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Sept. 3, 2012 By E-Mail

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli,

**RE: EB-2012-0031 - LPMA Interrogatories**

Please find attached the interrogatories of the London Property Management Association ("LPMA") in the above noted application.

Sincerely,

Randy Aiken

Randy Aiken
Aiken & Associates

Encl.

cc: Mr. Pasquale Catalano, Hydro One Networks Inc.
Mr. D.H. Rogers, Rogers Partners LLP

**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 or orders approving a transmission revenue requirement and rates and other charges for the transmission of electricity for 2013 and 2014.

# INTERROGATORIES OF THE LONDON PROPERTY MANAGEMENT ASSOCIATION ("LPMA")

## GENERAL

### 2) Is the overall increase in 2013 and 2014 revenue requirement reasonable?

Interrogatory #2-LPMA-1

Ref: Exhibit A, Tab 15, Schedule 1

Please update Tables 1, 2, 3 and 6 to reflect the most recent forecasts available.

## LOAD FORECAST and REVENUE FORECAST

### 3) Is the load forecast and methodology appropriate and have the impacts of Conservation and Demand Management initiatives been suitably reflected?

Interrogatory #3-LPMA-2

Ref: Exhibit A, Tab 15, Schedule 2

a) Please expand Table 3 to reflect actual data starting in 2007.

b) Please provide a version of Table 3 that shows the averages based on the months currently available for 2012, along with the averages for the same period in 2011.

Interrogatory #3-LPMA-3

Ref: Exhibit A, Tab 15, Schedule 2, Appendix E

a) Please update the forecasts shown to reflect the most recent forecasts from each of the sources shown.

b) What is the impact on the forecasts for 2013 and 2014 based on the updated forecasts requested in part (a) above?

Interrogatory #3-LPMA-4

Ref: Exhibit A, Tab 15, Schedule 2, Appendix F

a) For each rate case shown in the tables (i.e. EB-2006-0501, EB-2008-0272 and EB-2010-0002) please indicate which years were the test years.

b) Please provide a set of tables that show the forecast, the actual weather corrected and the % difference for the first test year from each of the applications shown for each of Tables 6a, 6b and 6c. Please also provide a second set of tables that show the same information for the second test year from each of the applications shown for each of Tables 61, 6b and 6c.

Interrogatory #3-LPMA-5

Ref: Exhibit A, Tab 15, Schedule 1, Attachment 1

Hydro One has a forecast of CDM impacts on the charge determinants shown in Table 3. Does Hydro One believe it should an LRAM variance account based on these forecasted figures which are built into the forecast? If not, why not?

## 4) Are Other Revenue (including export revenue) forecasts appropriate?

Interrogatory #4-LPMA-6

Ref: Exhibit C1, Tab 4, Schedule 6, Table 1 and Exhibit E1, Tab 2, Schedule 1, Table 1

a) Please provide a table for each of the Station Maintenance and Engineering & Construction categories for 2009 through 2014 that shows the revenues, costs and net margin associated with each of the two categories.

b) Please explain any trends or significant changes from year to year in the net margins shown in part (a) above.

Interrogatory #4-LPMA-7

Ref: Exhibit E1, Tab 2, Schedule 1, Table 1 and Exhibit C1, Tab 4, Schedule 6, Table 1

a) Please provide a table similar to Table 1 of Exhibit E1, Tab 2, Schedule 1, showing 2011 actual as compared to the EB-2010-0002 forecast for 2011.

b) Please provide a table similar to Table 1 of Exhibit E1, Tab 2, Schedule 1, showing 2012 forecast as compared to the EB-2010-0002 forecast for 2012.

c) Please provide a table similar to Table 1 of Exhibit C1, Tab 4, Schedule 6 showing 2011 actual as compared to the EB-2010-0002 forecast for 2011.

d) Please provide a table similar to Table 1 of Exhibit C1, Tab 4, Schedule 6 showing 2012 forecast as compared to the EB-2010-0002 forecast for 2012.

