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By email

June 13, 2014

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th floor
Toronto, ON M4P 1E4

Dear Ms. Walli,

Hydro One Networks Inc. ("Hydro One")
2015 – 2019 Distribution Custom Incentive Rate-setting Application
Board File No.: EB-2013-0416
Our File No.: 339583-000171

Enclosed are our Interrogatories submitted on behalf of Canadian Manufacturers & Exporters ("CME").

Prior to finalizing these questions, we reviewed the Interrogatories submitted by Board Staff and draft Interrogatories which counsel for the School Energy Coalition ("SEC") were kind enough to provide to us. We attempted to refrain from duplicating Interrogatories submitted by Board Staff and to be submitted by SEC.

Yours very truly,

Peter C.P. Thompson, Q.C.

PCT\slc
enclosure
c. Susan Frank and Erin Henderson (Hydro One)
Intervenors EB-2013-0416
Paul Clipsham (CME)

OTT01: 6381376: v1

IN THE MATTER OF the *Ontario Energy Board Act, 1998,* S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an Application by Hydro One Networks Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2015, each year to December 31, 2019.

INTERROGATORIES OF CANADIAN MANUFACTURERS & EXPORTERS ("CME") TO HYDRO ONE NETWORKS INC. ("HYDRO ONE")

1.0 CUSTOM APPLICATION

1.1 To what extent does the application reflect the objectives and approaches described in the RRFE Report?

1.4 Is the proposed rate-smoothing mechanism appropriate? Given Hydro One's rate smoothing proposal, should the application include any other ratepayer protection measures such as an earnings sharing mechanism?

1.1 CME-1

The Renewed Regulatory Framework for Electricity Distributors ("RRFE") Report dated October 18, 2012, states that one of 3 <u>incentive</u> ratemaking methods will be applied to determine the rates of electricity distributors. Hydro One has repeatedly stated that the ratemaking method which it proposes is not an incentive method but a cost of service method. In this context, please list the criteria which Hydro One wishes the Board to consider when determining whether a rate setting methodology other than one of the 3 approved methods described in the RRFE Report is justified.

1.1 CME-2

Hydro One characterizes its Application as a "Custom" Cost of Service Application. Are there any differences between a "Custom" Cost of Service application and a traditional Cost of Service application? If so, then please list those differences.

1.1 CME-3

In its Natural Gas Forum ("NGF") Report dated March 30, 2005, the Board indicates at page 21 that fixing rates based on an application of the cost of service methodology for a period greater than 2 years is inherently unreliable. Please explain how Hydro One's 5 Year Cost of Service approach protects ratepayers against the consequences of this inherent unreliability.

1.1 CME-4

In connection with Hydro One's 5 Year Cost of Service ratemaking proposal, please provide the following:

(a) The approximate value of 300 basis points of equity return for Hydro One grossed-up for taxes. In deriving this value, assume that the Rate Base value to be used is Hydro One's proposed average Rate Base over the period 2015 to 2019.

(b) Please indicate whether Hydro One accepts that a multi-year prospective test period Cost of Service approach to ratemaking provides a significant incentive to under-forecast revenues and over-forecast expenditures.

(c) Advise whether Hydro One expects to be rewarded with an enhanced Return on Equity of up to 300 basis points for under-forecasting revenues and over-forecasting expenditures.

(d) Advise whether Hydro One will accept an asymmetric annual true-up of rates for 2016, 2017, 2018 and 2019 to reflect the extent to which it has under-forecast revenues and over-forecast expenses in the preceding year. If the answer is no, then please explain why Hydro One regards such mechanism to be an inappropriate component of a multi-year cost of service rate-making approach.

1.1 CME-5

Please provide an exhibit which will show the extent to which the revenue requirement Hydro One proposes in each of the years 2015 to 2019 and cumulatively for the 5 years will reduce in the following scenarios:

A. *Using 2014 as the Base Year:*

(a) An inflation rate of 1.7% is applied for each year;

(b) A stretch factor of 0.2% is applied in each year;

(c) An escalator of 1.5% is applied in each year, along with the Board approved Incremental Capital Module ("ICM");

(d) The overall Cost of Capital is held to its 2015 level of 6.76% shown at Exhibit A, Tab 5, Schedule 2, page 4, Table 2; and

(e) OM&A expenses are reduced in each year to hold compensation at the level which results from applying, in this case, the same benchmark which the Board applied in its last Decision determining just and reasonable rates for Hydro One Distribution, for the years 2011 and 2012, being a decision which was upheld by the Divisional Court.

