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Regulatory Affairs

BY COURIER

October 12, 2012

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
Toronto, ON.
M4P 1E4

Dear Ms. Walli:

EB-2012-0031 – Hydro One Networks' 2013 and 2014 Transmission Revenue Requirement Application – Hydro One Networks Technical Conference Written Responses

I am attaching five (5) copies of Hydro One Networks written responses to the Technical Conference Questions listed below. The Responses was filed today with the Ontario Energy Board during the Conference and was given the Exhibit number JT1.1.

Intervenor	Question Numbers
Board Staff	4, 8, 10, 12, 14-17, 23, 25, 26
Pollution Probe	1-4
PWU	5

An electronic copy of the responses have been filed using the Board's Regulatory Electronic Submission System (RESS) and the confirmation of successful submission slip is provided with this letter.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Attach.

cc. EB-2012-0031 Intervenors (electronic only)

TECHNICAL CONFERENCE
WRITTEN RESPONSES
FOR QUESTIONS:

OEB STAFF 4
8
10
12
13
14
15
16
17
23
25
26

Pollution Probe 1
2
3
4

PWU 5

Ontario Energy Board (Staff) Question #4 List 1

Question

Ref: Exhibit I/Tab2/Schedule 1.11 Staff 12
How were the numbers (provided in the response) calculated and how do they relate to the Compensation summary provided at C1-5-2, Attachment 2?
Also, provide the data used to plot the productivity line in the Figure 2 graph.

Response

The numbers shown in the Interrogatory response for Exhibit I, Tab 2, Schedule 1.11 Staff 12 were calculated by taking the year over year difference for the total wages (found in Exhibit C1, Tab 5, Schedule 2, Attachment 2) and then dividing by 2 in order to get a rough estimation of the transmission portion of the total wages (50%). For example, for 2010, the incremental compensation, $20.1M = (663,554,061-623,350,384)/2.

The data used to plot the productivity line in the Figure 2 graph, can be found on the Total Savings Line of Table 2 in Exhibit A, Tab 17, Schedule 1, page 7.

Ontario Energy Board (Staff) Question #8 List 1

Question

Ref: Exhibit I/Tab5/Schedule 1.03 Staff 25

Standard cost escalation is defined however can a specific percentage increase be provided to account for this escalation?

Response

Operations Support spending is comprised of multiple support contracts as well as labour. Each of these contracts have varying terms, structures and escalation rates. The labour cost escalation used is an estimate which does take into account collective agreement obligations. The year over year increase in Operations Support spending is due to estimated increases in support contract costs and labour, there are no material changes to the services and support provided. The blended escalation rates for each year are as follow:

2012: 3.9%
2013: 6.2%
2014: 4.3%

Ontario Energy Board (Staff) Question #10 List 1

Question

Ref: Exhibit I/Tab5/Schedule 1.11 Staff 33

Composite poles: What is the price difference between composite poles and wood poles? What is the additional life expectancy of the composite pole? How much lower are the maintenance costs? What is the current estimate of life cycle cost compared to a wood pole?

Response

Composite poles are approximately 30% higher in cost (material cost). Composite poles also have a life expectancy of approximately 80 years compared to 50 years for wood poles. Composite poles have a lower maintenance costs since inspections would start much later in the life of the pole. Pole testing and condition assessment would commence on wood pole at 20 years but would start on composite poles at 40 years. The life cycle cost of a composite pole is estimated to be up to $950 less than a wood pole.

Ontario Energy Board (Staff) Question #12 List 1

Question

Ref: Exhibit I/Tab7/Schedule 1.07 Staff 45

a. Please provide breakdown of estimated Corporate pension expense under the accrual method of approximately $194 million in 2013 and $182 million in 2014 into separate Transmission and Distribution components for each of the years

b. Explain impact on estimated Hydro One Total pension costs and Hydro One Transmission pension costs under the accrual method of approximately $194 million in 2013 and $182 million in 2014 of
   i. a 1% shift in the yield curve
   ii. a 20% return asset shock

c. What assumptions were used to calculate the estimated Corporate pension expense under the accrual method of approximately $194 million in 2013 and $182 million in 2014? Please explain.

d. The chart titled "Hydro One Pension Plan Employer Cash Contributions vs US GAAP Net Periodic Benefit Cost" is based on several assumptions by Hydro One:
   i. Why weren't the amortization of actuarial gains and losses included in the "US GAAP Net Periodic Benefit Cost"? Please update the chart including this amortization reflecting market conditions specific to each year of the analysis.
   ii. What "one-time special adjustments that were made to the balance sheet under CGAAP" were assumed to also have been made under US GAAP? How did they impact the cash contributions and net periodic benefit cost?
   iii. How does the chart change if the initial balance sheet position of the plan as at January 1, 2000 was not the funded status of the plan on that date?

How do unamortized and amortized actuarial gains and losses impact the chart?

Response

a)

Hydro One					
Pension Forecast based on US GAAP under Accrual method					
2013		**Annual accrual pension cost ($ millions)**			
Corporate Pension Costs		**Transmission**	**Distribution**	**Other**	**Total**
OM&A		40	49	5	94
Capital		47	52	-	99
		87	101	5	194
2014		**Annual accrual pension cost ($ millions)**			
Corporate Pension Costs		**Transmission**	**Distribution**	**Other**	**Total**
OM&A		39	48	4	91
Capital		48	43	-	91
		87	91	4	182

b) The following table compares the projected 2013 and 2014 US GAAP accrual expense under the alternative economic scenarios.

	Base	**1% Reduction in Accounting Discount Rate at 12.31.2012**	**20% Reduction in Market Value of Plan Assets at 12.31.2012**
2013 expense	$194 million	$293 million	$343 million
2014 expense	$182 million	$275 million	$327 million

A decrease in the accounting discount rate results in a higher US GAAP current service cost and an actuarial loss on the US GAAP accrued benefit obligation, increasing the projected accrual expense. The increase in the annual current service cost is recognized immediately in expense, and the loss on the accrued benefit obligation is added to the plan's accumulated actuarial losses and amortized in expense over time. An investment loss results in an actuarial loss on the pension fund that is added to the plan's accumulated actuarial losses and amortized over time.

The illustrative impacts shown above consider changes in accounting discount rates and changes in the pension fund independently. In a real world economic scenario, changes in market interest rates would impact both the plan's fixed income assets and the plan obligations.

c) The projected US GAAP accrual expense for 2013 and 2014 are based on the same assumptions used to prepare the 2011 year end disclosures for the pension plan under US GAAP, plus additional projection assumptions.

The assumptions are included in Mercer's annual disclosure report used in the preparation of Hydro One's financial statements and they are also summarized below.

Assumptions as at December 31, 2011	
Measurement date	December 31
Discount rate	5.25% per year
Long-term rate of return on assets	6.25% per year
Increases in pensionable earnings (excluding merit)	2.50% per year
YMPE increases	3.00% per year
Increases in maximum pension permitted under the Income Tax Act	$2,552.22 for 2011, increasing by 3.00% per year
Consumer Price Index	2.00% per year
Mortality	1994 Generational Uninsured Pensioners (UP94) Mortality
Retirement	Age and service based table
Projection assumptions	
Discount rate	No change from December 31, 2011
Pension fund return	Equal to the long-term rate of return on assets
Employer contributions	In accordance with December 31, 2009 actuarial valuation minimum funding requirements
Plan membership	Demographic experience in accordance with the actuarial valuation for 2011 year end disclosure purposes under US GAAP, employee headcount projected to grow based on Hydro One business planning assumptions

d)

i. The US GAAP Net Periodic Benefit Costs shown in the chart include annual amortizations of gains and losses in accordance with US GAAP. The annual amortization for each year is equal to the accumulated unrecognized gains or losses at the beginning of each year divided by the expected average remaining service lifetime of active plan members at the beginning of the year.

ii. No changes were made to the retroactive US GAAP that are different from those made under historical Canadian GAAP (i.e. any one-time adjustments made to the balance sheet under retroactive US GAAP would have been the same adjustments that were made during the plan's actual history under Canadian GAAP). A manual adjustment of $14 million was made to the unamortized actuarial losses at the beginning of 2003 and a manual adjustment of $8 million was made in the amortization of actuarial losses in the 2003 NPBC.

The one-time adjustments had no impact on the cash contributions to the plan. The total impact of the adjustments on NPBC was to reduce the NPBC under US GAAP by roughly $9 million in 2003 and $1 million per year thereafter.

iii. Under US GAAP, the initial balance sheet position as at January 1, 2000 was established as the funded status of the plan at that date. The separation of Ontario Hydro into the successor companies, and the corresponding separation of the former Ontario Hydro pension plan into successor pension plans on December 31, 1999, is treated using fresh start accounting under US GAAP with the funded status of the plan being the initial balance sheet. No alternative treatment would be in accordance with US GAAP.

iv. See response i. above for a description of the actuarial gains and losses recognized in the NPBC in the chart. Accumulated gains and losses are amortized over the expected average remaining service lifetime of active plan.

Ontario Energy Board (Staff) Question #13 List 1

Question

Ref: Exhibit I/Tab7/Schedule 1.08 Staff 46

a. Hydro One has recorded a regulatory asset for OPEB in its financial statements but has not received a rate order by the Board to report such an asset. ASC 980-715-25-5 requires an order by the regulator. Why did Hydro One not apply for such an order from the Board? Does Hydro One plan to apply for such an order from the Board? Please clarify if this OPEB regulatory asset was $153 million as at January 1, 2011, as noted in the response to IR #46 part a). If this was not the number, please provide the correct number.

b. How has Hydro One recovered the following in past rates and how does Hydro One propose to recover the following in future rates:
   i. Transitional asset/obligation generated on transition to CICA HB Section 3461. Please disclose initial amount and date and unamortized amount to date.
   ii. Transitional asset/obligation generated on transition to US GAAP. Please disclose initial amount and date and unamortized amount to date. Please confirm that these amounts were $297 million regulatory asset for pension and $153 million regulatory asset for OPEB as at January 1, 2011 under USGAAP.
   iii. Recognizing unamortized actuarial gains and losses and past service costs on the balance sheet under US GAAP

c. USGAAP does not recognize transitional assets/obligations generated from the transition to CICA HB Section 3461. How did Hydro One treat the unamortized amount on the transition to USGAAP? If this is not the case, please explain.

d. Please confirm that Hydro One could recognize the funded status of benefit plans as a regulatory asset or liability instead of AOCI on transition date under the USGAAP accrual method of accounting. If this is not the case please explain.

e. Please confirm that under USGAAP pension cash accounting, Hydro One performs similar journal entries as the one below (at a high level). If this is not the case, please explain and provide correct journal entry.

