



## **Board Staff Interrogatories**

### **Hydro One Networks Inc.**

Distribution IRM + ICM Rate Application

2013 Distribution Rates

EB-2012-0136

**Hydro One Networks Inc.  
Distribution  
2013 Rates**

**EB-2012-0136**

**Board Staff Interrogatories  
September 20, 2012**

**IRM Methodology**

**1. Has Hydro One appropriately applied the IRM mechanism as specified by the Board?**

**1.0-Staff-1**

Ref: Exhibit A/Tab8/Sch1 – Attachment 1

Following publication of the Notice of Application, the Board received a number of Letters of Comment from ratepayers. Please confirm whether a reply was sent from Hydro One to the authors of the letters. If confirmed, please file the replies. Please ensure that the author's contact information except for the name is redacted. If replies were not sent, please explain why responses were not sent and indicate if Hydro One intends to respond.

**Incremental Capital Module/Rate Rider**

**2. Should the proposed capital projects be approved for ICM treatment?**

**2.0-Staff-2**

Ref: 1) Filing Requirements for Transmission and Distribution Applications,  
June 28, 2012, Chapter 3, Section 2.2.  
2) Exhibit B/Tab1/Sch2  
3) Exhibit B/Tab1/Sch1

- a) In accordance with the Filing Requirements please provide a detailed description and summary showing, for each capital project or item:
  - i. Whether the project is discretionary or not?
  - ii. an explanation of why each discretionary and non-discretionary project is needed.
  - iii. the expected in-service date for each project.
  - iv. Whether any capital project is required to accommodate customer or demand growth.
- b) Please provide:

- i. An explanation of why each project could not have been anticipated as required at the time of the last cost of service application (EB-2009-0096).
  - ii. An explanation of why each project should not be dealt with through a rebasing application at the next opportunity.
  - iii. The action that Hydro One will take if the Board does not approve the project as eligible.
- c) Please complete the incremental capital module spreadsheets including
- i. the summary  
([http://www.ontarioenergyboard.ca/OEB/Documents/2013EDR/2013\\_Incremental\\_Capital\\_Project\\_V1.0\\_20120727.xlsm](http://www.ontarioenergyboard.ca/OEB/Documents/2013EDR/2013_Incremental_Capital_Project_V1.0_20120727.xlsm)) and
  - ii. the workform, which includes threshold and other calculations  
([http://www.ontarioenergyboard.ca/OEB/Documents/2013EDR/2013\\_IRM3\\_Incremental\\_Capital\\_Wrkfrm\\_V1.0\\_20120727.xlsm](http://www.ontarioenergyboard.ca/OEB/Documents/2013EDR/2013_IRM3_Incremental_Capital_Wrkfrm_V1.0_20120727.xlsm))
- d) Hydro One has indicated in its August 29, 2012 update, that it intends to have updated rates based on a Cost of Service application, on January 1, 2015. Does Hydro One contemplate a new IRM application for the 2014 rate year?

## **2.0-Staff-3**

Ref: Exhibit B/Tab1/Sch1/page3

At lines 18-20 on page 3, Hydro One indicates that, "The current ICM provides a mechanism for recovering Escalated Issue and Non-Typical capital spending during an IRM period. There is also a requirement to recover Typical capital spending, in excess of approved depreciation, during the period of an IRM."

Please provide further explanation and rationale for the statement that there is a requirement to also recover Typical capital spending in excess of approved depreciation during the period of an IRM.

## **2.0-Staff-4**

Ref: Exhibit B/Tab1/Sch1/page6

At lines 16-17, Hydro One indicates that one outcome of not investing in rate base is lower reliability. Has Hydro One quantified or estimated the potential lower reliability that it is referring to?

## **2.0-Staff-5**

Ref: Exhibit B/Tab1/Sch1/page6/lines 22-24

Please explain fully or clarify how 'harvesting of assets' will result in 'increased contract and employee labour costs as Hydro One would be unable to levelize work based on the most efficient use of resources.'

## **2.0-Staff-6**

Ref: Exhibit B/Tab1/Sch2/page1/lines 6-7

Hydro One indicates that the methodology applied in the application is 'generally consistent' with Board requirements as outlined in Chapter 3 of the Filing Requirements. Please provide further detail on where the application may not be consistent with the guidelines.

