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BY E-MAIL

October 8, 2010

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

Dear Ms. Walli:

**Re: Hydro One Brampton Networks Inc.
2011 Distribution Rate Application
Board File No. EB-2010-0132**

In accordance with Procedural Order No. 1, please find attached Board Staff's technical conference questions. Please forward the questions to Hydro One Brampton Networks Inc. and to all other registered parties to this proceeding.

Yours truly,

Original Signed By

Silvan Cheung
Advisor – Applications & Regulatory Audit

Encl.

Board Staff Questions for Technical Conference
Hydro One Brampton Networks Inc. ("Hydro One Brampton")
EB-2010-0132

1. Ref: Board Staff IR #30, page 1
***Filing Requirement: Distribution System Plans – Filing under Deemed Conditions of Licence [EB-2009-0397] (DSP Filing Requirements)*, page 10, bullet 1**

Preamble:

Part "a" of Board staff's question tied back to page 10 of the *DSP Filing Requirements* which stated, "description of distribution system's current capacity to accommodate generation from renewable energy… …must be provided for each feeder… …*that is directly connected to a transformer station that is itself directly connected to a transmission system or a host distributor system."* (emphasis added). In its response to Board staff IR#30 (a), Hydro One Brampton answered "No" that it had not included such a list. It appears that this filing requirement has not been satisfied.

a) Does this response mean that there are no such feeders?

b) If such feeders do exist please file the appropriate listing of feeders, or indicate where the information exists in the application; or indicate why Hydro One Brampton should not be required to comply with this standard filing requirement.

c) Are none of the feeders in the list provided in response to part b) connected to a transformer station that is directly connected to a transmission system or a host distributor system?

2. Ref: Board Staff IR #34

Preamble:

A) Hydro One Brampton states in its response to this question that, "[Renewable Enabling Investment Green Energy] projects are seen to have zero (0) benefit to HOBNI load customers, and as such 100% of the investment should be allocated to the Provincial ratepayers."

B) In response to Board staff Interrogatory #34, at line 32 and 33, Hydro One Brampton states" There are circumstances where expansion investments are also expected to provide a benefit to Hydro One Brampton's load customers."

C) The Board's Report in EB-2009-0349 – *Framework for determining direct benefits accruing to customers of a distributor under section 330/09* (the "Report") was released June 2010. In the Report the Board noted that future COS filers, who were seeking Board approval for a Green Energy Plan, were to use the sharing percentages that were to be finalized for Hydro One. The Board stated:

> As such, the Board is of the view that <u>the percentages that are ultimately approved for Hydro One Distribution in relation to Expansion and REI investments should provide a reasonable estimate for other distributors until more distributors complete detailed benefit assessments</u> and a rolling weighted average can be used, particularly given the limited amount of eligible investments expected in Basic GEA Plans. [Emphasis added]

Based on the Board's Report of June 2010, Board staff would expect that Applicants would use the sharing percentages that have been provisionally approved for Hydro One in the absence of a more detailed analysis.

Questions:

a) Based on the above, why should the Board ordered percentages not be applied to Hydro One Brampton?
b) What are the factors in Hydro One Brampton's system that would make the Board ordered percentages not applicable?

3. Ref: Board staff IR #29
Letter of Comment from OPA (Appendix N)

Preamble:

The OPA's Letter of Comment states (page 2) that, "[HOBNI] plans on connecting over 40MW of renewable generation per year for the next five years. The number of connections in the forecast includes 25 microFIT and 75 FIT projects per year." And further that, "Due to the challenges that FIT proponents encounter in finalizing development and connection details, not all applications will necessarily materialize or be awarded a contract. The 40MW/year estimated by HOBNI may therefore be high."

Questions:

a) Please provide Hydro One Brampton's comment on the OPA assessment
b) Which of the impediments to a contract mentioned by the OPA are under the control of Hydro One Brampton?
c) Has Hydro One Brampton reassessed or does it plan to reassess the level of 40MW/year?

