EB-2012-0136

IN THE MATTER of the *Ontario Energy Board Act 1998*, Schedule B to the *Energy Competition Act*, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Hydro One Networks Inc. for an Order or Orders approving just and reasonable rates and other service charges for the distribution of electricity, effective on January 1, 2013.

TECHNICAL CONFERENCE QUESTIONS

FROM THE

SCHOOL ENERGY COALITION

[Note: All questions have been assigned to issues. However, please provide answers that respond to each question in full, without being restricted by the issue or category. Many questions have application to multiple issues, but all have been asked only once to avoid duplication.]

Issue 1 – Has Hydro One appropriately applied the IRM mechanism as specified by the Board?

SEC - 1 [I/1/5.02] Please provide details with respect to all ways in which meeting the "spirit and intent" of the Board's approach requires a reinterpretation of existing policy.

SEC - 2 [I/1/5.03] Please provide the full calculations of the 4.7% return on rate base and the 11.4% return on equity.

SEC - 3 [I/1/6.01] Please provide all communications from the shareholder, information from rate agencies, communications from investment bankers, or other similar evidence to support the sentence "Hydro One has no other means by which it can fund the proposed, non-discretionary capital spend."

SEC - 4 [I/1/7.01] With respect to the submission to the board of directors:

a. p. 1. Please explain the phrase "have resulted in the Distribution rate increase being requested for 2012 being below the required regulatory rate threshold for a COS application."

b. p. 2. Please provide a detailed explanation, including calculations, with respect to the increase of $40 million in budgeted revenues and the increase of $29 million in net income for 2012.

c. p. 4. Please provide a calculation of the dollar impact of the change in allowed ROE from the 9.66% baked into rates to the most recent Board-approved level, showing the difference in ROE between the two levels based on 2011 Board approved common equity, and the gross-up to reflect a before-tax equivalent using forecast 2013 tax rates.

d. p. 6. Please provide the November 2011 and April 2012 distribution load forecasts for 2013, and any more recent load forecast currently available for 2013.

e. p. 8. Please confirm that the proposed capital spending for 2013 is "consistent with previous capital spending levels already approved by the OEB in the 2011 Distribution COS application". Please explain how the proposed ICM spending is "incremental".

f. p. 12. Please compare the 4.9% distribution rate increase for 2013 on this slide with the actual distribution rate increase in the Application, and provide details on the reasons for any variance.

g. p. 25. Please recalculate the revenue line in the table to show the actual revenue that would have been necessary to produce the Board`s formula ROE in each year, assuming costs remained constant. By way of example, for 2013 reduce the figure of $3,783 sufficiently so that, without changing costs, interest rates, equity thickness or tax rates, the result in the ROE (GAAP) line would as a percentage be equal to the Board`s formula ROE percentage.

h. p. 28. Please compare the 4.9% rate increase in this document to the rate increase forecast in the November 2011 update, and provide details on the main reasons for any difference.

SEC - 5 [I/1/7.01] With respect to the submission to the Regulatory and Public Policy Committee:

a. p. 1. Please confirm that the rate rider with respect to smart grid and advanced distribution system OM&A costs is being sought as a Z factor for IRM purposes. If this is not the case, please provide details of the regulatory basis on which the rate rider is being sought.

b. p. 2. Please provide details of the two scenarios presented at the February 8, 2012 meeting. Please identify the main differences between the two.

Issue 2 – Should the proposed capital projects be approved for ICM treatment?

*[I/2/1.01(b)(i)] Please confirm that the premise of this Application is that the current 3rd generation IRM structure does not provide appropriate recovery for continued capital spending, at a constant rate, but in excess of depreciation.

SEC - 6 [I/2/1.01, p. 7 and /1.07, p.2] Please confirm that the Typical Capital spending for the Test Year has not previously been approved by the Board, and has not been "reviewed, defended and approved" in any way.