## **2.0-Staff-7**

Ref: 1) Exhibit B/Tab1/Sch1

2) Filing Requirements for Transmission and Distribution Applications, June 28, 2012, Chapter 3, section 2.2.1 page 7

3) Exhibit B/Tab1/Sch 2

- a) Please clarify if, at Reference 1, page 1 on line 28, the reference to 2010 revenue means 2010 actual revenue?
- b) Also regarding Exhibit B/Tab 1/Schedule1, page 1, on line 28, please clarify the meaning of "... 2010 revenue at 2011 rates of \$1,161 million."
  - i) Why was the adjustment made?
  - ii) Provide a detailed explanation of the adjustment that was made.
- c) In calculating the Threshold Value, Hydro One appears to have used 2011 as the base year and 2010 for revenues in the threshold value determination. On what basis has Hydro One used 2010 revenues rather than "the most current year" as called for in reference 2? Why has Hydro One not chosen to use 2011 actual revenues instead of 2010?
- d) Was the final 2011 actual revenue not available at the time of application? If it was available why was it not used in the calculation as a more appropriate comparator for 2011 rates? If it was available, or has since become available, please repeat the calculation of the threshold value, based on the 2011 actual revenue and the 2011 approved revenue requirement.

## **2.0-Staff-8**

Ref: 1) Exhibit B/Tab1/Sch1

2) Exhibit B/Tab1/Sch2

3) EB-2007-0673 Supplemental Report of the Board on 3<sup>rd</sup> Generation Incentive Regulation for Ontario's Electricity Distributors, September 17, 2008

Hydro One provides information that its Typical spending for 2013 will be \$451.9 million (Exhibit B/Tab1/Sch1/page 8/Table 2); that in-service additions in 2013 will be \$414 million (Exhibit B/Tab1/Sch1/page 4/Table 1/line 2), and that depreciation used to discount the in-service amount in 2013 will be \$283 million (Exhibit B/Tab1/Sch1/page 4/Table 1/line 3).

For its “Typical Capital” it appears that Hydro One is requesting additional revenue beyond the revenue that would be achieved from current rates resulting from the EB-2009-0096 Cost of Service Decision. Hydro One explains that it should be allowed incremental revenue in order to recover the differences between capital expenditures in the year and the depreciation in that year.

- a) Hydro One indicates that capital spending was reviewed in detail by the Board in EB-2009-0096 as noted at Exhibit B/Tab1/Sch1/page 2/lines 18 - 26, and that this Typical capital spending does not require detailed further review. The Board’s ICM filing guidelines (section 2.2.5) indicate that amounts claimed are to be clearly non-discretionary and outside the base upon which current rates were derived. Why has Hydro One not filed evidence showing that Typical capital claimed in this ICM is outside of the base upon which current rates were derived?
- b) Please provide additional evidence on the \$451.9 million Typical capital amount to show that this capital is incremental to capital amounts already included current rates as approved in EB-2009-0096.
- c) In EB-2009-0096 the Board approved the capital spending for 2011. Is the capital spending of \$451.9 million in 2013 consistent with the Cost of Service authorization of EB-2009-0096? Please provide additional detail to show what specific projects make up the \$451.9 million.
- d) Hydro One refers (Exhibit B/Tab1/Sch1/page 3/line 20) to its submission on the 3<sup>rd</sup> generation incentive rate mechanism, that “... there is a requirement to recover Typical capital spending in excess of approved depreciation, during the period of an IRM”. In its Supplemental Report of September 17, 2008 (Reference 3), the Board notes at page 30 that “The distributors ... perceive the module would enable them to adjust rates on an on-going as-needed basis to accommodate increase in rate base.” It appears to Board staff, that the Board did not accept Hydro One’s view and clarified, in the middle of page 31, that “... adjustment in rates will be linked solely to the costs of the incremental capital.” The Board also concluded that “The intent is not to have an IR regime under which distributors would habitually have their CAPEX reviewed to determine whether their rates are adequate to support the required funding.” How does Hydro One reconcile the application with the findings in the Supplemental Report?
- e) Please explain why Hydro One considers that there is or should be a relationship between Capital Expenditure in a particular year (2013) and the depreciation allowance which is approved in a previous test year (2011).
- f) Please provide an explanation as to why the depreciation is insufficient to recover the planned capital expenditures.

## **2.0-Staff-9**

Ref: 1) EB-2007-0673 Supplemental Report of the Board on 3<sup>rd</sup> Generation Incentive

Regulation for Ontario's Electricity Distributors

- a. June 14, 2008
  - b. September 17, 2008.
- 2) Chapter 3 of the Filing Requirements for Transmission and Distribution Applications, June 28, 2012
  - 3) Exhibit B/Tab1/Sch1
  - 4) Hydro One Draft Rate Order for 2010 and 2011 Rates EB-2009-0096 Exhibit 1.2, December 17, 2010.

