Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

May 2, 2022

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Marconi:

Re: Ontario Energy Board (OEB) Staff Interrogatories on Application Update
Hydro One Networks Inc. (Hydro One)
2023-2027 Joint Rate Application (JRAP)
OEB File Number: EB-2021-0110

Please find attached OEB staff's interrogatories in the above referenced proceeding on Hydro One's application update, pursuant to Decision on Confidentiality Requests and Procedural Order No. 5.

Please note, Hydro One is responsible for ensuring that all documents that it files with the OEB, including responses to OEB staff questions and any other supporting documentation, do not include personal information (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's *Rules of Practice and Procedure*.

Yours truly,

Martin Davies Digitally signed by Martin Davies Date: 2022.05.02 12:21:29 -04'00'

Martin Davies
Senior Advisor, Generation & Transmission

Encl.

cc: All parties in EB-2021-0110

HYDRO ONE NETWORKS INC.

2023-2027 JOINT RATE APPLICATION

EB-2021-0110

OEB STAFF INTERROGATORIES ON APPLICATION UPDATE

May 2, 2022

Inflation Update

O-Staff-357

Ref: Exhibit O / Tab 1 / Schedule 2 / page 1
EB-2006-0088 *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors*, December 20, 2006, pp. 26-31
EB-2007-0673 *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*, July 15, 2008, pp. 8-11
EB-2010-0379 *Report of the Board on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors*, November 21, 2013 (corrected December 4, 2013), pp. 5-10 and Appendix / page i
EB-2021-0212 Procedural Order No. 1 / Schedule B, Preliminary Calculations of 2022 Inflation Factors for 2022 Non-Cost of Service Rate Adjustment Applications: Fact Sheet of Statistics Canada and Bank of Canada Data and Description of Possible Alternative Inflation Indices for 2022 Rates Compiled by Ontario Energy Board Staff (OEB Staff Fact Sheet), August 27, 2021
EB-2021-0212 Decision and Order, November 18, 2021

Preamble:

At the first reference, Hydro One states that it is using the Ontario Consumer Price Index (CPI) as the basis for its inflation assumptions in the current application.

At the second reference (EB-2006-0088), it is stated by the OEB that:

> In a consultation regarding a review of the cost of capital of Ontario's electricity distributors and the development of a second generation IRM plan for adjusting electricity distribution rates annually, the OEB adopted a price cap adjustment

formula. The issue of the inflation factor, termed a "price escalator" during the consultation was considered, with various statistics being considered.

In the Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors, the OEB stated:[1]

> Macroeconomic (e.g., national or provincial gross domestic or consumer product indices) or industry-specific indices can be used to proxy inflation in an incentive regulation formula. Staff's consultant, Dr. Lowry, prepared a report for the Board on incentive regulation entitled "Second-Generation Incentive Regulation for Ontario Power Distributors" (PEG Report). A table from that report is reproduced on the next page [of the Report of the Board]. The table summarizes a survey of formulas approved in other jurisdictions and shows that the macroeconomic GDP-IPI is the prevalent inflation proxy used by North American regulators for gas and electric utilities.
>
> …
>
> With regard to use of the Consumer Price Index (CPI) rather than GDP-IPI, the Board agrees with Dr. Lowry that GDP-IPI is preferable to the CPI because it tracks a more relevant set of goods and services used as inputs for production by businesses, including electricity distributors. CPI tracks the prices of consumer goods and services, whereas GDP-IPI is a broader measure of inflation that covers other relevant sectors of the economy such as capital equipment. Therefore, the Board will use the GDP-IPI as the inflation proxy for the 2nd Generation IRM.

In the third reference (EB-2007-0673), the OEB retained the GDP-IPI as the inflation factor for 3rd Generation IRM, per the policies established in the EB-2007-0673 Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, issued July 15, 2008, although options for multi-factor inflation escalators were considered.

At the fourth reference (EB-2010-0379), which was the consultation for the development of 4th Generation IRM under the Renewed Regulatory Framework

[1] EB-2006-0088 *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors*, December 20, 2006, pp. 26, 28

for Electricity Distributors, the OEB adopted the current 2-factor Input Price Index, stating:

> In the Draft Report, the Board proposed a 2-factor IPI methodology to track inflation and help mitigate volatility. The methodology included:
>
> 1. A labour sub-index comprised of the average weekly earnings for workers in Ontario [footnote omitted]; and
>
> 2. A non-labour sub-index comprised of the Canada GDP-IPI (FDD). [footnote omitted] The GDP-IPI is the federal government's featured index of inflation in the domestic economy's final goods and services. It covers inflation in the prices of capital equipment used by industry as well as inflation in consumer product prices. This broad coverage makes it stable and, for a macroeconomic measure, reasonably reflective of inflation in the prices of distributor inputs. [footnote omitted]
>
> **The Board will adopt the 2-factor IPI methodology.** The Board acknowledges stakeholders' concerns with excluding a capital sub-index however the Board finds that the 2-factor IPI is the most appropriate approach at this time because of a lack of confidence in the proposed approaches for addressing the concerns which arise from introducing the capital sub-index. [Emphasis in original][2]

Page i of Appendix A to the Report of the Board lists alternatives considered and the reasons for their rejection by the OEB. OEB staff notes that CPI is not listed and was not considered during the consultation by the OEB.

At the fifth reference (EB-2021-0212), the OEB Staff Fact Sheet, that was Schedule B to Procedural Order No. 1, data on CPI was provided, along with some discussion:

> The most common measure of inflation familiar to the lay public is the Consumer Price Index (CPI). This is the measure most frequently reported by government, and in the media.
>
> CPI is a measure of inflation as experienced by end consumers, based on a typical basket of goods and services that they purchase. CPI is measured and reported monthly, and aggregated into quarterly and annual statistics. CPI is available for a total basket of goods (All items)

[2] EB-2010-0379 *Report of the Board on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors*, November 21, 2013 (corrected December 4, 2013), pp. 7-8

> and for various sub-components. The basket of goods is fixed for a period of time, so that CPI measures price inflation of that basket of goods, and is updated every five years. In this sense, CPI is a general measure of inflation.
>
> …
>
> Although CPI is not typically used as a measure of inflation directly related to the utility sector, for Informational purposes OEB staff has provided data on CPI (All items), CPI-trim, CPI-median and CPI-common in Appendices G and H, as these sub-indices may be informative for understanding and assessing the reasonableness of the inflation factor update.[3]

In the sixth reference (the EB-2021-0212 Decision and Order), the OEB adopted retention of the current 2-factor IPI for the inflation measure for electricity transmission revenue requirement adjustment plans and for electricity and natural gas distribution rate adjustment plans for 2022.

OEB staff's understanding is that other than a PBR plan for Consumers Gas noted in the first reference, the OEB has not adopted CPI as an inflation measure for formulaic adjustments of rates. Instead, and consistent with most other North American jurisdictions, macroeconomic measures such as GDP price indices are used, or are used as components of multi-factor indices, to be representative of input price inflation experienced by businesses.

Question(s):

a) Please provide Hydro One's reasons for proposing to use Ontario CPI as the basis for the inflation update proposal in Exhibit O / Tab 1 on a conceptual basis.

b) Please indicate if Hydro One believes that Ontario CPI is preferable to the 2-factor IPI (and with sector-specific weights for each of Distribution and Transmission) that the OEB has adopted from, respectively the EB-2010-0379 Board Report and the EB-2018-0218 Decision and Order. Please explain your response.

[3] EB-2021-0212 Procedural Order No. 1 / Schedule B, Preliminary Calculations of 2022 Inflation Factors for 2022 Non-Cost of Service Rate Adjustment Applications: Fact Sheet of Statistics Canada and Bank of Canada Data and Description of Possible Alternative Inflation Indices for 2022 Rates Compiled by Ontario Energy Board Staff, August 27, 2021, pp. 18-19

c) Please state which other inflation statistics and data sources (e.g., Consensus Forecasts, Conference Board of Canada) were considered by Hydro One and why were each rejected.

O-Staff-358

Ref: Exhibit O / Tab 1 / Schedule 2 / Attachment 1 / p. 1, Scotia Global Economics Report

Preamble:

At the above reference, it is stated that:

> Canada's inflation rate averaged 3.4% in 2021 in what was a marked acceleration from 0.7% in 2020 during the first year of the pandemic. Ontario's inflation rate performed similarly in that it accelerated from 0.6% in 2020 to 3.5% in 2021. Year-end rates of inflation hit 4.8% y/y for Canada and 5.2% y/y for Ontario.

