

**HYDRO ONE NETWORKS INC.
TRANSMISSION REVENUE REQUIREMENT 2013 AND 2014
INTERROGATORIES FROM
THE CONSUMERS COUNCIL OF CANADA**

GENERAL

Has Hydro One responded appropriately to all relevant Board Directions from previous proceedings?

Is the overall 2013 and 2014 revenue requirement reasonable?

Issue 2 – CCC - 1

Please provide the following:

-All of the correspondence between HONI and its shareholder regarding the 2013/2014 Transmission Rate Application;

-All presentations or reports provide to the HONI Board of Directors related to the 2013/2014 rate application.

Issue 2 – CCC - 2

(Ex. A/T2/S1/pp. 1-2) HONI is proposing to refund regulatory assets totalling \$30.3 million over a two year period. Has this been factored into the proposed rate increases of .6% and 9%? If so, what are the rate increases without the regulatory assets rebate?

Issue 2 – CCC - 3

(Ex. A/T8/S1/p. 1) Please indicate if HONI's corporate organization has changed since the 2011-2012 application. If it has changed, how has that impacted the revenue requirements?

Issue 2 – CCC - 4

(Ex. A/T13/S1/p. 2) The evidence indicates that with respect to planning that in November 2011 the HONI Board of Directors approved the 2012-2016 Business Plan. In April 2012 the HONI

approved an "Updated" Business Plan. Please provide copies of the November 2011 Business Plan and the Updated Plan approved in April 2012. Please indicate the extent there were any significant changes. If changes were made how have they impacted the 2013 and 2014 revenue requirements?

Issue 2 – CCC - 5

(Ex. A/T17/S1/p. 1) HONI has cited that there is approximately \$1 billion in aggregate savings of initiatives incorporated into its operations and embedded in the business plans along with ongoing operational efficiency improvements. Please provide a complete breakdown of the \$1 billion.

LOAD FORECAST AND REVENUE FORECAST

3 Is the load forecast and methodology appropriate and have the impacts of CDM initiatives been suitably reflected?

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

Issue 4 – CCC - 6

(Ex E1/T2/S1) Please recast Table 1 - External Revenues to include Board approved amounts for 2009-2012.

Issue 4 – CCC - 7

(Ex. E!/T2/S1/p. 5) Please provide a detailed budget for Other Miscellaneous Revenues. Please explain what HONI's policy is with respect to the leasing of idle transmission lines. How are the lease rates derived?

OPERATIONS, MAINTENANCE AND ADMINISTRATION COSTS:

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

Issue 5 – CCC - 8

(Ex. C/T3/S1/p. 2) Please recast Table 1 - Summary of OM&A Budget to include Board approved levels for 2009-2012.

Issue 5 – CCC - 9

(Ex. C/T3/S1/p. 5) Please provide a more detailed explanation as to why there is a \$11.1 variance in Shared Services and Other Costs between actual and Board approved amounts.

Issue 5 – CCC - 10

(Ex. C1/T3/S2/p. 3) Please recast Table 1 - Sustaining OM&A - to include Board approved levels.

Issue 5 – CCC - 11

(Ex. C1/T3/S1/p. 6) Sustaining OM&A actual expenditures are expected to be \$25.2 million less than the Board approved levels. The explanation provided indicates that the lower level of spending was driven by the need to stay within the overall OM&A envelope approved by the Board in the last Decision, offset by an increase in Shared Services. Please explain in detail the process HONI undertook in order to reduce the expenditures in light of the Board's decision. Please provide copies of any correspondence between senior management and staff regarding the last decision. Specifically, what kind of direction was provided to staff in order to manage expenditures within the Board approved envelope?

Issue 5 – CCC - 12

(Ex. C1/T3/S1p. 6) Please explain in detail where the \$25.2 million in reductions were made. Please identify all of the projects that were either cancelled or deferred.

(Ex. C!/T3/S2/p. 41) Please explain, in detail, why it is necessary to increase the Line Sustaining budget in 2013 and 2014 so significantly over historical levels. Please indentify how HONI is attempting to reduce these costs. Please explain what the pending FAC-003-2 NERC standard is and the status of that standard. To what extent are the increases in 2013 and 2014 related to this standard?

Issue 5 – CCC - 13

(C1/T3/S3/p. 3) The 2013 and 2014 budgets for Technology Program - Transmission Studies is \$3.6 million and \$3.7 million respectively. The evidence indicates that the objectives of the program are to undertake advanced studies to assess and evaluate the feasibility of emerging technologies. Please provide a detailed budget for this program. Please indicate how HONI assesses the value of these expenditures. How does this program benefit ratepayers?

