

Ontario Energy Board

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
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

June 15, 2014

**ONTARIO HYDRO NETWORKS INC.
2015 THROUGH 2019 DISTRIBUTION RATES REBASING
EB-2013-0416**

**ENERGY PROBE RESEARCH FOUNDATION
INTERROGATORIES**

1.0 CUSTOM APPLICATION

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

1.1-Energy Probe-1

Ref: Exhibit A, Tab 14, Schedule 1, Attachment 4, Pages 1. 7 and 8 DBRS Report

Preamble:

Hydro One's business risk profile is indicative of an A (high) rating as the Company operates in an extensive franchise area, with regulated transmission and distribution businesses in Ontario accounting for substantially all its earnings. DBRS continues to view the regulatory framework in Ontario as reasonable for regulated transmission and distribution operators (refer to Assessment of Hydro One's Regulatory Environment on Page 8). In late 2013, the Ontario Energy Board (OEB) released a final report on its Renewed Regulatory Framework, setting out policies and approaches to the rate adjustment parameters for incentive rate (IR) setting and the benchmarking of total cost performance.

DBRS views the parameters of the Custom Incentive Rate-setting option under the Renewed Regulatory Framework as modestly positive for Hydro One's distribution business (35% of EBIT) as it provides greater clarity for recovery and pass through of capital costs to ratepayers, and it reduces pressure on utilities to meet operating efficiency targets. However, this is somewhat offset by the modestly higher regulatory lag under the Custom IR regime, which the Company will operate under, as it has a minimum term of five years as compared with the previous three-year rate setting process. It also remains to be seen how operating expenses and CAPEX will be scrutinized as the Company proceeds under the Custom IR framework.

- a) Please provide a copy of HO information provided to DBRS that from the statements above and at Pages 7 and 8 appears to position this HO Dx Application as a Custom IR Regime (as opposed to a Custom Multi-Year cost of Service Application).

- b) List and comment on the material differences between Custom IR and Custom MY Cost of Service regulatory regime in this context, As well as the Criteria listed on Page 8 such as cost of service changes, capital recovery realized ROE etc. add any other criteria/differences. Ensure relevant distinctions between Tx and Dx are addressed.
- c) Please discuss the implications for HO and Networks Business Risk Profile due to Dx adopting the proposed Custom MY COS Application.

1.1-Energy Probe-2

Ref: Exhibit A, Tab 4, Schedule 4, Page 5

Preamble:

One of the Board’s three main policies in its Renewed Regulatory Framework for Electricity is “Measuring Performance.” While Hydro One proposes Outcomes as part of its five-year plan, it does not tie those outcomes to measurable performance – such as, for example, having increased pole replacement resulting in fewer interruptions.

Can Hydro One explain how it plans to tie each one of its outcomes to demonstrable results?

1.3 What actions should the Board require Hydro One Distribution take at or near the end of the 5-year rate term (e.g. rebasing, plan assessment, measurement of customer satisfaction)?

1.3-Energy Probe-3

- a) At the end of the five-year term, does Hydro One have any built-in incentives or disincentives to ensure that it has met its targets agreed to in its application? If Hydro One fails to, for example, install the number of poles that it has planned for in its application, how will it deal with that situation?
- b) Does Hydro One have a proposal to deal with other unmet objectives at the end of the five-year term?
- c) Should Hydro One deal with variances – ranging from economic forecasts to customer load – annually? If not, how does Hydro One deal with forecasts that can diverge further than actuals as the five-year plan progresses? For example, if consumer load forecasts are low in the first and second year of the plan, will Hydro One recalibrate its forecast for the subsequent years?

1.3-Energy Probe-4

Ref: Exhibit A, Tab, 4, Schedule 4, Page 13

Preamble:

In Exhibit A, Tab, 4, Schedule 4, Hydro One says its “main goal is to move Hydro One towards a 85% customer satisfaction target in 5 years.”

- a) If customer satisfaction is below Hydro One’s target at the end of the five-year rate term, how will this impact Hydro One? Can Hydro One propose any sort of protection for its customers if that goal is unmet at the end of the five-year term?**
- b) Considering that the number one concern among Hydro One customers is bill impact, is that 85% goal achievable given that Hydro One is proposing annual increases to the distribution portion of the customer’s bill? Further, if Hydro One’s proposed bill increases will be combined with other increases (generation, transmission, etc....), is this proposal manageable?**
- c) How will Hydro One deal with shortcomings in its proposed outcomes? If it doesn’t meet the goals stated in its five-year plan, are there any consequences? Should there be rewards for achieving those outcomes (similar to what Ofgem has put in place in the UK)?**

1.3-Energy Probe-5

Ref: Exhibit A, Tab, 4, Schedule 4, Page 13

- a) How does Hydro One defend its plan to increase spending on Customer Experience to \$21 million from \$6 million considering the number one concern among customers is the size of the bill? Does Hydro One have any evidence that Customer Experience will be negatively affected if spending was to remain at \$6 million?**
- b) It seems clear from all of the surveys that bills are the number one concern and everything else is secondary. Is there a clear reason that Hydro One should increase spending on Customer Experience?**

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?