DR Pension Expense (on a cash basis)
DR Regulatory Asset
CR Pension Liability (on an accrual basis)

Response

a) Hydro One's assessment was that ASC 980-715-25-5 relates to transitional obligations when a Company first applies the provisions of ASC 715-60 (Compensation - Retirement Benefits). ASC 715-60 contains the accounting guidelines for deferral of transitional obligations when a Company changes from a cash basis of accounting for post-retirement plans to an accrual basis. ASC 980-715-25-5 is not relevant for Hydro One because its predecessor entity Ontario Hydro had already adopted the accrual basis of accounting for OPRB/OPEB obligations under Canadian GAAP (CICA HB Section 3461-Employee Future Benefits).

Hydro One's regulatory asset for OPEB transitional obligations under US GAAP reflects the fact that change in the obligation is not included in rates when it occurs. Rather, the transitional impact is included in rates systematically and gradually in future periods. OPEB expense continues to be reflected and recovered in rates on accrual basis similar to Canadian GAAP.

Hydro One's position is that no separate rate order is required given that there is no impact on amounts to be included in rates. This position is supported by US industry guidance issued by the Federal Energy Regulatory Commission (FERC). Per the attached FERC guidance document entitled "Commission Accounting and Reporting Guidance to Recognize the Funded Status of Defined Benefit Postretirement Plans" (issued under docket A107-1-000 March 29, 2007), regulatory assets or liabilities are to be established for amounts that are probable of recovery in future rates where an entity determines its postretirement benefits allowance included in its cost based, regulated-rates has a delayed recognition feature whereby changes in the post-retirement benefit obligations are not included in rates when they occur but rather are included in rates systematically and gradually in subsequent periods.

Recognition of a regulatory asset in this case is analogous to the accounting treatment given upon the adoption of CICA HB Section 3465 - Income Taxes. $153 million as on January 1, 2011 represents OPRB and OPEB regulatory assets under US GAAP.

b)
i. There was no transitional asset or obligation generated on first time adoption of CICA HB Section 3461 –Employee Future Benefits.

The employee future benefit obligations that were initially recognized on Hydro One's balance sheet upon demerger from Ontario Hydro in 1999 represented a proportionate share of its employee future benefit obligations based on actual funded/unfunded status of the plans. When Section 3461 was later adopted in fiscal year 2000, there was no accounting basis difference that resulted in transitional obligations. The benefit obligations were already recognized on Hydro One's balance sheet based on current funded/unfunded status of the plans, before Section 3461 came into effect.

When Section 3461 was initially applied in fiscal year 2000, there was a change in the measurement basis of the discount rates used for the plan valuation. The rates used to discount future benefits changed from management's best estimate to a market-based interest rate. Hydro One applied the recommendation that resulted in increase of deferred pension asset and associated regulatory liability by $211 million.

ii Regulatory asset amounts are confirmed. On January 1, 2011, Hydro One recognized an incremental pension obligation of $297 million and OPRB/OPEB obligation of $153 million to reflect the plans' relative funded status with equal amount of offsetting regulatory assets.

Hydro One will not directly recover/refund in rates the regulatory assets and liabilities that are recognized for financial reporting purposes for pensions and OPEB. These regulatory offsets result from the difference in the timing of recognition of employee benefit obligations. The changes in the obligations are not included in rates when they occur, but rather are included in rates systematically and gradually in future periods. The funded status are actuarially re-measured every year end and the offsets to regulatory assets are adjusted accordingly.

iii With respect to pension, under Canadian GAAP, a deferred pension asset was recorded on the balance sheet with a regulatory liability offset. The deferred pension asset was re-measured at year end based on actuarial assumptions. Since pension expense was recognized on cash basis, there was no amortization of actuarial gains and losses and past service costs in the income statement.

Under US GAAP, the actual funded status is recognized on the balance sheet with an offset to regulatory assets. This results in immediate recognition of unamortized gains and losses and past service costs on balance sheet. Pension expense continues to be recognized on a cash basis. As such, there is no rate impact from the transition to US GAAP.

For OPRB/OPEB, Canadian GAAP obligations were recorded on the balance sheet using a "calculated value" instead of actual unfunded status of the plans. Unamortized gains and loss and past service costs were not recognized on the balance sheet but considered for supplementary disclosure only. OPRB and OPEB expense were recognized on an accrual basis whereby a portion of unamortized gains and losses and past service costs were recognized in the income statement based on the amortization provisions of the employee benefit cost accounting standard.

Under US GAAP, OPRB/OPEB expense continues to be recognized under accrual basis. The actual unfunded statuses of OPRB/OPEB plans are recognized on balance sheet with offset to regulatory assets. There is no future rate impact from transitioning to US GAAP.

c) Please refer to response to 13 b) ii. above for transitional obligation on adoption of CICA HB Section 3461. When Hydro One transitioned to US GAAP, the deferred pension asset and associated regulatory liability were derecognized. The actual funded/unfunded statutes of pension and non-pension plans were recognized on balance sheet with offset to associated regulatory asset accounts which otherwise would have been recognized in accumulated other comprehensive income. Recognition of actual funded/unfunded statuses on the balance sheet results in immediate recognition of any unamortized actuarial gains and losses for pension and OPRB/OPEB plans.

For a detailed discussion on the US GAAP transition adjustments refer to Exhibit I, Tab 7, Schedule 1.08 Staff 46.

d) Yes, that is correct. In absence of regulatory accounting, at end of each period, the relative funded status based on actuarial valuation would be recognized in accumulated other comprehensive income ("AOCI") and a portion would be recognized to Statement of Operations based on amortization provisions of employee benefit cost accounting standard. Hydro One confirms that it can record a regulatory asset rather than AOCI to reflect funded status of its benefit plans. See response to a) above.

e) Under both US GAAP and legacy Canadian GAAP, pension expense is recognized on a cash basis consistent with rate-regulated accounting and the Board's direction to use a cash basis for rate setting.

The monthly journal entry (CGAAP & US GAAP) to record pension expense based on cash contributions is:

DR Pension Expense
DR CIP
CR Cash

Under US GAAP, the fair value of the net pension obligation is recorded on the balance sheet and is updated annually based on information from Mercer. This entry is used:

DR/CR Regulatory Asset
CR/DR Pension Obligation (Liability)

FEDERAL ENERGY REGULATORY COMMISSION
Office of Enforcement
Washington, D.C. 20426

In Reply Refer To:
OE
Docket No. AI07-1-000
March 29, 2007

TO ALL JURISDICTIONAL PUBLIC UTILITIES AND LICENSEES, NATURAL GAS COMPANIES, OIL PIPELINE COMPANIES AND CENTRALIZED SERVICE COMPANIES

Subject: Commission Accounting and Reporting Guidance to Recognize the Funded Status of Defined Benefit Postretirement Plans

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 158 (SFAS No. 158 or the Statement), Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans. This statement requires an employer to recognize the overfunded or underfunded status of a single-employer defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position.

A defined benefit postretirement plan is one that defines an amount of postretirement benefit to be provided to retirees. Pension benefits are usually defined as a function of one or more factors such as age, years of service or compensation. Postretirement benefits other than pensions are usually defined in terms of (a) monetary amounts (for example, $100,000 of life insurance) or (b) benefit coverage to be provided (for example, up to $200 per day for hospitalization, 80 percent of the cost of specified surgical procedures). Postretirement benefits include, but are not limited to, pension benefits; postretirement health care; life insurance provided outside of a pension plan to retirees; and other welfare benefits such as tuition assistance, day care, legal services, and housing subsidies provided after retirement.

The Commission's Uniform Systems of Accounts for jurisdictional entities do not provide specific implementation guidance with regard to the accounting and reporting matters contained in SFAS No. 158.[1] The following guidance is being provided to all jurisdictional entities to ensure proper and consistent implementation of SFAS No. 158 for FERC financial reporting purposes beginning with the 2007 FERC Form Nos. 1, 1-F, 2, 2-A, 6, and 60 due to be filed in 2008. Earlier implementation is encouraged.

This guidance is for FERC financial accounting and reporting purposes only and is without prejudice to the ratemaking practice or treatment that should be afforded the items addressed herein.

1. ADOPTION OF SFAS NO. 158 FOR FERC ACCOUNTING AND REPORTING PURPOSES

Background: SFAS No. 158 provides guidance on recognition of the funded status of a single-employer defined benefit postretirement plan, measurement date of plan assets and benefit obligations, disclosure requirements, effective dates and transition provisions for its initial implementation. Some provisions allow employers certain choices in how to implement the Statement for stockholder reporting purposes. For example, paragraph numbers 12, 13, and 15 contain explicit effective dates but also encourage applying the Statement earlier than the explicit effective dates. Also, paragraph number 17 allows alternative approaches for an employer to transition to a fiscal year-end measurement date for plan assets and benefit obligations.

Question: Should jurisdictional entities adopt this Statement for reporting to the Commission and must it do so in the same manner as the Statement is adopted for stockholder reporting?

