

By E-mail



March 24, 2009

Susan Frank
Vice President and Chief Regulatory Officer
Regulatory Affairs
Hydro One Networks Inc.
8th floor, South Tower
483 Bay Street
Toronto ON M5G 2P5

Borden Ladner Gervais LLP
Lawyers • Patent & Trade-mark Agents
World Exchange Plaza
100 Queen Street, Suite 1100
Ottawa ON K1P 1J9
tel.: (613) 237-5160 fax: (613) 230-8842
www.blgcanada.com

PETER C.P. THOMPSON, Q.C.
direct tel.: (613) 787-3528
e-mail: pthompson@blgcanada.com

Dear Ms Frank,

Hydro One Networks Inc. ("Hydro One")
2009 Distribution Rate Application
Board File No.: EB-2008-0187
Our File No.: 339583-000034

For the purposes of the oral hearing of this matter, which is scheduled for Thursday and Friday of this week, we request that Hydro One have available for production and for filing, on a confidential basis, the presentations made to Hydro One's Board of Directors on August 14, 2008, and November 13, 2008, which are filed as Confidential Exhibits in the on-going Hydro One Transmission Rates Case.

The Exhibits to which I refer are Confidential Exhibits I, Tab 4, Schedule 2, KX3.4 and KX3.5 in those proceedings.

We wish to question Hydro One witnesses about the contents of these documents in relation to the incremental Distribution Capital related revenue requirement of about \$21.4M Hydro One asks the Board to approve in this case.

If any further presentations were made to Hydro One's Board of Directors between November 13, 2008, and January 30, 2009, with respect to the 2009 Distribution increase Hydro One asks the Board to approve, then please bring these documents to the hearing so that they can be produced and filed on a confidential basis at the outset of the process. We will have questions for Hydro One witnesses on these additional documents, if they exist.

We also respectfully request that Hydro One prepare the 2009 Distribution Capital equivalents of Exhibit K3.2 and J2.7 in the Transmission Rates Case. We are attaching copies of these exhibits for your information.

We will have questions about the iterations that took place in connection with the development of Hydro One's Distribution Capital Budget and how the 'as filed' Distribution Capital spending plans fall within the various gradients of "Minimum Level"

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spending Hydro One uses for planning purposes. The examination of witnesses with respect to these matters would be considerably expedited if the Distribution Capital equivalents of Exhibits K3.2 and J2.7 in the Transmission Rates Case are prepared and produced before the hearing commences.

Another document in the Transmission Rates Case which may come up at the hearing later this week is Exhibit I, Tab 2, Schedule 18, a copy of which we are also enclosing. This document shows that the revenue requirement effect, in the initial year of a reduction in capital spending in the order of \$94M, is about \$5M.

We would like to understand how the initial year impact of \$174M of capital spending on distribution can amount to \$21.4M, which is the amount Hydro One asks the Board to approve in this proceeding. Hydro One's evidence in the Transmission Rates Case suggests that the revenue requirement impact in the initial year should be less than \$10M.

Yours very truly,

A handwritten signature in black ink, appearing to read 'Peter C.P. Thompson', with a stylized flourish at the end.

Peter C.P. Thompson, Q.C.

PCT\slc
enclosures

c. Board Secretary
Interested Parties
Paul Clipsham (CME)

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The following two tables provide a historical summary of the progression from the Asset Need Level of investment to Asset Plan for OM&A and Capital.

Although the table shows this process as being completed in 3 steps there were actually many iterations. The points of reference shown below represent the major marks in the process.

Transmission Capital										
\$ millions	2009					2010				
	<u>S</u>	<u>D</u>	<u>O</u>	<u>Other Shared</u>	<u>Total</u>	<u>S</u>	<u>D</u>	<u>O</u>	<u>Other Shared</u>	<u>Total</u>
Asset Need (Sunnybrook 1)	563	831	43	92	1529	490	715	35	46	1287
Sunnybrook 2	277	618	17	98	1011	333	602	28	72	1036
Asset Plan (Final)	280	553	18	92	944	322	659	29	65	1074

Transmission OM&A										
\$ millions	2009					2010				
	<u>S</u>	<u>D</u>	<u>O</u>	<u>Other Shared*</u>	<u>Total</u>	<u>S</u>	<u>D</u>	<u>O</u>	<u>Other Shared*</u>	<u>Total</u>
Asset Need (Sunnybrook 1)	250	26	53	100	428	233	28	54	109	424
Sunnybrook 2	235	22	52	145	453	235	28	54	129	444
Asset Plan (Final)	227	14	52	143	435	240	16	54	140	450

* Due to the substantial reduction in Transmission Capital between Sunnybrook 1 and Sunnybrook 2 Other Shared OM&A increases as the overheads capitalized credit declines.