<u>Interrogatory #4-LPMA-8</u>

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

In EB-2010-0002 Hydro One forecast Other External revenues of $3.2 million for 2011. Actual 2011 was $6.9 million, or 170% above forecast.

a) Please explain this significant variance from forecast.

b) What is the current projection, based on the most recent year-to-date actual data for other external revenues in 2012?

c) Does Hydro One believe that customers should receive the full benefit of these other external revenues and that Hydro One should not be at risk for its forecast? If not, why not.

d) Does Hydro One agree that a variance account should be used for Other External Revenues, in the same manner as the Board decided was appropriate in EB-2010-0002 for secondary land use and station maintenance & E&CS services? If not, why not?

<u>Interrogatory #4-LPMA-9</u>

Ref: Exhibit E1, Tab 1, Schedule 1

a) Please provide the actual export revenue credit for 2010, 2011 and the current forecast for 2012.
b) What is driving the decrease in the export revenue credit forecast from $31.0 million in 2013 to $30.1 million in 2013?

c) Is Hydro One proposing the continuation of the Export Service Credit Revenue variance account in 2013 and 2014? If not, why not?

Interrogatory #4-LPMA-10

Ref: Exhibit H1, Tab 5, Schedule 1, page 3

a) Please provide the historical data, by year, that has been used to calculate the 3 year average volume of electricity exported from or wheeled through Ontario over the transmission system.

b) Please provide the most recent year-to-date volume for 2012, along with the figure for the corresponding period in 2011.

Interrogatory #4-LPMA-11

Ref: Exhibit E1, Tab 2, Schedule 1

a) For each line item shown in Table 1, please indicate whether or not there is currently a variance account around the amounts forecast and included in rates in 2011 and 2012.

b) For each variance account noted in part (a), please indicate whether Hydro One proposes to close the account, keep the account as is, or make changes to the account.

## OPERATIONS MAINTENANCE & ADMINISTRATION COSTS

**5) Are the proposed spending levels for Sustaining, Development and Operations OM&A in 2013 and 2014 appropriate, including consideration of factors such as system reliability and asset condition?**

Interrogatory #5-LPMA-12

Ref: Exhibit C1, Tab 3, Schedule 1

a) Please provide the most current year-to-date actual expenditures for 2012 in the same level of detail as shown in Table 1. Please also provide the figures for the corresponding period in 2011.

b) What is the driver of the increase $16.8 million in the 2012 bridge year relative to 2011?

**7) Are the 2013/14 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?**

Interrogatory #7-LPMA-13

Ref: Exhibit A, Tab 13, Schedule 1

a) For each staff category (Society, PWU, MCP) please provide the impact on the revenue requirement of a 1% change in the economic increase in both 2013 and 2014. Please provide the impact in 2014 based on a cumulative impact for both 2013 and 2014.

b) What is the revenue requirement impact in each of 2013 and 2014 associated with the automatic salary progressions that will occur for each of the staff categories (Society, PWU, MCP)?

c) Please provide the revenue requirement impact in each of 2013 and 2014 associated with the incentive plan payouts.

Interrogatory #7-LPMA-14

Ref: Exhibit C1, Tab 5, Schedule 2

The Mercer compensation benchmarking survey results for 2011 indicated that Hydro One was 13% above the market median on an overall basis. Please provide an estimate for each of the test years in the total compensation costs represented by this 13% over the median.

**9) Are the amounts proposed to be included in the 2013 and 2014 revenue requirements for income and other taxes appropriate?**

Interrogatory #9-LPMA-15

Ref: Exhibit C1, Tab 4, Schedule 7

a) Please provide the most recent year-to-date costs incurred for 2012 and the corresponding figure for 2011 in the same level of detail as shown in Table 1.

b) Please provide the calculations that underpin the figures shown in Table 2 for each of years shown, include the number of square meters to which the $86.11 figure applies, the total assessed values and the tax rates applied to those assessed values, along with any other calculations used for additional property tax payments as noted on page 3.

c) What assumptions has Hydro One used for the increase in average tax rates for 2012, 2013 and 2014 that get applies to the assessed values? What was the average increase in tax rates that applies in 2009, 2010 and 2011?