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1 *See* 18 C.F.R. Part 101, *Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act* (2006); 18 C.F.R. Part 201, *Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act* (2006); 18 C.F.R. Part 352, *Uniform System of Accounts Prescribed for the Oil Pipeline Companies Subject to the Provisions of the Interstate Commerce Act* (2006); 18 C.F.R. § 366.22, *Accounts and records of service companies* (2006) and 18 C.F.R. Part 367, *Uniform System of Accounts for Centralized Service Companies Subject to the Provisions of the Public Utility Holding Company Act of 2005*, Order No. 684, issued October 19, 2006, *Financial Accounting, Reporting and Records Retention Requirements Under the Public Utility Holding Company Act of 2005*, FERC Stats. & Regs. ¶ 31,229 (2006).

Response: Yes, FERC jurisdictional entities should adopt SFAS No. 158 for reporting to the Commission and it should do so in the same manner as the Statement is adopted for stockholder reporting.

2. ACCOUNTS FOR RECORDING THE OVERFUNDED OR UNDERFUNDED STATUS OF POSTRETIREMENT DEFINED BENEFIT PLANS

Background: Paragraph number 4 of SFAS No. 158 requires an entity that presents a classified statement of financial position to classify the liability for an underfunded single-employer defined postretirement benefit plan as a current liability, noncurrent liability, or combination of both. The asset for an overfunded plan must be classified as a noncurrent asset in a classified statement of financial position.

Question 2A: What FERC accounts should jurisdictional entities use to record an asset for the overfunded status of one or more employee postretirement benefit plans?

Response: Public utilities and licensees, natural gas companies, oil pipeline companies and centralized service companies should use the accounts shown below to record assets for the overfunded status of their employees postretirement benefit plans. Separate subaccounts should be maintained for each postretirement benefit plan and overfunded plans should not be netted against underfunded plans, consistent with paragraph number 4 of SFAS No. 158.

Jurisdictional Entity	**FERC Accounts**
Public utilities and licensees (Major)	Account 129, Special funds
Public utilities and licensees (Nonmajor)	Account 128, Other special funds, or Account 129, Special funds
Natural gas companies	Account 128, Other special funds
Oil pipeline companies	Account 22, Sinking and other funds
Centralized service companies	
• Periods prior to January 1, 2008	Account 124, Other investments, or Account 128, Other special funds
• January 1, 2008 and subsequent periods	Account 128, Other special funds

Question 2B: What FERC accounts should jurisdictional entities use to record the liability for the underfunded status of one or more employee postretirement benefit plans?

Response: Public utilities and licensees, natural gas companies, oil pipeline companies and centralized service companies should use the accounts shown below to record liabilities for the underfunded status of their employee postretirement benefit plans. Separate subaccounts should be maintained for each postretirement benefit plan and underfunded plans should not be netted against overfunded plans, consistent with paragraph number 4 of SFAS No. 158.

Jurisdictional Entity	**FERC Accounts: Current Liability**	**FERC Accounts: Noncurrent Liability**
Public utilities and licensees (Major and Nonmajor)	Account 242, Miscellaneous current and accrued liabilities	Account 228.3, Accumulated provision for pensions and benefits
Natural gas companies	Account 242, Miscellaneous current and accrued liabilities	Account 228.3, Accumulated provision for pensions and benefits
Oil pipeline companies	Account 58, Other current liabilities	Account 63, Other noncurrent liabilities
Centralized service companies		
• Periods prior to January 1, 2008	Account 242, Miscellaneous current and accrued liabilities	Account 253, Other deferred credits
• January 1, 2008 and subsequent periods	Account 242, Miscellaneous current and accrued liabilities	Account 228.3, Accumulated provision for pensions and benefits

3. RECOGNITION OF RELATED REGULATORY ASSETS AND LIABILITIES

Background: An entity provides pension and other postretirement benefits to its employees under defined benefit plans and recognizes the related expense, *i.e.*, net periodic pension and other postretirement benefit costs, for financial accounting and reporting purposes in accordance with Statement of Financial Accounting Standards Nos.

87 (SFAS No. 87) and 106 (SFAS No. 106).[2] The rates the entity charges for services provided by a segment of its business are regulated by a third party regulator and are determined on the basis of the entity's costs. Development of the rates to be charged for services provided by this business segment include an allowance for postretirement benefits and the amount of that allowance is based on net periodic pension and other postretirement benefit costs determined in accordance with SFAS No. 87 and SFAS No. 106. The entity determines that it must recognize an asset for the overfunded status of its defined benefit pension plan and a liability for the underfunded status of its postretirement benefit plan other than pensions consistent with SFAS No. 158.

Question: At the time the entity recognizes its asset or liability to reflect the funded status of its postretirement benefit plans in accordance with SFAS No. 158, should it recognize a regulatory liability or asset for the amount of the funded status asset or liability otherwise includible in accumulated other comprehensive income related to its cost-based, rate-regulated business segment?

Response: Under SFAS No. 87 and SFAS No. 106, the cost of postretirement benefits provided to employees under a defined postretirement benefit plan are recognized as an expense at the time the employee provides related employment services.

Both SFAS No. 87 and SFAS No. 106 contain a delayed recognition feature. This means that certain changes in postretirement benefit obligations and the value of assets set aside to meet the obligations are not recognized when they occur but are recognized systematically and gradually over subsequent periods.[3] SFAS No. 158 is an amendment to SFAS No. 87 and SFAS No. 106, but it did not change the delayed recognition feature of SFAS No. 87 and SFAS No. 106.

An entity that determines its postretirement benefits allowance included in its cost-based, regulated-rates on the basis of SFAS No. 87 and SFAS No. 106 adopts that same delayed recognition feature for ratemaking purposes. That is, changes in the postretirement benefit obligation and assets set aside to meet those obligations are not included in rates when they occur but rather are included in rates systematically and gradually in subsequent periods. The recognition of an asset or liability to reflect the funded status of postretirement benefit plans which would otherwise be charged to accumulated other comprehensive income therefore constitutes a measurement of the

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[2] Financial Accounting Standards Board's Statements of Financial Accounting Standards No. 87, *Employer's Accounting for Pensions* and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions.*

[3] *Ibid. See Summary - Fundamentals of Pension Accounting*.

changes in postretirement obligations and the value of plan assets that are to be included in the determination of rates in subsequent periods in so far as the amounts that would otherwise be charged to accumulated other comprehensive income relate to the cost-based, rate-regulated segment of the entity.

Under the Commission's accounting requirements, regulatory assets or liabilities are to be established for amounts that would have been included in net income or accumulated other comprehensive income determinations in the current period under the general requirements of the Uniform Systems of Accounts but for it being probable that such items will be included in a different period(s) for purposes of developing rates that the utility is authorized to charge for its utility services.

Therefore, in the circumstances described above and provided that it is probable that the postretirement benefit allowance to be included in rates in future periods will continue to be calculated on the basis of SFAS No. 87 and SFAS No. 106, entities shall recognize a regulatory liability or asset for the funded status asset or liability otherwise chargeable to accumulated other comprehensive income under SFAS No. 158 related to its cost-based, rate-regulated business segments.

Further, the funded status asset or liability that must be recognized under SFAS No. 158, as well as any related regulatory liability or asset is not amortized over future periods. At each measurement date, the entry recorded for the previous measurement date is reversed and the computation redone. A new funded status asset or liability and related regulatory liability or asset would be recognized, if required, at the new measurement date.

This guidance is for accounting purposes only and does not limit the Commission from reviewing the reasonableness of the elements of postretirement benefit expense included in future rate proceedings before the Commission.

4. FERC FORM NOS. 1, 1-F, 2, 2-A, 3-Q, 6 AND 6-Q REPORTING REQUIREMENTS

Background: The Commission's annual and quarterly FERC Form Nos. 1, 1-F, 2, 2-A, 3-Q, 6 and 6-Q contain a supporting schedule for reporting accumulated other comprehensive income. The supporting schedule contains a column for reporting the minimum pension liability chargeable to accumulated other comprehensive income under the requirements of SFAS No. 87 as it existed prior to the amendments called for by SFAS No. 158. SFAS No. 158 eliminates the concept of recognition of a minimum pension liability by amending paragraph numbers 36 - 38 of SFAS No. 87.

Question: How should jurisdictional entities complete the supporting schedule for reporting accumulated comprehensive income contained in the Commission's Form Nos. 1, 1-F, 2, 2-A, 3-Q, 6, and 6-Q for amounts related to the funded status of defined pension and other postretirement benefit plans under SFAS No. 158?

Response: In the period of initial application of SFAS No. 158, a jurisdictional entity that had recorded a minimum pension liability in accumulated other comprehensive income in preceding periods, should report in column (c), Line No. 8, the amount required to produce a zero balance in column (c), Line No. 10 for the minimum pension liability adjustment. In periods subsequent to the initial application of SFAS No. 158, a jurisdictional entity should report in column (e), Line No. 7, the amount of reclassification adjustments of accumulated other comprehensive income as a result of gains or losses, prior service costs or credits and transition assets or obligations related to postretirement benefit plans being recognized as components of net periodic benefit cost of the period. All other amounts properly included in accumulated other comprehensive income, in the year of initial application and in subsequent periods related to the funded status of defined benefit postretirement benefit plans should be reported in column (e), Line No. 8.

Additionally filers should provide full particulars in a footnote to this schedule concerning amounts reported related to the funded status of defined benefit postretirement plans consistent with the disclosure requirements of SFAS No. 158.

5. ADJUSTMENTS TO RETAINED EARNINGS

Background: SFAS No. 158 requires an employer to measure the funded status of postretirement benefit plans as of the date of its year-end statement of financial position, with limited exceptions. Paragraph numbers 17 - 20 of SFAS No. 158 indicate that implementing the measurement date provisions of the Statement may require an adjustment to the opening balance of retained earnings.

Question: How should FERC jurisdictional entities recognize any required adjustment to the opening balance of retained earnings? Is a separate filing requesting Commission approval of that accounting required?

Response: Public utilities and licensees, natural gas companies, oil pipeline companies and centralized service companies should use the accounts shown below to record any adjustment to the opening balance of retained earnings required in connection with implementing SFAS No. 158 for FERC accounting and reporting purposes.

