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BY EMAIL and RESS

June 13, 2014
Our File: EB20130416

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
M4P 1E4

Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2013-0416 – Hydro One Networks Inc. 2015-2019 Distribution Application

We are counsel to the School Energy Coalition ("SEC"). Enclosed please find interrogatories on behalf of SEC.

Yours very truly,
Jay Shepherd P.C.

Original signed by

Mark Rubenstein

cc: Wayne McNally, SEC (by email)
Applicant and intervenors (by email)

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 or fixing just and
reasonable rates and other service charges for the distribution of
electricity as of January 1, 2015.

INTERROGATORIES
ON BEHALF OF THE
SCHOOL ENERGY COALITION

[Note: All interrogatories 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 interrogatories have application to multiple issues, but all have been asked only once to avoid duplication.]

1.0 CUSTOM APPLICATION

1.1-SEC-1

Please provide a copy of all material provided to the Applicant's Board of Directors in approving this application and the underlying 2015-2019 budgets and business plans.

2.0 OUTCOMES AND INCENTIVES

2.2-SEC-2

Please provide details about what other outcome measures the Applicant considered and why they are not being proposed.

2.2-SEC-3

[Ex.A-4-4/p.8] Please explain why the Applicant considers the number of poles replaced an outcome.

2.2-SEC-4

Please explain the Applicant's approach to benefit sharing with ratepayers through the test period.

2.3-SEC-5

Please explain how the Applicant believes the Custom Application adequately incorporates operational effectiveness.

2.4-SEC-6

Please explain how the Applicant intends to incorporate into its rate-setting process distributors it may acquire during the test period.

2.4-SEC-7

[Ex.A-17-1/p.5] Please explain the direction provided by the Applicant's senior management team "to balance the various factors under consideration, including customer service levels, rate impacts and economic considerations".

2.6-SEC-8

[Ex.A-16-1] With respect to the cost escalation, inflation and exchange rate information underpinning the Custom Application:

- (a) Please provide a copy of the January 2013 Global Insight forecast.
- (b) Please explain why the Applicant is using January 2013 data for its economic indicators underpinning this application and not more recent information.
- (c) Please provide the latest Global Insight forecast.

2.6-SEC-9

Please provide copies of all benchmarking studies, evaluation, surveys undertaken by the Applicant either, through a third-party or internally, since 2010.

2.6-SEC-10

For each of the following, please explain how the Applicant has evaluated the reasonableness of its forecasted:

- (a) Revenue
- (b) Costs
- (c) Inflation
- (d) Productivity

2.6-SEC-11

[A-19-1] Does the Applicant know what specific initiatives or programs it will implement to achieve its planned productivity initiative savings? If so, please provide details for all known specific initiatives or programs.

3.1-SEC-12

Please provide a table showing the OM&A Cost Drivers as set out in section 2.7.2 of the *Filing Requirements For Electricity Distribution Rate Applications*.

3.1-SEC-13

[Ex.C1] Please detail how the Applicant has prepared its OM&A budgets for the five-year period. Please explain how confident the Applicant is of the accuracy of its proposed OM&A budgets, for each category, in the later years of the test period.

3.1-SEC-14

[Ex.C1-2-2/p.18] Please provide further details about the significant increase in Preventive and Corrective Maintenance for the test period as compared to 2012-2014.

3.1-SEC-15

[Ex.C-1-2-2/p.21] The Applicant states: “Hydro One Distribution initially focused on the inspection and testing of pad-mounted transformers. Testing of these transformers was completed in 2010. Beginning in 2014, pole mounted line equipment will be inspected and tested.” Does this mean that no PCB inspections and testing was done between 2011-2013? If so, please explain why not. If this is not the case, please explain what PCB inspections and testing did occur in that time period.

3.1-SEC-16

[Ex.C-1-2-2/p.21] Based on the level of proposed PCB inspections and testing expenditures for the test period, does the Applicant expect that a similar amount (adjusted for inflation) will be required between 2020-2025 to comply with the 2025 PCB contamination regulations deadline?