Asset Need was presented at the Sunnybrook Planning Summit 1 on April 17, 2008. In addition to the rate impacts associated with the Asset Needs level of investment, a prime focus of this summit was on work execution. Several factors were identified as constraining Hydro One's ability to carryout the full work program required for Asset Need. These factors included outage limitations, resources shortages, material acquisition issues and approvals challenges. The summit concluded with guidance provided with respect to adjusting planned work to account for the constraints as well as direction to continue efforts to mitigate such constraints.

This guidance and direction at the first Sunnybrook Summit on both customer rate impacts and the other constraints were incorporated in a draft Asset Plan which was presented at Sunnybrook Planning Summit 2 on May 6, 2008. A risk assessment associated with the decreased work programs (by way of deferrals) was presented and further direction was provided to adjust planned work in certain high risk areas as well as work driven by external factors – while still taking into account the planning constraints identified above.

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K3.

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1 This guidance was incorporated into the final Asset Plan which was presented to the
2 Executive Committee on June 18 and subsequently to the Hydro One Board of Directors
3 on August 14, 2008. The resulting Asset Plan reflected a rate increase of 6.4% in 2009
4 and 12.1% in 2010. The 2009 rate impact also factored in a July 1, 2009 implementation
5 date vs. a January 1st, 2009 implementation date as a form of rate mitigation to the
6 transmission customers.

7

8

UNDERTAKING

Undertaking

TO PROVIDE THE MINIMUM LEVELS GOING INTO THE PLANNING PROCESS,
AS WELL AS ANY CONTEXT NECESSARY TO PROVIDE A BETTER
UNDERSTANDING OF THE NUMBERS

Response

By definition, the approved Business Plan represents the minimum, aggregate, set of investments to achieve corporate goals.

The Minimum Level of investment is neither a sustainable level of investment nor is it in any way an acceptable target level of investment. Considerations of risk and risk mitigation are probabilistic in nature. It follows that, if an area of Hydro One's business were limited to only minimum levels over the planning period, it would compromise long-term costs, reliability and customer satisfaction among other business values.

It should be noted that it is not acceptable to do only the minimum level for all of the planned investments as some of the investments are interrelated. For such investments, going to a minimum level for one investment category would necessitate spending above the minimum level on the related investment category. In summary, all investments cannot simultaneously be reduced to a minimum, as the aggregate effect of the reductions would be greater than the sum of the individual reductions.

Specific investments may be rescheduled from one time period to another within the 5 year planning horizon during the planning process. The company would do so in response to such drivers as critical resource limitations, availability of outages etc. This re-direction is done with due care that such a rescheduling would limit any material deterioration of associated risk.

The minimum levels for OM&A and Capital expenditures contained within Hydro One's Transmission Investment Plan for 2009-2010 are attached.

With reference to the attachment, two spreadsheets are provided: one for Transmission Capital and one for Transmission OM&A. Each spreadsheet addresses the test years 2009 and 2010, providing a breakdown of investment levels contained in Hydro One's 2009 / 10 Transmission Rate Submission and the Minimum Levels identified during the investment planning process. Finally, the variances between the Plan and Minimum Level are shown.

A description of Hydro One's Planning Process is provided in Exhibit A-14-1 and the Investment Prioritization Process is provided in Exhibit A-14-5.