This guidance letter constitutes the required Commission approval for use of these accounts for this purpose and a separate filing with the Commission requesting such approval is not needed. Public utilities and licensees, natural gas companies and oil pipeline companies should report any amounts recorded in the accounts listed below on the lines designated for these accounts in the Statement of Retained Earnings schedule contained in the FERC Form Nos. 1, 1-F, 2, 2-A, 3-Q, 6 and 6-Q.

Jurisdictional Entity	**FERC Accounts**
Public utilities and licensees (Major and Nonmajor)	Account 439, Adjustments to retained earnings
Natural gas companies	Account 439, Adjustments to retained earnings
Oil pipeline companies	Account 705, Prior period adjustments to beginning retained income account
Centralized service companies	
• Periods prior to January 1, 2008	Account 216, Unappropriated retained earnings
• January 1, 2008 and subsequent periods	Account 439, Adjustments to retained earnings

6. SUBSIDIARY FINANCIAL STATEMENTS

Background: Paragraph number 1 of SFAS No. 158 indicates that the Statement applies to single-employer defined benefit postretirement plans and does not change the accounting for a multiemployer plan. Paragraph number 68 of SFAS No. 87 and paragraph number 81 of SFAS 106 state that an employer participating in a multiemployer pension or other postretirement benefit plan shall recognize as net pension or other postretirement benefit cost the required contribution for the period and shall recognize as a liability any contribution due and unpaid. Questions and answers 86 and 87 in the FASB Special Report, A Guide to Implementation of Statement 87 on Employer's Accounting for Pensions, indicate that subsidiaries of an organization that has a defined benefit pension plan that covers employees at the parent company and subsidiary level should account for its participation in the overall single-employer pension plan as a participation in a multiemployer plan provided (a) each subsidiary is required to contribute to the pension plan based on a predetermined formula (for example, on a percentage-of-salary basis), (b) plan assets are not segregated or restricted on a subsidiary-by-subsidiary basis, and (c) if a subsidiary withdraws from the pension plan, the pension obligations for its employees are retained by the pension plan as opposed to being allocated to the withdrawing subsidiary.

Question: How should a FERC jurisdictional entity account for its participation in a parent company sponsored pension or other defined benefit postretirement plan?

Answer: Public utilities and licensees, natural gas companies, oil pipeline companies and centralized service companies who prepare a separate financial statement for submission to the U.S. Securities and Exchange Commission, investors, or others and account for its participation in parent sponsored postretirement benefit plans as participation in a single-employer plan or multiple-employer plan in accordance with SFAS Nos. 87, 106, and 158, must follow the same accounting and reporting in financial statements contained in its FERC Form Nos. 1, 1-F, 2, 2-A, 3-Q, 6, 6-Q and 60.

7. COST-OF-SERVICE TARIFFS/FORMULA RATE

Background: Jurisdictional entities may have cost-of-service tariffs or formula rates under which amounts billed each month will change based on amounts recorded pursuant to the Commission's Uniform System of Accounts. Under the tariff or formula rate, only amounts recorded in certain specified accounts affect the monthly billings.

Question: May jurisdictional entities include in their monthly billings any amounts recognized or reclassified in connection with the implementation of SFAS No. 158 for FERC reporting purposes?

Response: No. Adoption of the accounting guidance contained in this letter is for FERC accounting and reporting purposes only, and may not affect the measurement or periods in which amounts are included in jurisdictional entities' billing determinations without prior regulatory approval. If an entity's billing determinations are affected by the adoption of the guidance contained in this letter, the entity shall make a filing with the proper rate regulatory authorities before implementing the accounting change for billing purposes.

The Commission delegated authority to act on this matter to the Chief Accountant under 18 C.F.R. § 375.303 (2006). This guidance letter constitutes final agency action. Your company may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713 (2006).

Janice Garrison Nicholas
Chief Accountant and Director
Division of Financial Regulation

Ontario Energy Board (Staff) Question #14 List 1

Question

Ref: Exhibit I/Tab7/Schedule 3.23 EP 49 and Exhibit C2/ Tab5/Schedule 1/Attachment 1/p1

a. Please explain why Hydro One did not update its application to reflect the December 31, 2011 Actuarial Valuation that was finalized in May 2012 by Mercer, as it seems as though Hydro One's application was filed with the Board around the same time (May 28, 2012).

b. Is Hydro One planning to update its evidence to reflect the December 31, 2011 Actuarial Valuation? If this is not the case, please explain.

c. Please explain why estimated employer's current service cost is $91 million as at December 31, 2009 and $99 million as at December 31, 2011 as per the May 2012 Actuarial Valuation but the 2013 total Corporate Pension Costs is $154 million in 2013 and $158 million in 2014, as per Exh.C2/T5/S1/Att1/P1.

d. Please explain the minimum annual special payments of $48 million as at December 31, 2009 and $60 million as at December 31, 2011 as per the May 2012 Actuarial Valuation.
   a. When were these payments made?
   b. Does Hydro One propose any of these amounts in rates? If so, how?

e. Please provide a schedule that shows the amortization of the Funding Shortfall of ($434 million) as at December 31, 2009 and ($498 million) as at December 31, 2011 over the prescribed 15 year period. Please tie the amounts in the schedule to the minimum annual special payments of $48 million as at December 31, 2009 and $60 million as at December 31, 2011 as per the May 2012 Actuarial Valuation.

f. Please explain why discount rate used in valuation as at December 31, 2011 of 5.50% did not change from previous valuation as at December 31, 2009 when market conditions have changed and interest rates have dropped. Please provide an analysis of the impact on the amounts reported in the May 2012 valuation if the discount rate was decreased by 1%.

g. Please provide impact on the proposed Hydro One Transmission annual pension cost of $70 million in 2013 and $75 million in 2014 and total annual pension cost of $154 million in 2013 and $158 million in 2014:
   i. a 1% shift in the yield curve
   ii. a 20% return asset shock

h. Has Mercer or another actuary ever prepared an Actuarial Valuation for Hydro One based on the accrual basis of accounting for pension expense? If so, please provide the latest valuation.

i. The Mercer Actuarial Valuation Report for the Hydro One Pension Plan issued in May 2012 stated the following on page 3:

> *"This valuation reflects the provisions of the Plan as at December 31, 2011. The Plan was amended effective April 1, 2011 to increase employee contributions for members of the Power Workers Union by 0.5% of pensionable earnings. The Plan has not otherwise been amended since the date of the previous valuation, and we are not aware of any pending definitive or virtually definitive amendments coming into effect during the period covered by this report. The Plan provisions are summarised in Appendix F."*

The Hydro One Tx Decision, EB-2010-0002, stated the following on page 20:

> *"While the Board has approved an overall OM&A envelope and given Hydro One the freedom to apply that spending according to its own priorities, the Board expects that Hydro One will revisit the proposed increases allocated to compensation. This should provide a signal for upcoming bargaining. With respect to pension contributions, it is the Board's view that in subsequent applications, Hydro One must demonstrate measurable progress towards having its pension contributions reflect those prevailing in the public sector generally. The evidence suggests that an employee contribution level of 50% is the norm."*

Please outline Hydro One's strategy to get to the end state as per the page 20 of the Board's EB-2010-0002 Decision quote, "…an employee contribution level of 50% is the norm" generally prevailing in the public sector. Please explain and provide details of this strategy.

Response

a) It is Hydro One’s intention to track the difference between the actual pension costs booked using the latest 2011 actuary assessment provided by Mercer and the estimated pension costs approved by the Board as part of this application for future recovery.

b) See a) above.

c) The $91 million and $99 million amounts shown on page 1 of Ex. I/Tab 7/Schedule 3.23 EP 49 Attachment 1 in respect of December 31, 2009 and 2011 are the actuarially determined current service costs per the 2009 and 2011 actuarial valuations respectively. The amounts do not include mandatory annual special payments of $48.4 million and about $59.7 million in respect of 2009 and 2011 (shown on the same exhibit). Including these special payments, total annual mandatory pension contributions per the 2009 and 2011 valuations are $139.4 million and $159.1 respectively. As a result of increases in base pensionable earnings, the 2009 contribution level of $139.4 million is expected to be $154 million for 2013 and $158 million for 2014.

d) As noted in the response to (c) above, minimum special payments are part of total pension contributions. These mandatory payments are made monthly and are included in revenue requirement and rate base as appropriate on a forecast basis with current service cost. Monthly pension contributions as determined by Mercer can be seen at Ex. I/Tab 7/Schedule 3.23 EP 49 Attachment 1 page 12.

e) Please see the attached special payment schedule prepared by Mercer (Attachment 1). This composite schedule summarizes the individual special payments schedules from the Mercer funding valuation as at December 31, 2011 (Exhibit I/Tab 7/Schedule 3.23 EP 49 Attachment 1 page 19) and the analogous page from their previously filed 2009 valuation.

f) The discount rate used for the actuarial valuation for funding purposes is based on a forward-looking best estimate expected return on the pension fund after the valuation date, reduced by an allowance for expenses expected to be paid from the pension fund and by a margin for adverse deviation.

The best estimate expected return on the pension fund recognized the plan’s asset mix and the corresponding market return expectations for each asset mix as at each valuation date. The decrease in market interest rates resulted in a lower expected future return on the pension fund’s fixed income investments. This decrease in the expected return was offset by the impact of the policy asset mix change, which included a shift away from real return bonds toward long-term nominal bonds with a higher market yield and an increased exposure to alternative investments including private equity, infrastructure, and real estate, resulting in no change to the discount rate.