4. Ref: Board staff IR # 29
Letter of Comment from OPA (Appendix N)
Exhibit 4/Tab 2/Sch5.1/Appendix G

Preamble:

The fourth paragraph on page 2 of the letter of comment states that,
"The table shows the total thermal capacity of all feeders to be close to 720MW, but does not represent the availability of capacity on the supplying transformer stations. The OPA recognizes that the majority of these assets are not owned or operated by HOBNI, but since these limits can be significantly more constraining than those of the feeders, their inclusion would assist in providing a complete measure of how much generation the system can accommodate without upgrades."

Questions:

a) Do the additional limitations at any of the Hydro One Brampton TS points listed result in changes to the feeder thermal capacity of approximately 720 MW stated in the application evidence at Table 1, page 8 of 24 of the *HOBNI Green Energy Plan 2010*?
b) Does Hydro One Brampton concur with the OPA assessment of 240MW of generation that could be accommodated without upgrades? If not please explain.
c) Would this 240MW limit affect the costs for the GE plan submitted by Hydro One Brampton?
d) If the answer to question c) is yes, please provide revised numbers for each of the 5 years of the plan by updating the numbers provided in Hydro One Brampton's Green Energy Plan, for both expansions and enabling improvements.

5. Ref: Board staff IR # 47

a) Hydro One Brampton indicates that the Capital cost per Smart Meter and OM&A Cost per Smart Meter net of Depreciation for 2006 to 2009 are $164.87 and $21.69 respectively. The total of these two costs is $186.56. Staff notes that in the Board's Decision (EB-2007-0063), the Capital and OM&A cost per installed Smart Meter for Hydro One Brampton was $148.04. Please identify and explain the driver(s) for the increase.

b) In its response to part c, Hydro One Brampton includes the costs related to the Meter Base Repair. The capital costs for 2007, 2008 and 2009 are $6,673.56, $44,834.70, and $108,707.42 respectively.

   i) Please explain the reason for the significant cost increases in 2008 and 2009.

ii) Please provide the percentage of the Repair Meter Base as compared to the total installed Smart Meter for 2007, 2008 and 2009.

6. Ref: Board staff IR # 51
Update Letter, dated September 2, 2010

In its response, Hydro One Brampton provided that following breakdown of the forecast increase of the OMERS expense as below.

			Year 2010	Year 2011	Year 2012	Year 2013
Prior year	A		$ 14,850,189	$ 15,295,695	$ 15,754,566	$ 16,227,203
Wage inflation	B	3%	$ 445,506	$ 458,871	$ 472,637	$ 486,816
Total earnings	C = A*B		$ 15,295,695	$ 15,754,566	$ 16,227,203	$ 16,714,019
OMERS % increase	D			1.00%	2.00%	2.90%
Incremental premiums	E=C*D			$ 157,546	$ 324,544	$ 484,707
Incremental premiums (in millions)				$ 0.2	$ 0.3	$ 0.5

If the Board does not grant the request to establish a deferral account to record these increases, please provide a proposal of how Hydro One Brampton would include these incremental costs in its 2011 revenue requirement.

7. Ref: Board staff IR # 54 (h)

In its response, Hydro One Brampton states: "Given that Hydro One Brampton will likely take the deferral option, this variance account will likely not be required for 2011."

Please confirm whether the request for the new variance and deferral account related to Costs Subsequent to IFRS implementation is withdrawn from this application.

8. Ref: Board staff IR # 55 (h)

In its response, Hydro One Brampton states: "Consistent with Hydro One Brampton's response to Board staff IR # 54 (part h), this account would not be used in 2011 if IFRS implementation is deferred to 2012."

Please confirm whether the request for the new variance and deferral account related to Losses on Early Retirement is withdrawn from this application.

