect and reward increasing competency and performance in an
26 employee's current role while also taking into account the extent to which Hydro One
27 wishes to recognize and retain the employee. On this basis, merit pay is not an across-the-

1 board base pay program but rather it is recognition of performance/ potential based on
2 managerial judgment.

3
4 The *Broader Public Sector Accountability Act (BPSAA) 2010* froze all management
5 compensation from 2010 to 2012. The 2012 Ontario Budget amended this Act so that
6 compensation for Vice President's and above are frozen until such time that there is no
7 deficit in the Budget.

8
9 Since the wage freeze legislation expired for management positions below the Vice
10 President level, Hydro One has had a limited base merit pay program in 2013. A rigorous
11 process was used to align pay for performance by considering a number of factors such as
12 overall performance, engagement scores, pay relative to performance of peers and
13 potential flight risk. In 2013, all MCP employees increased their pension contributions by
14 0.75%.

15
16 In 2014, MCP employees were eligible for a merit pay program. A 2.5% merit pay
17 adjustment fund was established for MCP employees Band 5 level and below. The merit
18 program once again aligned pay and performance and was allocated in a manner that
19 differentiates between levels of performance. For a second consecutive year, all MCP
20 employees had their pension contributions increased by another 0.75%.

21
22 **Short Term Incentive Pay**

23 A short term incentive (STI) program is a discretionary program and is based on the
24 Hydro One Board and Senior Management's assessment of achievement of the corporate
25 scorecard and achievement of individual performance agreements.

26
27 The STI program is a compensation strategy that drives performance and is separate and
28 distinct from the merit pay program. The STI program is designed to establish a strong
29 correlation between corporate performance, individual performance and at-risk pay. The

1 STI program provides an opportunity for MCP employees to earn an annual cash
2 incentive based on two elements. The first is the achievement of corporate performance
3 targets set by the Board of Directors. Corporate performance measures and targets are set
4 annually through the use of a balanced scorecard. A balanced scorecard is designed to
5 measure corporate performance broadly, covering key aspects of corporate performance.
6 Measures included in the scorecard are designed to ensure the corporate strategy is
7 achieved. The second element of the STI program is individual contributions to these
8 targets. MCP employees have annual performance contracts that specify key goals and
9 targets that individual performance is measured against.

10
11 The maximum percentage of funding for the STI program is at the discretion of the
12 Hydro One Board of Directors, based on a recommendation by the Human Resources
13 Committee of the Board. The maximum allowable individual short term incentive is
14 established for each MCP salary band.

15 16 **7.0 COMPENSATION STRATEGY**

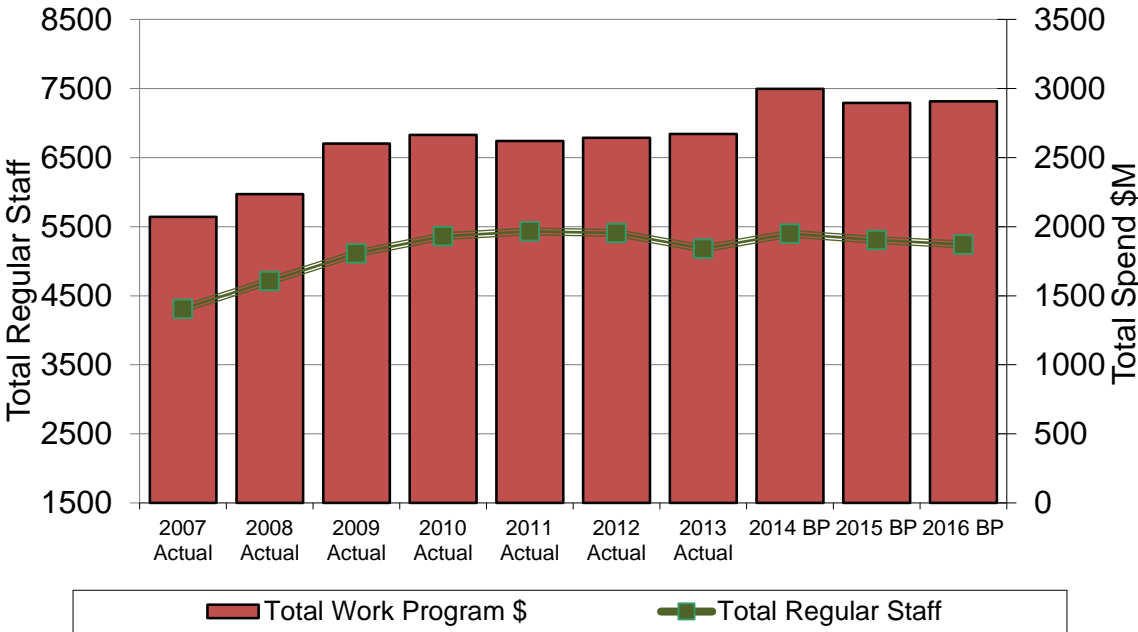
17
18 Hydro One has experienced rapidly increasing transmission and distribution work
19 programs since 2004. Resourcing of these work programs must occur on the most cost
20 effective basis possible within a highly competitive labour market.