The Board's ICM module Threshold Formula calls for a summing of all the test year (incremental) capital requirements and compare them against the threshold determined on the basis of the total Rate Base and total Depreciation for the company as listed in the Draft Rate Order for (in Hydro One's case) the year 2011.

Reference 2, at page 8 advises that "A distributor applying for recovery of incremental capital should calculate the eligible incremental capital amount by taking the difference between the 2013 total non-discretionary capital expenditure and the materiality threshold."

Hydro One, in determining the threshold value for incremental capital, appears to have used the total amount for all capital projects (\$644 million at Exhibit B/Tab1/Sch1/page 9/Table 3) to determine the threshold value. Please indicate why Hydro One feels that the calculations should be based on the total annual amounts rather than on the incremental amounts related to each of the projects for which the incremental capital is sought?

**2.0-Staff-10**

- Ref:
- 1) Exhibit B/Tab2/Sch3/page 1
  - 2) EB-2009-0096, Decision and Order, page 27, last paragraph
  - 3) Application EB-2009-0096, Exhibit B/Tab2/Sch1/page 17/line 20

Hydro One indicates in the pre-filed evidence, that there is a need to increase the rate of replacement of wood poles which are coming to their end of life. At line 22 of reference 1, Hydro One indicates that it is changing its approach from one based on asset condition information to one largely based on replacing aging and deteriorating wood pole populations.

In the EB-2009-0096 proceeding, Hydro One indicated that the proposed work plan was based on asset condition information (Reference 2).

- a) Evidence shows that the problem of defective poles was known during the EB-2009-0096 application. Why should this activity be considered as a new and unanticipated incremental capital expenditure amount? How have the additional wood pole replacement costs in this application been adjusted for the wood pole replacement costs already included in 'Typical' Capital?

- b) Would the new approach eliminate condition assessment for all age categories of poles? Would the new approach replace poles without verifying an EOL condition?
- c) Would the revised approach result in replacing poles which do not need to be replaced (due age and due to condition) and on the other side, result in not replacing some which should be replaced (due to poor condition)?
- d) Please provide any studies, discussion and policy papers related to the changed approach and evidence of approval by Hydro One management reflecting the change in policy from an Asset Assessment based program to one based largely on age-based replacement.
- e) Have there been any modifications to purchase procedures to identify defects at the time of acquisition of the wood poles, so as to avoid future problems similar to this purchase of defectively treated red pine poles?
- f) Has Hydro One undertaken any legal action to recover the additional costs of the defective poles purchased?
- g) How does Hydro One propose to complete this additional work in 2013? Please provide data on effects on OM&A including additional staffing and other means to complete the work, and indicate if any other programs will be affected and how they will be affected.
- h) Please indicate the replacement rate of wood poles that has occurred in the “wood pole replacement program” over each of the last 10 years.
- i) Please indicate what failure rate has occurred in poles over each of the last 10 years.
- j) Given that the proactive replacement of EOL poles reduces the outage time and reduces the time for replacement from 9 hours for an unplanned replacement to 2 hours in what budget are the savings expected to be seen? Will the OM&A budget be reduced? Has this been taken into account in any way?
- k) Why is it necessary to significantly increase the rate of pole replacements now, instead of for the next cost of service application? What is it that makes this change so urgent at this time? The matter of defective poles was raised in the Hydro One application of 2009 as indicated in Reference 3. Did Hydro One anticipate at that time that it would seek additional funding at the next Cost of Service hearing? Please explain.

## **2.0-Staff-11**

- Ref: 1) Exhibit B/Tab2/Sch3/page2/lines 5 to 14  
 2) EB-2009-0096, Exhibit D1/Tab2/Sch1

3) Exhibit B/Tab2/Sch3/page 2/line 9 & Exhibit B/Tab 2/Sch3/page 9/lines 11-14

Reference 1 refers to the report dated December 2010 by EDM International Inc. on the examination of a specific manufacturer's wood poles (filed on a confidential basis) and identifies that 55,000 red pine poles are defective and will need to be replaced over a decade.

Reference 2, from Hydro One's previous Cost of Service application EB-2009-0096, also identified that there are 55,000 defective poles, and identifies (page 17, line 16) that "50% of the red pine poles ... will require replacement over the next 5 years".

