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October 2, 2009

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th floor
Toronto ON M4P 1E4

Dear Ms Walli,

Hydro One Networks Inc. ("Hydro One")
2010 and 2011 Distribution Revenue Requirement and Rate Application
Board File No.: EB-2009-0096
Our File No.: 339583-000044

Please find enclosed the Interrogatories being filed on behalf of Canadian Manufacturers & Exporters ("CME") in the above-noted proceedings.

Yours very truly,

Peter C.P. Thompson, Q.C.
PCT/kt
Encl.

c. Hydro One Networks Inc.
Intervenors EB-2009-0096
Paul Clipsham (CME)

OTT01\3834476\1

EB-2009-0096

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

AND IN THE MATTER OF a review of an application filed by Hydro One Networks Inc. for an order approving just and reasonable rates and other charges for electricity distribution for 2010 and 2011.

INTERROGATORIES OF CANADIAN MANUFACTURERS & EXPORTERS ("CME") TO HYDRO ONE NETWORKS INC. ("HYDRO ONE")

1. GENERAL

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

1. **Reference: Exhibit A, Tab 14, Schedule 1, Figure 1, page 2 and page 5, lines 1 and 2**

Please produce in confidence, to participants who execute the Board's usual Confidentiality Undertaking, all of the materials presented to and approved by Hydro One's Board of Directors with respect to the Application currently before the Board. What we seek is the 2009 equivalent of what were filed as Exhibits KX1.7 and KX1.8 in the EB-2008-0187 proceeding pertaining to Hydro One's 2009 Distribution Rates.

Issue 1.5 Is the overall increase in 2010 and 2011 revenue requirement reasonable given the impact on consumers?

2. **Reference: Exhibit A, Tab 3, Schedule 1, page 4; Exhibit A, Tab 7, Schedule 1, page 2; Exhibit A, Tab 14, Schedule 2, pages 1 to 3; Exhibit E1, Tab 1, Schedule 1, pages 1 to 5; Exhibit F, Tab 1, Schedule 3; and Exhibit G, Tab 8, Schedule 1**

The evidence at Exhibit E1, Tab 1, Schedule 1, page 3, indicates that Hydro One's 2010 revenue requirement, after deducting external revenues, will be $1,102M, up some $116M from the Board approved revenue requirement for 2008 of $986M, net of external revenues. For 2011, the corresponding revenue requirement is expected to $1,216M or some $114M above the 2010 revenue requirement.

Exhibit E1, Tab 1, Schedule 1, page 3, indicates that $94M and $83M of the 2010 over 2008 increase in revenue requirement is attributable to the "Increase in OM&A" and "Increased rate base". Table 5 shows that, for 2011, the major causes for the further $114M increase in revenue requirement are "Increased rate base" ($47M), "Tax timing differences and other" ($31M), ROE ($20M) and "Increased OM&A" ($15M).

We understand from Exhibit A, Tab 14, Schedule 2 that these revenue requirement increases reflect only a portion of the total costs contained in Hydro One's Green Energy Act ("GEA") Plan for 2010 and 2011, and that the revenue requirement related to a significant portion of the planned GEA spending will be collected through external funding mechanisms administered by the IESO and the OPA.

The evidence at Exhibit A, Tab 3, Schedule 1, page 4, indicates that the Total Bill Impacts on the average customer will be about 3% in 2010 and 4% in 2011.

We understand that these Total Bill Impact calculations include Smart Meter adders, but do not include "external funding" charges for the mechanisms administered by the IESO and the OPA, which will nevertheless appear in the total bill rendered by Hydro One to its customers.

It would appear that the amounts for these external funding charges in 2010 and 2011, and years beyond, will be significant and will materially increase from year to year.

In order to help manufacturers understand the entire bill impact of what is planned in 2010 and 2011, we request that Hydro One provide the following information:

(a) Please indicate the approximate total number of electricity consumers currently served by Hydro One and the other electricity distributors shown on the map at Exhibit A, Tab 7, Schedule 1, page 2, with the total broken down between Hydro One customers and the customers of other LDCs;

(b) Please provide revised Tables 2, 3, 4 and 5 in Exhibit E1, Tab 1, Schedule 1 to show the increase in Hydro One's revenue requirement for 2010 over 2008 and 2011 over 2010 on an assumption that the revenue requirement impact of all of Hydro One's planned GEA OM&A and capital spending in 2010 and 2011 will be recovered from Hydro One customers and not through any external funding mechanisms in whole or in part;

(c) Provide a breakdown of the 2010 and 2011 revenue requirement to be produced in the tables above in a format comparable to that which appears at Section 2.0 of Exhibit E1, Tab 1, Schedule 1, at pages 1 and 2;

(d) Please provide an estimate of the Total Bill Impacts 2010 over 2009 and 2011 over 2010 in the scenario described in subparagraph (b);

(e) Revise the tables to be produced in response to the question in subparagraph (c) to eliminate and reduce to zero the equity of return component of "Return on Capital" and to eliminate and reduce to zero the PILs component of the Revenue Requirement in 2010 and 2011 so as to show the extent to which the total revenue requirement would be reduced in the absence of these items;

(f) Are we correct that Hydro One's Total Bill Impact calculations of 3% for 2010 and 4% for 2011 reflect the increases in the Smart Meter adder in 2010 and 2011?

