Canadian Manufacturers & Exporters (CME) INTERROGATORY #2 List 1

Interrogatory

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

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 $1,1 02M, 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" ($31 M), 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.

Response

NOTE: UPDATED FOR THE DECEMBER 11, 2009 COST OF CAPITAL REPORT

a) The number of customers in 2008 can be found in the OEB's 2008 Yearbook of Electricity Distributors, published September 10, 2009. On page 10, the yearbook shows Total Customers of 4,693,045 and on page 60 the yearbook shows Hydro One Networks Inc. Total Customers of 1,187,253.

b) Below are the revised Tables 2, 3, 4 and 5 from Exhibit E1, Tab 1, Schedule 1 showing the increase in revenue requirement for 2010 over 2008 and 2011 over 2010 assuming the revenue requirement of the Green Energy Act will be recovered from Hydro One customers and not through any external funding mechanisms in whole or in part.

Table 2
Comparison of Revenue Requirements: 2008 vs. 2010 ($ Millions)

Line No	Description	Year 2008 OEB Approved	Year 2010	Difference
1	OM&A	466	560	94
2	Depreciation	230	263	33
3	Capital Taxes	8	4	(4)
4	Income Taxes	35	26	(9)
5	Return	289	351	62
	Total Revenue Requirement	**1,028**	**1,204**	**176**
6	Deduct External Revenues [1]	(42)	(48)	(6)
	Revenue Requirement less External Revenues	**986**	1,156	170

[1] External revenues addressed in Exhibit E1, Tab 1, Schedule 2

Table 3
Components of Change to Revenue Requirement

Previously OEB-Approved (2008) vs. Proposed (2010)Description	Amount ($ millions)
Increase in OM&A	94
Impact of increased rate base	91
Increase in asset removal costs	10
Higher ROE	23
Increased external revenue	(6)
Tax timing differences and other	(5)
Impact of lower capital tax rate	(8)
Lower cost of debt	(6)
Impact of lower income tax rate	(1)
Other (includes OPEB)	(22)
Total Change	**170**

Table 4
Comparison of Rates Revenue Requirements 2010 vs. 2011 ($ Millions)

Line no.	Description	Year 2010	Year 2011	Difference
1	OM&A	560	575	15
2	Depreciation	263	304	41
3	Capital Taxes	4	0	(4)
4	Income Taxes	26	49	23
5	Return	351	399	48
	Total Revenue Requirement	**1,204**	**1,327**	**123**
6	Deduct External Revenues [2]	(48)	(48)	0
	Revenue Requirement less External Revenues	1,156	**1,279**	**123**

[2] External revenues, addressed in Exhibit E3, Tab 1, Schedule 1.

Table 5
Components of Change to Rates Revenue Requirement:
Proposed 2010 vs. Proposed 2011

Description	**Amount ($millions)**
Impact of increased rate base	71
Tax timing differences and other	27
Higher ROE	8
Increased OM&A	15
Higher cost of debt	5
Impact of lower income tax rates	(5)
Impact of lower capital tax rates	(4)
Other	6
Total change	**123**

c) The following is the breakdown of the revenue requirement shown in part b).

2.1 OM&A Expense

	2010	**2011**
Sustaining	318.5	340.5
Development	21.7	21.9
Operations	16.7	17.6
Customer Care	106.3	102.4
Shared Services and Other Costs	92.1	88.1
Taxes Other Than Income Tax	4.7	4.8
Total OM&A	**560.0**	**575.2**

2.2 Depreciation and Amortization Expense

Depreciation	249.8	287.1
Amortization	12.9	17.0
Total Expense	**262.7**	**304.1**

2.3 Capital Taxes

Capital Tax	3.8	0.0
Total Capital Tax	**3.8**	**0.0**

2.4 Payments in Lieu of Corporate Income Taxes

Income before PILs	91.1	177.8
Tax Rate	31.00%	28.25%
Total PILs[3]	**26.8**	**48.8**

2.5 Return on Capital

Return on Capital	**351.0**	**398.7**

d) If the cost of the Green Energy Plan were included in Hydro One's rate base for 2010 and 2011, the bill impacts would be approximately 0.3% in 2010 and 0.6% in 2011.

e) Below is the breakdown of revenue requirement assuming the GEA equity component of return on capital and the GEA PILs component of revenue requirement in 2010 and 2011 are eliminated.