Reference 3 seems to indicate that the pole replacement rate includes the replacement of poles which are at end of life through old age and poles which are at end of life due to defects (including the defective red-pine poles).

- a) Please confirm that the proposal for an increase in the rate of pole replacements, from 7,200 poles/year to 11,000 poles/year, represents an increase from 0.42% to 0.65% of the total population per year.
- b) Reference 3 appears to show that the proposed replacement rate includes the defective red-pine poles which need to be replaced. Is this correct? Some of the following questions are based on this appearance.
- c) In the present application, Hydro One (Reference 1) identifies that there are 55,000 defective red pine poles (which are the subject of the EDM report) and that they should be replaced over a decade. Please:
  - i. confirm that this constitutes 3% of the pole population and requires an average 0.3% of the total population of poles to be replaced in each year of the next decade, or
  - ii. alternatively, identify the intended replacement pattern for these defective poles.
- d) Reference 3, from Hydro One's application of July 13, 2009 at page 17 first identified the problem of defective red pine poles installed between 1997 and 2004, and that 55,000 poles were affected, and that 50% of these poles should be replaced within 5 years. How many of these defective poles have been replaced in the years 2009 through 2012?
- e) Please confirm that the proposed increased replacement rate for poles, from 0.42% per year to 0.65% per year (see a) above), represents an increase of 0.23%.
- f) Please confirm that the increased replacement rate is less than what is required to replace the defective poles (0.3% per year), and that the replacement rate for the "non-defective" balance of the poles will actually be lower than the current replacement rate ( $0.65\% - 0.3\% = 0.35\%$ ).



- g) Is Hydro One satisfied that the replacement of the defective red pine poles is being effected on a sufficiently rapid basis? How does this relate to Reference 2, where it is stated that 50% of the defective poles should be replaced in 5 years?

## **2.0-Staff-12**

Ref: Exhibit B/Tab2/Sch2

Hydro One states that it has learned from the Asset Management approach but is moving to increase replacements based on service life. Hydro One suggests that there has been a greater dependency on maintenance of distribution assets.

Section 2 starting at page 4 is entitled "Station Refurbishments Program", but at numerous points within the section the term "replacement" is used, e.g. on page 6 at line 16 the application refers to "the proposed replacement of 32 stations per year ...". Furthermore, page 15 describes the concept of a prefabricated integrated modular distribution station.

Hydro One indicates at Exhibit B/Tab 2/Sch2/page 1, line 25 that it has "continuously learned from available condition assessment information", and that this is "not viewed to be sustainable or prudent from a long-term perspective".

- a) What would Hydro One do in regard to this program if the Board did not grant the amount sought for the Station Refurbishments program? What would Hydro One do, and what would the consequences be, if the Board granted only half of the requested increment in the rate of replacement i.e. replacement of 18 substations (additional 14 over current rate) instead of 32 proposed in 2013?
- b) What would Hydro One do in regard to this program if the Board did not grant the amount sought for the Transformer Spares and Replacement program? What would Hydro One do, and what would the consequences be, in regard to this program if the Board granted only half the amount sought for the Transformer spares and Replacement program?
- c) How have the additional Station Refurbishment costs in this application been adjusted for the Station Refurbishment costs already included in 'Typical' Capital?
- d) Please provide additional information on the new Asset Analytic tools Hydro One has developed and applied, as indicated at Exhibit B/Tab2/Sch2/page 2/line 4. Has this approach been applied elsewhere? If so, please provide information.
- e) What are the criteria for replacement of substations as opposed to refurbishment?
- f) What assumptions have been made as to the proportion of refurbishments vs. replacements?

- g) What is the basis of the forecast in Exhibit B/Tab2/Sch2/page 3/Table 1, of \$29 million for station refurbishment?
- h) Given that the age distribution and condition assessment have been available for some time, why is this requirement something that should not have been foreseen?
- i) Please complete the table below, indicating, for the refurbishments of distribution and regulating stations in the last 10 stations, whether there was replacement with new components (“new”) or rehabilitation of the whole station (“rehab”). Please indicate why the increase in Transformer Spares replacement cannot be accommodated through a Cost of Service application.