(g) Please describe how a manufacturer can estimate, today, the total monthly and annual bill amount it will be likely to be called upon to pay in 2010 and 2011 including the amounts expected to be billed for external funding mechanisms administered by the IESO and the OPA;

(h) Does Hydro One have any forecasts for 2010 and 2011 of the amounts ratepayers will be expected to pay for funding mechanisms administered by the IESO and the OPA? If so, please produce them. If not, then please indicate how electricity consumers can obtain such forecasts;

(i) What criteria does Hydro One apply to determine whether the amount of a total bill increase is intolerable.

3. OPERATIONS, MAINTENANCE AND ADMINISTRATION COSTS

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

3. Reference: Exhibit C, Tab 1, Schedule 1; and Exhibit C, Tab 2, Schedule 1

Please provide copies of any studies Hydro One has in its possession, in confidence if necessary, which compare Hydro One's OM&A costs to industry benchmarks, including OM&A costs per customer benchmarks and all others.

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

4. Reference: Exhibit C1, Tab 3, Schedule

A Navigant study was produced in Hydro One's last transmission case with respect to its staff costs. The study indicated that Hydro One's staff costs were materially higher than the benchmark. Please advise whether Navigant or any other consultant has provided a more recent benchmark study of Hydro One's compensation? If so, then please produce the study in confidence? If not, then please explain why the Navigant study has not been updated.

4. CAPITAL EXPENDITURES AND RATE BASE

Issue 4.1 Are the amounts proposed for Rate Base appropriate?

5. Reference: Exhibit D1, Tab 1, Schedule 1, pages 1 and 2

Rate Base for 2010 is forecasted to be $4,835.6M and $5,145.7M for 2011. What would the forecast Rate Base be for each year if it is assumed that all GEA capital expenditures are for the account of Hydro One's ratepayers? Please provide a revised Table 1 at Exhibit D1, Tab 1, Schedule 1, page 2 to reflect this assumed scenario.

Issue 4.2 Are the amounts proposed for 2010/2011 Capital Expenditures appropriate including the specific Sustaining, Development and Operations categories?

6. Reference: Exhibit D1, Tab 3

What is the approximate revenue deficiency impact in 2010 and 2011 of a $20M reduction in the 2010 capital budget and a $20M reduction in the 2011 capital budget?

7. Reference: Exhibit D, Tab 1, Schedules 1 to 9

Please identify each component of the capital budget for 2010 and 2011, which is supported by an economic feasibility study and provide the results of each study. Does Hydro One calculate a Profitability Index ("PI") for any of its planned capital spending? If so, please provide the PIs that have been calculated for any component of the 2010 and 2011 capital spending plans.

7. COST ALLOCATION AND RATE DESIGN

Issue 7.1 Is Hydro One's cost allocation appropriate including the analysis of the relationship between density and cost allocation?

8. Reference: Exhibit G1, Tab 3, Schedule 1; and Exhibit G1, Tab 4, Schedule 1

Since the amounts being recovered by ratepayers for external funding mechanisms administered by the IESO and the OPA are charged in bills rendered by Hydro One, can ratepayers raise, in these proceedings, questions concerning the classification and allocation between rate classes of the costs being recovered in such external charges and the resulting amount that should be recovered from each rate class for costs being recovered through these external funding mechanisms. If these issues cannot be raised by ratepayers in this proceeding, then in what proceeding can the issues be raised?

Issue 7.4 Are the proposed rate impact mitigation plans appropriate and are the resulting customer bill impacts reasonable?

9. Reference: Exhibit G1, Tab 9, Schedule 1, pages 1 and 2

Hydro One describes an "Alternative" in its evidence, which apparently is acceptable to the customer that held various discussions with Hydro One. Please provide information which will show the impact on that customer of the Alternative described in the evidence compared to the current situation, and clarify whether Hydro One is asking the Board to approve this Alternative.

9. GREEN ENERGY PLAN

Issue 9.1 Does Hydro One's Green Energy Plan meet the Board's filing guidelines and the objectives set out in the Green Energy and Green Economy Act, 2009?