21
22 Attachment 2 provides year end compensation costs for Hydro One Networks
23 (Transmission and Distribution) from 2010 to 2013 and forecasted year end
24 compensation cost for the bridge year (2014) and test years (2015-2016). The Company
25 believes that the upward trend in these costs is reasonable in light of the steadily
26 increasing transmission and distribution work programs since 2004, as well as the
27 negotiated increases in labour rates.

1 Note this data represents year end payroll costs for Hydro One Networks in total (i.e.
 2 Distribution and Transmission). The purpose of this table is to illustrate the trend in
 3 compensation costs.

4
 5 For the period 2015-2016, the total Networks (Transmission and Distribution) work
 6 program is expected to increase by approximately 0.4% while the regular headcount is
 7 expected to decrease by 1.3 % by year end 2016.

8
 9 **Table 2**
 10 **Work Program and Head Count Forecast (2007 to 2016)**



11
 12
 13 Hydro One believes that the goal of reducing overall wages, pension and benefits for
 14 future new hires reflects a reasonable balance between the need to attract and retain new
 15 staff while pursuing a more favourable cost structure. This is a difficult balance to
 16 achieve. Too much of a reduction in compensation and benefits will impact the ability to

1 attract the new skills necessary to replenish the workforce. However, as outlined in
2 Exhibit C1, Tab 3, Schedule 1, as the proportion of Hydro One staff qualifying for and
3 taking early retirement is growing substantially, the goal of reducing compensation for
4 future new hires will reduce overall compensation costs for Hydro One and its ratepayers.
5 Hydro One's best performers are highly marketable, and a number of management staff
6 have left the company in recent years. The Hydro One succession plan has facilitated
7 internal promotion and a smooth transition in most cases, but our internal replacement
8 capacity is now significantly diminished in key areas. External recruitment has proven
9 challenging as our compensation levels and structures have fallen below the market for
10 top people.

11 12 **8.0 COMPARISON OF COLLECTIVE AGREEMENTS**

13
14 When assessing the prudence of Hydro One's collective agreements, a useful comparison
15 is the compensation wage scales for similar PWU (table 3) and Society (table 4)
16 classifications in the Ontario Hydro successor companies as Hydro One competes for
17 staff with these companies and is vulnerable to losing staff to these organizations. Such a
18 comparison is instructive since all these wage scales have the same starting point, which
19 is the establishment of the successor companies in 1999. It is important to compare
20 compensation escalation based on total "dollar" base rates of similar classifications.
21 Simply comparing accumulated base rate percentage increases does not capture the true
22 difference between total base compensation paid at the successor companies.

23
24 In the two wage scale comparison tables for each of PWU and Society staff which follow
25 the wage scale rates shown are for the top end of the wage scale band.

26
27 As shown in Table 3 for PWU staff, Hydro One has negotiated substantially lower wage
28 scales than OPG and Bruce Power for all seven positions with the exception of one.