SEC - 7 [I/2/1.01, Attach. 2, p. 6] Please confirm that the GDP-IPI inflator provides for a revenue requirement increase related to capital spending, before recognition of growth in load or number of customers, productivity gains, or stretch factor, of $13.44M [($354M+$283.7M+$34.3M) times 2%], which represents the annual revenue requirement for approximately $135M in incremental capital spending. Please provide details of the productivity improvements expected to be achieved by the Applicant relative to capital spending in the Test Year, and any variance between the revenue requirement impact of those improvements, and the $7.53M in revenue requirement savings assumed by the combination of the productivity factor and the stretch factor.

SEC - 8 [I/2/1.06, p. 3] Please confirm that actual revenue for 2011 is approximately 9.3% greater than actual revenue for 2010. Please confirm that actual revenue for 2011 is approximately 1.5% higher than 2011 rebased revenue requirement. Please reconcile these growth rates with the negative growth rate claimed of -1.02%.

SEC - 9 [I/2/1.09(c)] Please provide the methodology used to balance these various factors.

SEC - 10 [I/2/1.09(j)] Please provide a calculation of the long term savings resulting from the increase in the wood pole replacement program. Please provide any internal documents that analyze the costs and benefits of this program.

SEC - 11 [I/2/1.11(h)] Please provide the internal documents showing the calculation of the "lowest total sustainment cost over time through a combination of capital and OM&A solutions" for each of the major areas in which a spending increase is being proposed.

SEC - 12 [I/2/1.14] Please provide the average number of spares in each category for each of the years 2006 through 2011.

SEC - 13 [I/2/2.06] Please provide the average life of a transformer after it has been refurbished, by category and by cost.

SEC - 14 [I/2/2.06(c)] Please provide the formula for the trend line in figure EP-1.

SEC - 15 [I/2/6.06(a)] Please provide the calculations for the economic assessment referred to.

SEC - 16 [I/2/8.08] Please confirm that the Applicant's capital expenditures as a percentage of depreciation, and the average LDC capex/depreciation in the same years (from the Yearbook) have been as follows:

Year	Hydro One Dx.	Yearbook Average
2007	157.6%	189.6%
2008	163.5%	184.9%
2009	179.5%	190.3%
2010	165.8%	224.3%
2011	163.4%	243.7%
2012F	167.9%	NA
2013B	159.7%	NA

Please explain why the Applicant needs additional funding when its capital spending as a percentage of depreciation is consistently less than industry averages.

SEC - 17 [I/2/8.14] Please provide the report on the Board's Form 2-K for 2013 as requested in the original question.

SEC - 18 [I/2/8.17] Please provide the information requested with respect to the original establishment of the 4 stations per year and 6 transformers per year standards.

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

SEC - 19 [I/4/2.01] Please explain how, without tracking costs in the manner suggested in the question, the Applicant is able to calculate ROI for the CIS investment. Please advise what costs are tracked that allow an ROI calculation to be done.

SEC - 20 [I/4/2.02] Please provide the values in (e) before inclusion of the negative tax cost. Please extend those values out five more years.

SEC - 21 [I/4/2.03] Please provide a calculation of working capital allowance reflecting the Finance impact of the new CIS.

SEC - 22 [I/4/8.03] Please confirm the figures of $30 and $17 in the question, or provide alternate figures with supporting calculations.

SEC - 23 [I/4/8.04] Please provide the detailed calculations requested.

SEC - 24 [I/4/8.07] Please provide a breakdown of the cost overruns between a) HCL Axon, b) Hydro One staff, and c) Inergi staff, and reasons in each case.

SEC - 25 [I/4/9.01] Please provide the two "TBD" figures in (g).

Issue 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?

SEC - 26 [I/5/2.02 and 5.02] Please provide a calculation of the revenue requirement impact of the CIS for 2013 on the assumption that both depreciation and CCA are calculated on a full-year basis.

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

SEC - 27 [I/6/8.02] Please provide depreciation and CCA calculations on a project by project basis, i.e. using actual forecasts for each, not averages.

Issue 13 – Is Hydro One's proposal for the implementation of the Density Study findings appropriate?

SEC - 28 [I/13/8.01] Please provide as good an estimate as possible of the rates for each of the three classes if the proposed split were implemented.

Respectfully submitted on behalf of the School Energy Coalition this 12th day of November, 2012

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Jay Shepherd