The impact on the May 2011 actuarial valuation results of a 1% decrease in the valuation discount rate is as follows:

Scenario	**Valuation Basis**	**Reduce Discount Rate by 1%**
(in 000s)		
Going concern funding target	$5,512,107	$6,352,769
Current service cost		
Total current service cost	$126,221	$162,417
Estimated members' required contributions	($26,849)	($26,849)
Estimated employer's current service cost	$99,372	$135,568

g) The next valuation of the plan for funding purposes is not required earlier than December 31, 2014. Accordingly, the 2013 and 2014 minimum funding requirements will not be impacted by changes in market conditions prior to that date.

For illustrative purposes, the following table summarizes the hypothetical impact on the projected 2013 and 2014 funding amounts for a hypothetical 1% decrease in valuation discount rates (going concern and solvency) and a 20% equity investment loss at the valuation date.

	Base	**1% Reduction in Valuation Discount Rates**	**20% Reduction in Market Value of Plan Equities**
2013 Funding	$154 million	$266 million	$172 million
2014 Funding	$158 million	$272 million	$176 million

A 1% decrease in the valuation discount rates would increase annual funding requirements by approximately $112 million per year. The going concern employer service cost would increase by roughly $40 million per year. The increase in the going concern funding target would be funded via special payments amortized over 15 years.

A 20% decrease in the market value of plan equities at the valuation date would increase funding by roughly $18 million per year. Under the going concern asset valuation method, the equity loss would be recognized in the going concern financial position over 5 years. The portion of the equity loss would be funded via special payments amortized over 15 years.

Under both scenarios, the application of solvency smoothing permissible under the *Pension Benefits Act* would allow the plan to withstand the shocks described above without creating addition solvency funding requirements. However, over time persistent hypothetical low interest rates and the recognition of hypothetical investment losses in the smoothed asset value would require solvency funding special payments at a future date.

The illustrative impacts shown above consider changes in valuation discount rates and changes in the pension fund independently. In a real world economic scenario, changes in market interest rates would impact both the plan's fixed income assets and the plan's funding liabilities.

h) Each year Mercer provides an actuarial valuation report in connection with the preparation of the year end disclosure information under the applicable accounting standards. Please see Attachment 2 for the most recent such report for the registered pension plan.

i) To be discussed at Oral Hearing.

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HYDRO ONE PENSION PLAN

December 31, 2009 Funding Valuation – Special Payment Schedule

Type of payment	Start date	End date	Monthly Special Payment	Present Value Going Concern Basis
Going concern	Dec 31, 2003	Dec 31, 2018	$1,397,417	$119,492,000
Going concern	Dec 31, 2006	Dec 31, 2021	$595,637	$63,140,000
Going concern	Dec 31, 2009	Dec 31, 2024	$2,038,594	$251,680,000
Total monthly			$4,031,648	$434,312,000

December 31, 2011 Funding Valuation – Special Payment Schedule

Type of payment	Start date	End date	Monthly Special Payment	Present Value Going Concern Basis
Going concern	Dec. 31, 2003	Dec. 31, 2018	$1,397,417	$97,677,000
Going concern	Dec. 31, 2006	Dec. 31, 2021	$595,637	$55,221,000
Going concern	Dec. 31, 2009	Dec. 31, 2024	$2,038,594	$228,600,000
Going concern	Dec. 31, 2011	Dec. 31, 2026	$941,258	$116,206,000
Total monthly			$4,972,906	$497,704,000

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DRAFT

March 2012

Hydro One Inc. Pension Plan and Fund

Actuarial Valuation Report

Net Periodic Benefit Cost and Employer Disclosure for the Fiscal Year Ending December 31, 2011 Under US Accounting Standards

MERCER

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1

Report Highlights

Mercer has prepared this report exclusively to assist Hydro One Inc. and its auditors in preparing financial reports under US accounting standards for defined benefit pension plans relating to the Hydro One Inc. Pension Plan and Fund ("the Plan"). All amounts shown in this report are the before tax amounts.

Accounting Results

The net periodic benefit cost calculated in accordance with US accounting standards for the fiscal year ending December 31, 2011 is a charge of $147,627,000.

This compares to a net periodic benefit cost of $154,323,000 for the prior fiscal year.

Other comprehensive loss/(income) for the fiscal year ending December 31, 2011 is a charge of $486,850,000. This compares to other comprehensive loss/(income) of $103,047,000 for the prior fiscal year.

Changes in Plan Provisions

Effective April 1, 2011 the required employee contributions for employees that are members of the Power Workers Union were increased by 0.5% of pay. This change did not have a material impact on the plan's benefit obligation. There were no other changes in plan provisions since the last disclosure as of December 31, 2010.

Changes in Actuarial Assumptions

There were changes in actuarial assumptions since the last disclosure as of December 31, 2010. Please see the Summary of Actuarial Assumptions in Appendix E of this report for a description of these changes. The changes in assumptions have resulted in an increase in the projected benefit obligation of $356,375,000 as at December 31, 2011.

2

Employer Disclosure Information

A summary of the employer disclosure information, as required under US accounting standards, from the current valuation and the prior valuation follows.

Components of Net Periodic Pension Cost	Fiscal Year Ending Dec. 31, 2011 (in 000s)	Fiscal Year Ending Dec. 31, 2010 (in 000s)
Service cost	$81,120	$70,241
Interest cost	285,588	293,833
Expected return on plan assets	($290,507)	($277,304)
Amortizations:		
▪ Transition (asset)/obligation	$0	$0
▪ Prior service (credit)/cost	$3,551	$3,551
▪ (Gain)/loss	$67,875	$64,002
Net periodic benefit cost	**$147,627**	**$154,323**

Change in Plan Assets	**Fiscal Year Ending Dec. 31, 2011 (in 000s)**	**Fiscal Year Ending Dec. 31, 2010 (in 000s)**
Fair value of plan assets at end of prior year	**$4,699,155**	**$4,335,779**
Actual return on plan assets	102,122	421,113
Employer contributions	152,864	190,881
Employees' contributions	26,501	23,782
Benefits paid	(288,971)	(261,629)
Reciprocal transfers	4,008	3,963
Actual plan expenses	(13,516)	(14,734)
Fair value of plan assets at end of year	**$4,682,163**	**$4,699,155**

Amounts recognized in statement of financial position consist of	**Fiscal Year Ending Dec. 31, 2011**	**Fiscal Year Ending Dec. 31, 2010**
Noncurrent assets	$0	$0
Current liabilities	($0)	($0)
Noncurrent liabilities	($778,653)	($297,040)
Net asset (liability) recognized in statement of financial position	**($778,653)**	**($297,040)**

Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive income (AOCI)	**Fiscal Year Ending Dec. 31, 2011 (in $000s)**	**Fiscal Year Ending Dec. 31, 2010 (in $000s)**
Transition asset (obligation)	$0	$0
Prior service credit (cost)	($7,198)	($10,749)
Accumulated gain (loss)	($1,237,022)	($746,621)
Accumulated other comprehensive income (loss)	**($1,244,220)**	**($757,370)**
Cumulative employer contributions in excess of net periodic benefit cost	$465,567	$460,330
Net asset (liability) recognized in statement of financial position	**($778,653)**	**($297,050)**

Additional year-end disclosure for all defined benefit plans	**Fiscal Year Ending Dec. 31, 2011 (in $000s)**	**Fiscal Year Ending Dec. 31, 2010 (in $000s)**
Accumulated benefit obligation	$5,037,704	$4,622,623

Asset Category	**Target Allocation as of Dec. 31, 2011***
Domestic public equity	17.0%
International public equity	41.0%
Domestic fixed income	33.0%
Real estate	2.5%
Infrastructure	2.5%
Private equity	2.0%
Cash and cash equivalents	2.0%
Other	0.0%

* The target asset mix was adopted by the company in December 2011

issues should be made only after careful consideration of alternative future financial conditions and scenarios, and not solely on the basis of a valuation report or reports.

Data and Plan Provisions

To prepare this report, Mercer has used and relied upon financial data and participant data supplied by the plan sponsor. The data used is summarized herein. We have reviewed the financial and participant data for internal consistency and general reasonableness, but we have not verified or audited any of the data or information provided. We have also used and relied upon the plan documents, including amendments, supplied by the plan sponsor, as summarized in this report. Hydro One Inc. is solely responsible for the validity, accuracy and comprehensiveness of this information; if the data or plan provisions supplied are not accurate and complete, the valuation results may differ significantly from the results that would be obtained with accurate and complete information; this may require a later revision of this report.

Subsequent Events

On July 29, 2004, the Supreme Court of Canada dismissed the appeal in Monsanto Canada Inc. v. Superintendent of Financial Services ("*Monsanto*"), thereby upholding the requirement to distribute surplus on partial plan wind-ups under the *Pension Benefits Act (Ontario)*. The decision has retroactive application. In preparing this actuarial valuation, we have assumed that all plan assets are available to cover the plan liabilities presented in this report. The subsequent declaration of a partial wind-up of the plan in respect of a past event, or disclosure of an existing past partial wind-up, could cause an additional claim on plan assets, the consequences of which would be addressed in a subsequent report. We note the discretionary nature of the power of the Superintendent of Financial Services to declare partial wind-ups and the lack of clarity with respect to the retroactive scope of that power. We are making no representation as to whether the Superintendent might declare a partial wind-up in respect of events in the plan's history.

The Financial Services Commission of Ontario received a request from a group of former active members that it declare a partial wind-up under the Plan in respect of certain employee terminations from 2000 through 2003. The Superintendent initially decided that a partial wind-up would not be declared. Following an appeal by the plan members, the Financial Services Tribunal reached a decision on August 1, 2007 to declare a partial wind-up only in respect of 73 members whose terminations were effective between the period September 1, 2002 and December 31, 2002, inclusive. The Company's appeal to the Ontario Divisional Court was dismissed in 2008. The Company's motion to appeal to the Ontario Court of Appeal was approved in 2008. The Company appealed the decision and it was dismissed by the Ontario Court of Appeal in 2010 and a partial wind-up report was filed with the Financial Services Commission of Ontario in 2010. Benefits in respect of the partial wind-up were paid in 2011. The partial wind-up did not have a material impact on the results disclosed in this report.