Question(s):

a) Please state the inflation adjustments that were incorporated into Hydro One's 2020 rate and revenue requirement adjustment applications for both transmission and distribution.

b) Please discuss the extent to which Scotiabank Global Economics considers that at least part of the 2021 Ontario CPI annual percentage change reflects a rebound from the low CPI inflation observed in 2020 due to COVID lockdown restrictions.

c) Please provide Hydro One's views as to the extent that the 2020 inflation adjustments incorporated into its 2020 applications over-compensated it for inflation in that year.

O-Staff-359

Ref: Exhibit O / Tab 1 / Schedule 1 / page 3
Exhibit O / Tab 1 / Schedule 2 / page 4
Exhibit O / Tab 1 / Schedule 2 / Attachment 1 / p. 2

Preamble:

On the first two references above, Hydro One notes that it used a Scotiabank Global Economics January 2022 forecast as the basis for its proposed inflationary adjustments of 4.5% for 2022 and 3.3% for 2023. Hydro One notes that Scotiabank Global Economics increased its forecasts for CPI (Ontario) to 6.3% (2022) and 2.2% (2023), which is also noted on page 2 of Exhibit O / 1 / 2 Attachment 1.

In Attachment 1 to Exhibit O / Tab 1 / Schedule 2, Hydro One provides a copy of Scotiabank Global Economics March 2022 report. On page 2, reference is made to a Scotiabank Global Economics January report for Hydro One.

Question(s):

a) Please provide a copy of the Scotiabank Global Economics report for January 2022 that Hydro One is using as the basis for its proposed inflationary adjustments as documented in the March 31, 2022 Inflationary Update.

b) On page 4 of Exhibit O / 1 / 2, Hydro One states that it engaged Scotiabank Global Economics to produce forecasts of Ontario CPI for 2022 and 2023, and was provided with a January forecast on February 11, 2022, and the March forecast on March 31, 2022. Are these Scotiabank Global Economics reports customized for Hydro One's engagement, or are these generic reports that can be subscribed to?

c) Other than Canadian and Ontario CPI, what other inflation statistics does Scotiabank Global Economics analyze and report on? Were these other measures considered, and, if so, why did Hydro One select CPI (Ontario) as the inflation statistic to use for the inflationary adjustment?

O-Staff-360

Ref: Exhibit O / Tab 1 / Schedule 1
Exhibit F/ Tab 1/ Schedule 1/ p. 1

Preamble:

At the first reference, Hydro One has proposed an approach such that, for each of Transmission and Distribution, the incremental revenue requirement due to higher inflation for 2021 to 2023 and for lower load forecasts due to higher CDM forecasts, for each year in the 2023-2027 plan, would be deferred for recovery until 2028.

At the second reference, Hydro One has also proposed that the OEB's approved and issued cost of capital parameters for 2023 be used to update the 2023 revenue requirements for Transmission and Distribution (and, by extension, the 2023 Distribution rates).

OEB staff notes that changes to the cost of capital would also impact on the deferred incremental revenue requirement associated with the inflation and load forecast updates. To be specific, both the cost of capital (primarily the return on equity and the deemed short-term debt rate) and the associated regulatory taxes would change due to updated OEB-approved 2023 cost of capital parameters.

Question(s):

a) Assuming that Hydro One's proposal for the deferred incremental revenue requirement is approved as proposed in Exhibit O / Tab 1, at the DRO stage, does Hydro One propose any update to the deferred incremental revenue requirement related to the inflation and load forecast updates due to changes in cost of capital.

b) If the response to a) is in the affirmative, please indicate whether Hydro One proposes that any impacts on the incremental revenue requirement due to the inflation and load forecast updates would be added on to the deferred amounts, or Hydro One would seek to recover any cost of capital-related incremental revenue requirement as part of each year's revenue requirement recovered through approved rates (Uniform Transmission Rates for Hydro One Transmission). Please explain your response, including the rationale for your proposal, and how it would be implemented.

O-Staff-361

Ref: Exhibit A / Tab 4 / Schedule 1 / Attachment 1
Exhibit O / Tab 1 / Schedule 2
Exhibit O / Tab 2 / Schedule 1

Preamble:

Clearspring Energy Advisor LLC's (Clearspring's) evidence filed in Exhibit A / Tab 4 / Schedule 1 / Attachment 1 documents the analysis underlying the proposed stretch factors for the Transmission and Distribution Custom Revenue Cap formulae, based on econometric modelling of total cost benchmarking of Hydro One and U.S. transmission and distribution utilities.

Clearspring's evidence contains tables and charts of the cost performance of Hydro One relative to what the estimated model would predict for each historical year and for

each forward forecasted year during the 2023-2027 plan. Similar analyses have been provided in Clearspring's evidence filed in previous Custom IR applications for Hydro One and other Ontario electricity utilities.

In Clearspring's evidence filed in this application, Hydro One's Transmission cost benchmarking performance is shown in Table 3 and Figure 7 (pages 25 and 26). Hydro One's Distribution cost benchmarking performance is shown in Table 7 and Figure 10 (pages 36 and 37).

Hydro One filed its evidentiary update on March 31, 2022, for impacts of high inflation due to a variety of reasons, as society and the economy re-open and recover post-pandemic, and for impacts on load forecast due to increased CDM impacts forecasted by the IESO. Hydro One also filed updated evidence for 2021 actuals on April 4, 2022.

OEB staff assume that the following would arise on the Clearspring's econometric analyses, and for each of the Transmission and Distribution cost benchmarking models:

1. Since the model coefficients are estimated on historical actuals for a sample of US utilities and Hydro One, possibly only the 2021 actuals could impact the estimated coefficients. Since Hydro One is only one utility is the sample, and data for US utilities is unchanged, any impact of the model coefficients is likely minimal.

2. The updated load forecast does not impact forecasted costs in the plan years. However, there could be an impact on business condition variables during the plan years, as peak demand (D) and quadratic and cross-product terms involving D with other variables are used in both of the Transmission and Distribution cost benchmarking models. There would be no impact on historical years.

3. Regardless of Hydro One's proposal to defer recover of incremental revenue requirement due to higher inflation and lower load forecasts associated with increased CDM, Hydro One's inflationary updates imply that OM&A and capital costs will be higher for each year in the plan, compared to the original application.

Question(s):

a) Please provide Clearspring's views on the reasonableness of OEB staff's assumptions as described in the three bullets above.

b) Please provide an updated Table 3 and Figure 7 for the Transmission Custom Revenue Cap plan based on the updated evidence filed in Exhibit O / Tab 1 and Exhibit O / Tab 2.

c) Please provide an updated Table 7 and Figure 10 for the Distribution Custom Revenue Cap plan based on the updated evidence filed in Exhibit O / Tab 1 and Exhibit O / Tab 2.

d) Please provide any revisions to the stretch factors that Clearspring would recommend, based on the updated analyses in b) and c), along with Clearspring's reasons for either recommending or not recommending any changes to the Transmission and Distribution stretch factors based on the updated evidence.

Capital Expenditures and OM&A

O-Staff-362

Ref: Exhibit O / Tab 2 / Schedule 1 / Attachment 2
Exhibit O / Tab 2 / Schedule 1 / Attachment 6
Exhibit O / Tab 2 / Schedule 1 / Attachment 8
Exhibit O / Tab 2 / Schedule 1 / Attachment 10
Filing Requirements For Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications / Chapter 5 Consolidated Distribution System Plans / April 18, 2022 / p. 11
Filing Requirements For Electricity Distribution Rate Applications - 2021 Edition for 2022 Rate Applications / Chapter 5 Consolidated Distribution System Plans / June 24, 2021 / pp. 17-18
Filing Requirements For Electricity Transmission Applications / Chapter 2 Revenue Requirement Applications / pp.13-14

Preamble:

Hydro One has provided, for the transmission and distribution businesses, 2021 actuals for capital and OM&A programs. However, no commentary on variances specific to each program is provided in the update.

Question(s):

a) Please provide an updated variance analysis for the 2021 actuals of capital and OM&A programs for the transmission and distribution businesses, as well as the allocated general plant.