1.4-Energy Probe-6

**Ref: Exhibit A, Tab 3, Schedule 2, Page 5, Table 1 and
Exhibit E2, Tab 1, Schedule 1 and
Exhibit F1, Tab 1, Schedule 2 Page 4, Rate Smoothing Revenue Deferral Account
Exhibit G1, Tab 5, Schedule 3.**

Preamble:

This account (third Reference) is intended to smooth forecast Revenue requirement impacts. It is described as a deferral account.

- a) What happens if the actual Revenue and ROE differs from the Smoothed Amount? Please discuss how HO will deal with actual vs forecast Revenue Requirement and ROE.**
- b) Please discuss whether a variance account could be used to capture differences between forecast and actual earnings and if the year-end balance in this variance account should be credited to Hydro, ratepayers or applied to the next period revenue requirement.**
- c) Please discuss and provide calculations showing sharing for the following potential Earnings Sharing Mechanisms**
 - i. Asymmetric with a Deadband of 100 basis points on achieved ROE in excess of allowed ROE. Above 100 bps 50:50 sharing, ratepayer: shareholder.**
 - ii. Asymmetric Deadband 100 bps points on achieved ROE in excess of allowed ROE 100 bps -200 bps 50:50 sharing ratepayer: shareholder. Above 200 bps, 100 % to ratepayers**
 - iii. As above with Off Ramp at 300 bps.**

1.4-Energy Probe-7

- a) Should there be a penalty or incentive for Hydro One if it fails to meet (exceeds or comes in below) its capital expenditures in its five-year rate term?**
- b) If such a penalty or incentive is put in place, would Hydro One consider updating its capital expenditures annually?**

1.4-Energy Probe-8

Ref: Exhibit A, Tab 3, Schedule 1

Preamble:

In its interrogatories Board staff understands that rate increases for years 2017, 2018, and 2019, respectively are 3.6%, 3.0%, and 2.9%. Hydro One lists on Exhibit A/Tab 3/Schedule 1 that the distribution rate increases will be 2.3% in 2017, 1.2% in 2018 and 2.6% in 2019. Yet on page 5 of the presentation in Technical Conference #1, Hydro One lists annual distribution rate increases over the five-year term of 7%.

What is the final figure?

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-Energy Probe-9

Ref: Exhibit A, Tab 2, Schedule 1

Preamble:

In Exhibit A, Tab 2 Schedule One, Hydro One says "the resulting change to the distribution portion of the average customer bill will be -1.4% in 2015, 3.8% in 2016, 2.3% in 2017, 1.2% in 2018 and 2.6% in 2019."

- a) Can Hydro One break these figures down by rate class and clarify the characteristics of the "average customer."**
- b) What will those increases be for the different rate classes?**

2.1-Energy Probe-10

**Ref: Exhibit A, Tab 4, Schedule 4, Page 6 and
Exhibit A, Tab 4, Schedule 4, Page 7**

Preamble:

Hydro One is proposing to increase, among other spending, Vegetation Management expenditures to \$540 million over the five-year term compared to \$338 million and Pole Replacement spending to \$530 million over the five-year term compared to \$323 million in the previous five years. Yet, in Exhibit A, Tab 5, Schedule 1, Hydro One says "the size of

the bill and increasing bill totals continue to be the key stated reasons why customers are not satisfied. Reliability and outage handling was a distant second in mentions.”

Can Hydro One explain why it is increasing spending on vegetation and pole replacement to such a degree when customers appear to be far more focused on bill increases?

2.1-Energy Probe-11

Ref: Exhibit A, Tab 5, Schedule 1, Page 7

Preamble:

In Exhibit A, Tab 5, Schedule 1, Page 7, Hydro One said: “Customers were asked to rank three reliability improvements in order of perceived value. Customers indicated that fewer power outages was considered the most valuable improvement by close to half of all customers. More frequent updates of power restoration was ranked the least valuable by half of customers who participated in the survey. Very few customers (2% to 3%) said they were very willing to pay more for each of the three improvements measured. Slightly more than one in ten customers are somewhat willing or very willing. The main reason customers are unwilling to pay more for reliability improvements is price related – customers feel that their current prices are high enough.”

- a) Given such sentiment from customers, is it possible for Hydro One to propose a five-year plan that would entail no increases to the distribution portion of the customer’s bill and maintain adequate reliability?
- b) Did Hydro One consider a five-year plan that planned for no increase to the distribution portion of a customer’s bill? If so, what would that plan look like?

2.2 Does Hydro One Distribution’s Custom Application promote and incent acceptable outcomes for existing and future customers (including, for example, cost control, system reliability, service quality, bill impacts)?

2.2-Energy Probe-12

Ref: Exhibit A, Tab 5, Schedule 1, Alignment of Customer Expectations with Performance Measures and Outcomes

Preamble:

The Schedule shows:

1. Maintain or reduce their Total Bill; Assist in managing the customer’s bill.
2. Meet commitments and timelines for planned outages and ensure accurate and timely Estimated Time of power Returning (ETR) for unplanned outages.
3. Maintain reliability for residential customers and address power quality for large customers.

- 4. Ensure the customer is the focus in planning work programs by making the link between investments and the levels of service our customers tell us they expect.**
- 5. Demonstrate value; become the customer's trusted advisor; Communicate effectively; and be present in their communities.**
 - a) Please provide any analysis of the Alignment of customer needs with HO proposed Performance Measures and Outcomes.**
 - b) Provide/Explain in detail all initiatives that will (maintain)/reduce customer bills.**

2.2-Energy Probe-13

Ref: Exhibit D1, Tab 2, Schedule 1, Page 24

Preamble:

Hydro One currently has around 1.6 million poles with an expected life of 62 years. To fully replace that fleet over 62 years, Hydro One should be replacing around 25,000 poles annually. Yet in Exhibit D1, Tab 2, Schedule 1 Hydro One says it will ramp up its pole replacement program to 15,200 poles annually. Doing so would ensure a backlog of poles that will have to be replaced at a future date.