Interrogatory #9-LPMA-16

Ref: Exhibit C1, Tab 4, Schedule 7

a) Please provide an update on the status of the rights payments associated with the railway companies that are currently under review. In particular, have new agreements been reached?

b) Please provide the actual payments associated with the rights payments to railway companies made in 2009, 2010, 2011 and, if available, for 2012.

c) Please provide the actual payments associated with the First Nations rights payments made in 2009, 2010, 2011 and, if available, for 2012.

Interrogatory #9-LPMA-17

Ref: Exhibit C2, Tab 5, Schedule 1, Attachment 2

Please confirm that the reduction to the CCA for Five Nations of $0.3 million is because Hydro One has not included the assets related to this CCA in rate base. Please also confirm that Hydro One has not included any OM&A costs associated with theses assets in the revenue requirement.

Interrogatory #9-LPMA-18

Ref: Exhibit C2, Tab 5, Schedule 1, Attachment 4

Please confirm that the 2011 CCA figures shown in the updated evidence reflect the actual 2011 tax filing.

Interrogatory #9-LPMA-19

Ref: Exhibit C2, Tab 5, Schedule 1, Attachment 5

Please expand the table shown to include actual data for 2011, consistent with the 2011 tax filing, along with the forecast for 2012.

Interrogatory #9-LPMA-20

Ref: Exhibit C2, Tab 5, Schedule 1, Attachment 4 & Exhibit C2, Tab 5, Schedule 3, Attachment 4

a) Please explain the decrease in the number of transmissions positions eligible for the Ontario apprenticeship tax credit from 341 in 2011 to 210 in 2013 and 2014.

b) Please explain the decrease in the average value of the transmission related Ontario apprenticeship tax credit from $9,170 in 2011 to $$7,619 in 2013 and 2014.

c) Please explain the decrease in the number of transmission positions eligible for the federal apprenticeship tax credit from 177 in 2011 to 140 in 2013 and 2014.

d) Please explain the significant drop in the transmission SR&ED tax credit from $1,327,232 in 2011 to $350,000 in 2013 and 2014.

Interrogatory #9-LPMA-21

Ref: Exhibit C2, Tab 5, Schedule 1, Attachment 2 & Exhibit D1, Tab 1, Schedule 2

Please reconcile the additions to CCA for both 2013 and 2014 shown in Attachment 2 of Exhibit C2, Tab 5, Schedule 1 with the in-service capital additions shown in Table 1 of Exhibit D1, Tab 1, Schedule 2. Please provide a detail explanation for any non-land differences.

**10) Is Hydro One Networks' proposed depreciation expense for 2013 and 2014 appropriate?**

Interrogatory #10-LPMA-22

Ref: Exhibit C1, Tab 8, Schedule 1

What is the impact in each of 2013 and 2014 of the new depreciation rates, as compared those currently being utilized in 2012?

## CAPITAL EXPENDITURES and RATE BASE

**11) Are the amounts proposed for rate base in 2013 and 2014 appropriate?**

Interrogatory #11-LPMA-23

Ref: Exhibit D1, Tab 2, Schedule 1

a) What is the impact on the figures for each of 2012, 2013 and 2014 of a 10 basis point change in the CWIP account rate?

b) Please explain why it is more appropriate to use the effective rate based on the forecasted average debt portfolio rather than the effective rate based on the forecasted incremental debt required to finance the projects in each year.

Interrogatory #11-LPMA-24

Ref: Exhibit D1, Tab 3, Schedule 1

Please provide a table similar to Table 2 for each of 2007, 2008, 2009 and 2010 that shows the actual capital expenditures compared to the Board approved levels.

Interrogatory #11-LPMA-25

Ref: Exhibit D1, Tab 5, Schedule 1

a) Please explain the significant increase in the monthly inventory level shown in Table 2 for December, 2011.

b) Please provide the monthly inventory level for as many months as are currently available for 2012.

c) Please explain why the year-end inventory levels shown in Table 1 for 2013 and 2014 are approximately $1.0 million than the year-end levels for 2009 and 2010.