O-Staff-363
Ref: Exhibit O / Tab 1 / Schedule 2 / p. 5

Preamble:

At the noted reference, Hydro One states:

> There have been significant market price changes across many commodities that are inputs to Hydro One's costs. Given the nature of Hydro One's business and capital program, the price of essential commodities has a significant impact on our costs. Equipment purchased by Hydro One (i.e. power transformers, breakers and tower steel) is heavily impacted by certain raw materials indices. Essential commodities such as copper, aluminum and steel have undergone price increases and supply shortages. From January 2021 to January 2022, the price of copper has increased by 111.6%. In addition, over the first two months of 2022, key commodities have continued to see significant price increases, including fuel which has seen a price increase of 21%, and aluminum, which has increased by 16%.
>
> In addition to commodity costs, shipping costs have contributed to price inflation in many materials on which Hydro One relies. Global supply chains continue to experience a shortage of shipping containers leaving suppliers with stockpiles of materials and finished products that are unable to be exported internationally. Continuous demand and limited supplies have led to significant price increases for freight-based shipping. Shipping prices are up 103% since January 2021 impacting suppliers who have also been requesting price escalations due to these increases.

Question(s):

a) What impact does Hydro One forecast global supply chain issues and market price changes will have in completing its capital plan and OM&A programs during the rate period?

b) What steps has Hydro One taken to minimize the risk of global supply chain issues and market price changes to executing its capital and OM&A programs?

c) What contingency plans (for capital and OM&A programs) are in place if Hydro One experiences global supply chain issues so it can ensure service quality and reliability?

d) How have global supply chain issues impacted capital and OM&A programs related to PCB remediation? Please explain how Hydro One is mitigating supply chain issues to complete all PCB remediation work required by federal *PCB Regulations*, by December 31, 2025.

e) Please provide commentary on how current market price changes and global supply chain issues have influenced Hydro One's strategy for sourcing and storing materials and supplies for work to be completed during the rate period. Further, please provide commentary on how Hydro One will ensure it has the necessary materials and supplies to complete its stated capital and OM&A programs during the rate period in light of these circumstances.

f) How much of the materials and supplies that Hydro One requires to complete capital and OM&A programs during the rate period is currently within Hydro One's possession?

O-Staff-364

Ref: Exhibit O / Tab 1 / Schedule 2 / pp. 6-8

Preamble:

Hydro One states that "…[i]ncreases in specialized labour throughout 2021 have led to an estimated price escalation for Engineering, Procurement and Construction (EPC) contracts from 8% to 10% in 2022 within the transmission business."

Hydro One states that "…in some cases, suppliers have been motivated to consider the economics of not fulfilling their agreed obligations relative to the costs of contractual performance. As contracts come to the end of their term and new agreements are sourced, new terms and conditions will reflect current market behaviours."

Further, Hydro One notes that it will experience "…a long term, sustained change in pricing, because commodity markets have maintained consistent increases through an extended period of time". As a result, Hydro One indicates that it will "…continue to develop strategies to minimize disruption for high-risk materials and services, in addition to the assurance of supply strategies, as outlined in Exhibit E-05-02."

Question(s):

a) Please detail any increases in specialized labour that have been experienced within the distribution business.

b) Please provide details of any changes to the mix of contracted versus internal resources due to increased costs of specialized labour. What are the impacts of these changes to capital and OM&A programs, as originally filed, for the transmission and distribution lines of business?

c) Please provide details on Hydro One suppliers that have not fulfilled their obligations or have provided notice they do not plan to fulfill their obligations, due to cost of contractual performance.

   i. What impacts will these unfulfilled contracts have on capital and OM&A programs completion and costs during the 2022 to 2027 period?
   ii. How have the impacts of the unfulfilled contracts been reflected in the updated evidence?
   iii. What steps is Hydro One taking to limit the impact of actual or potentially unfulfilled contracts on capital and OM&A programs?

d) As increases in commodity markets are being experienced, please identify and explain Hydro One's 'strategies to minimize disruption for high-risk materials and services' that are in addition to the assurance of supply strategies.

O-Staff-365

Ref: Exhibit O / Tab 1 / Schedule 2 / Attachment 1 / p. 4
March 23, 2022 OEB Bulletin re: Smart Meter Supply Constraints

Preamble:

At the first reference, the Scotiabank Capital Inflation Report, dated March 31, 2022, highlights that damaged supply chains have played a role in driving inflation. This is exemplified through Scotiabank noting that "…it will take time to clear resulting backlogs across multiple types of products" and that "[t]he supply side has also been unable to keep up with demand side pressures on prices in a more general and broader sense beyond electronics components."

On March 23, 2022, the OEB issued a bulletin setting out OEB staff's position that it will not take compliance action against electricity distributors who, despite exercising due diligence, are unable to obtain smart meters due to current supply constraints.

Question(s):

a) What impact does Hydro One forecast the availability of electronics will have in completing its capital and OM&A programs during the rate period?

b) What steps has Hydro One taken to minimize the risk of equipment availability due to electronics shortages to executing capital and OM&A programs?

c) What contingency plans (for capital and OM&A programs) are in place if Hydro One is not able to secure the required equipment?

d) For each question above, please provide specific details for these specific budget items.

   i. D-SA-04 Metering Sustainment and D-SR-12 Advanced Meter Infrastructure 2.0
   ii. D-SS-05 Worst Performing Feeders
   iii. G-GP-01 Transport and Work Equipment and G-GP-02 Helicopter Renewal

e) Similar to the nature of the March 23, 2022 bulletin, has Hydro One received any accommodations from other oversight / regulatory / compliance bodies? If so, please provide details of the accommodations in the table below. Where possible, please provide supporting copies / documentation of the accommodation(s) that Hydro One has been afforded.

Oversight / Regulatory / Compliance Body	Accommodation(s) Provided	Overview of How Hydro One has Accounted for Accommodation(s) in its Capital and OM&A Programs During the Rate Period

O-Staff-366

Ref: Exhibit O / Tab 1 / Schedule 2 / p. 17
Filing Requirements For Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications / Chapter 2 Cost of Service / April 18, 2022 / 2.1.8
Filing Requirements For Electricity Distribution Rate Applications - 2021 Edition for 2022 Rate Applications / Chapter 2 Cost of Service / June 24, 2021 / 2.1.8

EB-2010-0379, Report of the Board on Performance Measures for Electricity Distributors: A Scorecard Approach
Filing Requirements For Electricity Transmission Applications / Chapter 2 Revenue Requirement Applications / 2.6

Preamble:

At the noted reference, Hydro One states that:

> If the forecast inflation rates for 2022 and 2023 at the time of DRO are higher than the forecasts used in this evidence update (i.e. 4.5% for 2022 and 3.3% for 2023), then the following process is proposed:
>
> - The revenue requirement will be updated to reflect the new inflation rate, but will not exceed a prescribed inflation cap (the "Inflation Forecast Cap").
>
> - Hydro One proposes an Inflation Forecast Cap of 10% cumulative inflation over 2022 and 2023. For clarity, a 10% cumulative inflation means the sum of inflation in 2022 and 2023 equals 10%. For example, inflation of 7.0% in 2022 and 3.0% in 2023 results in cumulative inflation of 10%.
>
> - If the cumulative inflation for 2022 and 2023 exceeds 10%, Hydro One will aim to manage its work program to the capped amount through investment reprioritization and redirection and will adjust the outcomes outlined in TSP Section 2.5 and DSP Section 3.5 accordingly.

The 2022 and 2023 Chapter 2 Filing Requirements for Electricity Distribution Rate Applications outlines the OEB's use of the scorecard approach to facilitate performance monitoring and benchmarking of distributors under the renewed regulatory framework (RRF).

The Chapter 2 Filing Requirements reference the *Report of the Board on Performance Measures for Electricity Distributors: A Scorecard Approach* which "sets out the OEBs policies on the measures to be used to assess a distributors effectiveness and continuous improvement in achieving the four outcomes which form the basis of the RRF Report."

Question(s):

a) If the cumulative inflation were to exceed 10%, how would Hydro One manage its work program to the capped amount through reprioritization and redirection? Will the process differ from the process outlined in the System Plan Framework (SPF)? If so, provide detailed explanations of the process in comparison to the SPF.

b) Please identify the specific capital and OM&A programs for the transmission and distribution businesses that would be targeted for reprioritization and redirection if the Inflation Forecast Cap exceeds the cumulative 10%. In the response, please include detailed reasoning for why the programs would be reprioritized and redirected.

c) Does the proposal to "adjust outcomes outlined in TSP Section 2.5 and DSP Section 3.5" mean that Hydro One is proposing to adjust the targets in its scorecard if this circumstance occurs?

   i. If so, which targets would be subject to change?
   ii. If not, please explain in more detail.
   iii. Explain the process Hydro One proposes for seeking approval to changes to its performance targets?
   iv. How does the proposal to "adjust outcomes outlined in TSP Section 2.5 and DSP Section 3.5" meet the requirements of the Chapter 2 Filing Requirements for Electricity Distribution Rate Applications and the OEB polices outlined in *Report of the Board on Performance Measures for Electricity Distributors: A Scorecard Approach*?
   v. Why does Hydro One propose this methodology rather than the ±300 basis point earnings dead band approach?