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 2

Table 3
Power Workers' Union – Wage Comparisons, 1999 and 2013

	1999	2013	Percent Change
Mechanical Maintainer/Regional Maintainer - Mechanical			
Hydro One	\$ 28.23	\$ 42.48	50 %
OPG	\$ 29.08	\$ 50.08	72 %
Bruce Power	\$ 29.08	\$ 57.10	96 %
Shift Control Technician/Regional Maintainer – Electrical			
Hydro One	\$ 28.23	\$ 42.48	50 %
OPG	\$ 30.31	\$ 50.08	65 %
Bruce Power	\$ 30.31	\$ 57.27	89 %
Clerical – Grade 56 (based on a 35-hour work week)			
Hydro One	\$ 21.46	\$ 32.30	51 %
OPG	\$ 21.46	\$ 31.99	49 %
Bruce Power	\$ 21.46	\$ 35.59	66 %
Clerical – Grade 58 (based on a 35-hour work week)			
Hydro One	\$ 24.20	\$ 36.42	50 %
OPG	\$ 24.20	\$ 38.95	61 %
Bruce Power	\$ 24.20	\$ 40.13	66 %
Regional Field Mechanic/Transport & Work Equipment Mechanic			
Hydro One	\$ 26.20	\$ 39.43	51 %
OPG	\$ 26.20	\$ 50.08	91 %
Bruce Power	\$ 26.20	\$ 49.71	90 %
Stockkeeper			

	1999	2013	Percent Change
Hydro One	\$ 23.27	\$ 36.75	58 %
OPG	\$ 23.27	\$ 38.95	67 %
Bruce Power *	\$ 23.27	\$ 44.88	93 %
Labourer			
Hydro One	\$ 19.03	\$ 28.63	50 %
OPG	\$ 19.03	\$ 38.95	105 %
Bruce Power *	\$ 19.03	\$ 44.88	136 %

1 * Assumes that the position falls within the Civil Maintainer II classification and
 2 corresponding wage rate
 3
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5 **Table 4**
Society of Energy Professional – Wage Comparisons 1999 and 2013

	1999	2013	Percent Change
MP2			
Hydro One	\$ 77,954.79	\$ 100,078.50	28 %
OPG	\$ 77,954.79	\$ 101,333.39	30 %
Bruce Power	\$ 77,954.79	\$ 102,113.46	31 %
IESO	\$ 77,954.79	\$ 118,068.03	51 %
MP4			
Hydro One	\$ 88,651.39	\$ 113,801.46	28 %
OPG	\$ 88,651.39	\$ 115,171.67	30 %
Bruce Power	\$ 88,651.39	\$ 116,045.14	31 %
IESO	\$ 88,651.39	\$ 134,218.03	51 %

	1999	2013	Percent Change
MP6			
Hydro One	\$ 100,756.80	\$ 129,350.68	28 %
OPG	\$ 100,756.80	\$ 130,950.99	30 %
Bruce Power	\$ 100,756.80	\$ 131,907.42	31 %
IESO	\$ 100,756.80	\$ 152,617.49	51 %

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For Society staff, Hydro One, OPG and Bruce Power have successfully negotiated lower end rates as compared to the PWU wages. However, for all three Society categories, Hydro One has lower wage scales than OPG and Bruce Power. The IESO has continued with the wage schedule structure that existed at demerger.

It is quite clear that compared to these four other companies, Hydro One has been quite successful in controlling costs in collective bargaining over the past ten years to the benefit of all ratepayers.

9.0 POWER LINE TECHNICIAN RATE COMPARISON

Within Ontario, the largest LDCs are Hydro One Networks Inc., Toronto Hydro Electric System Limited, Hydro Ottawa Limited, Enersource Hydro Mississauga Inc., London Hydro Inc., Horizon Utilities Corp. and Powerstream Inc. Each of the LDCs employ Power Line Maintainers (PLMs). Table 5 compares the PLM rate at each of the LDCs to the PLM rate paid at Hydro One Networks. The PLM classification was chosen since it represents a highly skilled and highly populated classification that is core to the other LDCs.

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Table 5
POWER LINE MAINTAINER WAGE COMPARISON

Company	Classification	Wage – 2012(\$hr)	H1 % Difference
Hydro One	Power Line Maintainer	38.75	-
Toronto Hydro	Power Line or Cable Person	40.26	-3.9%
Enersource	Power Line Technician	38.95	-.5%
Powerstream	Linesperson	38.31	+1.1%
Horizon	Power Line Maintainer	37.88	+2.3%
London Hydro	Power Line Maintainer	36.42	+6.0%
Hydro Ottawa	Power Line Maintainer	36.53	+6.0%

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Hydro One uses a multi-skilled position called a Regional Maintainer–Lines classification (RLM). The RLM uses the PLM as the base job with additional duties such as lead hand, contract monitor, establishment and holding of work protection as well as additional technical, trade and customer relations skills beyond the Power Line Maintainer classification.