(C1/T3/S3/p. 8) Please provide a detailed budget for the Transmission Standards Program for 2013 and 2014.

Issue 5 – CCC - 14

(Ex. C2/T2/S1) Please recast Schedule 1 - Comparison of OM&A Expense by Major Category - to include Board approved amounts for 2009-2012.

Issue 5 – CCC - 15

(Ex. C2/T2/S1) Please explain what the Licence Amendment to Upgrade TS's to Facilitate Renewable Generation is and why there are no costs in 2013 and 2014 related to this item.

6. Are the proposed spending levels for Shared Services and Other O&M in 2013 and 2014 appropriate?

Issue 6 – CCC - 16

(Ex. A/T8/S3) Have there been any significant changes related either to the Services provided by HONI to its affiliates, or the Services provided by the affiliates to HONI in 2013 and 2014 relative to 2012? If so, please identify the changes and how they impact the 2013 and 2014 Revenue Requirements

Issue 6 – CCC - 17

(Ex. A/T8/S2) What is the total annual cost associated with HONI's Board of Directors? How is that cost allocated among the various HONI entities?

Issue 6 – CCC - 18

(Ex. C1/T4/S2/p. 2) Please recast Table 1 to include Board approved amounts for 2009-2012.

Issue 6 – CCC - 19

(Ex. C1/T4/S2/p. 2) Please explain why the Real Estate and Facilities costs increase significantly from 2012 to 2014. Please provide a detailed budget for that cost category.

Issue 6 – CCC - 20

(Ex. C1/T4S2/p. 12) Please provide Board approved numbers for the Corporate Communications function for the years 2009-2012. Please provide detailed budgets for the test years and explain why there is a significant increase in 2013 and 2014 relative to historical levels.

Issue 6 – CCC - 21

(Ex. C1/T4/S2/p. 18) Please provide a detailed budget for the Regulatory Affairs Function for the years 2012-2014.

Issue 6 – CCC - 22

(Ex. C1/T4/S4/p. 8) Please provide an explanation for the significant increase in the IT OM&A Development Costs from 2012 to 2013 and 2014. Please provide the Board approved amounts for 2009-2012.

7. Are the 2013/2014 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?

Issue 7 – CCC - 23

(Ex. A/T13/S1/Appendix A) There is a 2.5% economic increase effective April 1, 2012 for the Society. Why is it assumed that economic increases will remain at 3% for the term of the business plan? What would be the impact on the 2013 and 2014 revenue requirements if the Society increases were limited to 2%? What would be the impact if they were limited to 2.5%?

Issue 7 – CCC - 24

(Ex. A/T13/S1/Appendix A, p. 3) What would be the impact on the 2013 and 2014 Revenue Requirements if the PWU increase was limited to 2% per year? What would be the impact if the increase was limited to 2.5% per year?

Issue 7 – CCC - 25

(Ex. A/ T13/S1/Appendix A, p. 3) What would be the impact on the 2013 and 2014 Revenue Requirements if the MCP annual increase in base pay was limited to 2% per year? What would be the impact if it was limited to 2.5% per year?

Issue 7 – CCC - 26

(Ex. C1/T5/S2) Please explain all of the initiatives HONI is undertaking to reduce its overall compensation costs. Please provide examples of how those initiatives have reduced compensation levels.

8. Are the methodologies used to allocate Shared Services and Other O&M costs to the transmission business and to determine the transmission related overhead capitalization rate for 2013/2014 appropriate?

Issue 8 – CCC - 27

(Ex. C1/T1/S1/p. 6) The evidence indicates that in 2102 HONI retained Black and Veatch to review the methodology to allocate common costs among the business entities. Has HONI considered retaining an independent consultant other than B&V to review the methodology. If not, why not? Was the B&V work tendered?

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

10 Is Hydro One Network's proposed depreciation expense for 2013 and 2014 appropriate?

CAPITAL EXPENDITURES AND RATE BASE

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

12 Are the proposed 2013 and 2014 Sustaining and Development and Operations capital expenditures appropriate, including consideration of factors such as system reliability and asset condition?

Issue 12 – CCC - 28

(Ex. A/T15/S6/p. 14) HONI has provided a schedule setting out the level of outsourcing for work programs and transmission projects for the period 2010-2014. The amount goes from \$132 million to \$348 million in 2014. Why has the level of outsourcing significantly increased in 2013 and 2014? What type of assessment does HONI undertake to determine what is more cost-effective, the use of employees or outsourcing?