After checking with representatives of Hydro One Inc., to our knowledge there have been no other events subsequent to December 31, 2011 which, in our opinion, would have a material impact on the results of the valuations and extrapolations.

Appendix A

Development of Costs

This Appendix shows the liabilities for plan benefits and the calculation of the various components of plan costs.

Benefit Obligations and Assets

	January 1, 2011 (in $000s)	January 1, 2010 (in $000s)
Funded Status		
1. Accumulated benefit obligation (ABO)		
a. Active participants	($1,552,765)	($1,408,742)
b. Inactive participants with deferred benefits	($40,978)	($37,452)
c. Inactive participants receiving benefits	($3,028,520)	($2,767,951)
d. Total *(a. + b. + c.)*	($4,622,263)	($4,214,145)
2. Effect of future salary increases	($373,932)	($352,185)
3. Projected benefit obligation (PBO) *(1.d + 2.)*	($4,996,195)	($4,566,330)
4. Fair value of plan assets	$4,699,155	$4,335,779
5. Funded status *(3. + 4.)*	**($297,040)**	**($230,551)**

Interest Cost

	Fiscal Year Ending Dec. 31, 2011 (in 000s)	Fiscal Year Ending Dec. 31, 2010 (in 000s)
1. Projected benefit obligation	$4,996,195	$4,566,330
2. Employer current service cost weighted for timing	81,120	70,241
3. Employee current service cost weighted for timing	22,860	21,688
4. Expected benefit payments weighted for timing	(133,431)	(137,759)
5. Prior service cost	0	0
6. Transfers in (out) weighted for timing	0	0
7. Average accrued benefit obligation (1.+ 2. + 3. + 4. + 5. + 6.)	$4,966,744	$4,520,500
8. Discount rate	5.75%	6.50%
9. **Interest cost (7. x 8.)**	**$285,588**	**$293,833**

Expected Return on Plan Assets

	Fiscal Year Ending Dec. 31, 2011 (in 000s)	Fiscal Year Ending Dec. 31, 2010 (in 000s)
1. Market-related value of assets	$4,699,155	$4,335,779
2. a. Expected employer contributions	141,916	114,712
b. Weighted for timing	70,958	57,356
3. a. Expected employees' contributions	22,860	21,688
b. Weighted for timing	11,430	10,844
4. a. Expected benefit payments	(266,862)	(275,518)
b. Weighted for timing	(133,431)	(137,759)
5. a. Transfers in (out)	0	0
b. Weighted for timing	0	0
6. Average expected market-related value of assets (1. + 2.b. + 3.b. + 4.b. + 5.b.)	$4,648,112	$4,266,220
7. Assumed rate of return on plan assets	6.25%	6.50%
8. **Expected return on plan assets (6. x 7.)**	**$290,507**	**$277,304**

Appendix B

Transition to US GAAP

Hydro One has elected to transition from pension plan financial reporting under Canadian GAAP ("CICA 3461") to reporting under US Financial Accounting Standards ("US GAAP") starting in fiscal 2012. In this report, we have provided the US GAAP net periodic pension cost and disclosure information for the fiscal years ending December 31, 2010 and December 31, 2011 reflecting the following accounting transition treatment as instructed by Hydro One:

- The transition to US GAAP has been determined by calculating the net periodic pension cost and disclosure information on a US GAAP basis retroactive to the inception of the company as a stand alone entity on January 1, 2000.
- We have assumed fresh start purchase accounting would have been applied under US GAAP as at January 1, 2000 with the funded status of the plan on that date recognized immediately on the US GAAP balance sheet.
- We have assumed that the determination of the benefit obligation and the net periodic pension cost for each year from inception to the transition date would have been identical under US GAAP and CICA 3461.

Under this accounting treatment, a one-time adjustment the balance sheet under US GAAP is required as described below:

One-time adjustment to balance sheet at 01.01.2012		**$000s**
Balance sheet position under CICA 3461		
Cumulative employer contributions in excess of net periodic benefit cost	(A)	$465,567
One-time adjustment to Accumulated Other Comprehensive Income (Loss)		
Unamortized prior service credit (cost)		($7,198)
Unamortized accumulated net actuarial gain (loss)		($1,237,022)
Total increase (decrease) to AOCI(L)	(B)	($1,244,220)
Balance sheet position under US GAAP		
Net asset (liability) recognized in statement of financial position	(A) + (B)	($778,653)

Appendix D

Participant Data

Plan membership as at December 31, 2009 is summarized below. Plan membership data at the date of last actuarial valuation is included for comparison.

We have applied tests for internal consistency, as well as for consistency with the data used for the previous valuation. The results of these tests were satisfactory. See the Funding Report for more details.

	12.31.2009	**12.31.2006**
Active Members		
Number	5,042	4,047
Total pensionable earnings	$435,017,627	$323,300,891
Average pensionable earnings for following year	$86,279	$83,925
Average years of pensionable service	14.84	18.0
Average age	44.8	46.3
Accumulated contributions with interest	$334,148,262	$302,387,517
Members on Long Term Disability		
Number	125	121
Total pensionable earnings	$8,808,644	$7,775,965
Average pensionable earnings for following year	$70,469	$64,264
Average years of pensionable service	25.2	23.2
Average age	55.2	46.3
Accumulated contributions with interest	$9,126,864	$302,387,517
Deferred Pensioners		
Number	320	360
Total annual pension	$3,565,653	$4,287,487
Average annual pension	$11,143	$11,910
Average age	52.0	50.7

The membership movement for all categories of membership since the previous actuarial valuation is as follows:

Reconciliation of Membership

	Actives	Long Term Disabilities	Deferred Vested	Pensioners	Survivors	Total
Total at 12.31.2006	**4,047**	**121**	**360**	**5,360**	**1,780**	**11,668**
New entrants	1,454					1,454
Rehires:	9		(3)			6
Actives to LTD	(29)	29				0
LTD to actives	2	(2)				0
Terminations:						0
▪ not vested	0	0	0			0
▪ transfers/ lump sums	(51)	(1)	(6)			(58)
▪ deferred pensions	(25)	0	25			0
▪ reciprocal completed	(7)		(6)			(13)
Deaths	(25)	(6)	(2)	(484)		(517)
Retirements	(333)	(16)	(48)	397		0
Beneficiaries					320	320
Benefits Expired	0	0	0	(8)	(281)	(289)
Total at 12.31.2009	**5,042**	**125**	**320**	**5,265**	**1,819**	**12,571**

The plan's **service cost** is the sum of the individual service costs, and the plan's **projected benefit obligation (PBO)** is the sum of the benefit obligations for all participants under the plan.

Method for Determining Market-Related Value of Assets

The market value of assets was used to determine the net periodic pension cost.

Accounting Policies

Future salary levels and inflation affect the amount of future pensions. The projected benefit method prorated on services has been used to determine the accrued benefit obligation and current service cost.

The expected return on plan assets is based on the fair value of plan assets.

The Company has elected to amortize past service costs resulting from plan amendments on a linear basis over the average remaining service period of active members expected to receive benefits under the plan.

Cumulative gains and losses are amortized over the average remaining service period of active members expected to receive benefits under the plan (11 years at December 31, 2009). The 10% corridor permitted by US accounting standards was not applied.

Hydro One Inc.'s fiscal year-end date is December 31 and the measurement date of the plan's assets and obligations is December 31.

Obligations are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of the date of termination, death or retirement.

Valuation Procedures

- **Census Data:** Census data was provided as of December 31, 2009 by Hydro One Inc.. We have applied tests for internal consistency. These tests were applied to membership reconciliation, basic information (date of birth, date of hire, date of membership, gender, etc.), pensionable earnings, credited service, contributions accumulated with interest and pensions to retirees and other members entitled to a deferred pension. Contributions, lump sum payments and pensions to retirees were compared with corresponding amounts reported in financial statements. The results of these tests were satisfactory.

- **Actuarial Valuations:** We have prepared an actuarial valuation of the Hydro One Inc. Pension Plan and Fund's projected benefit obligation for accounting purposes as at December 31, 2009 and extrapolated those results to December 31, 2010. The extrapolation of the projected benefit obligation is based on assumptions as at December 31, 2010 and on actual cash flows for fiscal year 2010. In accordance with our mandate, the purpose of this valuation and extrapolation is to account for the

Summary of Actuarial Assumptions

The assumptions used in valuing the liabilities and benefits under the plan, for the most part, are identical to those used in the Funding Valuation as at December 31, 2009. The differences are listed below.

Measurement date	December 31
Discount rate	▪ 5.75% per year for the 2011 expense determination ▪ 5.25% per year for the Dec. 31, 2011 funded status
Long-term rate of return on assets	▪ 6.50% per year for the fiscal year ending Dec. 31, 2010 ▪ 6.25% per year for the fiscal year ending Dec. 31, 2011
Increases in pensionable earnings (excluding merit)	▪ 2.50% per year for the 2011 expense determination ▪ 2.50% per year for the December 31, 2011 funded status
YMPE increases	▪ 3.00% per year for the 2011 expense determination ▪ 3.00% per year for the December 31, 2011 funded status
Increases in maximum pension permitted under the Income Tax Act	▪ $2,444.44 for 2009 ▪ $2,494.44 for 2010 ▪ $2,552.22 for 2011 ▪ 3.00% per year starting in 2011 for the December 31, 2010 funded status and 2011 expense ▪ 3.00% per year starting in 2012 for the December 31, 2011 funded status
Consumer Price Index	▪ 2.00% per year for the 2011 expense determination ▪ 2.00% per year for the December 31, 2011 funded status
Mortality	▪ 1994 Generational Uninsured Pensioners (UP94) Mortality for the 2011 expense determination ▪ 1994 Generational Uninsured Pensioner (UP94) Mortality Table for the December 31, 2011 funded status

Appendix F

Employer Certification

With respect to the Actuarial Valuation Report on Net Periodic Benefit Cost and Employer Disclosure for the Fiscal Year Ending December 31, 2011 Under US accounting standards of the Hydro One Inc. Pension Plan and Fund, I hereby certify that, to the best of my knowledge and belief:

- the membership data supplied to the actuary provide a complete and accurate description of all persons who are entitled to benefits under the terms of the plan for service up to December 31, 2009;
- a copy of the official plan documents and of all amendments made up to December 31, 2011 were supplied to the actuary;
- all substantive commitments (as defined under US accounting standards) have been communicated to the actuary;
- accounting policies as adopted by the company are those described in this report.
- the actuarial methods, amortization method and amortization periods to be used for the purposes of the valuation are those described in this report;
- the management best estimate assumptions for purposes of the valuations and the extrapolation of the financial position of the plan as of December 31, 2011 are those described in this report; and
- all events subsequent to the valuation that may have an impact on the results of the valuation or of a future valuation have been communicated to the actuary.