3.1-SEC-17

[Ex.C1-2-2/p.32] With respect to the Line Clearing expenditures:

- a) Please explain the significant variation in proposed expenditures between 2015-2019.
- b) The Applicant states: “By 2019 program costs will be better align with historical spending and reflect the reliability and life-cycle cost benefits of maintain the system on the 8-year cycle targets.” Please explain how 2019 costs of \$99.9m better align with historical spending based on the actual expenditures between 2010-2013.

3.1-SEC-18

[Ex.C1-2-4/p.7/Table 1] Please explain the increase from 2013 to 2014 in the operations category.

3.1-SEC-19

[Ex.C1-2-4/p.4] Please provide details about Smart Grid OM&A expenditures for the test period. Please explain the significant increases in proposed expenditures in 2018-2019.

3.1-SEC-20

[Ex.C1-2-7] Please provide a copy of the agreement between the Applicant and Inergi.

3.1-SEC-21

[Ex.C1-2-7/p.4] Please provide a copy of the benchmarking review report of Inergi’s fees.

3.1-SEC-22

[Ex.C1-2-7/p.12] Please provide a copy of the RFP issued in November 2013 to pre-qualified suppliers.

3.1-SEC-23

[Ex.C1-2-7/p.12] Please provide a status update of the pre-tendering process.

3.1-SEC-24

[Ex.C1-2-7-Appendix C] What type of cost impact does the Applicant believe will occur because of the requirements of the Minister's shareholder directive dated October 17th 2013, in which under any new procurement for work currently being done by Inergi LP, the work must be performed in Ontario by persons employed and residing in Ontario.

3.2-SEC-25

[Ex.D1-1-2/p.3] Please provide a table showing for each year between 2010 and 2014, actual versus Board approved/budgeted in-service capital additions.

3.2-SEC-26

[Ex.D1-3-2/p32] Please explain the significant year over year changes in Metering capital.

3.2-SEC-27

[Ex.D1-3-5/p2] Please provide copies of all reports or analysis detailing the findings of previous smart grid pilot projects.

3.2-SEC-28

[Ex.D2-2] For each of the Investment Summary Documents, why did the Applicant not do an economic cost/benefit analysis for each alternative.

3.2-SEC-29

[Ex.D2-2-3] Please detail the Investment Summary Document creation process.

3.3-SEC-30

Please provide a copy of the Oliver Wyman productivity study undertaken by the Applicant in 2011. Please explain how that study was utilized.

3.3-SEC-31

[EB-2013-0321, Interrogatory Response 6.8-SEC-116] KMPG's *Assessment of Organizational and Structural Opportunities at OPG* at p.2] Does the Applicant have in its possession a copy of a report by KPMG engaged on behalf of the Ministry of Energy in 2012, assessing Hydro One's existing benchmarking studies and to identify organizational and structural opportunities for cost savings. If so, please provide a copy of the report.

4.0 COMMON COSTS AND PROCESSES SHARED BY HYDRO ONE NETWORKS' TRANSMISSION AND DISTRIBUTION BUSINESSES

4.2-SEC-32

[Ex.C1-2-8/p.2/Table 1] Please revise Table 1 to include the Distribution Allocation amounts for 2010-2014.

4.2-SEC-33

[Ex.C1-2-8/p.21] Please provide a completed Appendix 2-M (*Filing Requirements For Electricity Distribution Rate Applications*).

4.2-SEC-34

[Ex.C1-2-8/p.21] Does the Applicant forecast test year cost savings from undertaking a 5 year Custom Application instead of another rate setting method available to it?

4.2-SEC-35

[Ex.C1-2-8/p.25] Please provide copies of all Internal Audit reports from 2010-2014 for all material OM&A expenditures.

4.2-SEC-36

Ex.C1-4-1-p.14] Please explain the drivers of the increase in Fleet Management Services budget from 2011?

4.4-SEC-37

[Ex.C1-3-1/p.1] Please provide a copy of the ‘Power in Motion, 2011 Labour Market Information Study’.

4.4-SEC-38

[Ex.C1-3-1/p.2/Table 2] Please explain how the Applicant forecasted annual retirements for the test period.

4.4-SEC-39

[Ex.C1-3-1/p.3-4] Please provide a copy of any formal document outlining the ‘Craft of Management’ program.