Issue 12 – CCC - 29

(Ex. D1/T3/S1/p. 2) Please recast Table 1 to include Board approved amounts for 2009-2012.

Issue 12 – CCC - 30

(Ex. D1/T3/S1/p. 4) In 2011 HONI's capital Expenditures were \$313 million below the Board approved levels. What was the impact of that reduction in spending on net income?

Issue 12 – CCC - 31

(Ex D1/T3/S1/p. 6) In 2012 HONI is forecasting that it will spend approximately \$19.6 million less than forecast. Please provide the most recent forecast of what HONI expects to spend in 2012.

Issue 12 – CCC - 32

(Ex. D2/T2/S1/p. 1) Please recast Schedule 1 to include Board approved levels for 2009-2012.

13 Are the proposed 2013 and 2014 levels of Shared Services and Other Capital Expenditures appropriate?

Issue 13 – CCC - 33

(Ex. D1/T4/S1/p. 2) Provide the Board approved levels for the years 2009-2012 for Shared Services and Other Capital (Table 1)

Issue 13 – CCC - 34

(Ex. D1/T4/S2/p. 6) Please provide copies of HONI's policy regarding IT desktops, Laptops, Printers and Plotter. Please explain how HONI attempts to manage these costs in a cost-effective manner.

Issue 13 – CCC - 35

(Ex. D1/T4/S4/p. 4) What was the total projected cost of the Head Office and GTA Facilities improvements? Please provide detailed budgets for 2012-2014 setting out all expenditures.

14 Are the methodologies used to allocate Shared Services and other Capital Expenditures to the transmission business appropriate?

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

16 Does Hydro One's Asset Condition Assessment information and Investment Planning Process adequately address the condition of the transmission system assets and support the OM&A and Capital expenditures for 2013/2014?

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?

Issue 17 – CCC - 36

(Ex. B) Please provide the actual ROE for HONI for the years 2008-2011. Please provide the calculated ROE for Transmission and Distribution in each of those years.

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

DEFERRAL AND VARIANCE ACCOUNTS

19 Are the proposed amounts, disposition and continuance of Hydro One's existing deferral and variance accounts appropriate?

Issue 19 – CCC - 37

(Ex. F1/T1/S1/p. 4) For each year 2009-2012 please provide the forecast of Export Revenue and the actual amounts. Please explain any variances.

Issue 19 – CCC - 38

(Ex. F1/T1/S1/p. 3) For each year 2009-2012 please provide forecast and actual amounts of External Secondary Land Use Revenue. Please explain any variances. Please provide a detailed explanation as to the nature of these costs.

Issue 19 – CCC - 39

(Ex. F2/T1/S1/p. 1) Please explain why HONI is not seeking disposition of the Market Ready Costs, OEB Incremental Costs and IFRS Incremental Costs.

20 Are the proposed new deferral and variance accounts appropriate?

Issue 20 – CCC - 40

(Ex. F1/T1/S2/p. 5) Please explain, in greater detail, what specific costs HONI is seeking to record in the Partnership Transmission Projects Account. Please provide current examples of these arrangements. What are the expected costs and revenues for these arrangements for the test years? Please explain how the costs and revenues will be accounted for in the account.

Issue 20 – CCC - 41

(Ex. F1/T1/S2/p. 5) Please indicate the anticipated costs for Long-Term Future Corridor Acquisition and Development for the two test years. Please explain all of the cost categories that HONI is proposing to record in this new account.

COST ALLOCATION

21 Is the cost allocation proposed by Hydro One appropriate?

GREEN ENERGY PLAN:

22. Are the OM&A and capital amounts in the Green Energy Plan appropriate and based on appropriate planning criteria?

EXPORT TRANSMISSION RATES

23. What is the appropriate level for Export Transmission Rates in Ontario?

Issue 23 – CCC - 42

(H1/T5/S2) Please provide HONI's views on the ETS Tariff Study undertaken by the IESO. From HONI's perspective what is the appropriate level for the ETS Tariff?

CONNECTION PROCEDURES

24. Are the proposed modifications to the Hydro One Transmission connection procedures appropriate?

Issue 24– CCC - 43

(Ex. A/T2/S1/p. 3) The evidence states that HONI is requesting Board approval of several proposed modifications to the current Transmission Connection Procedures. How do these procedures relate to the rules regarding connection set out in the Transmission System Code?

ACCOUNTING STANDARDS

25 Have all of the impacts of the conversion of regulatory and financial accounting from CGAAP to USGAAP been identified, and reflected in the appropriate manner in the Application, the revenue requirement for the Test Year, and the proposed rates?

September 5, 2012

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