- a) Can Hydro One explain why it is not replacing a greater number of poles?**
- b) Under such a program is Hydro One not laying the foundation for a future backlog in pole replacement?**

2.2-Energy Probe-14

Ref: Exhibit A, Tab 18, Schedule 1, Appendix A, Table 1

Preamble:

In Exhibit A, Tab 2, Schedule 1, Hydro One requests that it be exempted from obligations regarding missed or rescheduled appointments – which currently states that they be met 100% of the time on a yearly basis.

Can Hydro One explain why its Missed Appointment record has been declining (Exhibit A-18-1, Appendix A, Table 1) and whether a penalty should be applied should it fail to meet its proposed 90% threshold?

2.2-Energy Probe-15

Ref: Exhibit A, Tab 4, Schedule 4, Table 7

Preamble:

In Exhibit A, Tab 4, Schedule 4, Table 7, Hydro One shows that Customer Satisfaction with the Handling of Unplanned Outages has been a downward trend over the past five years.

- a) Does Hydro One expect to rectify this trend?**
- b) If it fails to do so, would it be fair for Hydro One to pay a penalty of some sort?**

2.2-Energy Probe-16

Ref: Exhibit A, Tab 6, Schedule 1, Figure 4

Preamble:

In Exhibit A, Tab 6, Schedule 1, Figure 4, Hydro One shows that force majeure events have risen since 2010.

- a) Does Hydro One have an explanation for that rise?**
- b) Does it expect its increase in pole replacement and vegetation spending to result in fewer force majeure events?**

2.2-Energy Probe-17

Ref: Exhibit A, Tab 6, Schedule 1, Figure 6

Preamble:

In Exhibit A, Tab 6, Schedule 1, Figure 6, Hydro One presents the percentage contributions to SAIDI over the last four years.

- a) Can Hydro One provide evidence of what contributors to SAIDI have increased or decreased over the last four years?**
- b) If Hydro One should exceed or fall short in its productivity plan, how will customers be positively or negatively impacted?**

2.4 Is the monitoring and reporting of performance proposed by Hydro One Distribution adequate to demonstrate whether the planned outcomes are achieved?

2.4-Energy Probe-18

Ref: Exhibit A, Tab 4, Schedule 4, Page 5 ff - Output Measures

Preamble:

3.2 Outcome Metrics

The proposed areas to be measured are:

- 1. Vegetation Management; (Sustaining Capital Tree strike ratio?)**
- 2. Pole Replacement; (outage ratio)**
- 3. PCB Line Equipment; (just sustaining capital what is performance measure?)**
- 4. Substation Refurbishments; (sustaining capital c-outage performance measure?)**
- 5. Distribution Line Equipment Refurbishments; (sustaining capital c-interruption performance measure)**
- 6. Customer Experience;**
- 7. Handling of Unplanned Outages; (Performance measure?) and**
- 8. Estimated Bills**

- a) **Please provide a copy of the views of Concentric Energy Advisors on this matter.**
- b) **Indicate whether HO agrees with Concentric's views and explain why that is/is not the case.**
- c) **Explain why HO decided Weighting should NOT be applied to each of the outcomes and explain why equal weighting as filed by HO is appropriate.**
- d) **What is the Significance and consequences if the Outcomes are not met?**
- e) **Please Provide a comparison to the HO approach to OEB Scorecard Approach (A Tab 4 S4 Page 2)**
OEB Performance Scorecard is intended to measure performance over the long term against the OEB's expectations for all utilities, to "monitor individual distributor performance and to compare performance across the distribution sector.
- f) **Why are Input/Output measures not indicated for all outcomes? Please explain**
- g) **Confirm and explain why Productivity Measures are not included in above e.g. OM&A/Customer. Also discuss why System Performance SAIDI/SAIFI are not included.**
- h) **Please explain why system performance is considered differently to these outcomes and how does it relate to desired outcomes for customers.**

2.4-Energy Probe-19

Ref: Exhibit A, Tab 18, Schedule 1, Page 7, Table 1- Service Quality Indicators.

- a) In HO's view are these indicators of quality or performance? Please discuss.**
- b) Given the updated forecast targets, indicate what consequences should occur if HO materially underperforms relative to the updated targets?**
- c) Are the updated SAIDI SAIFI and CAIDI linked to the Outcomes including increased capital and assets in service? Please provide the linkages and discuss these in detail.**

2.4-Energy Probe-20

Ref: Exhibit A, Tab 19, Schedule 1, Page 4, Figure 1: Distribution Productivity Savings (& Table 2)

- a) Please provide a copy of the Cornerstone Benefits Realization Plan or a summary of the forecast historic (and future) productivity savings based on the Cornerstone BRP.**
- b) Please breakout the Productivity Savings in Figure 1 and Table 2 related to the Cornerstone Project.**
- c) Please Breakout and tabulate or chart historic Productivity savings related to the Inergi Outsourcing Contract.**
- d) Please Breakout the forecast Productivity Savings related to the replacement (Inergi) Outsourcing Contract.**
- e) Discuss what action will be taken if incremental productivity savings are not embedded in the replacement contract.**

2.4-Energy Probe-21

Ref: Exhibit A, Tab 4, Schedule 4

Preamble:

In Exhibit A, Tab 4, Schedule 4, Hydro One says its outcomes will be meet "assuming normal levels of...customer driven requests."