Issue 9.2 Has Hydro One appropriately addressed the Green Energy Plan expenditures in the context of its overall Capital and O&M budgets?

Issue 9.3 Is Hydro One's methodology for allocating Green Energy Plan O&M and Capital costs between the OPA (Global Adjustment Mechanism) and Hydro One appropriate?

Issue 9.4 To what extent should the Board approve any projects or expenditures relating to the Green Energy Plan that are scheduled to occur beyond the test years (i.e. 2010 and 2011) in the current application?

Issue 9.5 What is the Board's role with regard to the approval of the Green Energy Plan? What criteria should the Board use when determining whether to

approve the Green Energy Plan? If the Board approves the plan, what are the impacts of that approval?

Throughout Exhibit A, Tab 14, Schedule 2, Hydro One identifies assumptions upon which it bases various aspects of the proposed Green Energy Plan ("Plan"). CME wishes to better understand the basis upon which Hydro One has made the following assumptions:

(a) That the revenue requirement associated with a portion of the capital investments contained in the Plan will be recovered through an external funding mechanism that recovers the required revenue from all electricity consumers in Ontario (Exhibit A, Tab 14, Schedule 2, page 2 of 34);

(b) That conservation and demand management ("CDM") costs will continue to be externally funded similar to the funding currently provided by the Ontario Power Authority ("OPA") for existing CDM programs (Exhibit A, Tab 14, Schedule 2, pages 2-3 of 34);

(c) That Smart Grid investments will be fully funded by Hydro One's customers as they will provide significant benefits to those customers (Exhibit A, Tab 14, Schedule 2, page 3 of 34);

(d) That a connection asset investment covers only the work associated with providing isolated devices or other assets required for the specific generators connection to Hydro One's system (Exhibit A, Tab 14, Schedule 2, page 15 of 34); and

(e) That expansion of Hydro One's distribution system to connect renewable energy generation includes the following types of investments carried out to serve one or more renewable energy generation facilities (Exhibit A, Tab 14, Schedule 2, page 16 of 34):

    (i) Expand or build out the distribution system to the ownership demarcation point of the renewable energy generation facility;

    (ii) Rebuilding a single-phase line to three-phase;

    (iii) Rebuilding an existing line with a larger size conductor;

    (iv) Rebuilding or overbuilding an existing line to provide an additional circuit;

    (v) Converting a lower voltage line to operate at higher voltage;

    (vi) Replacing a transfer to a larger MVA size;

    (vii) Upgrading a voltage regulating transformer or station to a larger MVA size;

    (viii) Adding or upgrading capacitor banks to increase system capacity to facilitate the connection of the renewable energy generation facility;

(ix) Building new express feeders to connect renewable energy generation; and

(x) Providing new distribution stations and/or additional capacity at existing distribution stations;

With respect to these assumptions:

(a) Please provide a more detailed explanation of Hydro One's basis for making each assumption;

(b) Where the assumption is based, in part or in whole, on communications (including power point presentations and emails) between Hydro One and the Ontario Government, the OPA or the Ontario Energy Board, please provide copies of that communication;

(c) These assumptions will have a direct impact on the net costs to be funded by Hydro One customers, and the costs externally funded by all electricity customers in Ontario. CME wishes to better understand what will happen if the Board approves Hydro One`s Plan on the basis of these assumptions, and then subsequently some or all of the assumptions turn out to be incorrect. If during the term of the Plan the associated costs are greater than those contained in Exhibit A, Tab 14, Schedule 2, will Hydro One file an Application to increase the rates proposed in this Application? Conversely, if during the term of the Plan the associated costs are less than those contained in Exhibit A, Tab 14, Schedule 2, will Hydro One file an Application to decrease the rates proposed in this Application?

10. Reference: Exhibit A, Tab 14, Schedule 2, page 1 of 34 and Exhibit A, Tab 14, Schedule 2, page 11 of 34

Hydro One states that the development of its Plan has been based, in part, on a measured approach to Smart Grid Investment focused on studies, demonstration projects, planning and training. CME wishes to better understand the studies, demonstration projects, planning and training undertaken by Hydro One. CME may wish to review some or all of these studies, demonstration projects, planning and training. Rather than producing all of the studies, demonstration projects, planning and training which have been relied upon by Hydro One in developing the Plan with respect to Smart Grid investment, CME proposes the following staged approach. In response to this interrogatory, please provide a list of all of these documents with a sufficient description to enable Intervenors to determine whether production of the entire document is necessary, and then subsequently allow Intervenors to request production of specific documents, if deemed necessary. If this staged approach is unacceptable to Hydro One, then please produce all of these documents.