HYDRO ONE NETWORKS INC.
TRANSMISSION OM&A 2009/10 PLAN

Filed: February 26, 2009
EB-2008-0272
Exhibit J2.7
Attachment 1

	2009			2010		
	Filed	Minimum Level	Variance	Filed	Minimum Level	Variance
Sustaining Stations						
Land Assessment and Remediation	1.6	1.5	0.1	1.2	1.1	0.1
Environmental Management	9.1	7.2	1.9	9.9	7.7	2.2
Power Equipment	74.7	44.7	30.0	82.0	59.3	22.7
Protection, Control, Monitoring, Metering and Telecommunications	39.5	38.9	0.6	41.6	37.4	4.2
Ancillary Systems Maintenance	18.2	14.4	3.8	21.0	15.2	5.8
Site Infrastructure Maintenance	24.8	22.6	2.2	25.5	22.8	2.7
Total Stations	167.7	129.3	38.4	181.2	143.5	37.7
Lines						
Vegetation Management	23.3	19.8	3.5	24.6	19.5	5.1
Overhead Lines Programs	22.1	16.2	5.9	20.9	19.3	1.6
Underground Cable Programs	3.3	2.5	0.8	3.3	2.5	0.8
Total Lines	48.7	38.5	10.2	48.8	41.3	7.5
Engineering and Environmental Support	10.2	9.7	0.5	10.2	9.6	0.6
Total Sustaining	226.5	177.5	49.0	240.1	194.4	45.7
Development						
Research and Development	6.0	5.9	0.1	9.2	6.2	3.0
Standards Development	7.9	1.1	6.8	7.1	1.5	5.6
Total Development	13.9	7.0	6.9	16.3	7.7	8.6
Operations						
Operations	33.1	33.1	-	34.0	34.0	-
Operations Support	17.1	17.6	(0.5)	17.5	17.6	(0.1)
Environment, Health and Safety	2.1	2.2	(0.1)	2.1	2.1	-
Total Operations	52.3	52.9	(0.6)	53.7	53.7	(0.1)
TOTAL Sustaining, Development & Operations	292.7	237.4	55.3	310.1	255.8	54.3
Shared Services and Other OM&A						
Common Corporate Functions & Services	47.5	47.5	-	47.9	47.9	-
Customer Care	1.5	1.5	-	1.5	1.1	0.4
Asset Management	76.7	76.7	-	81.2	76.7	4.5
Information Technology	49.9	47.5	2.4	50.3	47.6	2.7
Cornerstone	(3.4)	(3.4)	-	(8.9)	(5.6)	(3.3)
Cost of Sales	4.1	4.1	-	3.7	3.7	-
Other OM&A	(104.6)	(104.6)	-	(109.3)	(101.4)	(7.9)
Total Shared Services & Other	71.6	69.2	2.4	66.4	70.1	(3.7)
Property Taxes and Rights Payments	70.9	70.9	-	73.1	70.9	2.3
TOTAL TRANSMISSION OM&A	435.2	377.5	57.7	449.7	396.8	52.9