4.4-SEC-40

How many of the Applicant’s employees are on the Public Sector Salary Disclosure 2014 list (2013 calendar year)? What percentage of the Applicant’s full time employees for 2013 does that represent?

4.4-SEC-40

[Ex.C1-3-1/p.10] Please provide copies of the Applicant’s collective agreements with the:

- (a) Power Workers’ Union
- (b) Society of Energy Professionals

4.4-SEC-41

[Ex.C1-3-1/p.10] Please provide all documents and information, including but not limited to strategies, proposals, memorandums, opinion, and expert analysis, utilized by the Applicant during the negotiations of its current collective agreement with the Power Workers' Union.

4.4-SEC-42

[Ex.C1-3-1/p.10] Please provide all documents and information, including but not limited to strategies, proposals, memorandums, opinion, and expert analysis, utilized by the Applicant during the negotiations of its current collective agreement with the Society of Energy Professionals.

4.4-SEC-43

[Ex.C1-3-1/p.10] Please provide all assumptions the Applicant is making for the purposes of this application for future collective agreements between itself and the Power Workers' Union and Society of Energy Professionals.

4.4-SEC-44

In 2013, the Auditor General of Ontario's Annual Report made a number of findings regarding OPG's compensation, benefits and HR practices. Does Applicant believe any of those findings may similarly apply to it. If so, what actions, if any, is the Applicant undertaking as a result?

4.4-SEC-45

Does the Applicant track formally or informally, which other distributors it hires employees from, or other distributors which its employees leave to work for? If so, please detail those findings.

4.4-SEC-46

[Ex.C1-3-2/Attachment 2/p2-3] Please explain the significant increase in total employees from 2013 to 2014.

4.4-SEC-47

[Ex.C1-3-2-/Attachment 1/p.6-7] Please explain why only four other Ontario distributors were invited to participate in the compensation benchmarking survey. Please explain why it was not more appropriate to benchmarking the Applicant's compensation with all the other distributors in the province.

6.0 REVENUE REQUIREMENT

6.1-SEC-48

[Ex.C1-2-8/p25] Please provide copies of all Internal Audit reports from 2010-2014 for all material capital projects.

6.1-SEC-49

What was the actual cost for the Cornerstone (CIS Replacement Project)? Please explain any variance with the budgeted cost.

6.2-SEC-50

[Ex.B1] Please provide a chart comparing the Applicant's actual regulated ROE (or forecasted for 2014) and its approved ROE for each between 2009-2014.

6.2-SEC-51

[Ex.B1] If during the term of the proposed Custom Application (2015-2019) the Board changes the deemed capital structure currently set out in the Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, how does the Applicant propose to deal with that development for ratemaking purposes, if at all?

6.2-SEC-52

[Ex.B1-1-1/p3] Please provide a copy of the September 2013 Consensus Forecast.

6.4-SEC-53

[Ex.C1-2-12/p.3] Please explain how the Applicant forecasted property tax expenses for the test period.

7.0 COST ALLOCATION AND RATE DESIGN

7.1-SEC-54

[Ex.G1-4-2/Attach. 1] Please confirm that the costs allocated to the UGd class in 2013 were \$11,052,620 after adjustment to take account of the density study [from M-1-1 in EB-2012-0136, applying the 1.20 revenue to cost ratio]. Please confirm that this works out to average allocated costs per UGd customer of \$9,781.08. Please confirm that the costs allocated to the UGd class in 2015 are \$28,084,764, and that works out to an average allocated costs per UGd customer of \$14,773.68, an increase of 51.0% from 2013. Please provide a detailed breakdown of the drivers of this increase in allocated costs, including at least:

- (a) Increased revenue requirement for the Applicant overall.
- (b) The composition of the revenue requirement increase, e.g. a greater proportion of increased costs allocated to the larger general service classes. Please provide details.
- (c) The change to the treatment of density from a below-the-line adjustment to inclusion of density within each line item. Please provide details.
- (d) Other changes to the cost allocation model, if any. Please provide details.
- (e) Any other drivers.