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Table 4 illustrates that the PLM rate at Hydro One ranges from being slightly below to slightly above the larger LDCs in Ontario. Despite the rates being very close, the type of work and skills required at Hydro One are often more complex. Hydro One employees often work in a more rural setting than their counterparts in other LDCs. As a consequence, Hydro One employees can work in conditions and with equipment not normally required at these LDCs. Trades employees working on lines maintenance often work on both Distribution and Transmission assets and are required to be knowledgeable and proficient with overhead, underground and submarine cable. Again, this is not typical of the PLM role in other Ontario LDCs.

1 **10.0 SUMMARY**

2
3 Compensation levels at Hydro One are reasonable and appropriate given the environment
4 in which the Company operates. In recent years, despite significantly increased work
5 volumes, overall costs have been minimized by the simplification of required job skills
6 and pay levels where appropriate. Hydro One's demographic challenge requires the
7 Company to be active in the labour market and with worldwide competition for these
8 skills there is a need for competitive compensation.

9
10 The updated Mercer Total Compensation Benchmarking Study demonstrates that there
11 has been a significant improvement in total compensation costs at Hydro One relative to
12 market median. It is important to emphasize that in a time where other organizations are
13 facing similar cost pressures, Hydro One has lowered its overall total compensation from
14 2008 to 2013 by 7% against the peer group.

15
16 A strong barometer of Hydro One's ability to restrict compensation increases is a direct
17 comparison to companies such as OPG, Bruce Power, and IESO. Hydro One competes
18 directly with these organizations for skilled workers. Hydro One is also at risk of losing
19 experienced staff to these organizations if our compensation is not competitive. Despite
20 these competitive pressures, Hydro One has negotiated compensation levels that are less
21 costly than OPG, Bruce Power and the IESO.

22
23 In addition, in a heavily unionized environment, there are significant constraints on an
24 employer's ability to reduce compensation costs per employee. However, despite these
25 constraints, the Corporation has made gains with the reduction in the area of
26 compensation and benefit reductions.

London Property Management Association (LPMA) INTERROGATORY #10

Interrogatory

Ref: Exhibit A, Tab 15, Schedule 1

- a) Please provide the actual/forecast payout under the MCP Short Term Incentive Plan for each of 2011 through 2016.
- b) Please provide the total potential payout under the MCP Short Term Incentive Plan for each of 2011 through 2016.
- c) Please show how the 15% that is assumed to be the payout in each year has been calculated.
- d) Please provide the criteria and payout amounts associated with the MCP Short Term Incentive Plan.

Response

a)

Year	Forecast (Max) STI	Actual STI Payment*
2011	\$10,778,255	\$10,750,950
2012	\$11,094,546	\$9,522,858
2013	\$10,876,838	\$8,391,901

*HONI total

b)

Year	Forecasted STI*
2014	\$11,149,916
2015	\$10,824,382
2016	\$10,705,167

*based on Exhibit C1-3-2 Attachment 2

- c) The 15% assumption for STI payout is based on total MCP base compensation.
- d) The Short Term Incentive Program is an 'at risk' and 're-earnable' variable pay compensation program. It is discretionary and based on Hydro One Board and Senior Management's assessment of achievement of the corporate scorecard targets and achievement of individual performance agreements.

- 1 There are 10 pay bands for MCP employees . Each band has a corresponding base
- 2 pay salary pay range and a percentage eligible for STI.

1 **London Property Management Association (LPMA) INTERROGATORY #11**

2
3 **Interrogatory**

4
5 **Ref: Exhibit A, Tab 15, Schedule 2**

- 6
7 a) Are the 2013 figures shown in Table 2 actual figures? If not, are 2013 actual figures
8 now available? If yes, please update Table 2 to reflect these actual figures for 2013.
9
10 b) The evidence states that a total of 471 MW of embedded generation was assumed to
11 be in place in 2013. What was the actual amount of embedded generation in 2013?
12
13 c) The evidence indicates that an additional 91 MW of embedded generation would be
14 added in 2014. What is the most recent estimate of the amount of embedded
15 generation that will be added in 2014?
16

17 **Response**

- 18
19 a) The CDM impacts in Table 2 are consistent with the 2013 LTEP and as such all 2013
20 figures are forecast. Actual figures for 2013 have not been made available by the
21 OPA at this time.
22
23 b) 471 MW of embedded generation in 2013 is considered the actual value.
24
25 c) The value of 562 MW of embedded generation in 2014 was estimated in March 2014
26 and is the most current estimate available.