Station/year	Main transformer	HV busbars	LV busbars	HV circuit breakers	LV circuit breakers	Relay panels	Battery Charger

- j) Given that the referenced statements refer to the “long-term perspective” (page 1 line 28) and the “longer term view of investment needs” why should the modified program be considered as urgent?
- k) Regarding Operating Spare Purchases, Exhibit B/Tab2/Sch2, page18: Please provide evidence of the difference in lifespan of a fully refurbished used transformer compared with a new station. What would Hydro One do, and what would the consequences be, if the Board declined to allow incremental capital for this item?
- l) At Exhibit B/Tab2/Sch2/page 8 on line 17, Hydro One mentions that “Customers will be impacted with unplanned outages occurring more often than normal”. Can Hydro be more specific and quantify how more often outages will occur?

## 2.0-Staff-13

Ref: Exhibit B/Tab2/Sch2/page12

Hydro One states that there has been an average of one metal clad breaker failure per year but that the failure rate is increasing as there were 5 failures in 2011. Does Hydro One regard this as an increasing trend for failures? Please provide a record of failures from 2005 to 2011 and provide a year-to-date failure number for 2012.

## 2.0-Staff-14

Ref: Exhibit B/Tab2/Sch2/page14

Hydro One indicates that OM&A expenditures will be contained as additional capital expenditures are made. Can Hydro One estimate how OM&A budget areas are affected when capital expenditures are increased?

#### **2.0-Staff-15**

Ref: Exhibit B/Tab2/Sch2/page27

Hydro One indicates that the Distribution operating spare complement is currently below the defined requirement. Please provide further explanation of this statement. On what evidence is this statement based? Was this also the case when Hydro One made its EB-2009-0096 application?

### **3. Is Hydro One's proposal with respect to the capital contribution allocated to Hydro One Transmission appropriate?**

#### **3.0-Staff-16**

Ref: Exhibit B/Tab2/Sch1/page2

- a) At line 13 it is stated that the cost of the Commerce Way TS is not being shared equally, although the capacity is split 50-50. Please provide a detailed explanation and the detailed calculation.
- b) Please indicate if this cost sharing is the same as was submitted for the Board's consideration in the Leave to Construct application (EB-2009-0079), and the reasons why the Board should allow this amount if it is different.

### **4. Is Hydro One's proposal with respect to the treatment of the CIS project for 2013 and 2014 appropriate?**

#### **4.0-Staff-17**

- Ref:
- 1) Exhibit B/Tab3/Sch1/page 5
  - 2) Exhibit B/Tab1/Sch1/page 4/Table 1
  - 3) Exhibit B/Tab1/Sch1/page 8/Table 2
  - 4) Exhibit B/Tab1/Sch1/page 8/line 10

In reference 1, Table 1 indicates a total of \$179.8 million for CIS projects, and Table 2 on the same page indicates \$155.4 million for Total in-service for CIS in 2013. Please explain how these numbers can be reconciled.

The table in Reference 2 shows an amount of \$414 million for Typical Capital in 2013 whereas the table in Reference 3 shows an amount of \$ 451.9 million for 2013 and the text in reference 4 shows \$414 million. Please explain how these numbers can be reconciled.

#### **4.0-Staff-18**

Ref: Exhibit B/Tab3/Sch1/pages 2-3

Hydro One indicates that its current CIS system, installed in 1998, is now at end of life. Can Hydro One provide examples of CIS systems for similar distributors in Ontario or other jurisdictions and compare their CIS systems in terms of costs and end of life considerations?

#### **4.0-Staff-19**

Ref: Exhibit B/Tab3/Sch1/page 9

Hydro One indicates that bill presentment includes bill messages and bill inserts. How will bill presentment be improved with the new system and what additional capability will be added?

#### **4.0-Staff-20**

Ref: Exhibit B/Tab3/Sch1/page 16

Hydro One indicates that it continues to explore opportunities with other Ontario LDCs to look for project cost savings but has insufficient information to quantify the amount of the potential savings. Please provide more detail on these opportunities: What is the progress so far on this initiative? How many LDCs have been approached or have shown interest in the new system? Please provide an estimate of the potential savings or provide a range.

#### **4.0-Staff-21**

Ref: Exhibit B/Tab3/Sch1/page 19

Hydro One indicates that due to the complexity of the CIS project, it expects to use the project contingency funds. What were the primary reasons that contingency funds were required? Please provide a table that summarizes the use of the contingency funds by major category.

#### **4.0-Staff-22**

Ref: Exhibit B/Tab1/Sch2/page 5

In this table, Hydro One shows a CCA adjustment of \$77.7 million for the CIS project. Please provide further detail on how this adjustment was determined.