O-Staff-367

Ref: Exhibit O / Tab 2 / Schedule 1 / p. 2

Preamble:

At the reference, it is stated that:

> With respect to 2022, Hydro One plans to manage its in-service additions in 2022 within the total envelopes set out in its pre-filed evidence for both transmission and distribution…. If necessary, Hydro One will leverage its internal redirection

and reprioritization processes to manage within its planned total envelopes reflected in its pre-filed evidence for both transmission and distribution.

Question(s):

a) Please explain how work that is redirected or reprioritized in 2022 will impact the 2023-2027 capital expenditure plan. Will work that is not completed in 2022 be added to the 2023-2027 plan? If so, how will this be accommodated? If not, when will this work be carried out?

O-Staff-368

Ref: Exhibit O / Tab 2 / Schedule 1 / Attachment 7 / Appendix 2-AB, Distribution Capital Expenditure Summary

Question(s):

a) Please complete a version of table 2-AB for the Acquired Utilities for 2021.

O-Staff-369

Ref: Exhibit O / Tab 2 / Schedule 1 / Attachment 8 / Appendix 2-AA, Distribution Capital Projects Table

Question(s):

a) Actual 2021 capital expenditures in New Load Connections, Upgrades and Cancellations were higher than forecast.

   i. What items specifically were responsible for the increased costs; new load connection, upgrades, and / or cancellations and by how much?
   ii. What is Hydro One's process for verifying that project-specific capital contributions are determined in a consistent fashion?
   iii. How much of the increase was due to higher equipment costs? What is Hydro One doing to mitigate this during the 2022 to 2027 period given current circumstances?

b) Actual 2021 Metering Sustainment Costs expenditures were higher than forecast.

   i. Please explain the driver(s) for the increased costs; increased material costs, increased scope or other factors.

ii. How many smart meter failures did Hydro One experience in 2021? Please break down the meter failures by manufacturer, model and component that failed.
iii. Please provide details on any difficulties Hydro One has faced procuring and receiving smart meter inventory?
iv. Has Hydro One experienced cost increases for smart meters? If so, how much have costs increased by, and what is Hydro One doing to manage costs during the 2022 to 2027 period.
v. Does Hydro One have commitments from suppliers to provide the required volumes of smart meters for the test period sustainment activities as well as the AMI 2.0 program?
vi. What is Hydro One's contingency plan for maintaining metering and billing services if meter procurement cannot meet the demand for faulted meter replacements?

c) Actual 2021 Joint Use and Relocations expenditures were higher than forecast.

i. How much of the increase is attributable to telecommunications expansions and / or work? Please provide a commentary on the amount of this work that was in the rural areas.
ii. How much of the increase is due to increased equipment and contracting costs?
iii. How many poles were replaced in this program in 2021?

d) Actual 2021 PCB expenditures were lower than forecast.

i. Please explain the reason for the underspend.
ii. What impact will the underspend have on the 2022 and test period expenditures?
iii. Please provide details of any program changes for the test period required to complete the program and meet legal requirements.

e) Actual 2021 Pole Sustainment Program expenditures were lower than forecast.

i. Please explain the driver(s) for the lower costs.
ii. How many poles were replaced and refurbished in this program in 2021 compared to plan?
iii. What is the impact of the reduced pole replacement expenditures in 2021 on the pole replacement program and replacement and refurbishment volumes in the test period?

O-Staff-370

Ref: Exhibit O / Tab 2 / Schedule 1 / Attachment 4 / Appendix 2-AA, Capital Projects and Programs for General Plant

Question(s):

a) Actual 2021 Fleet expenditures were lower than forecast.

i. Please explain the reason for the underspend.
ii. How many vehicles and items of work equipment were replaced compared to plan, by type?
iii. What impact will the underspend have on capital and maintenance budgets for the test period?
iv. If the underspend was related to vehicle availability from manufacturers, what steps is Hydro One taking to meet its capital plan for 2022 and the test period?

O-Staff-371

Ref: Exhibit O / Tab 2 / Schedule 1 / p. 3

Preamble:

At the above reference it is stated that:

> In 2021, System Access investments were $58.6 million above the OEB approved amount of $11.3 million. This variance was primarily driven by the need to respond to load customer connections and upgrades, and third party driven secondary land use and relocation requests.

Question(s):

a) Please identify the specific investments that contributed to the variance. For each investment, please provide the plan amount from the EB-2019-0082 application, and the variance. For investments that were not included in the EB-2019-0082 application, please provide a description of the investment consistent with the level of information contained in EB-2019-0082 investment descriptions.

O-Staff-372

Ref: Exhibit O / Tab 2 / Schedule 1 / p. 4
EB-2019-0082 / ISD SS-13
Exhibit I / Tab 1 / Schedule B2-Staff-094
Exhibit I / Tab 1 / Schedule B2-Staff-096

Preamble:

At the first reference it is stated that:

> In 2021, System Service investments were $70.5M above the OEB-approved amount of $148.2M, largely driven by investments in response to system needs identified through bulk system and regional planning processes. The variance is primarily due to the increased scope, complexity and cost associated with the Lakeshore TS project as well as scheduled extensions and increased costs associated with delays to NextBridge's East-West Tie line construction, which were beyond Hydro One's control.

The response to part b) at the third reference states that:

> The need date for Lakeshore TS was identified by the IESO as mid-2022 in the IESO letter dated January 31, 2019. Subsequently, Hydro One received a IESO letter, dated June 11, 2019 for the double circuit 230kV transmission [line] between Chatham and Lakeshore with a need date of 2025. In light of the discrete need dates, the scope of work directly associated with the connection of a new double circuit transmission line is managed and tracked separately such that costs are prudently managed and paced as the needs evolve.

The response to part g) at the third reference states that:

> The scope reflected in EB-2019-0082, ISD SS-13 consisted of two discrete stages of work comprised of the following sub-projects in the Leamington area:
>
> Stage 1: Station work
> a) Build a new 230kV switching station at Leamington Junction and sectionalize the existing 230kV circuits (C21J, C22J, C23Z and C24Z). Connect this new switching station to the existing tap to Leamington TS; and
> b) Build a new 75/125MVA, 230/27.6kV DESN station with twelve feeders at Leamington Junction.

Stage 2: Line Work

a) Build a new 230kV transmission line, approximately 50 km long, from Chatham SS to the new switching station at Leamington Junction; and
b) Modify Chatham SS to connect the new line into the 230kV switchyard.

The response to part h) at the third reference states that:

> The initial scope of Lakeshore TS, as included as part of EB-2019-0082, ISD SS-13, was based on preliminary information and assumptions from discussions with the IESO. The preliminary scope that informed the high level planning allowance noted in ISD SS-13 for the Lakeshore TS portion comprised of twelve (12) 230kV breakers, protection and control facilities, and re-termination of the circuits; with no assumptions made for real estate. The high level planning allowance for that portion of the project was $69 million.
>
> Since that time, Hydro One worked closely with the IESO to define the scope of the required switching facilities at Lakeshore TS in line with the need identified in the IESO letter; and the project has undergone extensive project definition … in order to meet reliability and operability requirements, the scope of Lakeshore TS expanded to include a total of twenty-two (22) 230kV breakers, 230kV reactive compensation, re-configuration of transmission lines, work at remote stations to support the implementation of the special protection system, and necessary real estate requirements for the new station and transmission facilities. The variance due to the updated scope, complexity and cost for the project is a $104 million difference from the preliminary information in EB-2019-0082, ISD SS-13.