Can Hydro One provide evidence on what a normal level of customer requests would be and what threshold would cross that?

2.5 Are Hydro One Distributions' proposed off-ramps, annual adjustments and annual adjustments outside the normal course of business appropriate?

2.5-Energy Probe-22

Ref: Exhibit A, Tab 4, Schedule 3 - Annual Adjustments

Preamble:

Hydro One submits that an appropriate materiality threshold for these adjustments is 0.5% of test year revenue requirement. This is an alternative to the materiality threshold found in the Board's Filing Requirements for Electricity Distribution Rate Applications. The threshold for Hydro One in Chapter 2, Section 2.4.4 is \$1 million which would trigger adjustments more often than necessary.

- a) Confirm that the 0.5% of revenue requirement is approximately \$7.5 million.**
- b) Provide a detailed explanation of HO proposal, including what is the basis of this materiality threshold and what criteria apply to costs associated with the threshold.**
- c) Confirm there is no indication in the RRFE, or elsewhere, that the Board will change Materiality Thresholds for MY COS Plans.**

2.6 Are Hydro One's forecasts (revenue, costs, inflation and productivity) reasonable? Should Hydro One be expected to provide benchmarking evidence as an indicator of reasonableness?

2.6-Energy Probe-23

Preamble:

In Technical Conference #2 Hydro One said it benchmarks its unit costs against "comparable utilities." When asked what utilities it benchmarks itself against, Hydro One named three utilities: BC Hydro, Manitoba Hydro and New Brunswick Power.

- a) Can Hydro One provide any evidence how its increase in revenue requirement over the five-year plan compares to these three utilities?**
- b) Can it provide evidence in customer satisfaction relative to these three utilities?**
- c) Can it provide comparable distribution rate increases with these three utilities?**

3.0 PROGRAM AND PROJECT EXPENDITURES

3.1 Are the levels of planned operation, maintenance and administration expenditures for 2015-2019 appropriate, and is the rationale for the planning choices appropriate and adequately explained?

3.1-Energy Probe-24

Ref: Exhibit C1, Tab 2, Schedule 1 - OM&A Envelope % Changes

- a) Confirm the Exhibit shows the following changes for each category. (If not amend table)

	Historic 5 years	Forecast 5 years	Total 10 years
Sustaining	4.7%	11.7%	17.1%
Development	5.0%	-3.2%	44%
Operations	11.9%	34.8%	121.6%
Common	-	-15%	-
TOTAL	5.5%	3.2%	8.9%

- b) Please explain what happened to Sustaining in 2016.
- c) Please explain changes in common costs, including if the changes in Common Costs were driven by definitional or other changes to presentation.
- d) Please provide more information on the drivers and needs for the increase in Operations OM&A envelope.

3.1-Energy Probe-25

**Ref: Exhibit C1, Tab 2, Schedule 1, Table 1 and
Exhibit C1, Tab 2, Schedule 2, Page 32 ff & Table 10 Sustainment Vegetation
Management**

Preamble:

Hydro One proposes over 2016-2017 to move to 8 year optimum VM cycle.

- a) Confirm this has been the ideal (industry best practice) and Hydro One target cycle for 10 years.
- b) Section 6.2.2 Investment Plan shows 12,750km-14,250 km. Why move to 8 year cycle over 2 years instead of longer transition?
- c) What will be the mitigation if the transition occurs over 5 years? Please provide a schedule that shows costs and Revenue Requirement impacts

3.1-Energy Probe-26

Ref: Exhibit C1, Tab 2, Schedule 4 - Operations OM&A

Preamble:

The increase in Operations expenditures from 2010 to 2011 is attributed to an organizational realignment. Customer Operation Support (COS), formerly part of the Large Customer and Generator Relations group, was moved under Operations.

- a) Confirm where the offsetting OM&A cost reduction is. (See Exhibit C1Tab 2Schedule 5 Page 2 Table 1: Customer Services Costs line 1 customer operations)**
- b) Provide drivers for major Increase 2016-2019 related to Smart Grid (Roll Out).**
- c) Confirm historic SG Pilot CAPEX was kept in deferral account now being cleared to Rate Base.**
- d) Confirm Smart Grid Pilot is continuing 2015-2017 OM&A C1 T2 S5 Table 6. [CAPEX D1 Tab3 S5]**
- e) Please provide the supporting Project Level write up/evidence.**

3.1-Energy Probe-27

Ref: Exhibit C1, Tab 2, Schedule 5, Table 4- CDM

Please provide breakdown of Historic and Forecast CDM costs NOT covered in the Global Adjustment.

3.2 Is the level of planned capital expenditures appropriate for the period 2015-2019 and is the rationale for the planning and pacing choices appropriate and adequately explained?