9. Ref: Board Staff IR #60 (c) and #73(f)

In its response to Board staff IR # 60 (c), Hydro One Brampton states: “Hydro One Brampton used the 1563 contra account believes that its balance should be drawn down to income by the same amount that account 1562 is drawn down by rider billed/credited to customers. Account 1563 would be drawn down to zero, while account 1562 would continue to be drawn down based on amounts billed/credited to customers through the rider, until the rider ceases. The remaining balance in account 1562 would be disposed of at a future rate proceeding as part of Group 1 accounts as a further prudency review would not be required.”

The first sentence in the response suggests that both accounts would be reduced by the same amounts. The second and third sentences suggest that the accounts would be reduced at different times by different amounts. Please clarify which method the applicant is proposing.

10. Ref: Board Staff IR #62

The interrogatory relates to the true-up items caused by changes in tax rates and the other items that appear on “TAXCALC”. It appears that Hydro One Brampton has not recorded any true-up items but has recorded both the amount approved in rates and the amounts billed to customers for the periods 2003 and 2004.

Please discuss your understanding of the treatment of the 2001 stub-period true-up items in 2002 through 2004.

11. Ref: Board staff IR #63 (and #67, #69, #70)

In its response to Board staff IR # 63 (a), Hydro One Brampton states: “Hydro One Brampton excluded regulatory assets/liability movements from PILs calculations both when they were created, and when they were collected, regardless of the actual tax treatment used for those amounts. Hydro One Brampton accounted for these as items that are not trued up in the TaxRec3 tab of the SIMPIL models for each year from 2001 to 2005.”

In 2004 and 2005 SIMPIL models on the schedule “Tax Reserves” Hydro One Brampton included the collections of regulatory assets which it termed “Bill 4 deferred revenue”. These amounts should have been posted to account 1590. The 2004 movement or change in balance was $2,881,192, and the 2005 movement was $3,720,374 ($6,601,566 – 2,881,192).

In Hydro One Brampton’s audited financial statements for 2004 in Note 8, and 2005 in Note 9, there is a description related to the collection, or recoveries, of regulatory assets.

Questions:
Please explain why these collections have not been excluded from the determination of the SIMPIL true-up items for ratepayers in accordance with your response above. The dollar amounts should be shown on “TAXREC 3” as Hydro One Brampton disclosed the other deferred or regulatory amounts.

What would the recalculated balance be in the summary continuity schedule if these collections of regulatory assets were not included in the true-up items? Please provide a revised schedule(s).

12. Ref: Board staff IR #64

In its response, Hydro One Brampton states: “Income tax rates for 2001 through 2005 were calculated based on information in the tax returns for these years, that is, net income tax payable divided by net taxable income. The maximum income tax rate used to calculate true-up amounts is the difference between the legislated income tax rate and the federal surtax rate.”

Please explain why you did not deduct the surtax rate from the calculated income tax rate described in the first sentence of the response.

13. Ref: Board staff IR #65

In 2001 the debt increased by $27,648,000 from $114,579,000 to $142,253,000. The main driver of this change in debt was the goodwill of $60,060,000 that resulted from push-down accounting. Since 2001 the debt levels have been fairly constant. In 2009 the goodwill was written off against contributed surplus.

It appears that the primary cause of the increased interest expense was the addition of goodwill.

In response to SEC interrogatory # 40(e) $32,468,553 of PILs were paid to the Ministry of Finance for the period 2001 through April 30, 2006. During the same period Hydro One Brampton collected from (billed to) ratepayers $39,660,297.

The difference of $7,211,744 was caused partially by higher interest expense deductions in the tax returns. The interest claw-back in the Board’s methodology would return part of this benefit to the ratepayers.

Did Hydro One Brampton pay more PILs to the government than it collected from ratepayers in the period from 2006 through 2009? Extending the table out to 2009 would assist the analysis and interpretation. Please provide the amended table.

14. Ref: Board staff IR #72

a) Please complete the following table based on the answer in a) above and the numerical information provided in answer to OEB IR#72 b).