- 5. Is Hydro One's proposal to calculate revenue requirement for all of the proposed ICM projects, except CIS, based on full year depreciation, appropriate? In the event that Hydro One files on a cost of service basis for 2014, is an adjustment required, and if so should a deferral account be set up at this time to capture any such adjustment?**

No Interrogatories

**6. Is the proposed rate implementation for projects approved under the ICM, if any, appropriate?**

No Interrogatories

**7. Is the proposed calculation of the ICM rate rider, including the cost of capital parameters used in the calculation, appropriate?**

No Interrogatories

**Other Rate Riders and Adders**

**8. Is Hydro One's proposed disposition of Group 1 Deferral and Variance Accounts appropriate?**

**8.0-Staff-23**

Ref: Exhibit E1/Tab2/Sch1

The Board approved PILs proxies to be included in rates from 1999 through 2005 for Hydro One Networks Inc. core distribution service area and for the Hydro One acquired distributors. In the Decision in the Combined Proceeding (EB-2008-0381), the Board directed distributors to file PILs tax deferral account evidence in their next application. When does Hydro One expect to file its evidence for disposition of PILs tax variances for the period 1999 through April 30, 2006?

**8.0-Staff-24**

Ref: Exhibit E2, Tab 2, Schedule 3, Page 6 & 7  
Exhibit E2-01-01, Sheet 12, Calc of Def\_Var RR

- a) As per Exhibit E2, Tab 2, Schedule 3, Page 6, the GSd rate class draft tariff sheet shows a Global Adjustment Rate rider of \$3.572/kWh and a Volumetric Rate Rider for 2013 Deferral and Variance Account disposition of \$(0.00870)/kW.

However, as per Exhibit E2-01-01, Sheet 12, Calc of Def\_Var RR, the Global Adjustment Rate rider is calculated to be (\$0.0005)/kWh and the Volumetric Rate Rider for 2013 Deferral and Variance Account disposition is calculated to be (\$0.30666)/kW for this rate class.

Please indicate the correct numbers to use. Please update the evidence as appropriate with the correct numbers.

- b) As per Exhibit E2, Tab 2, Schedule 3, Page 7, the UGd rate class draft tariff sheet shows a Global Adjustment Rate rider of \$1.63/kWh.

However, as per Exhibit E2-01-01, Sheet 12, Calc of Def\_Var RR, the Global Adjustment Rate rider is calculated to be (\$0.0005)/kWh for this rate class.

Please indicate the correct number to use. Please update the evidence as appropriate with the correct number.

#### **8.0-Staff-25**

Ref: EB-2009-0096, Draft Rate Order, Exhibit 2.0  
Exhibit E1-02-01, Attachment 4

As per EB-2009-0096, Draft Rate Order, Exhibit 2.0, it appears that a total of (\$31,115,400) was refunded to customers in this proceeding. However, as per Attachment 4 of Exhibit E1-02-01, it appears that (\$28,431,636) in principal and (\$13,483) in carrying charges was transferred to Account 1595 in 2010. It also appears that in Attachment 4, "Adjustments During 2010 –Other", no offsetting amounts (to the amount transferred to Account 1595) were removed from Account 1550, 1580, 1584, 1586, 1588, and 1590 – the amounts cleared in EB-2009-0096.

- a) Please clarify which is the correct number to transfer to Account 1595 in Attachment 4 if Exhibit E1-02-01, representing the balances cleared in EB-2009-0096. Please update the appropriate sections of Hydro One's evidence accordingly.
- b) Please explain why in Attachment 4, "Adjustments During 2010 –Other", no offsetting amounts (to the amount transferred to Account 1595) were removed from Account 1550, 1580, 1584, 1586, 1588, and 1590 – the amounts cleared in EB-2009-0096. If necessary, please update the appropriate sections of Hydro One's evidence.

#### **8.0-Staff-26**

Ref: Exhibit E1/Tab 2/Sch1/page 4

As per Exhibit E1/Tab 2/Schedule 1/page 4, Footnote 2, Hydro One is proposing to recover approximately \$11.445 million of Account 1590 – Hydro One stated it is associated with the disposition of other regulatory balances, primarily associated with RARA 2. It also would like to refund approximately (\$8.984) million of Account 1590 – Hydro One stated it is associated with the disposition of 2008 Regulatory balance.