3.2-Energy Probe-28

Ref: Exhibit D1, Tab 1, Schedule 2, Page 2, Table 1, 2013 ICM and Exhibit D1, Tab 1, Schedule 2, Attachment 1, Page 2, Table 1 In Service Additions 2011-2014 Historic/Bridge years

- a) Please provide support for 2013 and 2014 Common and Other ISAs.**
- b) Provide explanation(s) for 2013 ICM, see Exhibit D1, Tab 1, Schedule-2, Attachment 1, Page 2, Table 1.**

3.2-Energy Probe-29

Ref: Exhibit D, Tab 2, Schedule 10, Pole Replacement Program

- a) Confirm/calculate Cost per Pole:**
 - i 2013 Actual;**
 - ii 2014 Budget;**
 - iii 2015 \$8765;**
 - iv 2019 \$9408.**
- b) Please explain why unit costs are increasing while volume increases.**
- c) Provide the breakdown of unit costs including:**
 - i. Capital (acquisition)**
 - ii. Removal of old pole**
 - iii. Installation**

3.2-Energy Probe-30

**Ref: Exhibit D1, Tab 3, Schedule 2, Page 15 and
Exhibit D2, Tab 2, Schedule 07, Stations Refurbishment**

Preamble:

Hydro One Distribution has also developed a new prefabricated integrated modular distribution station containing a transformer and switchgear mounted on a platform which forms a complete station. The introduction of the integrated Modular Distribution Station (iMDS) will provide a more cost effective solution to station refurbishments where space is limited especially in urban areas. The modular design is also more aesthetically pleasing compared to existing designs.

- a) Please provide the average costs of iMDS compared to conventional.**
- b) Please provide the Lifetime compared to conventional.**
- c) Please provide a schedule that shows the Number units per year Conventional and iMDS (Approximately 40 stations refurbished per year).**
- d) Please provide the Annual Savings 2015-2019 due to iMDS.**

3.2-Energy Probe-31

Ref: Exhibit D1, Tab 3, Schedule 4, Table 3, Operations Capital

- a) Please provide the Business Case for BUCC ISD O04D2 T2 S3.**
- b) Please provide the need for and alternatives to the proposed facilities.**
- c) Please provide why the costs of the ORMS Refresh cannot be spread over the 5 year plan period.**

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

4.3 Are the methodologies used to allocate common corporate costs to the distribution and transmission businesses and to determine the overhead capitalization rate for 2015-2019 appropriate?

4.3-Energy Probe-32

Ref: Exhibit C1, Tab 5, Schedule 1, Allocation of Corporate Common Costs

Preamble:

A time study was conducted within Hydro One's Planning & Operating and Customer Service groups. The time study for these groups spanned a four week period ending May 31, 2013 and represented approximately \$115 million of labour costs. Incorporating the time study's results caused a shift in allocated costs from Distribution to Transmission (\$10.8 million or 2.4% of the total common corporate costs).

Updating the time allocations of the functions and activities of all other groups that did not participate in the time study resulted in a shift from Telecom (\$0.6 million or 0.1%), Brampton (\$0.4 million or 0.1%) and Remotes (\$0.3 million or 0.1%) to Distribution (\$0.9 million or 0.2%) and Hydro One's shareholder (\$0.3 million or 0.1%). (Percentages are based on total common corporate costs.)

- a) Confirm CCFS Costs are allocated to the HO 5 Business Units (primarily Dx and Tx).**
- b) Confirm Tables 1-5 show the annual amounts and Allocations to the Business Units.**
- c) Since the time study was updated in 2013 and showed that changes were required to the allocations, what are the plans to update the Time allocations during the MY COS custom IRM? (B&V Study Page 6 Table 3 2015-2019 allocations).**

- d) Please explain why the % of CCFS to Dx increases by 0.5% (and Decreases for Tx) from 2016-2019.

4.3-Energy Probe-33

Ref: Exhibit C1, Tab 2, Schedule 7, Outsourcing-Inergi Contract and Renewal

Preamble:

In the fourth quarter of 2013 Networks exercised its right to a benchmarking review of Inergi's fees under the current agreement. Networks anticipates that a report will be completed by February 2014. The reviewer will be TPI Sourcing Consultants Canada Corp (TPI) an affiliate of Information Services Group Inc.

- a) Please provide a Copy of TPI Report and
- b) Discuss HO action(s) and evidence to be filed.
- c) Please provide a Status Report on Termination Transition Plan and Renewal (OAR Project).
- d) Please provide a schedule that details the Residual Obligations to Inergi employees (former HO employees).
- e) Please provide the Date for New Contract (June 2014) and indicate required Regulatory Approvals including treatment of Cost Consequences during MY Cos plan if Service Costs Higher /Lower than Forecast.
- f) Confirm renewal/replacement of contract affects both Tx and Dx and affects allocation of common costs to DX and TX.
- g) What Evidence will HO provide on the updated Outsourcing costs and the allocations to Dx and Tx.
- h) When will this occur? Please provide how this will be addressed from a regulatory perspective.

4.3-Energy Probe-34

Ref: Exhibit A, Tab 11, Schedule 2, Page 9

- a) Please provide details of Ad Hoc Strategy Committee. Specifically include why it is Ad Hoc and what response to PACGA is it expected to provide.
- b) Please provide a copy of the Terms of Reference once these have been reviewed by the BOD.

- c) Please provide the Schedule for this Committee in the format of Exhibit A-11-2 Attachment 2.

4.3-Energy Probe-35

Ref: Exhibit A, Tab 11, Schedule 3, Page 10 and Table 3, line 2.