1 **London Property Management Association (LPMA) INTERROGATORY #13**

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3 **Interrogatory**

4
5 **Ref: Exhibit A, Tab 15, Schedule 2**

6
7 At page 11 the evidence indicates that most utilities use long term weather data to
8 calculate weather normal conditions ranging from 10 years to more than 30 years. How
9 many of these use the simple average over the number of years selected? Please provide
10 a list of any other methodologies used, along with the number of years that the
11 methodology is applied to.

12
13 **Response**

14
15 Hydro One did not ask this question as part of the study on weather normalization
16 practices. However based on discussions with various utilities Hydro One is not aware of
17 any utilities using methodologies other than the simple average over the number of years
18 selected.

London Property Management Association (LPMA) INTERROGATORY #14

Interrogatory

Ref: Exhibit C1, Tab 2, Schedule 1

- a) How many months of actual expenditures are included in Table 3 in the 2014 Projected column?
- b) Please update the 2014 Projected column in Table 3 to reflect the most recent year-to-date figures available and the forecast for the remainder of 2014.
- c) Please provide the most recent year-to-date actual expenditures in the same level of detail as shown in Table 3 along with the figures for the corresponding period in 2013.

Response

- a) The 2014 bridge year data was prepared in 2013 so there are no actual expenditures included in the 2014 Projected column in Table 3 of Schedule C1-2-1.
- b) The current forecast based on the most recent actual results is the same as what has been provided in the information package in May.
- c)

OM&A Categories	May 2013 YTD (\$ million)	May 2014 YTD (\$ million)	Variance (\$ million)
Sustaining	91.0	100.6	9.6
Development ¹	3.8	2.6	(1.2)
Operations	21.3	23.4	2.1
Customer Care	2.5	2.3	(0.2)
Common Corporate & Other Costs	43.6	32.5	(11.1)
Taxes other than Income Taxes*	(17.2)	26.3	43.5
Total	144.9	187.6	42.7

* The large variance in the Taxes other than Income Taxes area is mainly because the company recognized a one-time Property tax rebate (about \$43 M) in 2013. See CME Interrogatory # 8 for more information.

¹ Development costs are net of Licence Amendment to Upgrade TS's to Facilitate Renewable Generation amounts

London Property Management Association (LPMA) INTERROGATORY #15

Interrogatory

Ref: Exhibit C1, Tab 3, Schedule 3

Please expand Table 12 to reflect actual and bridge year information for 2011 through 2014.

Response

**Table 12
 Total Transmission Other OM&A (\$ Millions)**

Description	Historic			Bridge	Test	
	2011	2012	2013	2014	2015	2016
Capitalized Overhead	(105.5)	(107.0)	(109.3)	(126.4)	(122.2)	(119.2)
Environmental Provision	(6.9)	(5.9)	(6.2)	(6.3)	(6.3)	(6.0)
Indirect Depreciation	(5.4)	(5.8)	(6.2)	(6.2)	(6.4)	(6.7)
Other	(6.2)	14.4	(40.0)	2.0	0.9	0.8
Total	(124.0)	(104.2)	(161.6)	(136.9)	(134.0)	(131.1)

London Property Management Association (LPMA) INTERROGATORY #16

Interrogatory

Ref: Exhibit D1, Tab 1, Schedule 1

Please provide versions of Table 3 that shows actual 2011 and 2012 rate base compared to the Board approved figures for those years.

Response

Please see tables below for the comparison of the actual rate base to Board Approved for both 2011 and 2012.

2011 Board Approved versus 2011 Rate Base
 (\$M)

Rate Base Component	2011 Actual	2011 Board Approved
Gross Plant	12,307.5	12,263.1
Accumulated Depreciation	(4,436.5)	(4,428.4)
Net Utility Plant	7,871.0	7,834.7
Cash Working Capital ¹	7.1	7.1
Materials & Supplies Inventory	14.4	10.7
Total Rate Base	7,892.5	7,852.5

¹ Hydro One Transmission does not calculate actual cash working capital, thus the 2011 approved amount was used for illustrative purposes.