Question(s):

a) Please identify the “investments in response to system needs identified through bulk system and regional planning processes” that drove the increase in System Service investments in 2021. Please reference the supporting bulk system and regional planning reports and ensure that they are all filed on the record of this application. For each investment, please provide the plan amount from the EB-2019-0082 application, and the variance.

b) Please breakdown the $70.5 million System Service variance into the variance attributable to each project.

c) Please describe the reactive compensation that was added to the scope of Lakeshore TS.

d) Please provide the point in time when the scope changed from a 12-breaker configuration to a 22-breaker configuration.

e) Please explain what drove the scope change that resulted in the scope changing from a 12-breaker configuration to a 22-breaker configuration. Does the 22-breaker configuration include the connection of additional elements not contemplated in EB-2019-0082 ISD SS-13? If so, please explain what the additions were, and how they affected the number of breakers required.

f) Please provide a single line diagram of the 12-breaker configuration of Lakeshore TS that was planned at the time of the EB-2019-0082 application, showing the terminations (i.e., C21J, C22J, C23Z, C24Z, etc).

g) Please provide a single line diagram of the 22-breaker configuration of Lakeshore TS that is under construction, showing the terminations.

h) Please describe the size of the land footprint acquired as part of the EB-2019-0082 ISD SS-13 investment relative to the size of Lakeshore TS. Please provide a site plan of the station layout within the land footprint acquired. If additional land was acquired, beyond what is required for Lakeshore TS, please explain how much additional land was acquired, and why.

i) Please complete the following table to separate the costs provided in Table 1 of EB-2019-0082 ISD SS-13, p. 4 into costs for Stages 1a, 1b, 2a and 2b, as described in the response to Exhibit I / Tab 1 / Schedule B2-Staff-094, part g).

($ Millions)	**Prev. Years**	**2020**	**2021**	**2022**	**2023**	**2024**	**Future Years**	**Total**
Stage 1.a								
Stage 1.b								
Stage 2.a								
Stage 2.b								
Gross Investment Cost	**4.9**	**4.9**	**9.7**	**59.1**	**63.8**	**63.8**	**10.0**	**216.2**

j) Please explain how the “high level planning allowance” of $69 million for Lakeshore TS that is described in Exhibit I / Tab 1 / Schedule B2-Staff-094, part h) is consistent with the information provided in the table from part i) of this question.

k) Please complete the following table, like the table from part i) of this question, showing the actual expenditures for “previous years”, 2020, and 2021.

($ Millions)	**Prev. Years**	**2020**	**2021**
Stage 1.a			
Stage 1.b			
Stage 2.a			
Stage 2.b			
Gross Investment Cost			

l) Please explain how the $104 million variance described in Exhibit I / Tab 1 / Schedule B2-Staff-094, part h) is consistent with the information provided in the table from part k) of this question, or indicate if the variance has changed.

m) Please provide a breakdown of the in-service addition amounts for Lakeshore TS by year in a similar format to the one used in response to Exhibit I-22-C-SEC-175. In addition, please provide a description of the station equipment that will enter service in each year. When will the circuit breakers and other equipment that is required for the connection of the new double-circuit 230 kV Chatham-Lakeshore become an in-service addition?

n) Has the scope for the 230 kV Lakeshore TS, which is currently under construction, incorporated any work required for the connection of a 500 kV line between Longwood TS and Lakeshore TS, as described in response to Exhibit I / Tab 1 / Schedule B2-Staff-096, part c)? If yes, please explain what the work is and why it is being undertaken now.

o) Will it be necessary to acquire additional land for the Lakeshore TS 500 kV switchyard? What will be the cost? Which project will this cost be part of?

O-Staff-373

Ref: Exh I/Tab 1/Sch B2-Staff-070
TSP Section 2.11 / T-SA-05 / p.1

Preamble:

The first reference above asked about $38.5 million that Hydro One requested in the as-filed TSP evidence to include in the revenue requirement for the purpose of connecting future unknown load customers. The March 31st Evidence Update did not discuss that request and OEB staff Interrogatory #70 was not identified as being impacted by the update.

Question(s):

a) Please clarify if Hydro One has increased the amount being requested to connect unknown customers and, if so, the amount Hydro One is now requesting.

b) Please also identify the incremental load included in the updated load forecast associated with those unknown load customers (as part of the evidence update) and if that amount of load changed relative to the as filed application.

O-Staff-374

Ref: Exhibit O / Tab 2 / Schedule 1 / Attachment 6 / Appendix 2-JC, Transmission OM&A Programs Table
Exhibit I / Tab 24 / Schedule E-VECC-063

Preamble:

At the first reference, in the updated Appendix 2-JC for transmission OM&A programs, Hydro One reports a 2021 actual of $40.1 million for 'Power Equipment', whereas the 2021 forecast was $45.0 million. Hydro One also reports a 2021 actual of $55.3 million for 'Protection, Control, Monitoring, Metering and Telecommunications (including cybersecurity)'. The 2021 forecast was $52.2 million.

At the second reference, Hydro One details incremental labour-related costs for the Joint Security Operations Centre in 2022 and 2023 (costs that are captured in the 'Protection, Control, Monitoring, Metering and Telecommunications (including cybersecurity)' line of Appendix 2-JC).

Question(s):

a) Please explain the driver(s) for the underspend in 'Power Equipment' and overspend in 'Protection, Control, Monitoring, Metering and Telecommunications (including cybersecurity)'.

b) If the underspend for 'Power Equipment' was related to equipment / material supply issues, what steps is Hydro One taking to ensure that it can fulfill its program commitments from 2022 to 2027?

c) How much of the overspend for 'Protection, Control, Monitoring, Metering and Telecommunications (including cybersecurity)' is attributed to higher equipment costs and insourcing of certain cybersecurity functions?

d) What impact will the 2021 underspend and overspend have on 'Power Equipment' and 'Protection, Control, Monitoring, Metering and Telecommunications (including cybersecurity)' expenditures, respectively, from 2022 to 2027?

e) For the incremental labour-related costs associated with the Joint Security Operations Centre, please confirm the incremental cost in 2022 is $2.38 million, and in 2023 is $3.58 million. If not confirmed, please update as necessary and providing reasoning.

O-Staff-375

Ref: Exhibit O / Tab 2 / Schedule 1 / pp. 6-7

Preamble:

Hydro One states that the increase in 2021 OM&A results for transmission "…was partially offset by lower Property Taxes and Rights Payments of $5.2M, due to a one-time successful re-negotiation with Hydro Ottawa on a stations occupation rights agreement and lower than anticipated payment to Metrolinx in 2021."

Question(s):

a) Please break down how much of the $5.2 million reduction in Property Taxes and Rights Payments is attributed to:

i. The successful renegotiation with Hydro Ottawa on a stations occupation rights agreement
ii. A lower than anticipated payment to Metrolinx

b) What is the duration of the above noted stations occupation rights agreement with Hydro Ottawa and how have the savings been carried forward from 2022 to 2027?

c) Please explain how Hydro One was able to have a successful renegotiation with Hydro Ottawa and describe why a similar outcome cannot be replicated in other future negotiations (for both transmission and distribution) as it is characterized as a "one-time successful" renegotiation.

d) Please explain why the above noted payment to Metrolinx in 2021 was lower than anticipated. In the response, please address if similar lower than anticipated payments are expected from 2022 to 2027 (and detail why / why not) for the transmission and distribution businesses.

e) How will the lower payment to Metrolinx in 2021 impact Property Taxes and Rights Payments for the transmission business from 2022 to 2027?

O-Staff-376

Ref: Exhibit O / Tab 2 / Schedule 1 / Attachment 10 / Appendix 2-JC, Distribution OM&A Programs Table

Preamble:

The materiality threshold for Hydro One's distribution business is $1 million. In the updated Appendix 2-JC for distribution OM&A programs, the 2021 actuals for the following programs were materially higher than the planned amounts:

- Stations
- Lines
- Vegetation Management
- Distribution Generation Connections
- Operations
- Indigenous Relations, Communications and Stakeholder Relations, and Outsourcing Services
- General Counsel

- Regulatory Affairs
- Information Technology

Conversely, the 2021 actuals for the following programs were materially lower than the planned amounts:

- Meters, Telecom & Control
- Research, Development & Demonstration
- Operations Support

Question(s):

a) Please complete the table below with the requested information.

Program	Driver(s) for Underspend / Overspend in 2021	Description of How Underspend / Overspend will Impact Program Expenditures from 2022 to 2027
Stations		
Distribution Generation Connections		
Operations		
Indigenous Relations, Communications and Stakeholder Relations, and Outsourcing Services		
General Counsel		
Regulatory Affairs		
Information Technology		
Research, Development & Demonstration		
Operations Support		

Note: As there are specific questions relating to the 'Meters, Telecom & Control', 'Lines' and 'Vegetation Management' programs, they have not been included in this table to avoid duplication.