- a) Please explain why there is a residual balance of (\$8.984) million in Account 1590 with respect to regulatory balances cleared in 2008 when the account was cleared in EB-2007-0681.
- b) Please explain why there is a residual balance of \$11.445 million in Account 1590 with respect to "other regulatory balances, primarily associated with RARA 2", considering RARA 2 involved amounts cleared in EB-2005-0378 and Hydro One had the an opportunity to clear the account in EB-2007-0681 and EB-2009-0096.
- c) Please describe the "other regulatory balances" to which the \$11.445 million balance in Account 1590 can be attributed.

#### **8.0-Staff-27**

Ref: ExhibitE1/Tab 2/Sch1/Table 1  
EB-2009-0096 Decision, page 55

Hydro One is proposing not to clear the balance in Account 1588 RSVA Power, Excluding Global Adjustment. As per EB-2009-0096 Decision, page 55, the Board stated the following:

*The Board directs Hydro One to track the dollar value of variances between the Board approved losses recovered in rates, and actual line losses, commencing January 1, 2010. The Board expects that the information related to wholesale purchases, as well as line losses recovered in rates, are currently available to Hydro One through its wholesale meters, and its billing systems. The Board further expects that Hydro One can obtain the dollar value of recoveries of losses in rates from its billing system; and can convert the kWh information of actual line losses (which are measured and reported to the Board under RRR 2.1.5) to dollar values, although other approaches, such as the allocation method identified by Hydro One, may be appropriate. Hydro One is directed to bring this analysis to its next cost of service proceeding so that this issue may be further examined.*

- a) Does Hydro One plan to bring forward the above noted analysis in its next cost of service proceeding? If this is not the case, please explain.
- b) Did Hydro One begin to track the dollar value of variances between the Board approved losses recovered in rates, and actual line losses, and record these amounts in its general ledger, RRR 2.1.7, and audited financial statements from January 1, 2010 forward? If this is not the case, please explain.

**9. Is Hydro One's proposed rate rider to share the impact of the income tax decrease with customers appropriate?**

**9.0-Staff-28**

Ref: Exhibit E2/Tab1/Sch1/Sheet 12, Calc of Def\_Var RR Attachment 3, Calculation of Shared Tax Savings Rate Rider – Variable

In column P(Billed kW) of Attachment 3, filed June 15, Calculation of Shared Tax Savings Rate Rider – Variable, 35,499,080 kW is shown for the Sub-Transmission rate class. However, the Billed kW at Exhibit E2-01-01, Sheet 12, Calc of Def\_Var RR, is calculated to be 33,188,719 kW for the Sub-Transmission rate class.

Please indicate the correct number to use. Please update the evidence as appropriate with the correct number.

**10. Is Hydro One's proposed Smart Grid rate adder appropriate?**

**10.0-Staff-29**

Ref: Exhibit C/Tab1/Sch1/page 2

Hydro One indicates that it has installed a base of new smart grid assets including a Distribution Management System. Please describe or provide further detail on these assets and the cost of each.

**10.0-Staff-30**

Ref: Exhibit C/Tab1/Sch1/page 3

At Table 2 on this page, Hydro One shows approved Smart Grid Capital and OM&A expenditures approved for 2010 and 2011. Please provide similar statistics for actual expenditures for 2010 and 2011, including year to date 2012 expenditures.

**10.0-Staff-31**

Ref: Exhibit C/Tab1/Sch1/page 3

Hydro One indicates that a significant proportion of the proposed smart grid expenditures were with respect to the Smart Zone Pilot project. Please provide a report of the status of the Smart Zone project, including accomplishments and a breakdown of Capital and OM&A costs incurred. What were the major learnings realized from this pilot so far?

**10.0-Staff-32**

Ref: Exhibit C/Tab1/Sch1/page 6

Hydro One indicates that with addition renewable generation, its control room will evolve into separate transmission and distribution operator's functions. Why would these functions be separated into transmission and distribution and not integrated into a common function as generation is added to the distribution system?

**11. Are the proposed adjustments to the Retail Transmission Service rates appropriate?**

**11.0-Staff-33**

Ref: Exhibit C/Tab2/Sch1

Please complete the RTSR Adjustment Workform as found on the Board's website under Filing Requirements for Distribution and Transmission Applications.

**Final Step of Harmonization Plan**

**12. Is Hydro One's proposal to implement the final adjustments of the Harmonization Plan in accordance with the Board's directions?**

No Interrogatories

**Density Study**



### **13. Is Hydro One's proposal for the implementation of the Density Study findings appropriate?**

#### **13.0-Staff-34**

Ref: Exhibit A /Appendix E/page 14 and Exhibit D/Tab1/Sch1/page 10

With the proposed DSA IRM increase of \$6.22 for R2 customers, has Hydro One taken any steps to request that the Rural Rate Protection amount be increased from the current amount of \$28.50?