- a) Please provide breakout and allocation of annual total costs of President/CEO/Chairman.
- b) Please provide details of the basis of indicated allocation to each of Networks and other Affiliates.
- c) Please provide the summary of the Time Studies/Estimates for allocations of each sub-function to Networks, Remotes, Telecom and Brampton.
- d) Reconcile with Exhibit A-11-03 Appendix A Schedule A.

4.4 Is the compensation strategy for 2015-2019 appropriate and does it result in reasonable compensation costs?

4.4-Energy Probe-36

Ref: Exhibit C1, Tab 3, Schedule 1 (Staffing) and Exhibit C1, Tab 3, Schedule 2 (Compensation)

Preamble:

Issues

- Total Head Count Breakdown by Group Historic and Forecast*
- Historic and forecast FTE allocations to DX and TX(by Group)*
- Total Compensation*
- TC Allocations to TX and DX (by Group)*

- a) Please provide schedules that show the Payroll/Compensation forecast for the Corporation for each year of the MY COS Plan.
- b) Please provide an estimate of the costs allocated to Dx and Tx over the Plan period.
- c) Please indicate how often the Payroll /total compensation costs will be updated.
- d) Please indicate how often will the allocation to DX and Tx be updated.
- e) Confirm HO declined to provide these forecasts and allocations in prior rate *cases*.

4.4-Energy Probe-37

Ref: Exhibit C1, Tab 3, Schedule 2 (Mercer Report) Compensation -Benchmarking

- a) Confirm the Mercer Report shows HO is overall nearer to the Peer Group Median due to PW-represented (largest Group) However not case for Society- represented (higher) and MCP (same i.e. at median)**
- b) What Plans does HO have to bring the Society in line with the peer group?**

4.4-Energy Probe-38

Ref: Exhibit C1, Tab 3, Schedule 2, Attachment 2, Pages 1-5- Total Payroll

- a) Schedule shows Historic (2010-2014) and Forecast 2015-2019) Payroll Costs.**
- b) Confirm the schedule shows a huge increase in Casual Employees (+ 790) and associated \$61.6 million increase in Labour Costs starting in 2013 and continuing into the future.**
- c) Please explain this change in Hiring and Compensation and discuss the cost consequences.**
- d) Provide an estimate of the allocation of total and incremental casual employees to TX and DX over the plan period.**

4.4-Energy Probe-39

Ref: Exhibit A, Tab 16, Schedule 1, Table 4 -Burden Rates (%)

- a) Confirm these burden rates are a % of Base Earnings and that Earnings are forecast to increase on average by 2% a year over the plan period.**
- b) Accordingly please provide the projected actual percentage increases and using 2013 as the base the index of burden that will result for each category of burden for the test years.**
- c) Please provide a chart that shows a projection of total burden costs for the test years and includes the base pay projection over the plan period.(exclude powerflex incentives)**

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?

5.1-Energy Probe-40

Ref: Exhibit F1, Tab 1, Schedule 2, Page 3

Preamble:

Hydro One Distribution proposes to continue to record differences between the OM&A portion of actual pension costs recorded consistent with the actuarial assessment provided by the Hydro One Distribution external actuary and the estimated pension costs approved by the Board as part of 2015 to 2019 Distribution Rates. The principle cause for such differences will likely be variances in pension plan contributions driven by periodic actuarial valuations, which must be performed at a minimum every three years. As such, it is not possible for Hydro One Distribution to accurately predict its pension costs for the entire 5-year rate setting periods as it is reasonably likely that actuarial changes will occur. Such changes could be material.

Please explain why the Pension Cost Variance Account is still required for 2015-2019 given the relative stability of Pension Plan performance since the EB-2009-0096 Decision.

- 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.**

5.2-Energy Probe-41

Ref: Exhibit D1, Tab 1, Schedule 1, Page 3

- a) Please provide a Schedule that shows the recovery of Smart Grid OM&A and Rate Base and Smart Meter Rate Base Revenue Requirements in equal amounts via rate riders over the 5 year term of the MY COS.**

- b) Please comment on the appropriateness of this mitigation approach or any other approaches that HO believes may be appropriate

6.0 REVENUE REQUIREMENT

6.2 Is the capital structure and cost of capital component of the revenue requirement for 2015 as set out in the Custom Application appropriate?

6.2-Energy Probe-42

**Ref: Exhibit A, Tab 3, Schedule 1, Page 3 and
Exhibit B1, Tab 2, Schedule 1- Cost of Debt-Optimization and Annual Adjustments**

- a) Please provide details of the Updating of Costs of Debt, Debt Requirements and Debt Cost. In particular, how will debt requirements totalling \$1,972.2 billion new debt over Plan be kept current? Please provide details.
- b) Discuss the assumptions regarding the forecast for equal amounts of 5 year, 10 year and 30 year debt. Confirm this was not the case historically (see Exhibit B2 Tab 1 Schedule 2 Page 4).
- c) Please provide details for optimization of Cost of Debt and Mapping to HO Dx & Tx during the 5 year MY COS Plan.
- d) In particular discuss strategies for Debt Issue timing relative to debt market outlook (for example if Market rates rising Issue more Debt early. Market rates falling issue less debt).
- e) Provide a discussion of how to ensure Cost of Debt is optimized, Ratepayers and HO kept whole over 5 year CMY COS Plan.

