

INTERROGATORIES FROM THE CONSUMERS COUNCIL OF CANADA

TO HYDRO ONE NETWORKS – DISTRIBUTION 2015-2019 CUSTOM APPLICATION

1.0 CUSTOM APPLICATION

(1.0-CCC-1)

Ex. A/T3/S1

With respect to the “Approvals Requested” please set out a schedule that lists the Revenue Requirements, OM&A, Capital Expenditures, Regulatory Assets, Rate Base, Depreciation, Rate Impacts and Bill Impacts for each year (2015-2019) – under the January 31 filing and the May 30 update. Please provide a high level variance analysis explaining the reason for the changes with respect to each item in each year.

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

(1.1-CCC-2)

Please provide all materials provided to HON’s senior management/executives and to its Board of Directors when HON was seeking approval of the Custom Plan and any specific elements of the plan.

(1.1-CCC-3)

Please provide all correspondence between HON and its shareholder regarding the Custom Plan. Was this plan explicitly approved by HON’s shareholder? If not, why not? What protocols are in place with respect to receiving input from the Government regarding HON’s rate proposals?

(1.1-CCC-4)

Ex. A/T3/S1/p. 9

In the Summary of the Application HON refers to “capital additions made during the IRM period”. Does HON consider this to be a “cost of service” application or an “incentive regulation mechanism” application? To the extent HON views this as an IRM please provide a comprehensive list all of the ways that HON’s Plan will incent efficiencies and productivity gains throughout the five-year period.

1.2 Has HON responded appropriately to all relevant Board directions from previous proceedings, including commitments from prior settlement agreements?

(1.2-CCC-5)

Ex. A/T21/S1

Has HON fully complied with all of the Board's previous directives? If not, please explain to what extent HON has not complied and why.

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

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

(1.4-CCC-6)

Ex. F1/T1/S2

HON is proposing a rate-smoothing mechanism given the significant increases in the 2015 revenue requirement. The CCC is interested in better understanding the mechanics of this proposal. Does HON anticipate that these amounts (the proposed debits and credits) will be set and fixed by the Board as the result of this proceeding? To what extent might the amounts differ, if at all, during the plan? To what extent might these amounts be impacted by other factors such as annual deferral and variance account balances, the cost of power etc.? Please explain.

(1.4-CCC-7)

HON is not proposing an earnings sharing mechanism (ESM) as part of its Custom Plan. HON is aware that many of the ratepayers groups have supported the introduction of an ESM and that an ESM has been an integral component of multi-year incentive plans previously approved by the Board (Union Gas Limited and Enbridge Gas Distribution Inc. plans) Would HON be amenable to incorporating an ESM into its plan as a ratepayer protection mechanism? If not, why not? From HON's perspective what would be the disadvantages associated with the incorporation of an ESM into the plan?

2.0 OUTCOMES AND INCENTIVES

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

(2.1-CCC-8)

Ex. A/T5/S1

HON currently undertakes a number of surveys, and other customer engagement activities. To what extent does HON intend change or potentially increase the level of customer engagement during the 5-year term? What has been the annual cost of

customer engagement activities for the period 2010-2013? What is the proposed cost of customer engagement during the plan?

(2.1-CCC-9)

Ex. A/T5/S1

Please describe the extent to which HON solicits feedback from its customers specifically with respect to its OM&A and capital spending plans. How does HON incorporate that feedback into its OM&A and capital plans?

2.2 Does HON'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-CCC-10)

HON has a proposal to provide rate mitigation throughout the plan by smoothing recovery of the revenue requirement over the term of the plan. Please explain how HON assesses what are "acceptable" bill impacts for customers? Is this done on a class average basis or does HON consider impacts on all customers? To what extent do non-distribution factors get incorporated into that analysis? Please provide any strategies, plans etc. regarding how HON intends to communicate the implementation of its multi-year plan to its customers.

2.3 Does the Custom Application adequately incorporate and reflect the four outcomes identified in the RRFE Report: customer focus, operational effectiveness, public policy responsiveness and financial performance?

(2.3-CCC-11)

Ex. A/T4/S4

For each of the proposed 8 areas to be measured, please explain what outcome is being measured? How do these relate to the 4 outcomes set out in the RRFE? Has HON prioritized these in terms of assessing what outcomes are most important from a customer perspective? If so, please explain how they have been prioritized. If not, why not?

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

(2.4-CCC-12)

Ex. A/T4/S4/p. 17

The evidence states that over time, as the Company, stakeholders and the Board gain more experience with outcome measurement, HON's proposed measures will be refined accordingly. Does HON expect to develop new metrics for consideration

during the plan? If not, why not? If so, how will they be incorporated into the Customer Plan?