O-Staff-377

Ref: Exhibit O / Tab 2 / Schedule 1 / Attachment 10 / Appendix 2-JC, Distribution OM&A Programs Table

Preamble:

In the updated Appendix 2-JC for distribution OM&A programs, Hydro One reports a 2021 actual of $15.2 million for 'Meters, Telecom & Control'. The 2021 forecast was $17.5 million.

Question(s):

a) Please explain the driver(s) for the underspend for 'Meters, Telecom & Control' in 2021 and update the table below with 2021 actuals, and 2023 values reflecting the inflationary update.

	2018 Actual	2019 Actual	2020 Actual	2021 Planned	2021 Actual	2022 Planned	2023 Planned
Retail Revenue Meters	10.4	10.3	8.9	11.2		11.1	
Wholesale Revenue Meters	2.3	1.9	2.1	2.2		2.3	
Telecom, Monitoring and Control	5.0	3.3	3.9	4.1		4.1	
Total	17.7	15.5	14.9	17.5	15.2	17.5	20.8

b) What impact will the 2021 underspend have on 'Meters, Telecom & Control' expenditures from 2022 to 2027?

O-Staff-378

Ref: Exhibit O / Tab 2 / Schedule 1 / Attachment 10 / Appendix 2-JC, Distribution OM&A Programs Table

Preamble:

In the updated Appendix 2-JC for distribution OM&A programs, Hydro One reports a 2021 actual of $159.2 million for 'Lines'. The 2021 forecast was $121.2 million.

Question(s):

a) Please explain the driver(s) for the increased cost for 'Lines' in 2021 and update the table below with 2021 actuals, and 2023 values reflecting the inflationary update.

	2018 Actual	2019 Actual	2020 Actual	2021 Planned	2021 Actual	2022 Planned	2023 Planned
Trouble Calls	64.4	75.4	76.4	59.3		60.4	
Underground Cable Locates	11.5	11.8	12.3	12.0		12.3	
Disconnects / Reconnects	13.8	17.6	18.7	14.6		14.8	
Line Maintenance	13.5	12.4	13.5	7.6		8.3	
PCB Equipment and Waste Storage	13.4	16.5	14.5	14.1		14.7	
Other Services	16.6	15.3	14.6	13.7		14.7	
Total	133.3	149.0	149.9	121.2	159.2	125.3	138.9

b) What impact will the 2021 overspend have on 'Lines' expenditures from 2022 to 2027?

O-Staff-379

Ref: Exhibit O / Tab 2 / Schedule 1 / Attachment 10 / Appendix 2-JC, Distribution OM&A Programs Table
Exhibit I / Tab 24 / Schedule E-VECC-083

Preamble:

At the first above noted reference, Hydro One provides an updated Appendix 2-JC for distribution OM&A programs.

At the second reference, Hydro One provides a breakdown of the incremental OM&A cost for the Acquired Utilities in each year from 2018 through 2022, and the fully integrated OM&A cost in 2023.

Question(s):

a) Please confirm that 2018 to 2022 values provided in the updated Appendix 2-JC for distribution OM&A programs do not include incremental OM&A costs for the Acquired Utilities (i.e., only 2023 and beyond include OM&A costs for the Acquired Utilities).

b) Please complete the table below by:

   i. Detailing what the actual incremental OM&A costs for the Acquired Utilities were in 2021
   ii. Reflecting any inflationary updates for the fully integrated cost in 2023 for the Acquired Utilities

   When providing 2021 actuals for the Acquired Utilities, please provide commentary for any variance(s) between planned and actual.

	Incremental OM&A						**Fully Integrated OM&A**
OM&A	2018 Actual	2019 Actual	2020 Actual	2021 Planned	2021 Actual	2022 Planned	2023 Planned
Norfolk	2.8	4.1	2.9	3.0		3.8	
Haldimand	3.0	2.8	3.1	5.3		6.0	
Woodstock	1.8	3.6	3.0	2.5		2.7	
Total ($M)	7.6	10.5	8.9	10.7		12.5	

O-Staff-380

Ref: Exhibit O / Tab 2 / Schedule 1 / Attachment 10 / Appendix 2-JC, Distribution OM&A Programs Table
Exhibit I / Tab 1 / Schedule E-Staff-225

Preamble:

At the first reference, Hydro One reports a 2021 actual of $147.7 million for 'Vegetation Management' in the updated Appendix 2-JC for distribution OM&A programs. The 2021 forecast was $139.6 million.

At the second reference, Hydro One provides performance actuals for the Defect Correction (OCP) program.
In the updated evidence, Hydro One has not provided any 2021 actuals for kilometres cleared and unit cost ($/km) for vegetation management.

Question(s):

a) Please explain the driver(s) for the increased cost for 'Vegetation Management' in 2021 and update the table below with 2021 actuals.

	2018 Actual	2019 Actual	2020 Actual	2021 Planned	2021 Actual
Defect Correction (OCP)	127.1	153.7	127.3	123.4	
Public Safety and Reliability Demand	10.9	7.2	9.2	15.2	
QA/QC	1.5	1.5	1.3	1.0	
Total	139.5	162.4	137.9	139.6	147.7

b) What impact will the 2021 overspend have on 'Vegetation Management' expenditures from 2022 to 2027?

c) Please update the table below with 2021 OCP performance actuals and the averages for the 2018 to 2021 period.

Please include a commentary on the number of kilometres that Hydro One was able to clear in 2021 as well as a discussion of the driver(s) for the unit cost ($/km) in 2021.

	2018	2019	2020	2021	Average
Kms cleared (km)	26,070	28,009	22,716		
Unit cost ($/km)	4,910	5,609	5,670		

O-Staff-381

Ref: Exhibit E / Tab 6 / Schedule 1 / Attachment 5
Exhibit O / Tab 2 / Schedule 1 / Attachment 11

Preamble:

At the first reference, Hydro One provides its Confidential Labour Relations Strategy Appendix which details: objectives of upcoming rounds of bargaining, specific points of focus (including compensation-related changes intended to be pursued), and views or assumptions in respect of certain negotiating approaches.

The second reference was updated to reflect 2021 actuals for Hydro One's compensation.

Question(s):

a) What impact(s) have recent events (e.g., cost increases for specialized labour) and inflation had on the approach and objectives outlined in Hydro One's Confidential Labour Relations Strategy?

b) If there has been an impact(s), how has this been reflected in Hydro One's compensation forecast from 2022 to 2027?

O-Staff-382

Ref: Exhibit O / Tab 2 / Schedule 1 / Attachment 11
Exhibit I / Tab 1 / Schedule E-Staff-253

Preamble:

At the first reference, Hydro One provides 2021 actuals for FTE levels and compensation.

At the second reference, Hydro One outlines the number of employees that are eligible for retirement, and the number of actual retirements for the period from 2018 to 2021. In

the response, Hydro One only provided year-to-date values for 2021 based on the time it responded to the interrogatory.

In its update, Hydro One has not provided any commentary or 2021 actuals relating to retirements.

Question(s):

a) Please populate the table below with information on 2021 actuals for retirement eligibility and employee retirements. For purposes of this table, eligibility is defined as the ability to retire with an undiscounted pension.

	2018	2019	2020	2021
Number of Hydro One Employees Eligible for Retirement	1,011	954	899	
Number of Actual Hydro One Employee Retirements	206	167	161	

O-Staff-383

Ref: Exhibit O / Tab 2 / Schedule 1 / Attachment 11
Exhibit I / Tab 1 / Schedule E-Staff-254

Preamble:

At the first reference, Hydro One provides 2021 actuals for total FTE levels.

At the second reference, Hydro One provides a breakdown of FTEs, based on representation.

In its update, Hydro One has not provided any commentary or 2021 actuals relating to the breakdown of FTEs based on representation.

Question(s):

a) Please explain why Hydro One has not reduced any of the planned FTE levels from 2022 to 2027 given that 2021 FTE actuals exceeded the 2021 planned FTE level. In the response, please address this considering Hydro One receiving direction from the OEB to reduce its compensation costs.

b) Please update the table below to include 2021 actuals, broken down by representation.

Type	Representation	2019 Actual	2020 Actual	2021 Planned	2021 Actual
Regular	MGT/Non-Represented	613	647	724	
	Society	1425	1449	1674	
	PWU	3534	3603	3704	
	Total Regular	5572	5699	6103	
Casual	PWU Hiring Hall	1373	1197	1329	
	CUSW	936	948	938	
	EPSCA	217	223	198	
	LIUNA	272	291	247	
	Total Casual	2798	2659	2712	
	Temporary	194	152	175	
Total		8564	8509	8990	9078

c) Please provide commentary for any variance(s) between the 2021 planned and actual FTEs for each representation.

d) In light of the update, please confirm that Hydro One has not made any revisions to its staffing composition for each representation, as detailed in Exhibit E / Tab 6 / Schedule 1 / p. 18 / Table 1, for the 2022 to 2027 period. If there are revisions, please update Table 1 accordingly and provide reasoning for the revisions.

