CANADIAN MANUFACTURERS & EXPORTERS ("CME") INTERROGATORIES

M-CME-1

Reference: Exhibit M, p. 68 of 112

Preamble: At p. 68, PEG states that "Hydro One should be permitted to keep a share of the annual cost savings from any capex underspends it achieves. This would strengthen the Company's incentive to contain capex (but also its incentive to exaggerate its capex needs)".

Interrogatory

a) If the Board were to agree with PEG's suggestion that Hydro One be permitted to keep a share of capex underspends, how would it suggest that the Board neutralize the incentive to exaggerate capex needs?

Response:

The following response was provided by PEG.

a) In the short run, greater diligence in reviewing the Company's capex proposals is recommended. In the long run, capex proposals can routinely be compared to capex actuals. In Great Britain, frustration about chronic exaggerations by utilities lead to the development of a complicated information quality incentive ("IQI") that reward utilities for truthful forecasts.

M-CME-2

Reference: Exhibit M, p. 68 of 112.

Preamble: With respect to the supplemental stretch factor should be no less than the comparable mark down on plant additions produced by the ICM. PEG states that "The 10% markdown factor in the ICM formula actually marks down otherwise-eligible capex by considerably less than 10%".

Interrogatories:

a) Please explain why the 10% markdown actually marks down capital by less than 10%.

b) Does PEG have an idea what the average 10% mark down actually reduces eligible capex by?

Responses:

The following response was provided by PEG.

a) The reasoning behind PEG's contention about the ICM markdown was provided on pages 63-65 of Exhibit M1 in EB-2019-0082. These are provided as Exhibit N/Tab 2/Schedule 2/Attachment 1.

b) The math for the markdown formula shows that the effective markdown varies between companies and over time based on the proposed level of plant additions and the depreciation expense. PEG's calculations in the Hydro One transmission proceeding showed that, for their cost proposal, the effective markdown of plant additions using the ICM formula would be approximately 3.6%.

<u>M-CME-3</u>

Reference: Exhibit M, pp.8, 21 of 112

Preamble: PEG states that "ISO members began purchasing a wide range of transmission services from these agencies and some members reported these costs idiosyncratically. We believe that this materially affected the reported costs of some companies in ways that are not pertinent to the X factor of Hydro One Transmission".

Interrogatories:

a) Could PEG expand on what it means by "idiosyncratic" reporting on costs. In what ways did cost reporting vary from entity to entity?

b) Has PEG quantified the impact of ISO cost reporting on Clearspring's productivity research? If so, please provide the quantified impact.

c) Which entities' data was excluded from PEG's research?

Responses:

The following response was provided by PEG.

a) Please see the response to Exhibit N/Tab 1/Schedule 3.

b) PEG has not quantified the impact of the ISO cost on Clearspring's productivity work. PEG has instead provided the results from its own earlier productivity study in Quebec which was free of these concerns.

c) Please see the response to Exhibit N/Tab 4/Schedule 2).