HYDRO ONE NETWORKS INC.
TRANSMISSION CAPITAL 2009/10 PLAN

Filed: February 26, 2009
EB-2008-0272
Exhibit J2.7
Attachment 2

	2009			2010		
	Filed	Minimum Level	Variance	Filed	Minimum Level	Variance
Sustaining Stations						
Circuit Breakers	12.5	15.0	(2.5)	21.1	16.4	4.7
Station Re-investment	64.6	56.1	8.5	43.5	26.0	17.5
Power Transformers	50.6	35.7	14.9	62.5	40.2	22.3
Other Power Equipment	12.0	14.4	(2.4)	21.6	14.1	7.5
Protection, Control, Monitoring and Telecommunications	39.3	75.6	(36.4)	64.9	72.9	(8.0)
Ancillary Systems	13.6	16.9	(3.4)	17.2	16.8	0.4
Transmission Site Facilities and Infrastructure	12.1	11.6	0.5	13.1	10.8	2.3
Station Environment	4.3	4.3	-	3.7	3.9	(0.2)
Total Stations	208.8	229.6	-20.8	247.6	201.1	46.5
Lines						
Overhead Lines Refurbishment and Component Replacement	49.1	37	12.1	53.4	37.74	15.7
Transmission Lines Reinvestment	16.5	9.3	7.2	16.1	13.54	2.6
Underground Lines Cable Refurbishment and Replacement	5.6	3.1	2.5	4.4	2.7	1.7
Total Lines	71.2	49.4	21.8	74.0	54.0	20.0
Total Sustaining	280.0	279.0	0.9	321.6	255.1	66.5
Development						
Inter Area Network Transfer Capability	396.5	527.7	(131.2)	509.6	384.5	125.1
Local Area Supply Adequacy	101.3	168.1	(66.8)	50.4	75.0	(24.6)
Load Customer Connection	39.0	46.8	(7.8)	58.1	49.1	9.0
Generation Customer Connection	6.0	5.8	0.2	23.1	24.2	(1.1)
TS Upgrades to Facilities						
Distribution Generation	-	16.0	(16.0)	-	16.0	(16.0)
Performance Enhancement and Risk Mitigation	7.2	12.8	(5.6)	14.2	13.6	0.6
Smart Grid	3.5	-	3.5	3.4	-	3.4
Total Development	553.5	777.2	(223.7)	658.8	562.4	96.4
Operations						
Grid Operating and Control Facilities	15.1	12.1	3.0	9.8	9.2	0.6
Operating Infrastructure	3.1	24.9	(21.8)	19.1	19.7	(0.6)
Total Operations	18.2	37.1	(18.9)	28.9	28.9	0.0
TOTAL Sustaining, Development & Operations	851.7	1,093.3	(241.6)	1,009.3	846.4	162.9
Shared Services and Other Costs						
Transport, Work & Service Equipment	14.5	11.4	3.1	16.2	8.9	7.3
Information Technology	10.9	10.1	0.8	12.3	9.8	2.5
Cornerstone	50.5	59.7	(9.2)	28.4	12.1	16.3
Facilities and Real Estate	16.3	5.8	10.5	7.9	5.8	2.1
Conservation and Demand Management	0.2	0.2	-	0.1	0.2	(0.1)
Total Shared Services and Other	92.4	87.1	5.3	64.9	36.8	28.1
TOTAL TRANSMISSION CAPITAL	944.1	1,180.4	(236.4)	1,074.2	883.2	191.0

Building Owners and Managers Association of the Greater Toronto Area ("BOMA")
and London Property Management Association ("LPMA")
INTERROGATORY #18 List 1

Interrogatory

Issue 4.3 – Are the amounts proposed for rate base in 2009 and 2010 appropriate?

Ref: Exhibit D1, Tab 3, Schedule 1, Table 1

- a) Please provide the most recent year-to-date capital expenditures for the 2008 bridge year and indicate how many months of actual expenditures are included.
- b) Please provide the most recent estimate of capital expenditures that reflect actual-year-to-date figures for the 2008 bridge year.
- c) What would be the impact on the revenue requirement in 2009 and 2010 if the Board approved capital expenditures that were 10% less than those requested (i.e. a reduction in 2009 capital expenditures of \$94.4 million, and a reduction in 2010 capital expenditures of \$107.4 million)?

Response

Pursuant to securities legislation, Hydro One Inc. is a reporting issuer which has certain disclosure obligations. As such, we do not disclose material information pertaining to the corporation which is not already publicly available. The responses to a) and b) below are from information contained in the Hydro One Inc. Q3 2008 Management Discussion & Analysis (MD&A) which is filed at www.sedar.com.

- a) The MD&A shows Transmission capital of \$439M for the 9 months ending September 30, 2008 (pg.6).
- b) Please see response to (a) above
- c) Hydro One requires all capital funding requested and has responded to the question of project prioritization in Exhibit I, Tab 1, Schedule 10.

For illustrative purposes only, an estimate of the impact of a 10% reduction in capital expenditures is provided as follows:

- Capital Expenditure forecast in 2009 is \$944.0 million and 2010 is \$1,074.1 million per Exhibit D1, Tab 3, Schedule 1. A 10% reduction amounts to \$94.4 million in 2009 and \$107.4 million in 2010

- 1 • Hydro One has made the assumption that the reduction in capital expenditure
- 2 results in an equivalent reduction in in-service capital
- 3 • Resulting reduction in revenue requirement for 2009 is \$5.0M and for 2010 is
- 4 \$15.0M.

5
6 As with all forecasts, there will be components of the test year forecasts that will be
7 higher or lower than forecast. It is inappropriate to look at the impact on revenue
8 requirement of a change in only one component of the test year forecast without
9 consideration of changes in other forecast elements.

10
11 As noted in our response in Exhibit I, Tab 1, Schedule 10, Hydro One plans to update
12 evidence for actual 2008 year end results prior to the start of the oral hearing.
13