Accounting

O-Staff- 384

Ref: Exhibit O / Tab 1 / Schedule 1 / p.3
Exhibit O / Tab 1 / Schedule 4 / Attachment 1 and Attachment 2

Preamble:

Hydro One stated in the updated evidence that:

> Hydro One recognizes that our customers and all Ontarians will also be experiencing once-in-a generation inflationary pressures. As a result, Hydro One is proposing to defer the Transmission and Distribution revenue requirement

> increases arising from the higher assumed inflation to the next rate period. The incremental revenue requirements associated with this inflation update will be recorded in deferral accounts for recovery commencing in 2028. As a result, there will be no material changes to the proposed transmission or distribution rates for the 2023 to 2027 rate period due to the proposed changes in inflation assumptions.

Hydro One provided the draft accounting orders for the newly requested Transmission Approved Revenue Requirement Deferral Account and Distribution Approved Revenue Requirement Deferral Account.
Question(s)

a) Please explain the consideration of the intergenerational inequity impacts of using this deferral approach.
b) Please provide any OEB precedent that Hydro One is aware of where a deferral account for a similar purpose was approved (please provide the EB# and the reference to the relevant decisions and orders).

O-Staff-385
Ref: Exhibit O / Tab 1 / Schedule 1 / p.3

Preamble:

Hydro One stated in the updated evidence that:

> Based on actual Ontario CPI of 3.5% for 2021 and forecast Ontario CPI of 4.5% and 3.3% for 2022 and 2023 provided by Scotiabank Capital (Scotia), Hydro One has increased its capital expenditures for transmission by $381.0M for a total of $7,639.4M and for distribution by $278.0M for a total of $5,574.5M over the 2023–2027 period. OM&A for 2023 has increased for 2023 by $22.1M for transmission and by $31.4M for distribution.

Question(s):

a) Please confirm that Hydro One did not specifically address the impact of the inflation increase on the pension and OPEB expense in the updated evidence.

b) Please confirm that the inflation increase may also impact the interest rate that is the main factor in determining the deferred benefit pension liability and OPEB liability for both transmission and distribution.

c) If a) and b) are confirmed, please clarify how Hydro One will address the impact of the interest rate on the pension and OPEB liabilities.

O-Staff-386
Ref: Exhibit O / Tab 1 / Schedule 5 / Page 2

Preamble:
Hydro One updated the balance in the External Station Maintenance, E&CS and Other External Revenues variance account by including a life-to-date adjustment of ($27.2) million. As part of this evidence update, Hydro One proposes to return $27.5M to customers as part of the 2023 Rates Revenue Requirement over a one-year period to be implemented at the time of the Draft Rate Order stage (DRO).

The total Transmission regulatory account balances requested for disposition in this Application have been updated from a debit balance of $5.6M to a credit balance of $21.9M and will be reflected in the updated Uniform Transmission Rates at the time of the DRO.

Hydro One states in Footnote 3 that the other regulatory accounts requested for disposition remain over a five-year period as originally proposed.

Question(s)

a) Please provide Hydro One's position on the notion of disposing all regulatory accounts over a one-year period.

O-Staff-387

Ref: Exhibit O / Tab 1 / Schedule 1 / pages 5-6

Preamble:

The above reference documents Hydro One's proposal to record the deferred incremental revenue requirement associated with each of: 1) inflationary increases; and 2) load forecast changes due to increased CDM impacts per the IESO's December 2021 APO, in deferral accounts for recovery beginning in 2028. For each of Tx and Dx,

Hydro One proposes separate sub-accounts for tracking the deferred incremental revenue requirement for each of inflationary impacts and load forecast impacts.

Question(s):

a) Please state whether or not the balances in these accounts (and sub-accounts) will attract carrying charges. If so, please explain what interest rate Hydro One proposes for the balances of these deferral accounts.

O-Staff-388

Ref: Exhibit O / Tab 1 / Schedule 2 / pp. 18-19
Exhibit E / Tab 9 / Schedule 4 / pp. 1-8
Exhibit D / Tab 1 / Schedule 1 / Attachments 1-10
Chapter 2 Filing Requirements for 2022 Rate Applications, June 24, 2021, p.38

Preamble:

Hydro One included property taxes and rights payments as part of OM&A, and is adjusting the property taxes and rights payments in 2023 for the inflation update.
In Exhibit E, it states that for both Transmission and Distribution, the forecast property tax expenses and rights payments reflect higher tax rates, increases in the assessed value of Hydro One properties, and increasing land value. Regarding right payments, it states that Hydro One anticipates increased costs as negotiations with government bodies and railway companies and reviews within the individual agreements are triggered, mainly due to increases in land values.

Furthermore, the Chapter 2 Filing Requirements indicate that property taxes is not an OM&A account and should be excluded from OM&A totals.

Question(s):

a) Please explain why Hydro One has proposed to include property taxes and right payments in OM&A and not including it as a separate line item as seen in the Revenue Requirement Workform in Exhibit D.

b) Please provide a discussion on why both property taxes and right payments are proposed to be adjusted by inflation, in consideration of the factors that drive changes in property taxes and right payments as noted above. Please discuss if other methodologies of determining property and right payments from 2024 to 2027 were considered.

O-Staff-389
Ref: Exhibit O / Tab 1 / Schedule 2 / Attachment 8
Exhibit E / Tab 8 / Schedule 1 / Attachment 2

Preamble:

For Transmission and Distribution depreciation expense for 2023 to 2027, capitalized depreciation did not change from the as-filed amounts while asset removal costs increased from the as-filed amounts.

Question(s):

a) Please explain why capitalized depreciation did not increase even though depreciation on fixed assets increased.

b) Please explain why asset removal costs increased and how the increase relates to the update in capital.

O-Staff-390
Ref: Exhibit O / Tab 1 / Schedule 4 / Attachments 1-2
Exhibit A / Tab 4 / Schedule 2 / Pages 2-4

Preamble:

In the draft accounting orders for the Transmission and Distribution Account 1508, Sub-account Approved Revenue Requirement Deferral Account, the sub-account for Inflation Updates is proposed to record the incremental approved revenue requirement equal to the difference between the as-filed base revenue requirement and approved base revenue requirement arising from the inflation update for the 2023-2027 rate application term. The sub-account for Load Shortfalls is proposed to record the portion of approved rates revenue requirement equal to the revenue deficiency attributed to the change in forecast billing determinants for the 2023-2027 rate application term.

For Transmission and Distribution, the offsetting entries to the sub-accounts for Approved Revenue Requirement and Load Shortfalls is to Transmission Services Revenues or Distribution Services Revenues. As indicated in the footnotes of the draft accounting orders, the offsetting accounts remain under review and if an update is required, Hydro One will update the draft accounting order at the draft rate order stage.

Question(s):

a) For the Load Shortfalls sub-accounts, please confirm that the change in forecast billing determinants referred to is the change between the as-filed billing determinants and the billing determinants as approved in the draft order process. If not confirmed, please explain. If confirmed, please revise the draft accounting order to reflect this during the draft rate order stage.

b) With regards to the offsetting accounts for the Approved Revenue Requirement and Load Shortfalls sub-accounts, please indicate which other accounts are being considered and provide supporting rationale on why the Transmission/Distribution Services Revenues account is currently proposed.

c) Per Exhibit A, the inflation factor will be updated annually over the 2024 to 2027 period. The X factor will not be updated annually. The C factor will be updated annually to reflect any changes in inflation.
    i. Please confirm that after the revenue requirements are approved in the draft rate order stage, the amounts to be recorded in the Transmission and Distribution Inflation Updates and Load Shortfalls sub-accounts are known and will not change. If not confirmed, please explain.

    ii. Please explain and provide an example to show the correlation between the as filed revenue requirement, approved revenue requirement in the draft rate order process, the annually updated revenue requirements in 2024 to 2027 and the amounts recorded in the Inflation Updates and Load Shortfalls sub-accounts.