2.5 Are HON's proposed off-ramps, annual adjustments and annual adjustments outside the normal course of business appropriate?

(2.5-CCC-13)

Ex. A/T4/S1

The Board has indicated its intent to pursue a fixed rate design solution to achieve revenue decoupling. The Board's Draft Report makes it quite clear that the Board will proceed with this proposal. Please explain how this would potentially impact HON. If the Board does proceed, how would this change HON's rate-setting process. To what extent would any approvals granted as a result of this application no longer be relevant? Assume this change would be effective January 1, 2016. How would HON proceed to implement rates consistent with this new approach?

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

(2.6-CCC-14)

Ex. A/T16/S2, S3

Has HON ever retained an independent consultant to review its load forecasting methodology? If not, why not? If so, please provide any reports resulting from that review.

(2.6-CCC-15)

Ex. A/T16/S2

The evidence indicates that historically, HON's energy purchase forecast compared to the weather corrected actual energy consumed is within one standard deviation of the forecast, and that one standard deviation is an accepted standard in the utility industry. HON is now providing a forecast (prepared in 2013) for the period 2015-2019. HON has also prepared a forecast of customer numbers for the five-year period. Under the proposed Custom Plan HON is forecasting out over a longer period of time relative to what it has done in the past. If the forecast is wrong (which it will be to some degree) HON's shareholder or its ratepayers will benefit or be negatively impacted. Why is HON not proposing a mechanism to update the forecast to ensure both the shareholders and the ratepayers are kept whole? What evidence can HON provide to demonstrate that it has not understated the forecast in light of the fact that to the extent energy purchases are lower than forecast HON's bottom line may be negatively impacted?

(2.6-CCC-16)

Ex. A/T16/S3

The OPA and the LDCs are currently in the process of developing a new CDM framework that will differ in large measure from the last framework. The current

expectation is that the new framework will be in place for implementation in 2015. How will the new targets be incorporated into HON's load forecast for 2015-2019?

(2.6-CCC-17)

Ex. A/T16/S1

Please explain how the information provided as "Economic Indicators" in Ex. A/T16/S1 is specifically used in developing the OM&A forecasts, the Capital Expenditure forecasts and the Cost of Capital forecasts.

2.7 Is HON's proposed annual reporting and stakeholder engagement process appropriate?

2.8 Should the application provide appropriate incentives for loss reduction?

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-CCC-18)

Ex. C1/T1/S1/p 2

In 2010 HON spent \$10 million less than the Board approved level in the category of Sustaining OM&A. In 2011 HON spent \$20.4 million less than the Board approved level. In 2012, 2013 and 2014, HON's actual Sustaining OM&A was also significantly below the level embedded in rates. For each year, 2010-2014, please explain why actual Sustaining OM&A expenditures varied significantly from the Board approved/forecast level?

(3.1-CCC-19)

Ex. C1/T2/S2/p. 33

With respect to Vegetation Management HON refers to a backlog wave. This backlog is the reason for significant increases in 2016 and 2017. Please explain why HON has a backlog, and has not, in recent years, ensured an appropriate pace for line clearing and brush control.

(3.1-CCC-20)

Ex. C1/T2/S3/p. 3

HON is planning spending over \$21 million on Smart Grid Studies (Development OM&A) during the five-year term of the Custom Plan. Please provide a detailed breakdown of these expenditures. Has HON conducted a business case analysis for these studies? If not, why not? Please explain how these expenditures will bring

value to HON's customers? What are the associated capital expenditures expected during the Custom Plan?

(3.1-CCC-21)

Ex. C1/T2/S4

With respect to Operations OM&A HON is planning on increasing Smart Grid expenditures over the test period. For each year 2014-2019 please provide a detailed breakdown of those expenditures. Please provide any associated business case analyses. What are the associated capital expenditures during those years for "Operations"?

(3.1-CCC-22)

Ex. C/T2/S5/p. 18

HON has additional Smart Grid Pilot expenditures in the category of Customer Service OM&A. Please provide a detailed breakdown of those expenditures. How do these differ from the Smart Grid Studies referred to as Development OM&A?

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?

3.3 Has HON proposed sufficient, sustainable productivity improvements for the 2015-2019 period, and have those proposals been adequately supported, for example, by benchmarking?

(3.3-CCC- 23)

Ex. A/T19/S1/p. 2

HON has set out in Table 1 expected annual savings resulting from "productivity and cost-effectiveness improvements." For each category, for the years 2014-2015, please explain how each of those numbers were calculated. Please include all assumptions. For example, do they relate to OM&A, Capital etc.? How do they impact the revenue requirement in each of those years?

