September 30, 2009

BY EMAIL & COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Board File No. EB-2009-0096
Hydro One Networks Inc. – 2010 & 2011 Rates Application
Interrogatories of Energy Probe – Part One

Pursuant to Procedural Order No. 1, issued by the Board on September 9, 2009, please find attached two hard copies of the Interrogatories of Energy Probe Research Foundation (Energy Probe) Part One. An electronic version of this communication will be forwarded in PDF format.

Should you require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

cc: Anne-Marie Reilly, Hydro One Networks Inc. (By email)
D.H. Rogers, Rogers Partners LLP (By email)
Peter Faye, Energy Probe Counsel (By email)
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EB-2009-0096

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

AND IN THE MATTER OF an application filed by Hydro One Networks Inc. for an order or orders approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2010 and January 1, 2011.

INTERROGATORIES OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")

PART ONE

September 30, 2009

ONTARIO HYDRO NETWORKS INC.
2010 & 2011 DISTRIBUTION RATES REBASING
EB-2009-0096

ENERGY PROBE RESEARCH FOUNDATION
INTERROGATORIES

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

Interrogatory # 1

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

a) **Does Hydro One have a more recent forecast than the December, 2008 Global Insight forecast?**

b) **If yes, please update Tables 1 & 2 to reflect the most recent Global Insight forecast available.**

c) **Based on the most recent forecasts, does Hydro One believe any adjustments should be made to its forecasts of costs? Please explain fully.**

Interrogatory # 2

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.

Interrogatory # 3

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

a) **Please confirm that the CWIP rate as calculated by the Board for the 4th quarter of 2009 is 4.66%.**

b) **Please update Table 6 to reflect the September 2009 Consensus Forecasts and the average September 2009 spread between the average actual 10-year Government of Canada bond yield and the average DEX Mid Term Corporate Bond Index – Yield inferred from the graph on www.pcbond.com.**

c) **What is the impact of the revised figures calculated in (b) above on the revenue requirement in 2010 and 2011? Please explain.**

Interrogatory # 4

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

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

Interrogatory # 5

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

a) **Please confirm that the provincial tax rate shown for 2010 should be 13.0% and for 2011 should be 11.75%.**

b) **Please confirm that Hydro One has used the rates shown in part (a) for the calculation of income taxes in 2010 and 2011.**

Interrogatory # 6

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

a) **What is the impact on the revenue requirement in each of 2010 and 2011 if the Management Compensation Plan annual increase is reduced from 3.0% to 2.5%?**

b) **Please provide the annual MCP increase for each of 2006, 2007, 2008 and 2009.**

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

Interrogatory # 7

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?**

Interrogatory # 8

Ref: Exhibit A, Tab 14, Schedule 4, page 14

a) **Does the distribution load data used in the monthly econometric and annual econometric models reflect the historical impacts of CDM? In other words, has the actual load data been weather corrected and increased by the estimated reduction due to CDM? If not, please explain why the cumulative CDM reduction is used to reduce the forecast if the load data used already includes an impact of CDM historically.**

b) Given that the end-use model can explicitly reflect the unit energy consumption per end use, why is it necessary to make a further adjustment to the forecast for CDM?

Interrogatory # 9

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

a) Please provide the forecasts, in a format similar to Table 4, for each of the individual top-down (econometric) and bottom-up (end-use) models used by Hydro One.

b) What weighting factor does Hydro One apply to each of the models used to arrive at the forecast figures shown Table 4?

Issue 2.2 – Is the proposed amount for 2010/2011 external revenues, including the methodology used to cost and price these services, appropriate?

Interrogatory # 10

Ref: Exhibit E1, Tab 1, Schedule 2, Updated

a) Please provide the most recent actual number of sentinel lights and sentinel light poles in 2009, as shown in Table 4.

b) Please provide the most recent year-to-date volumes for the items listed in Table 6, along with the corresponding year-to-date figures for 2008.

c) Please provide the late payment charge revenues for 2006 through 2008, along with the forecast for 2009.

d) Please provide the year-to-date late payment charges for 2009, along with the corresponding figure for 2008.

e) What is driving the decrease in late payment charges in 2011 relative to 2010?

f) Please provide the most recent year-to-date volume of new customer connections and upgrades as shown in Table 10 for 2009 and the corresponding period for 2008.

g) Please provide all studies and/or assumptions used to forecast the $5 million in revenues relating to the costs recoverable from MTO work involving distributed generation work.

Interrogatory # 11

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

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

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

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

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

Interrogatory # 12

Ref: Exhibit C1, Tab 1, 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 OM&A forecasts shown in Exhibit C1 to reflect the elimination of the 8% provincial sales tax.

b) Please provide the estimated costs of the provincial sales tax included in the OM&A forecast for each of 2010 and 2011.

c) Please provide the amount of provincial sales tax paid by Hydro One in each of 2006, 2007 and 2008 on OM&A expenses.

d) What is the expected reduction in compliance costs that will result from the reduction in the administrative burden on Hydro One to comply with two separate sets of tax rules?

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

Interrogatory # 13

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.

Interrogatory # 14

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

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

a) Have any of the depreciation rates used in the current application changed from those used in the EB-2007-0681 filing? If yes, please provide the current and previous depreciation rate for each such asset category and provide a calculation to show the impact on the revenue requirement.

b) Please also provide all information used to determine the new depreciation rate and the Foster methodology used.

Interrogatory # 15

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?

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

Interrogatory # 16

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

a) **Property taxes are forecast to increase by more than 11% between 2008 and 2011. Please provide the underlying factors driving this increase.**

b) **Please provide the actual, or most recent information available, for the 2009 property taxes.**

c) **Please provide the total value assessment for all taxed properties for 2006 through 2008 and 2009 (if available). Please provide the forecast for 2009 through 2010 and explain the changes in the assessed values.**

Interrogatory # 17

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?**

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

Interrogatory # 18

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?

Interrogatory # 19

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.

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

Interrogatory # 20

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.

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.**

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?

Interrogatory # 22

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

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

Interrogatory # 23

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.

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

Interrogatory # 24

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

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

Interrogatory # 25

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.**

Interrogatory # 26

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)?

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?

Interrogatory # 27

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.

Interrogatory # 28

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 2010 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.**

Interrogatory # 29

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

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

Interrogatory # 30

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?**

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

Interrogatory # 31

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.

Interrogatory # 32

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

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

Interrogatory # 33

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?**

Interrogatory # 34

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?**

Interrogatory # 35

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?

Interrogatory # 36

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.**

Interrogatory # 37

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?**

Interrogatory # 38

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.**

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

Interrogatory # 39

Ref: Exhibit F1, Tab 1, Schedule 2

a) **Please provide the rationale for the pension cost differential account to track the difference between the forecast and actual pension costs.**

b) **Please provide the rationale for the OEB cost differential account to track the difference between the forecast and actual OEB costs.**

Interrogatory # 40

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.**