2012 Board Approved versus 2012 Rate Base
 (\$M)

Rate Base Component	2012 Actual	2012 Board Approved
Gross Plant	13,260.0	13,443.8
Accumulated Depreciation	(4,700.8)	(4,688.4)
Net Utility Plant	8,559.2	8,755.4
Cash Working Capital ¹	5.0	5.0
Materials & Supplies Inventory	14.7	14.0
Total Rate Base	8,578.9	8,774.4

¹ Hydro One Transmission does not calculate actual cash working capital, thus the 2012 approved amount was used for illustrative purposes.

1 **London Property Management Association (LPMA) INTERROGATORY #17**

2
3 **Interrogatory**

4
5 **Ref: Exhibit F1, Tab 1, Schedule 1**

- 6
7 a) Is Table 2 a complete list of the existing regulatory accounts with balances at the end
8 of December, 2014? If not, please provide a version on Table 2 that includes a
9 complete list of the regulatory accounts and for each account not proposed to be
10 cleared, please explain why it is not proposed to be cleared.
11
12 b) How many months of actual data are included in the 2014 column?
13
14 c) Please update Table 2 to reflect the most recent year-to-date figures available for
15 2014, along with a forecast for the remainder of the year.
16

17 **Response**

- 18
19 a) Exhibit F1, Tab 1, Schedule 1, page 3, Table 2 is a complete list of existing regulatory
20 accounts with balances that Hydro One is seeking disposition of during the current
21 rate filing. The two regulatory accounts not listed in this table [1 – Excess Export
22 Service Revenue and 2 – Long Term Projects Development Costs], where Regulatory
23 Balances currently do exist, is due to HONI not requesting disposition of these
24 balances. HONI is not seeking recovery of these balances because they were
25 approved for disposition in the prior rate filing EB-2012-0031 and will be Nil at the
26 end of 2014.
27

28 Please refer to the additional supplementary evidence provided in response to SEC
29 interrogatory 17, notably Exhibit F2-1-1, F2-1-2 and F2-1-3.
30

31 By referring to F2-1-3, and the column titled “Total Projected Balances as at Dec 31
32 2014 Requested for Disposition”, for the two aforementioned accounts, the year-end
33 2014 forecast balance is \$Nil.
34

- 35 b) In reference to Exhibit F1, Tab 1, Schedule 1, Page 3, Table 2, there are Nil 2014
36 actual amounts included. The 2014 forecast column includes only Interest
37 Improvement on 2013 actual balances and any Board approved balances for
38 disposition during 2014 as a result of EB-2012-0031 filing.
39
40 c) For regulatory accounts where Hydro One Transmission is requesting disposition, the
41 below table includes YTD June 30, 2014 actuals and the forecast as at year-end 2014.

1
 2
 3

Transmission
Regulatory Accounts Requested for Approval (\$ Millions)

Description	US of A Account Ref.	Balance as at Dec. 31, 2012	Balance as at Dec 31, 2013	Balance as at Jun 30, 2014	Forecast Balance as at Dec 31, 2014
Excess Export Service Revenue	2405	(31.8)	(41.9)	(33.8)	(23.4)
External Secondary Land Use Revenue	2405	(24.4)	(32.8)	(25.9)	(18.5)
External Station Maintenance, E&CS Revenue and Other External Revenue	2405	(5.0)	(6.4)	(1.1)	(1.3)
Tax Rate Changes	1592	(3.5)	(3.6)	(3.6)	0.8
Rights Payments	2405	2.7	(3.6)	(4.1)	(1.9)
Pension Costs Differential	2405	14.7	20.8	13.6	8.2
Long Term Future Corridor	1508	0.0	0.1	0.1	0.1
Total Regulatory Accounts for Disposition		(52.8)	(67.4)	(54.8)	(36.0)

4

1 **London Property Management Association (LPMA) INTERROGATORY #18**

2
3 **Interrogatory**

4
5 **Ref: Exhibit F1, Tab 1, Schedule 3**

6
7 How is any variance between the Board approved amounts for disposition in 2014 (EB-
8 2012-0031) and the actual amounts disposed of in 2014 based on actual billing
9 determinants accounted for in the regulatory accounts?

10
11 **Response**

12
13 There is not expected to be any variance between the Board approved disposition
14 balances from EB-2012-0031 and the actual amounts disposed of by the end of 2014.
15 Board approved Hydro One Transmission revenue requirement for 2014 was reduced by
16 the total approved Variance/Deferral account balance amounts.

17