Board Staff Interrogatories
2009 Electricity Transmission Rates
Hydro One Networks Inc.
EB-2008-0272

1. GENERAL

Issue 1.1
Has Hydro One responded appropriately to all relevant Board Directions from previous proceedings?

Board Staff Question 1:
Reference: a) ExhA/Tab18/Sched1/p3
b) ExhA/Tab17/Sched1
c) ExhA/Tab15/Sched1
d) ExhA/Tab16/Sched1

Preamble: Compensation: The Board provided the following direction to Hydro One in its decision for file EB-2006-0501 regarding compensation costs, and how they compare to those of other regulated transmission and/or distribution utilities in North America: … the Board directs Hydro One to consult with stakeholders about the type of information to be gathered and the types of utilities and other companies that should be used for comparison purposes.
…the Board expects (Hydro One) to provide empirical evidence which reveals the relative productivity of its workforce in comparison to other utilities
…the Board expects the new study to be comprehensive and reliable with none of the limitations of the PA study.

The pre-filed evidence includes:

- Summaries of four stakeholder consultations regarding "Compensation Cost Benchmarking and Productivity."
- Transmission Benchmarking Study from First Quartile Consulting (formerly PA Consulting). Hydro One engaged First Quartile to include productivity benchmarking in their transmission benchmark study. In their report, First Quartile stated that "in the specific area of work force productivity measurement and performance, the study is inconclusive, other than to note that the industry doesn't systematically measure productivity for its transmission organizations. First Quartile classifies measures such as cost per asset and cost per km of line maintained as surrogate productivity metrics. "They are really more high-level cost metrics than genuine workforce productivity metrics."
- Compensation Cost Benchmarking Study from Mercer/Oliver Wyman. A productivity survey was developed, but had to be simplified in order to engage participation. The 4 resulting indicators are total compensation per: gross fixed

assets, MWh sold, km of line, service territory.
Questions:

a) What was the rationale for engaging two consultants to study productivity?
b) Are the indicators used by Mercer/Oliver Wyman comprehensive and reliable in light of the assessment by First Quartile?
c) Did the stakeholders suggest alternate productivity indicators? If so, did the consultants attempt to collect information on these indicators?

Board staff Question 2:
Reference: a) ExhA/Tab18/Sch1/p3
b) ExhC1/Tab3/Sch2/pp6-7
Preamble: Agency Review Panel: The Board provided the following direction to Hydro One in its decision for file EB-2006-0501 regarding the Agency Review Panel: The Board directs Hydro One to track any reduction in executive pay during 2007 and 2008 that results (from) implementing the Panel's recommendations and to report that amount at its next transmission rate case.
Question:
The pre-filed evidence states that, "To date, the positions of Chief Executive Officer and General Counsel have had their salaries reduced." Is the reduction tracked and has the amount been reported in the pre-filed evidence?

Board staff Question 3:
Reference: ExhB1/Tab1/Sch1/p.1 L24 – p.2 L4
Preamble: It is stated that:

> *"Hydro One Transmission is requesting an equity return of 8.53% for the 2009 test year and 9.35% for the 2010 test year per the Board's formulaic approach in Appendix B of the Cost of Capital Report. The returns are based on the Long Canada Bond Forecast for 2009 and 2010, using the April 2008 Consensus Forecast. Hydro One assumes that the ROE for each test year will be updated in accordance with the Cost of Capital Report, upon the final decision in this case"*

Question:

a) Please provide detailed calculations of the stated equity returns of 8.53% in 2009 and 9.35% in 2010 as well as copies of any referenced source documents.

b) Please clarify the statement that "Hydro One assumes that the ROE for each test year will be updated in accordance with the Cost of Capital Report, upon the final decision in this case." Please comment specifically on whether or not Hydro One would envisage the Board setting these rates for both 2009 and 2010 at the time of the final decision, or whether Hydro One would envisage the Board applying the 2010 rate that would be determined in accordance with the update process outlined in Appendix B of the Cost of Capital Report which would be applicable to distributors having rates reset in 2010. *(MD)*

Board staff Question 4:
Reference: ExhB1/Tab1/Sch1/p.2 L12-L16
Preamble:
It is stated that:

> *"For 2009 and 2010, the deemed short-term rates are 4.47% and 4.75%, respectively, using the April 2008 Consensus Forecast. Hydro One assumes that the deemed short term debt rate for each test year will be updated in accordance with the Cost of Capital Report, upon the final decision in this case."*

Question/Request:

a) Please provide detailed calculations of the stated deemed short-term rates of 4.47% in 2009 and 4.75% in 2010 as well as copies of any referenced source documents.

b) Please clarify the statement that "Hydro One assumes that the deemed short term debt rate for each test year will be updated in accordance with the Cost of Capital Report, upon the final decision in this case." Please comment specifically on whether or not Hydro One would envisage the Board setting these rates for both 2009 and 2010 at the time of the final decision, or whether Hydro One would envisage the Board applying the 2010 rate that would be determined in accordance with the update process outlined in the Cost of Capital Report which would be applicable to distributors having rates reset in 2010.