Date	Signed
	Name
	Title

Ontario Energy Board (Staff) Question #15 List 1

Question

Ref: Exhibit C1/Tab5/Schedule 3/p2 and EB-2010-0002 Exhibit C1/Tab3/Schedule 2/Appendix A p2

a. Please explain why annual corporate pension costs for Hydro One Transmission and Hydro One Total have increased from

- $47 million (Tx) and $114 (Total) approved 2011 and
- $48 million (Tx) and $118 (Total) approved 2012, as per EB-2010-0002 C1/T3/S2/ApA/P2, to
- $70 million (Tx) and $154 (Total) proposed 2013 and
- $75 million (Tx) and $158 (Total) proposed 2014, as per Exh.C1/T5/S3/P2

b. If the above numbers are not correct, please provide updated numbers. Please explain the large increases.

c. Please explain why a larger proportion is capitalized in 2013 and 2014 compared to 2011 and 2012.

Response

a) Total pension contributions in 2011 and 2012 included compulsory deficiency payments of $24 million per annum. Total pension contributions in in 2013 and 2014 will include compulsory deficiency payments of $48 million per annum. In addition, base pensionable earnings increased over the period due to headcount and compensation increases.

b) The numbers are correct. Explanation is included in a) above.

c) Pension contributions are recorded as either expense or capital expenditures of Hydro One Networks' Transmission and Distribution businesses depending on the work program in any particular year as pension costs are attached to labour. The proportion of pension costs capitalized by Transmission depends on the nature of that year's Transmission work program compared to the total Hydro One Networks work program. A larger portion of pension contributions is capitalized in 2013 and 2014 due to the direction of a larger proportion of direct and indirect labour costs to the Transmission capital program in comparison to the other elements of Hydro One Networks' overall work program.

Ontario Energy Board (Staff) Question #16 List 1

Question

Ref: Exhibit C2/Tab5/Schedule 1/p1 and EB-2010-0002 Exhibit C2/Tab5/Schedule 1/Attachment 1/p1

Table 1
Annual OPEB Cost (millions)

	Hydro One Transmission	Reference
Approved 2011 OPEB Costs		
OM&A	$20.8	EB-2010-0002 C2/T5/S1/Att1/P1
Capital		
Total		
Approved 2011 OPEB Costs		
OM&A	$22.0	EB-2010-0002 C2/T5/S1/Att1/P1
Capital		
Total		
Proposed 2013 OPEB Costs		
OM&A	$25.1	Exh.C2/T5/S1/Att1/P1
Capital		
Total		
Proposed 2014 OPEB Costs		
OM&A	$27.8	Exh.C2/T5/S1/Att1/P1
Capital		
Total		

a. Please clarify if the numbers and references reported in the lightly shaded boxes are correct. If they are not correct, please provide the correct numbers and references in the table.

b. Please provide the correct numbers and references in the darkly shaded boxes in the table.

c. Please provide totals in the table.

d. Please provide explanations for the increases

e. Please explain if a larger proportion is capitalized in 2013 and 2014 compared to 2011 and 2012.

Response

a) The numbers are correct.

b) Hydro One has updated the table as follows:

Hydro One Transmission	
2011 OPEB Costs	
OM&A	$20.8
Capital	$14.4
Total	**$35.2**
2012 OPEB Costs	
OM&A	$22.0
Capital	$15.3
Total	**$37.3**
2013 OPEB Costs	
OM&A	$25.1
Capital	$27.8
Total	**$52.9**
2014 OPEB Costs	
OM&A	$27.8
Capital	$29.3
Total	**$57.1**

c) Please see part b) above.

d) The increases are caused by increased headcounts, higher total remuneration and increases in underlying cost factors to provide benefits.

e) See response to Staff 15, part c).

<u>Ontario Energy Board (Staff) Question #17 List 1</u>

<u>Question</u>

Ref: Exhibit I/Tab9/Schedule 1.03 Staff 49
In this response, Hydro One stated that there is a difference between:

i. Depreciation and amortization expense added back to utility income in the book to tax adjustments used to calculate utility taxable income of $346.7 million in 2013 and $374.7 million in 2014.
ii. Depreciation and amortization expenses included in the revenue requirement of $348.9 million 2013 and $377.0 million in 2014.

Hydro One stated that this difference represents the amortization of regulatory assets. This amortization is included in the book to tax adjustments but not included in depreciation and amortization expense calculated for revenue requirement purposes. The difference between the two amounts is ($2.2 million) for 2013 and ($2.3 million) for 2014.

Board policy as stated in the Board's EB-2008-0381Decision, where the Board accepted the Settlement Agreement for Issue #4, is that regulatory assets and regulatory liabilities are not to be incorporated in the calculation of the regulatory income tax provision.

Please recalculate the regulatory income tax provision for 2013 and 2014 excluding the impact of the amortization of regulatory assets and regulatory liabilities.

<u>Response</u>

Hydro One confirms that it is not including regulatory amortization in its regulatory income tax provision. This amortization is stripped out as can be seen at Exhibit C2, Tab 4, Schedule 1, line 12 ("Exclude Other Reg Amort"). As such, no recalculation is necessary.

Ontario Energy Board (Staff) Question #23 List 1

Question

Ref: Exhibit I/Tab12/Schedule 1.18 Staff 71
Clarify the term "in-flight" project in part (a).

Response

The term "in-flight project" refers to the 2011 to 2012 project that will implement a major upgrade to the heating and cooling (HVAC) capacity at the OGCC. This project is nearing completion and while final costs will not be known until completion, current estimates are the overall cost is tracking to approximately 2.4$M.

Ontario Energy Board (Staff) Question #25 List 1

Question

Ref: Exhibit I/Tab19/Schedule 1.04 Staff 80

a. If Hydro One is granted continuance of the Board of the Pension Cost Differential Account, does Hydro One propose to include the actual pension annual special payments in addition to the actual annual service cost in the variance reported in the account?

b. Please give reasons as to why Hydro One should be granted a Pension Cost Differential Account when

  i. no other components of the revenue requirement are trued up to actual expense; and

  ii. comparable companies regulated by the Board do not have permission to use a similar variance account.

c. Please provide a breakdown of the Pension Cost Differential Account forecasted principal balance of $12.4 million, specifically the debits and credits. Ie what are the respective actual pension amounts per year (the debits) compared to the amounts in embedded rates per year (the credits)?

Response

a) Annual special payments are the component of cash pension expense that is fixed through actuarial valuation. The pension cost differential account captures variances between actual pension costs recorded using the actuarial assessment provided by Mercer and Hydro One information such as base pensionable earnings, and the estimated pension costs approved by the OEB as part of Transmission Rates. Hydro One did not record any variances resulting from actuarial revisions in 2012 as these were given up in EB-2010-0002. However, it is expected that such variances would be recorded for the test years.

b)

  i. Hydro One notes that pension variances are potentially material and cannot reasonably be forecast, depending on the timing and outcome of periodic actuarial valuations. As such, they have many factors in common with external revenue accounts for which variance treatment is required by the Board.

  ii. Most other LDCs are members of the OMERS plan, a defined contribution plan with different risks for variances to occur in the test years. Hydro One Transmission has had an approved variance account in place for pension cost differentials for the last two cost of service cycles. Significant unforeseen variances have been recorded, even though actuarial impacts were not recorded in respect of 2012 through agreement with the Board in EB-2010-0002.

c)

Principal Tx Pension Deferral Regualtory Account breakdown [OM&A only]

Year	DR/CR	2007	2008	2009	2010	2011
Journal Entries						
OM&A - Pension Expense - Actual	DR	25,809,009	29,308,826	31,714,612	38,044,795	34,443,710
Revenue - OEB Approved Revenue Requirement	CR	(27,113,032)	(27,492,168)	(28,986,117)	(29,800,715)	(30,136,210)
Regulatory Pension Deferral Account	DR/CR	(1,304,024)	1,816,657	2,728,495	8,244,080	4,307,499
Pension Deferral Regulatory Account (OEB Approved Regualtory Account Drawdown)	CR	-	-	(66,666)	(133,332)	(3,174,462)

Year	DR/CR	2007	2008	2009	2010	2011
Tx Pension Regualtory Account						
Opening Balance - 1 January		-	(1,304,024)	512,634	3,174,463	11,285,210
Annual Regulatory Account movement		**(1,304,024)**	**1,816,657**	**2,661,829**	**8,110,748**	**1,133,037**
Closing Balance - 31 December		(1,304,024)	512,634	3,174,463	11,285,210	12,418,247

Ontario Energy Board (Staff) Question #26 List 1

Question

Ref: Exhibit I/Tab20/Schedule 1.01 Staff 81

a. "External Revenue – Partnership Transmission Projects deferral account":

i. How does Hydro One expect that the proposed amounts recorded in the deferral account will be neutral to ratepayers when the underlying expenses associated with the provision of these services cannot be examined or quantified?

ii. Does Hydro One agree that it may be more appropriate to allocate the actual amounts representing the expenses and capitalized amounts embedded in the 2013 and 2014 revenue requirement for these services as credits to the deferral account? This may be done instead of recording revenue equal to the amount invoiced to partnership companies for work performed by Hydro One Transmission employees as credits in the deferral account. Please explain.

b. "Long-Term Transmission Future Corridor Acquisition and Development deferral account":

i. Why is this account needed and the situation is different than dealing with past corridor expansions?

ii. If this situation has been known since 2005 (Ontario Provincial Policy Statement of 2005), why has this deferral account not been considered to be created in prior Hydro One Tx proceedings?

iii. What circumstances have changed that give rise for the need for this account now?

iv. Would costs associated with this account not be generally incorporated into rate base?

v. What is the chance that the proposed costs that would be recorded in the deferral account not go into rate base in the future based on a risk analysis performed on previous preliminary studies and reviews associated with corridor expansion?