**15) Are the inputs used to determine the working capital component of the rate base and the methodology used appropriate?**

Interrogatory #15-LPMA-26

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

a) Table 9 indicates that approximately one-half of the utilities shown do not include interest expense in the calculation of the working capital allowance. Please explain why Navigant believes that the long-term interest cost should be included in the analysis when other utilities, including Union Gas and Enbridge, do not include this cost.

b) When asked if there was any impact on the lead/lag study associated with payment of long-term debt or short-term debt, Union Gas responded (EB-2011-0210, Exhibit J.B-2-2-1) that no, there is no impact. The explanation provided by Union indicated that debt was not a component of rate base but rather it was a method of funding rate base similar to equity. Interest payments are paid from the operations of the business and are not a required component of cash working capital.

Please comment on the Union response and indicate why Hydro One believes that it should include the cost of long-term debt in the cash working capital calculation.

c) Please explain why there is no component of cash working capital associated with the payment of dividends on equity. Please calculate the expense lead time associated with the payment of dividends for the 2010 year.

Interrogatory #15-LPMA-27

Ref: Exhibit D1, Tab 1, Schedule 3, Attachment 1 & Exhibit B2, Tab 1, Schedule 2

a) Please provide all the data, such as when the coupon payments for each bond occur and the associated amount that was used to calculate the expense lead time of 15.16 days for interest on long-term debt.

b) A number of debt issuances have or will mature between 2010 and the test years of 2013 and 2014. Please provide the calculation of the expense lead time for each of 2013 and 2014 based on the debt instruments shown in Interrogatory #18-LPMA-31 that requested an update to the 2013 and 2014 schedules shown in Exhibit B2, Tab 1, Schedule 2.

## COST OF CAPITAL/CAPITAL STRUCTURE

**17) Is the proposed timing and methodology for determining the return on equity and short-term debt prior to the effective date of rates appropriate?**

Interrogatory #17-LPMA-28

Ref: Exhibit B1, Tab 1, Schedule 1

a) What is the impact on the 2013 and 2014 revenue requirements of a 10 basis point change in the return on equity?

b) What is the impact on the 2013 and 2014 revenue requirements of a 10 basis point change in the short-term debt rate?

c) What would be the impact on the 2014 revenue requirement if the Board determined that the return on equity should be kept at the 2013 rate of 9.16% rather than the 9.44% forecast by Hydro One for 2014?

d) What would be the impact on the 2014 revenue requirement if the Board determined that the short-term debt rate should be kept at the 2013 rate of 2.01% rather than the 2.98% forecast by Hydro One for 2014?

**18) Is the forecast of long term debt for 2012-2014 appropriate?**

Interrogatory #18-LPMA-29

Ref: Exhibit B1, Tab 2, Schedule 1

a) Please update Table 4 to reflect the most recent forecasts available.

b) Please confirm that the treasury OM&A costs are included in the cost of debt, and not in OM&A.

c) Please confirm that the treasury OM&A costs of $1.6 million for 2013 and $1.7 million for 2014 are the transmission share of the total treasury OM&A costs only. If confirmed, please explain how the transmission share is determined on an annual basis.

Interrogatory #18-LPMA-30

Ref: Exhibit B2, Tab 1, Schedule 1

a) Please explain why Hydro One shows no preference shares in 2013 or 2014 despite having $239 million in preference shares in 2009 through 2012.

b) What is the forecasted rate for 2013 and 2014 associated with the preference shares?

c) If the Board determined that the preference shares should be used in the calculation of the cost of capital, what other components of the capital structure would Hydro One propose to be adjusted?

Interrogatory # 18-LPMA-31

Ref: Exhibit B2, Tab 1, Schedule 2

a) Please explain the increase in Treasury OM&A costs in 2012 to $1.6 million given these costs were maintained at $1.2 million in 2009 through 2011.

b) Please update the bridge year table (page 4) to reflect actual debt issues in 2012, along with the most recent forecasts of the amount and rate associated with debt issues to be completed in 2012.

c) Please update the test year schedules (pages 5 and 6) to reflect the response to part (b), along with the most recent forecast of rates available.