B. *Using 2015 as the Base Year:*

(a) An inflation rate of 1.7% is applied for each year;

(b) A stretch factor of 0.2% is applied in each year;

(c) An escalator of 1.5% is applied in each year, along with the Board approved Incremental Capital Module ("ICM");

(d) The overall Cost of Capital is held to its 2015 level of 6.76% shown at Exhibit A, Tab 5, Schedule 2, page 4, Table 2; and

(e) OM&A expenses are reduced in each year to hold compensation at the level which results from applying, in this case, the same benchmark which the Board applied in its last Decision determining just and reasonable rates for Hydro One Distribution, for the years 2011 and 2012, being a decision which was upheld by the Divisional Court.

1.4 CME-6

Slide 12 of the presentation made by Hydro One witnesses on May 12, 2014, appears to indicate that Hydro One's year-over-year distribution rate increases would be 11.5%, 7.4%, 3.6%, 3.0% and 2.9% for each of the years 2015 to 2019 respectively for a total cumulative rate increase of 28.4%. Slide 13 of the same presentation indicates that, with smoothing, the year-over-year distribution rate increases will be 7% in each year for a total of 35% over 5 years. In connection with this information, please provide the following:

(a) Please explain how the percentage increases in distribution rates shown in the slides for each of the years 2015 to 2019 reconcile with the distribution rate change percentages presented in paragraph 3 of the Application.

(b) What is the additional amount being recovered from ratepayers over 5 years as a consequence of the smoothing proposal? Is it in the order of about $100M, being about 7% of the average revenue requirement of about $1.6B?

2.0 OUTCOMES AND INCENTIVES

2.1 Does Hydro One Distribution's Custom Application adequately consider customer feedback and preferences? Have customer feedback and preferences been adequately reflected in the OM&A and capital spending plans?

2.1 CME-7

Does Hydro One's presentation of the extent to which the total bills of consumers will increase if its proposed distribution rates are approved described in paragraph 3 of the Application assume that all elements of the existing bill other than the distribution rate component thereof remain constant?

2.1 CME-8

Please provide an exhibit which alters the total bill impact presentation to show the total bill increase consumers are likely facing in each of the years 2015 to 2019 inclusive having regard to the currently anticipated changes in each of the elements of the total bill, including the distribution and transmission components, the global adjustment, Ontario Power Generation Inc. ("OPG") costs, and the costs of all other bill components. When developing this presentation, please utilize information pertaining to increases in the components of the total bill (other than the distribution rate component of the total bill) which Hydro One considers to be reasonably reliable.

2.1 CME-9

Affordability is one of Hydro One's value propositions. What inquiries did Hydro One make of its customers to determine their definition of "affordability" and their satisfaction with the "affordability" of the total bills which they receive from Hydro One?

2.1 CME-10

What assistance is available from Hydro One to individual manufacturers who wish to determine the estimated customer-specific year-over-year impacts of the distribution rates Hydro One is proposing in this Application under which a particular customer takes service? Do manufacturers have access to account executives? Will Hydro One provide such estimates in response to written requests from individual customers? If so, then to whom should such requests be directed?

2.1 CME-11

How many customers referenced in Exhibit G1, Tab 4, Schedule 1, page 2, Table 2 and in Exhibit G1, Tab 7, Schedule 1 will experience total bill increases in any year in excess of 10%? Has Hydro One individually contacted every customer whose bill will be increased by more than 10% to inform those customers of that potential outcome and to apprise them of the mitigation relief which Hydro One is proposed? If not, then why not?

5.0 DEFERRAL AND VARIANCE ACCOUNTS

5.1 Are the proposed amounts, disposition, discontinuance and continuance of Hydro One Distribution's existing deferral and variance accounts, as set out in the Custom Application, appropriate?

5.2 Is it appropriate to include in rate base, effective January 1, 2015, the following in-service assets which are presently recorded as regulatory assets:

(a) smart meter assets as of December 31, 2013, the costs for which are recorded in variance accounts 1555 and 1556;

(b) smart grid assets as of December 31, 2013, the costs for which are recorded in account 1536; and

(c) assets to facilitate distributed generation as of December 31, 2013, the costs for which are recorded in account 1533.

5.1 CME-12

Please provide an exhibit which will show the extent to which Hydro One's revenue requirement in each of the years 2015 to 2019 is subject to deferral or variance account protection, which includes both the dollar amount of such items embedded in rates in each year and a calculation of the percentage of the components of the total revenue requirement which are effectively flow-through items of expense.

5.2 CME-13

To what extent will the revenue requirement in each of the years 2015 to 2019 inclusive reduce if the Smart Meter assets, the Smart Grid assets, and the assets to facilitate distributed generation described in Issue 5.2 remain recorded as regulatory assets rather than being included in Rate Base effective January 1, 2015?