#### **13.0-Staff-35**

Ref: Exhibit A/Appendix E/pages 14-16

The Stakeholder Consultation Notes include a description of two options for the definition of per-customer cost at the top of page 14, labeled Option A and B, and later on page 14 there are two options for ratio re-balancing labeled 1 and 2. The discussion which follows on pages 14-16 refers to Options A and B, but it appears that it may actually concern Options 1 and 2 instead. Please provide any clarification that might be helpful in understanding the notes.

#### **13.0-Staff-36**

Ref: Exhibit D/Tab1/Sch1/Tables 2 & 4; and, EB-2009-0096/Draft Rate Order/Exhibit 2.0/page 1

- a) Please confirm that the density weights that were used in the 2010 Cost Allocation model are the amounts shown in the second table of Exhibit 2.0 of the 2010 Draft Rate Order, and that those weights are the basis for the relative costs (OM&A and FA Cost per Customer) that are found in the last row of Table 2.
- b) Are there revised Density Weights that form the basis for the relative costs found in the first row of Table 4? If so, please provide the revised density weights in a format similar to the format in Exhibit 2.0 of the Draft Rate Order.
- c) For four rate classes, all of the density weights in Exhibit 2.0 of the DRO are equal to 1.00, which appears to be a neutral default value. Please explain whether Hydro One intends to re-examine the Density Weights that are equal to 1.00, as part of its next re-basing application, in particular the factors applicable to the Sub-Transmission and Distributed Generation classes.

#### **13.0-Staff-37**

Ref: Exhibit D-1-1/Attachment 1/pages 9 & 37; and, EB-2009-0096/Draft Rate Order/Exhibit 3.0/page 4

- a) The analysis of distribution service costs is based on total number of customers per circuit kilometre, whereas the density zones in the Hydro One tariff are defined in terms of customers per kilometre.
- b) Are the density zones defined by total customers per circuit kilometre, or by some other definition (less inclusive definition of customer, different definition of line kilometre)?
- c) If the definitions of customer density are not identical, please provide a comment on whether the direct cost assignment analysis performed by London Economics and PowerNex Associates would be affected, as it relates to the demarcation points between UR and R1, and/or R1 and R2 density zones.

**13.0-Staff-38**

Ref: Exhibit D/Tab1/Sch1/page 10

Please provide a row in Table 8 for the R1 class.

**13.0-Staff-39**

Ref: Exhibit D-1-1/Attachment 1/ pp. 42-43

In preparation for its next re-basing application, please describe any plan that Hydro One has formulated to follow up on the discussion in the study by London Economics and PowerNex Associates, related to:

- a) analysis of additional low density rate classes
- b) lowering the demarcation point for the high density rate classes, for example to a high-density zone of 2000 customers.

**13.0-Staff-40**

Ref: Exhibit D-1-1/Attachment 1

In Section 6 (page 42) of the Density Study, there is a discussion of Alternative Rate Structures. What is Hydro One's view on its current rate structure? Is it regarded as appropriate/adequate or does Hydro One have concerns with its current rate classes? Does Hydro One plan to investigate other rate structures (municipal boundaries, regional rates, etc) in future years?

**Implementation Issues**

- 14. What is the appropriate effective date for new rates under this Application? If the effective date is prior to the date of actual implementation, what methods should be used to ensure that the amounts collected are consistent with the approved effective date?**

No Interrogatories

- 15. If new rates cannot be implemented by January 1, 2013, should Hydro One's rates be declared interim, and if so, from and after what date?**

**15.0-Staff-41**

Ref: Exhibit A/Tab2/Sch1

It appears that the timing of the Board's decision on Hydro One's distribution rates for 2013 may not facilitate the implementation of rates on January 1, 2013. How does Hydro One propose to address this issue?

- 16. What are the terms, if any, of any true-up between the amounts collected under the ICM rate rider and the actual revenue requirement associated with approved ICM projects, and how should any difference between the proposed effective date of January 1, 2013 and the actual effective date approved by the Board be reflected in that true-up calculation?**

No Interrogatories

**Rate Design**

- 17. Is the proposed Tariff of Rates and Charges for 2013 appropriate?**

No Interrogatories

- End -