Revenue Requirement

O-Staff- 391

Ref: Exhibit O / Tab 1 / Schedule 1 / page 5
Exhibit A / Tab 1 / Schedule 3 / Table 1
Exhibit A / Tab 1 / Schedule 4 / Table 1

Preamble:

At the first reference, Hydro One states:

> The transmission revenue deficiency attributed to the change in transmission load forecast totals $122.8M over the 2023 to 2027 period.

The distribution revenue deficiency attributed to the change in distribution load forecast totals $52.9M over the 2023 to 2027 period.

From the above estimates, OEB staff calculate that the average annual incremental revenue deficiency for the change in the Tx load forecast is $24.56M (= $122.8M/5 years). Similarly, the average annual incremental revenue deficiency for the change in the Dx load forecast is $10.58M (= $52.9M/5 years).

From Hydro One's proposed Tx and Dx Custom IR plans at the second and third references respectively, OEB staff calculates an average annual Tx revenue requirement of $2,029.6M and an average annual Dx revenue requirement of $1,795.0M.

Based on this, the average annual incremental Tx revenue deficiency is an increase of about 1.2% (= 24.56M/$2,029.6M) from the original proposed. Similarly, the average annual incremental Dx revenue requirement is 0.6% (=$10.58M/$1,795.0M).

Questions:

a) Please confirm OEB staff's calculations above based on the original filed evidence and the updated evidence cited in the references, or provide any necessary corrections.

b) Please explain why Hydro One believes that the incremental revenue requirement updates should be deferred for collection, given the magnitude of the revenue requirement impacts, instead of being incorporated into the annual revenue requirement for each year of the 2023-2027 plan.

Load Forecast, Cost Allocation & Rate Design

O-Staff-392

Ref: Exhibit O, Tab 1, Schedule 3, Page 2 of 16; Exhibit L, Tab 6, Schedule 1, pages 3-5 of 20

Preamble:

Hydro One proposes to maintain as-filed customer rate impacts by deferring impacts of the deficiency associated with changes in the transmission and distribution load forecasts.

The as-filed rate impacts in 2023 reflect total bill reductions for all Hydro One Legacy customers except Seasonal customers transitioning into R2.

Question(s):

(a) Please provide the 2023 transmission and distribution rates that would result calculating rates based on the updated forecasts. That is, without deferral of the associated deficiency impacts into a future period. In doing so, please consider the most appropriate way to apply any mitigation strategies Hydro One has already proposed in the initial evidence.
(b) Please provide the bill impacts that would result from implementing the rates calculated in part (a) above in 2023.

(c) Please explain the need for the additional rate mitigation measure.

(d) Please provide references to any policy instruments which support Hydro One's proposal.

O-Staff - 393

Ref: Exhibit O / Tab 1 / Schedule 1 / page 4
Exhibit O / Tab 1 / Schedule 2 / pages 11-15

Preamble:

At the bottom of the first reference, Hydro One states:

> In December 2021, the IESO issued its 2021 APO. The 2021 APO contains materially higher forecasts for CDM in Ontario, averaging a 19% increase in CDM compared to the forecast used in the pre-filed evidence over the test period (2023-2027). As a result of the change in the IESO's CDM forecast, from its 2020 APO to its 2021 APO, the CDM assumptions used to establish Hydro One's load forecasts for both transmission and distribution have become outdated. Updating the CDM assumptions in Hydro One's load forecasts has a material impact on the load forecasts for both distribution and transmission, which must be taken into account to ensure that the billing determinants underpinning rates appropriately allow for recovery of Hydro One's approved rates revenue requirements.

At the second reference, Hydro One provides its explanation for maintaining its proposed transmission (Tx) and distribution (Dx) capital and operating programs and projects in light of inflationary pressures. However, OEB staff note that the

impacts of reduced load forecasts due to increased CDM impacts per the IESO's December 2021 APO are not addressed.

Question(s):

a) Please state whether or not Hydro One has made any changes to its Tx and Dx plans and capital and operating budgets for the 2023-2027 plan period as a result of the IESO's December 2021 APO.

b) If Hydro One has made changes to the Tx and Dx capital and operating budgets as a result of higher forecasted CDM impacts, and hence lower electricity demand and consumption in Ontario and also for Hydro One's customers, please provide information on the nature of changes, whether these are deferment or reductions of programs and projects, the dollar reductions, and where these are shown in this exhibit.

c) If Hydro One has not made any changes in terms of delay or reductions of Tx and Dx capital and operating programs and projects as a result of the IESO's updated CDM forecasts that materially impact Hydro One's load forecast over the 2023-2027 period, please provide an explanation of why a material reduction in demand does not result in a reduction in costs to meet that demand, on its own or in order to help mitigate inflationary pressures.

d) Please identify the specific CDM data points that have changed between the 2020 APO and 2021 APO that have directly impacted Hydro One's load forecast, preferably through a direct comparison of the relevant tables in the Demand Forecast modules produced by the IESO for the 2020 APO (https://www.ieso.ca/-/media/Files/IESO/Document-Library/planning-forecasts/apo/APO-Demand-Forecast-Module-Data.ashx) and 2021 APO (https://www.ieso.ca/-/media/Files/IESO/Document-Library/planning-forecasts/apo/Dec2021/Demand-Forecast-Module-Data.ashx).

O-Staff-394

Ref: Exhibit O, Tab 1, Schedule 3, Pages 3-4 of 16 (including Table 2); Exhibit I, Tab 24, Schedule D-VECC-038

Preamble:

Hydro One provides an updated estimate of the cumulative CDM impact on 12-month average peak demand, based on the updated information in the 2021 APO.

Question(s):

(a) Please provide Hydro One's supporting calculations used to develop Table 2 and convert the APO's estimated energy savings from CDM (in TWh) into estimates of monthly peak demand savings (in MW); e.g., in the form of an updated version of the information provided in Exhibit I, Tab 24, Schedule D-VECC-038 part (b) and the accompanying spreadsheet provided in response to part (d).

(b) Was any additional new information from the IESO (beyond the data in the 2021 APO) used to make the updates to Table 2? If so, please describe.

O-Staff-395

Ref: Exhibit O, Tab 1, Schedule 3, Pages 7-8 of 16

Preamble:

Hydro One notes that it derives its distribution energy savings from the transmission energy savings provided by the IESO, and provides an updated estimate of the updated CDM impact in GWh (Table 7)

Question(s):

(a) Please provide the multiplier used to convert from the CDM savings in the APO to the savings for Hydro One's distribution service territory.

(b) Please confirm that Hydro One's estimate of CDM impact on distribution load (Table 7) is based solely on the province-wide CDM data provided by IESO, and does not make use of more granular data on the impact of CDM within Hydro One's distribution territory (e.g. the persisting impacts of CDM programs delivered by Hydro One under previous CDM frameworks).

(c) If confirmed, please provide Hydro One's rationale for this approach.

(d) Do Hydro One's CDM results from previous CDM frameworks differ substantially from the provincial results (if weighted by the multiplier used in part (a))? Please describe.

O-Staff-396

Ref: Exhibit O, Tab 1, Schedule 4, Page 9 of 10

Preamble:

Hydro One proposes to record the deferred revenue requirement associated with revenue deficiencies associated with its load forecast, with the final deferred revenue to be approved at the time of the Draft Rate Order in this proceeding, with recovery commencing in 2028.

Question(s):

(a) Please confirm that Hydro One is requesting that these amounts be approved on a final basis, and would not be subject to any adjustment based on updated information on CDM impacts in 2023 to 2027 that becomes available prior to the commencement of the recovery period in 2028.

(b) If confirmed, please provide Hydro One's rationale for this approach.

Cost of Capital and Capital Structure

O-Staff-397

Ref: Exhibit F / Tab 1 / Schedule 3
Exhibit O / Tab 1 / Schedule 2 / Attachment 7

Preamble:

In the original filed application, filed on August 30, 2021, Exhibit F / Tab 1 / Schedule 3 provides tables summarizing Hydro One's debt and equity financing for each of Transmission and Distribution, and for historical (2017-2020), bridge (2021 and 2022) and test (2023-2027) years.

In the Inflation Update filed on March 31, 2022, Exhibit O / Tab 1 /Schedule 2 / Attachment 7 appears to be an update of Exhibit F / Tab 1 / Schedule 3.

Questions:

a) Please confirm that only pages 3 and 4 of Exhibit O / Tab 1 / Schedule 2 / Attachment 7 are updated from Exhibit F / Tab 1 / Schedule 3. In other words, there are no changes on pages 1, 2, 4 and 5. In the alternative, please explain.

b) Please provide a complete update of Attachment 7 for 2021 actuals, or an explanation as to why this is not possible.