3.4 Is the Company's effort to reduce line losses appropriate?

4.0 COMMON COSTS AND PROCESSES SHARED BY HON TRANSMISSION AND DISTRIBUTION

4.1 Are the business planning processes, assumptions, and policies used by HON to develop and allocate its distribution and transmission revenue requirements appropriate?

4.2 Is the proposed level of 2015-2019 common corporate costs spending appropriate with an adequate demonstration of efficiencies over the 5-yr period?

(4.2-CCC-24)

With respect to Outsourcing, the Current Agreement expires on February 28, 2015. HON has undertaken an RFP process for a service provider beyond the contract term. Please provide the most recent information regarding this process. Please indicate, specifically, when the new agreement is expected to be in place. Please provide a copy of the Current Agreement with Inergi. Please detail how the services provided by Inergi are expected to change going forward.

(4.2-CCC-25)

Ex. C1/T2/S8/p. 2

For each of the categories in Table 1, entitled Total 2010-2019 CCFS Costs, please explain what specific productivity initiatives HON intends to pursue over the term of the plan. In effect, within each group, how can HON potentially reduce the overall costs?

(4.2-CCC-26)

Ex C1/T2/S8/p. 26-33

Please explain the extent to which HON has sought external advice regarding the management of its Real Estate and Facilities costs. How does HON ensure that these costs are reasonable?

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?

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

(4.4-CCC-27)

Ex. C1/T3/S1

Please set all the ways in which HON is seeking to reduce its overall compensation amounts during the course of its 2015-2019 Custom Plan. Has HON sought external advice in this regard? If not, why not?

(4.4-CCC-28)

For each year since the Public Salary Disclosure list was published, please indicate how many of HON's employees were on that list (employees with salaries exceeding \$100,000). For each year please indicate the total number of HON employees.

5.0 DEFERRAL AND VARIANCE ACCOUNTS

5.1 Are the proposed amounts, disposition, discontinuance and continuance of HON'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

6.0 REVENUE REQUIREMENT

7.0 COST ALLOCATION AND RATE DESIGN

7.1 Are the rate classes and their definitions proposed by HON appropriate?

(7.1-CCC-28)

Ex. G1/T2/S1

The evidence states that as a result of implementing the rate class review findings, customers will experience about a 3.4% increase on average across all rate classes to make up for the revenue deficiency resulting from the large number of customers moving to rate classes with lower rates. Please explain how, through the cost allocation process, HON has ensured that this deficiency was recovered from the appropriate customers. Does HON intend to explain this increase to customers?

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-CCC-29)

Ex. G1/T2/S1/p. 5

HON has concluded that its proposal to move approximately 11,000 seasonal customers to the medium density (R1) and low density residential (R2) rate classes was preferred by the focus group participants. Did HON seek to expand its customer research on this topic beyond the focus group process? If not, why was no further customer engagement undertaken?

(7.2-CCC-30)

Ex. G1/T2/S1/p. 5

Please provide a detailed explanation as to how Rural Rate Protection is funded allocated, and implemented. If Seasonal customers were moved to the other residential classes would they qualify for RRP?

(7.2-CCC-31)

Ex. G1/T2/S1/p. 5

Is HON aware of any other examples of “seasonal” rate classes similar to the current HON Seasonal class in place in other jurisdictions? If so, please provide the details as to what qualifications exist for those classes and how the rates are derived relative to the other residential rates in that area.

(7.2-CCC-32)

Ex. G1/T2/S1/p. 5

If the Board were to order HON to eliminate its Seasonal rate classification as it now stands, what would HON consider to be the most appropriate alternative rate proposal? How would HON propose that Seasonal customers be treated?

(7.2-CCC-33)

Ex. G1/T2/S1/p. 5

Assuming the Seasonal customers were moved, on the basis of density to the other residential rate classes, what would be the annual bill impacts of customers in each of those classes consuming 50 KWhs, 100 kWhs, 500 kWhs, 800 kWhs and 2000 kWhs per month under existing rates and the proposed 2015 rates? Assume Seasonal customers would be billed on the same basis as all other residential consumers.

(7.2-CCC-34)

Please explain, in detail, the administrative process HON undertakes in designating a customer "Seasonal".

(7.2-CCC-35)

Ex. G1/T2/S2/p. 5

In the Seasonal Focus Group Report HON proposed 3 alternatives to the status quo. Did HON consider other alternatives? If so, please describe those alternatives. Why were only three alternatives presented?