Tax Item	$
LCT (grossed up) from 2006 EDR application PILs model for the period May 1, 2006 to April 30, 2007	293,550
OCT from IRR#72	232,453
CCA adjustment	
Sub-total	
Interest carrying charges up to December 31, 2009	
Total	

b) Please compare this total to the amount shown in VECC IRR #56 in Exh12/Tab 3/Sch 56/ page 1 for account 1592: credit balance (payable to ratepayers) of $602,667.86.

Please explain any material differences.

c) Did Hydro One Brampton include any HST related items in 1592?

15. Ref: Board staff IR #73

Hydro One Brampton requests relief of $5,162,030. How would Hydro One Brampton allocate this proposed recovery to the rate classes in 2011?

16. Ref: Board staff IR # 2

a) This interrogatory asked Hydro One Brampton to explain how treatment of gains and losses on early retirement of assets and the application of the so called full year rule is consistent with the Board Report on IFRS of July 2009.

In its response Hydro One Brampton referred to a deferral account that it has asked for to capture early retirement of assets once IFRS is adopted. The response to the interrogatory acknowledges the Company’s September 2, 2010 letter that stated that Hydro One Brampton would not adopt IFRS in 2011.

Does Hydro One Brampton therefore agree that there is no need for the Board to consider a deferral account for gains and losses on early retirement of assets at this time?

b) The Company states that IFRS requires it to commence depreciation of an asset in the month when the asset is put into service as per IAS 16, paragraph 55, when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management.

   Please explain where currently in Canadian Generally Accepted Accounting Principles the Company believes that there is a requirement or rule that requires half-year recognition for depreciation purposes of all assets put in service in any given year. Please explain exactly what the change is in IAS 16 from Canadian GAAP.

   If the Company is unable to identify an explicit reference in existing Canadian GAAP to the so-called half-year rule, please explain why the basis of estimating depreciation expense for rate-setting purposes should change from recognizing depreciation expense in the first year for all assets that come in service for the year on a 50% of a full year depreciation expense basis.

17. Ref: Energy Probe IR # 43

In the Company's letter of September 2, 2010 the amount of depreciation expense proposed for inclusion in the revenue requirement is stated on page 8 to be $12,123,273. In response to Energy Probe IR #43 Table 5 the amount of depreciation for 2011 is $12,612,711. Please confirm that the only difference is the application of the so-called half-year rule.

18. Ref: School Energy Coalition IR #3

In response to Part c), the Company appears to answer in the affirmative that it is continuing to request approval of certain IFRS based deferral accounts in this application that are in anticipation of rebasing for rates in a year some time in the future after the 2011 test year. The Company also states that it will not be adopting IFRS until some time after 2011. Please confirm that the accounts requested are for the change in accounting from Canadian GAAP to IFRS.

a) Does the Company acknowledge that changes from Canadian GAAP to IFRS is a generic issue affecting entities rate regulated by the Ontario Energy Board?

b) Does the company acknowledge that no approvals have been granted to date by the Board regarding the creation of any deferral or variance accounts relating to the revenue requirement impact of changes from Canadian GAAP to IFRS (Note: the Hydro One Distribution IFRS deferral account was for changes in IFRS arising between those IFRS standards in force at the date of the company's application and those in force at the time of their next application, i.e., IFRS to IFRS changes).

c) Does Hydro One Brampton agree that the amounts of which they speak in the interrogatory response and for which deferral accounts are requested are amounts that will not materialize until 2012?

d) What is the reason the Board should approve such accounts at this time?

e) Does Hydro One Brampton agree that the Board Report on Transition to IFRS of July 2009 stated that the Board would create a working group at an appropriate time to consider particular matters relating to transition to IFRS in an incentive rates regime?

f) Which of the accounts proposed by the Company in the September 2, 2010 letter and discussed in SEC IR #3 are potentially generic accounts that could be addressed by any such working group created by the Board?