Response

a)

i. This deferral account is being requested to enable any revenue received by HONI Transmission in respect of work carried out on behalf of any Hydro One Transmission partnerships to be recorded as a liability to customers. The amount and timing of such work was to be contingent on partnership requirements and could not be predicted at the time of application. However, as any such work would not be to the direct benefit of Hydro One Transmission customers, it is clear that there is an obligation to recover the amounts from the partnership(s) and to return them to customers. Hydro One expected that the applicable amounts would be examined and quantified at the time of the request for account disposition. For the specific purposes of the EWT partnership, Hydro One has taken steps to no longer perform work on behalf of the partnership, consistent with Board instructions.

ii. Hydro One is confused by the question as the amounts billed to Hydro One partnerships would be based on the actual costs to be recovered. Billings would generally coincide with cost incurrence. There would be no difference in amount if the actual costs rather than invoiced revenues had been recorded as credits to the deferral account.

b)

i. Past corridor expansions generally involved project-specific, nearer term expenditures initiated by Hydro One.

ii. Hydro One has not experienced expenditures in the historic or bridge years so there was no need for the account prior to the test years.

iii. Under Hydro One's capitalization policy, these expenditures would be incurred prior to the existence of any project preferred alternatives and they would have to be expensed. Historically, near-term project-specific expenditures of this type would have been capitalized and included in rate base once in-service. In this case, the expenditures are not sufficiently predictable or estimable to meet the prudency standards for inclusion in test year revenue requirements.

iv. Such expenditures would only be capitalized and included in rate base under Hydro One's capitalization policy in cases where they were project-specific and incurred after the selection of preferred alternative.

v. If the question is, why can't these expenditures be included in rate base based on a probability analysis, this would be inconsistent with Hydro Ones' accounting policy. Absent a Board override, the expenditures would not be included in rate base unless first capitalized for accounting purposes and these expenditures cannot be capitalized based on a "risk analysis."

Pollution Probe (PP) Question #1 List 1

Question

Reference: Response to Pollution Probe interrogatory #17

For each year from 2012 to 2022 inclusive please break out your conservation and distributed generation estimates by: a) CDM program (e.g., peaksaver); and b) type of distributed generation (e.g., solar, bio-energy, wind, gas-fired CHP). Please provide your studies that support these estimates.

For each year from 2012 to 2022 inclusive please provide a break-out of your demand estimates for the Hanlon Industrial Park according to the following categories: a) peak demand; b) CDM; and c) type of distributed generation.

Response

The estimate of conservation in the South-Central Guelph area for 2012 to 2022 is provided below. However, neither Hydro One nor the OPA has an estimate broken out by CDM program.

South-Central Guelph Conservation

(MW)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
South-Central Guelph	4.3	6.9	9.3	11.1	12.9	14.7	16.3	17.7	18.9	20.0	20.9

As noted in Exhibit I, Tab 11, Schedule 4.17 PP 17, the distributed generation included in the net forecast is for existing and contracted distributed generation and as such, studies were not required to support these numbers. The expected contribution of the existing and contracted distributed generation included in the net demand forecast for the South-Central Guelph area by type is as follows:

South-Central Guelph Distributed Generation

(Effective MW)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
South-Central Guelph Co-gen	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
South-Central Guelph Solar	0.0	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3

Neither Hydro One nor the OPA estimate demand for the Hanlon Industrial Park specifically. Rather, estimates are done at a transformer station level. It is possible that the Hanlon Industrial Park is fed by a number of different transformer stations in the South-Central Guelph area.

Pollution Probe (PP) Question #2 List 1

Question

Reference: Response to Pollution Probe interrogatory #29

According to your response, the Kitchener-Waterloo-Cambridge-Guelph Area Working Group (KWCG) has not issued any reports. However, according to Ex. Dl, Tab 3, Schedule 3, Appendix E, page 2, the Guelph Area Transmission Refurbishment Project has the support of the KWCG. Please reconcile these two statements. Please provide the agendas, working papers and minutes of all the KWCG's meetings.

Response

The Guelph Area Transmission Refurbishment (GATR) Project has been discussed at KWCG working group meetings and through these discussions has received support from all parties involved. This support was noted in the OPA's recommendation letter dated March 8, 2012. Hydro One does not believe that there is a direct link between the lack of issuance of a KWCG working group report and support for the project from the working group. Nor does Hydro One believe that agendas, working papers and minutes of all the KWCG working group meetings are required to demonstrate this support.

Pollution Probe (PP) Question #3 List 1

Question

Reference: Ex. Dl, Tab 3, Schedule 3, Appendix E, page 2 and Ex. Dl, Tab 3, Schedule 3, page 1

According to the letter from the OPA, South-Central Guelph Area's transmission capacity for planning purposes is 100 MW and the area's load in 2011 was approximately 115 MW. Please state the South-Central Guelph Area's actual transmission capacity. Please explain the distinction between "planning" and "actual" capacity. Is the South-Central Guelph Area's transmission capacity in compliance with the Market Rules, the TSC or other mandatory industry standards such as NERC and NPCC? If no, please elaborate.

Response

The capability of the transmission system serving South-Central Guelph is determined based on the application of the Independent Electricity System Operator's Ontario Resource and Transmission Assessment Criteria (ORTAC). Based on these criteria, the system serving South-Central Guelph has a capability of approximately 100 MW. In real time, should demand in the area exceed this level, operating measures (such as opening bus tie breakers) will be taken to maintain operation within equipment ratings. Use of these necessary operating measures increases the risk of supply outages to customers in the area.

In local area reliability planning, the standards established in the ORTAC are applied. The existing supply to the South-Central Guelph area is not compliant with these standards, and therefore reinforcement is required.

Pollution Probe (PP) Question #4 List 1

Question

Reference: Response to Pollution Probe interrogatory #17

For each year from 2012 to 2022 please provide a break-out of your net demand forecast according to the following categories: a) residential; b) commercial; c) institutional; d) Hanlon Industrial Park; and e) other industrial.

Response

As noted in the response to question 1, estimates are done at a transformer station level. Neither Hydro One nor the OPA estimate demand into the categories referred to in this question.

Power Workers Union (PWU) Question #5 List 1

Question

Issue 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?

Ref: Exhibit I/ Tab 5/ Schedule 8.15 PWU 16/ Page 3 of 4 (Hydro One response to PWU Interrogatory #16, a)

In response to the PWU's interrogatory #16 (a), Hydro One has provided a table of requested values relating to asset demography and asset condition.

Hydro One has left blank line # 10 (% of assets in "poor and very poor" state for 2009); line # 12 (% of assets in "poor and very poor" state in 2021 assuming historical rate of replacement); and line #13 (% of assets in "poor and very poor" state in 2021assuming the currently proposed rate of replacement).

a. Please provide the missing values

b. Please provide the corresponding values in line #12 and Line #13 of the table for assets that are in "Fair or Poor" condition (i.e. % of assets in "Fair or poor" state in 2021 assuming historical rate of replacement and % of assets in "Fair or poor" state in 2021 assuming the currently proposed rate of replacement)

Response

a. Please refer to the shaded area of the table on page 2 for available missing values.

b. Forecast data for 2021 is not available.

	Asset Class	Transformers	Breakers	Protections	Cables	Towers	Conductors	Wood Poles
1	Fleet (# units)	719	4,490	11,013	291 circuit km	49,890	28,636	42,007
2	ESL (years)	50	40 - 55	25 - 40	50	80 - 100	70	40 - 50
3	Historic Replacement Rate (%/yr)	1.4	1.6	2.8	0	0	0.1	2
4	Proposed Replacement Rate (%/yr)	2.6	2.1	3.7	1.3	0.01	0.2	2
5	% of assets beyond ESL 2006	17	3		6			16
6	% of assets beyond ESL 2009	24	6		18			21
7a	% of assets beyond ESL 2012	21	8	31	19	15	16	27
7b	% of assets beyond ESL 2021 assuming historic rate	30	8	25	36	25	31	13
8	% of assets beyond ESL 2021 assuming proposed rate	18	2	16	23	19	30	13
9	% in "poor and very poor" 2006	3	1	10	0		2	10
10	% in "poor and very poor" 2009	3	3		6			
11	% in "poor and very poor" 2012	10	16	17	6	1	16	10
12	% in "poor and very poor" 2021 assuming historical rate							
13	% in "poor and very poor" 2021 assuming proposed rate							
14	Equipment Frequency of forced outages compared to CEA average	Worse	Worse	Worse	Worse	Better	Better	Worse

Notes:

1. The 2012 and future year data are from pre-filed evidence: Exhibit C1, Tab 2, Schedule 2; Exhibit D1, Tab 3, Schedule 2; Exhibit A, Tab 13, Schedule 2;
   The 2009 year data are from Appendix A of Exhibit C1, Tab 02, Schedule 2 of EB-2010-0002.
   The 2006 year data are from Appendix A of Exhibit D1, Tab 2, Schedule 1 of EB-2005-0501.
2. Table cells that are blank are data that are not readily available.

With the exception of Breakers and Cables, the “At a Glance Tables” in Exhibit C1, Tab 2, Schedule 2 were not updated as part of the August 15 update.