7.1-SEC-55

[Ex.G1-4-2/Attach.5] Please confirm that the costs allocated to the UGd class in 2019 are \$35,337,954, and that works out to an average allocated costs per UGd customer of \$18,338.33, an increase of 87.5% from 2013. Please provide a detailed breakdown of the drivers of this increase in allocated costs, including at least:

- (a) Increased revenue requirement for the Applicant overall.
- (b) The composition of the revenue requirement increase, e.g. a greater proportion of increased costs allocated to the larger general service classes. Please provide details.

- (c) The change to the treatment of density from a below-the-line adjustment to inclusion of density within each line item. Please provide details.
- (d) Other changes to the cost allocation model, if any. Please provide details.
- (e) Any other drivers.

7.3-SEC-56

[Ex.G1-2-1/p.2 and Tech.Tr.3:54-55] Please provide two full sets of maps showing the areas of the Applicant's franchise area in each of the density zones:

- (a) Before the changes to the boundaries of the density zones as detailed in the Application; and
- (b) After those changes, as now proposed by the Applicant.

7.3-SEC-57

[Ex.G1-2-1/p.3 and G1-7-1/p.3] Please identify the number of schools in each of the following categories:

- (a) 5,733 customers moved from GSe to UGe.
- (b) 778 customers moved from GSd to UGd.
- (c) 311 customers moved from UGe to GSe.
- (d) 67 customers moved from UGd to GSd.

7.3-SEC-58

[Ex.G1-4-2/Attach.5] Please confirm that the Applicant assumed average kW per UGd customer in 2013 of 1,679.8, or 140.0 per month. Please confirm that the Applicant is assuming average kW per UGd customer in 2019 of 1,548.8, or 129.1 per month. Please confirm that this 7.8% decrease in average volume results in an increase in the UGd volumetric rate of 7.8%, over and above all other factors causing increases in the UGd rates. Please provide details of the extent, if any, to which this impact is caused by the transfer of 778 customers from the GSd class to the UGd class.

7.3-SEC-59

[Ex.G1-4-2/Attach.5] Please confirm that the Applicant assumed average kW per GSd customer in 2013 of 1,411.4, or 117.6 per month. Please confirm that the Applicant is assuming average kW per GSd customer in 2019 of 1,307.4, or 108.9 per month. Please confirm that this 7.4% decrease in average volume results in an increase in the GSd volumetric rate of 7.4%, over and above all other factors causing increases in the GSd rates. Please provide details of the extent, if any, to which this impact is caused by the transfer of 778 customers from the GSd class to the UGd class.

7.4-SEC-60

[Ex.G1-3-1/p.15] Please provide details of the "improved cost allocations" that justify and support the Applicant seeking to move customers closer to unity over the test period, consistent with the Board's policy from the *Report of the Board: Review of Electricity Distribution Cost Allocation Policy* (EB-2010-0219) at p.36:

As indicated in its September 2, 2010 letter, the Board expects that with the installation of smart meters and the availability of sufficient smart meter data, better cost allocators for the CA Model will become available and a more comprehensive review of the Board's cost allocation policies will become feasible. The Board anticipates that such a comprehensive review may provide an opportunity to further refine its target ranges. In the meantime, the Board's policy remains that distributors should endeavour to move their revenue-to-cost ratios closer to one if this is supported by improved cost allocations.

7.4-SEC-61

[Ex.G1] Please confirm that the following table correctly calculates the current and proposed distribution charges for a school in the UGd Class with a 100 kW monthly demand, and the dollar and percentage increases being proposed. If not confirmed, please provide corrected calculations. Please confirm that the same school is being asked to pay an additional \$18,744.60 over the five year test period, subject to any adjustments in the Applicant's annual filings.