6.2-Energy Probe-43

Ref: Exhibit B1, Tab 1, Schedule 1, Page 3

Preamble

As discussed in this Exhibit, forecast interest rates will be updated consistent with the methodology used for the return on common equity and deemed short term interest rate.

- a) Confirm that in the 5-year Plan period, the long term debt rate will be updated to reflect and take into account the actual issuances of debt since the time of original application and changes in the interest rate forecast, consistent with the OEB

Decision on Hydro One Transmission 2013 and 2014 rate application in EB-2012-0031.

- b) Please provide details on timing and how this annual adjustment will be done.**

6.2-Energy Probe-44

Ref: Exhibit B1, Tab 2, Schedule 1, Page 2 and Page 7

Preamble:

Energy Probe suggests a significant complication during a five year plan is the amount of issued and the mapping to Tx and Dx. For example, in October of 2013, Hydro One Inc. issued \$750 million of five-year notes with a 2.78% coupon rate, of which \$337.5 million was mapped to Hydro One Distribution, as shown on line 31 of Exhibit B2, Tab 1, Schedule 2, Page 6.

- a) Please provide detail of the projected new debt requirements of HO and the forecast split between Tx and Dx Reconcile to Table 3 (Page 7).**
- b) How will adjustments to the amounts of debt issued by HO and mapped to Tx and Dx be made during the plan period? Please discuss in detail.**

6.6 Is the load forecast a reasonable reflection of the energy and demand requirements of the applicant? Is the forecast of other rates and charges appropriate? Is the forecast of other revenues appropriate?

6.6-Energy Probe-45

Ref: Exhibit A, Tab 16, Schedule 2, Page 43ff

- a) Discuss the use of provincial growth forecast given distribution of HO customer base and relative growth Urban/Suburban and rural over the 2015-2019 period.**
- b) Please provide details of the OPA forecast of sustainable CDM savings and how these are factored into the Load Forecast.**
- c) What will be the Impact of the Minister's Directive for new CDM targets over the forecast period? Have these been included in the forecast or will an update be required? If so, when will this be filed?**
- d) Has HO considered an Average Use Variance true up account such as the gas utilities have for the residential and small use commercial classes? Please discuss.**

6.6-Energy Probe-46

**Ref: Exhibit A, Tab 16, Schedule 2, Page 11 and
Exhibit A, Tab 16, Schedule 3, Page 4, Table 1**

Preamble:

Table 3 (first ref) summarizes the CDM impact assumed in Hydro One's distribution system load forecast. Details of CDM forecast by rate class are provided in Appendix E, Table E.9.

- a) Please provide the Assumptions/inputs to load forecast related to**
 - Provincial and HO DX Current Targets.**
 - the Minister's March 2014 Directive regarding future CDM Targets (and programs).**
 - Codes and Standards (Provincial and HO).**
 - Natural and Customer ICE CDM.**
 - Demand Reduction Programs from Demand Response (DR) Resources.**
- b) Please provide a chart that shows these elements at a Provincial Level and for Hydro One.**
- c) Please ensure this chart reconciles with the 2013 LTEP and provide appropriate notes.**
- d) In Table 3 please provide an explanation of the large increase in GWh CDM savings forecast in 2018/2019.**

6.6-Energy Probe-47

**Ref: Exhibit A, Tab 16, Schedule 2, Page 25 and
Exhibit A, Tab 16, Schedule 2, Page 28, App B Annual Econometric Model**

Does the HO Model for weather normalization use both Cooling Degree Days and Heating Degree Days? Please provide explanation based on winter/summer load and provide appropriate references and a summary of historic and forecast CDD and HDD.

6.6-Energy Probe-48

Ref: Exhibit A, Tab 16, Schedule 2, Pages 46-48, Table E.7 and E.8b

Please discuss the major factors that could materially change the load forecast that in the referenced Tables shows a flat Sales (GWh) and Billing Peak (kW) outlook for the plan period.

6.6-Energy Probe-49

Ref: Exhibit A, Tab 16, Schedule 2, Page 8

Preamble:

In Exhibit A, Tab 16, Schedule 2, Page 8, Hydro One is forecasting economic growth of 2.6 percent over the five-year plan.

- a) How would Hydro One's forecasts for customer growth be impacted if economic growth was 2 percent? 1 percent? 3 percent?**
- b) Will Hydro One's economic growth forecast be updated to actuals annually? If, for example, the first year economic growth is below Hydro One's target, how will Hydro One factor that into the remaining four years of its five-year plan?**

6.6-Energy Probe-50

Ref: Exhibit A, Tab 16, Schedule 2

Preamble:

In Exhibit A, Tab 16, Schedule 2, Hydro One plans on housing starts to increase to 69,000 units per year.

- a) What is the risk to Hydro One's load and new customer forecast if that figure is 60,000 units per year? 50,000 per year?**
- b) Will housing start forecasts be updated to actuals annually?**
- c) Does Hydro One have any studies concerning the elasticity of customer power demand and prices?**
- d) Would the end of the Clean Energy Benefit, combined with distribution increases on customers' bills have a noticeable impact on customer demand? Does Hydro One have any studies regarding this?**

6.6-Energy Probe-51

Ref: Exhibit A, Tab 16, Schedule 3, Table 15

Preamble:

In Exhibit A, Tab 16, Schedule 3, Table 15 shows that Hydro One Customers are increasing the amount of energy conserved outside of incentives from Hydro One and Government programs.