11. Reference: Exhibit A, Tab 14, Schedule 2

The cost of investments contained in the Plan are summarized at a table contained at Exhibit A, Tab 14, Schedule 2 page 1 of 34. These costs, which include both OM&A and Capital are further described in other tables contained at Exhibit A, Tab 14, Schedule 2, pages 14, 15, 19, 23, 24, 28 and 29 of 34. These tables set out the net costs to be funded by Hydro One customers, as well as the costs to be externally funded by generators and externally funded by all electricity consumers in the province. CME seeks to understand the scope of the approvals Hydro One is seeking from the Board in this proceeding. Please confirm whether Hydro One is seeking Board approval of only the net costs to be funded by the rates proposed in this Application, or alternatively, is Hydro One is also asking the Board to conduct the Calculation of Rate Protection prescribed by section 3 of *Ontario Regulation 330/*09? If the Board is not being asked to conduct the Calculation of Rate Protection in this proceeding, then in what forum would Hydro One expect the Calculation of Rate Protection to occur?

12. Reference: Exhibit A, Tab 14, Schedule 2, page 3 of 34

Hydro One has assumed that Smart Grid Investments will be fully funded by Hydro One's distribution customers as they will provide significant benefits to Hydro One's distribution customers. Please summarize all of the benefits which Hydro One believes the Smart Grid Investments will provide to Hydro One's distribution customers;

13. Reference: Exhibit A, Tab 14, Schedule 2, page 7 of 34 and Exhibit A, Tab 14, Schedule 2, page 13 of 34

Hydro One projects that as much as 3,500 MW of renewable energy generation could seek connection by 2011, and an additional 3,500 MW could seek connection by 2014. CME wishes to obtain further information about this forecast.

(a) Is Hydro One's estimate of 3,500 MW seeking connection in 2011, with an additional 3,500 MW seeking connection by 2014 the maximum amount of renewable energy generation that could seek connection in those years? If not, what is the maximum amount of renewable energy generation connection that Hydro One could anticipate being sought during these two time periods.

(b) Please confirm that Hydro One's distribution cost estimates are based on the connection of 3,500 MW of renewable energy generation seeking connection in 2011, and another 3,500 MW seeking connection by 2014. If not, what are the estimates used for Hydro One's cost estimates.

(c) If the cost estimates are based on 3,500 MW of renewable energy generation seeking connection in 2011, and another 3,500 MW seeking connection by 2014, then what would be the cost consequences be, if any, of less than 3,500 MW seeking connection in these time periods? Conversely, what would the cost consequences be, if any, if more than 3,500 MW of renewable energy generation seeks connection in these time periods?

14. Reference: Exhibit A, Tab 14, Schedule 2, page 14 of 34

Hydro One sets out that the development of OM&A expenditures related to renewable energy generation is $3M in 2010, $3M in 2011, and $10M in 2012 to 2014. Hydro One further states that if these OM&A costs are determined to have increased to material levels at some point in the future, Hydro One will seek approval to include them as part of the revenue requirement to be external funded. In this context, if these OM&A costs do not materialize in the future, will Hydro One seek approval to reduce the revenue requirement approved in this Application?

15. Reference: Exhibit A, Tab 14, Schedule 2, pages 28 to 30 of 34

Hydro One sets out its capital investment for development of the Smart Grid centered around the "Smart Zone" pilot site in Owen Sound. CME wishes to better understand the level of coordination between LDCs in Ontario and the Ontario Government in the development of the Ontario Smart Grid. To what extent has Hydro One worked in conjunction with other Ontario LDCs and the Ontario Government in determining how to develop its Smart Grid, including the creation of a wide area network, the rolling out of enablers such as Wimax and geographical information systems ("GIS"), intelligent electronic devices, mobile workforce tools, outage management systems, distribution monitoring and automation, SCADA, customer demand response, in-home conservation tools, energy storage, operating procedures and training manuals? Please provide copies of communications (including emails and power point presentations) between Hydro One and other Ontario LDCs and/or the Ontario Government on these Smart Grid issues.

16. Reference: Exhibit A, Tab 14, Schedule 2, page 30 of 34

CME notes that Hydro One's CDM Plan is premised on the assumption that the OPA will continue to fund CDM externally through the GAM. If CDM is no longer externally funded, will Hydro One continue to deliver CDM programs? If not, why not? If so, will Hydro One's CDM programs, and the costs that flow therefrom, be subject to a separate proceeding?

17. Reference: Exhibit A, Tab 14, Schedule 2, page 33 of 34

Hydro One states that it is too early to detail specific measures/criteria against which to measure its Plan. When will Hydro One be in a position to detail specific measures and criteria against which the Board can measure its plan, and when does Hydro One anticipate that the Board will assess its Plan on the basis of such specific measures or criteria?