Sample School Distribution Rate Calculations 2014-2019						
UGd Class	2014	2015	2016	2017	2018	2019
Monthly Fixed Charge	\$28.71	\$85.01	\$92.91	\$100.56	\$106.14	\$111.64
Smoothing Rider		-\$3.25	-\$4.33	-\$1.47	\$2.79	\$7.08
Net Monthly Fixed	\$28.71	\$81.76	\$88.58	\$99.09	\$108.93	\$118.72
Volumetric Rate	\$6.9350	\$7.8590	\$8.6490	\$9.3830	\$10.0450	\$10.7210
Smoothing Rider		-\$0.3004	-\$0.4030	-\$0.1373	\$0.2637	\$0.6802
Net Volumetric Rate	\$6.9350	\$7.5586	\$8.2460	\$9.2457	\$10.3087	\$11.4012
Result at 100 KW	\$693.50	\$755.86	\$824.60	\$924.57	\$1,030.87	\$1,140.12
Total Monthly Bill	\$722.21	\$837.62	\$913.18	\$1,023.66	\$1,139.80	\$1,258.84
Annual Bill	\$8,666.52	\$10,051.44	\$10,958.16	\$12,283.92	\$13,677.60	\$15,106.08
Increase over Prior Year		\$1,384.92	\$906.72	\$1,325.76	\$1,393.68	\$1,428.48
Percentage		15.98%	9.02%	12.10%	11.35%	10.44%
Five Year Increase						\$6,439.56
Percentage						74.30%
Revenue at Current Rates	\$43,332.60					
Proposed Revenue	\$62,077.20					
Increased Charge	\$18,744.60					

7.4-SEC-62

[Ex.G1] Please provide a breakdown of the drivers of the increases set out in the previous question, including at least the following categories:

- (a) Increases in revenue requirement.

- (b) Changes in the relative costs allocated to the class between 2013 and 2015.
- (c) Greater increases in the monthly fixed charge relative to the volumetric charge.
- (d) Adjustments to the revenue to cost ratios to bring other classes within the Board's range.
- (e) Adjustments to the revenue to cost ratios to bring all classes closer to unity over the test period.
- (f) Other drivers.

7.4-SEC-64

[Ex.G1] Please confirm that the following table correctly calculates the current and proposed distribution charges for a school in the GSd Class with a 100 kW monthly demand, and the dollar and percentage increases being proposed. If not confirmed, please provide corrected calculations. Please confirm that the same school is being asked to pay an additional \$32,412.72 over the five year test period, subject to any adjustments in the Applicant's annual filings.

Sample School Distribution Rate Calculations 2014-2019						
GSd Class	2014	2015	2016	2017	2018	2019
Monthly Fixed Charge	\$52.27	\$83.96	\$91.53	\$98.56	\$103.54	\$108.41
Smoothing Rider		-\$3.21	-\$4.26	-\$1.44	\$2.72	\$6.88
Net Monthly Fixed	\$52.27	\$80.75	\$87.27	\$97.12	\$106.26	\$115.29
Volumetric Rate	\$11.4330	\$13.7210	\$15.1460	\$16.4420	\$17.6170	\$18.8110
Smoothing Rider		-\$0.5244	-\$0.7057	-\$0.2405	\$0.4624	\$1.1934
Net Volumetric Rate	\$11.4330	\$13.1966	\$14.4403	\$16.2015	\$18.0794	\$20.0044
Result at 100 KW	\$1,143.30	\$1,319.66	\$1,444.03	\$1,620.15	\$1,807.94	\$2,000.44
Total Monthly Bill	\$1,195.57	\$1,400.41	\$1,531.30	\$1,717.27	\$1,914.20	\$2,115.73
Annual Bill	\$14,346.84	\$16,804.92	\$18,375.60	\$20,607.24	\$22,970.40	\$25,388.76
Increase over Prior Year		\$2,458.08	\$1,570.68	\$2,231.64	\$2,363.16	\$2,418.36
Percentage		17.13%	9.35%	12.14%	11.47%	10.53%
Five Year Increase						\$11,041.92
Percentage						76.96%
Revenue at Current Rates	\$71,734.20					
Proposed Revenue	\$104,146.92					
Increased Charge	\$32,412.72					

7.4-SEC-65

[Ex.G1] Please provide a breakdown of the drivers of the increases set out in the previous question, including at least the following categories:

- (a) Increases in revenue requirement.
- (b) Changes in the relative costs allocated to the class between 2013 and 2015.
- (c) Greater increases in the monthly fixed charge relative to the volumetric charge.
- (d) Adjustments to the revenue to cost ratios to bring other classes within the Board's range.
- (e) Adjustments to the revenue to cost ratios to bring all classes closer to unity over the test period.
- (f) Other drivers.

Submitted by the School Energy Coalition on this 13th of June, 2014.

Original signed by

Mark Rubenstein
Counsel for the School
Energy Coalition