- a) Does Hydro One expect this trend to continue?
- b) If so, will it have a noticeable impact on Hydro One's load forecast?
- c) If non-targeted conservation increases significantly, would this be considered an off-ramp by Hydro One for its five-year plan?
- d) Does Hydro One have any estimates on the impact that higher prices will have on non-targeted conservation?
- e) Does Hydro One have any estimates on whether the Board's move towards decoupling will have an effect on its load forecast?

6.6-Energy Probe-52

Ref: Exhibit A, Tab 16, Schedule 3, Table 18

In Exhibit A, Tab 16, Schedule 3, Table 18 Hydro One reports an increase in Estimated Savings from Customers' Own Actions. Does it have a similar forecast or estimate for the duration of its five-year plan?

7.0 COST ALLOCATION AND RATE DESIGN

7.2 Is the proposed definition of "seasonal" customer class appropriate? Particularly, is residency an appropriate criterion in defining a class? Has this criterion been applied consistently?

7.2-Energy Probe-53

Ref: Exhibit G, Tab 2, Schedule 2, Slide 7

Preamble:

According to Exhibit G, Hydro One currently has a 40/60 split in its distribution charge (fixed/variable) for residential customers, including seasonal customers.

Will this ratio be altered over the five-year plan considering the decoupling proposal put forth by the Board?

7.3 Is the reclassification of customers to reflect findings of the company's review of existing customer rate classifications appropriate?

7.3-Energy Probe-54

Ref: Exhibit G1, Tab 2, Schedule 1, Page 6 - Seasonal Customers

Preamble:

Hydro One proposes to treat as year-round residential customers those Seasonal customers that i) consume at least 9,600 kWh annually and ii) consume at least 600 kWh monthly for a minimum of 10 months of the year. The definition of Seasonal rate class included in the proposed rate schedules provided at Exhibit G2, Tab 2, Schedule 1 have been revised to reflect the proposed change.

Hydro One's proposal will result in moving approximately 11,000 Hydro One Seasonal Customers, or 7%, of the total number of Seasonal customers to the medium density residential (R1) and low density residential (R2) rate classes. This change has been incorporated into the customer load forecast included with this application for the 2015-2019 Custom COS period.

- a) Please provide a schedule that shows for the 11,000 affected seasonal customers what the bill impacts will be from the reclassification.**
- b) Please explain why HO cannot transition the 11,000 seasonal customers over the 5 year plan period by using a variable rate rider(s).**
- c) Please provide a bill impact schedule assuming a 5 year transition.**
- d) Please provide the associated impacts on rates and revenue requirements 2015-2019.**

7.3-Energy Probe-55

Ref: Exhibit G1, Tab 3, Schedule 1- Revenue to Cost Ratios

- a) Given the changes proposed for lower R/C ratios for UR and R1, why are the Service charges increasing dramatically from 2014 in 2015 and more in 2016-2017 then reducing in 2018-2019?**
- b) Why are the Volumetric charges following a similar pattern? Please discuss.**

7.7 Is an increase to the fixed charges revenue appropriate?

7.7-Energy Probe-56

- a) Will the Board's recent proposal (Rate Design for Electricity Distributors) to move distribution charges to a complete fixed rate rather than a combination of fixed and volumetric charges be considered an off-ramp? If not, has Hydro One done any studies on the impact on its revenue forecast if such a policy were put in place?
- b) Does Hydro One have any forecasts on the impact on customer bills if it were to move to a fixed rate for distribution charges?

7.7-Energy Probe-57

Ref: Exhibit G1, Tab 4, Schedule 1 Table

In Exhibit G1, Tab 4, Schedule 1 Table 1, does Hydro One have an estimate to what the service charge for the different rate classes would be if the Board implements its proposal for decoupling?

7.7-Energy Probe-58

Ref: Exhibit G1, Tab 4, Schedule 1 Table 2

In Exhibit G1, Tab 4, Schedule 1 Table 2, why does Hydro One not smooth the rate increases over the five-year plan?

7.7-Energy Probe-59

Ref: Exhibit G1, Tab 4, Schedule 1 Table 3

In Exhibit G1, Tab 4, Schedule 1, Table 3, can Hydro One explain why it does not offer the same fixed/volumetric split for all rate classes?

7.7-Energy Probe-60

Ref: Exhibit G1, Tab 4, Schedule 1 Table 3

Preamble:

In Exhibit G1, Tab 4, Schedule 1 Table 3, the application says “Hydro One does not propose adopting the minimum system fixed charge for the Seasonal customer class as this would represent a 2.5 times increase in the current fixed charge and would result in large rate impacts to the many low consumption customers within the Seasonal rate class.”

- a) Can Hydro One explain how this is not a cross subsidy from other rate classes to the seasonal rate class?**
- b) Does Hydro One plan on eventually moving the seasonal rate class to a minimum system fixed charge?**

7.7-Energy Probe-61

Ref: Exhibit G1, Tab 4, Schedule 2, Attachment 1

- a) In the tables in Exhibit G1-4-2 Attachment 1, can Hydro One explain why the revenue collected from the Urban Residential class is still higher than the Allocated Cost?**
- b) Does Hydro One plan on eventually collecting the necessary revenue from each rate class to cover its Allocated Costs?**