2.1 OM&A Expense

	2010	**2011**
Sustaining	318.5	340.5
Development	21.7	21.9
Operations	16.7	17.6
Customer Care	106.3	102.4
Shared Services and Other Costs	92.1	88.1
Taxes Other Than Income Tax	4.7	4.8
Total OM&A	**560.0**	**575.2**

2.2 Depreciation and Amortization Expense

Depreciation	249.8	287.1
Amortization	12.9	17.0
Total Expense	**262.7**	**304.1**

2.3 Capital Taxes

Capital Tax	3.8	0.0
Total Capital Tax	**3.8**	**0.0**

[3] Adjusted for R&D ITC and Ontario Education Credit see Exhibit C2, Tab 6, Schedule 1, Attachment A for detailed calculation

2.4 Payments in Lieu of Corporate Income Taxes

Income before PILs	44.3	145.8
Tax Rate	31.00%	28.25%
Total PILs[4],[5]	**12.4**	**39.2**

2.5 Return on Capital

Return on Capital	**316.0**	**365.9**

f) Correct. The total bill impact calculations of 3% for 2010 and 4% for 2011, as seen in Exhibit A, Tab 2, Schedule 1, Lines 7 and 8, reflect the increases in the Smart Meter adder in 2010 and 2011.

g) A manufacturer can estimate their total monthly and annual bill amounts, excluding any amounts to be billed via an external funding mechanism, by referring to Exhibit G2, Tab 4, Schedule 7 which shows the estimated New Total Bill (3rd column from the end) for the various rate classes at varying levels of consumption. As indicated in sub section 4 (1) of OReg 330/09, the amount to be collected by the IESO from market participants via an external funding mechanism will be based on the kilowatt-hours of electricity that are withdrawn from the IESO-controlled grid.

Given the Hydro One revenue requirement to be collected via external funding, per part h) below, and using a total of 148.676 GWh of energy consumed in Ontario in 2008 (per IESO reference), the amount to be collected from all electricity consumers is estimated to be $0.06/kWh in 2010, and $0.22/kWh in 2011. This is the Hydro One Distribution portion of the amounts expected to be billed for external funding mechanisms administered by the IESO and the OPA.

h) No, Hydro One does not 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.

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[4] Adjusted for R&D ITC and Ontario Education Credit see Exhibit C2, Tab 6, Schedule 1, Attachment A for detailed calculation

[5] Adjusted for removal of PILs related to the Green Energy Act in the amounts of $0.1M in 2010 and $0.7M in 2011.

The revenue requirement to be collected via external funding from all electricity customers in the Province as a result of work to be undertaken by Hydro One Distribution is estimated to be $8.0m in 2010 and $30.7m in 2011 as shown on page 2 of Exhibit A, Tab 14, Schedule 2.

Hydro One's load on a GWh basis represents about 25% of the provincial total. Therefore, the estimated impact on Hydro One customers' bill is:

	2010	2011
Revenue Requirement Funded by All Customers	$8.0M	$30.7M
Share that will be paid for by H1 customers	$2.0M	$ 7.7M
Increase as % of our Rev Req	0.2%	0.7%
Total Bill Impact	< 0.1%	0.2%

i) Hydro One does not have a criterion to determine if a specific bill increase amount is 'intolerable. The impacts on customers' bills are calculated in accordance with OEB guidelines which set the maximum allowable annual bill increase, and require utilities to implement mitigating measures if bill increases are above that threshold. Please also refer to the interrogatory response in Exhibit H, Tab 1, Schedule 8.