Board staff Question 5:
Reference: ExhB1/Tab1/Sch1/p.3 L10-L14
Preamble:
It is stated that:

> *"The deemed long-term debt rate for 2009 is 6.19% and that for 2010 is 7.29%, based on the approach in Appendix A of the Cost of Capital report, using the April 2008 Consensus Forecast. Hydro One assumes that the deemed long term debt rate for each test year will be updated in accordance with the Cost of Capital Report, upon the final decision in this case."*

Question/Request:

a) Please provide detailed calculations of the stated deemed long-term debt rates of 6.19% in 2009 and 7.29% in 2010 as well as copies of any referenced source documents.

b) Please clarify the statement that "Hydro One assumes that the deemed long term debt rate for each test year will be updated in accordance with the Cost of Capital Report, upon the final decision in this case." Please comment specifically on whether or not Hydro One would envisage the Board setting these rates for both 2009 and 2010 at the time of the final decision, or whether Hydro One would envisage the Board applying the 2010 rate that would be determined in accordance with the update process outlined in Appendix B of the Cost of Capital Report which would be applicable to distributors having rates reset in 2010.

Board staff Question 6:
Reference: ExhB1/Tab2/Sch1/p.5
Preamble: Table 3, "Forecast Debt Issues for 2009 and 2010," lists the fixed rate Medium Term Notes which Hydro One Transmission plans to issue in 2009 and 2010.
Question:
Please state how it was determined to issue this debt in equal 5, 10 and 30 year increments and whether this approach to debt issuance is normal practice for Hydro One.

Board staff Question 7:
Reference: ExhB1/Tab2/Sch1/p.6
Preamble: Table 4, "Forecast Yield for 2008-2010 Issuance Terms," summarizes the derivation of the forecast Hydro One Inc. yield for each of the planned issuance terms for 2009 and 2010.
Question:

a) For each yield in this table, please state whether it was directly sourced from the April 2008 Consensus Forecasts and if so, please provide the reference. If any yield was not directly sourced, please state what adjustments were made and the sources of the adjustments
b) Please provide the indicative new issue spreads for March 2008 on which Hydro One's credit spreads over the Government of Canada bonds are based.
c) Please provide an update of this table based on market conditions as of November 2008.

Board staff Question 8:
Reference: ExhA/Tab13/Sch1/p4/Sec3.1
Preamble: Hydro One indicates that over the next 2-3 years Planning Standards and Operating Policies will be brought into compliance with mandatory reliability standards.
Question/Request: Please identify the costs estimated for this conversion and the programs in which those costs occur in the application.

Board staff Question 9:
Reference: ExhA/Tab13/Sch1/p4/Sec3.3
Preamble: The application indicates in the reference that "Hydro one commenced our IFRS conversion project in 2007 and established a formal project governance structure for this project."
Question/Request: Please
a) identify the costs and budgets in 2007 and 2008 of this project
b) identify the programs in which those costs occur in the test years
c) describe the formal project governance structure for this project

2. LOAD FORECAST and REVENUE FORECAST

Issue 2.1
Is the Load Forecast and Methodology appropriate and have the impacts of Conservation and Demand Management initiatives been suitably reflected?

Board staff Question 10:
Reference:
Preamble: Since the filing of the application, given the current economic situation, has Hydro One assessed the situation and identified any specific issues that may have a material impact on its application, including:

- Load forecasts
- Capital expenditure sustainment, development, operations and shared services
- OM&A
- Cost of capital
- Other?

Questions:

a) If so, can Hydro One provide the necessary evidence and an estimate of the timing of any update including necessary calculations?
b) For each of the categories where applicable please provide a prioritization of programs which might be affected by the economic situation.
d) Please provide a list of criteria and the rationale that Hydro One would consider in the prioritization and selection of 2009 and 2010 OM&A and Capital projects in its application.
c) Please identify, individually, OM&A and Capital programs and/or projects that Hydro One would consider as a candidate for a deferral, cut, or partial adjustment, given the current economic situation. Please identify these programs, if any, in a ranking order that Hydro One would consider, using a ranking of "1" as the first suitable candidate, ranking of "2" as the second suitable candidate, ranking of "3" as the third suitable candidate, etc.
d) Please describe the expected impacts on Hydro One's revenue requirement, operations and service quality and reliability to customers if the identified programs are reduced, deferred or cut during the economic downturn.

Board staff Question 11:
Reference: ExhA/Tab14 /Sch3/AttachmentC /section1.0/4th bullet
Preamble: In the reference paragraph and elsewhere in this attachment C the term "natural conservation" is used.
Question: Please provide a definition of the term "natural conservation".

Board staff Question 12:
Reference: ExhA /Tab14 /Sch3 /Attachment C/ section3.1
Preamble: In the 4th paragraph, Hydro One is explaining the first method of evaluating the difference between 2004 and 2007 to measure the effect of CDM. “The economic growth between 2004 AND 2007 was removed using the historical relationship between the economic activity (i.e. GDP) and the peak load.”
Question: Please provide information as to the quality of the correlation of GDP and peak load. How much error could be introduced in the estimate of CDM by the assumption that the relationship is certain?

Board staff Question 13:
Reference: ExhA/Tab14/Sch3/AttachmentC/Appendix H /Conservation Culture
Preamble: In the paragraph before the last table it states: “By 2007, 56% of survey respondents said they used the LED holiday lights”
Question: Is the 56% a summation of the amounts in the first row, which totals 46%? If not please explain the how 56% is determined.

Issue 2.2
Are other revenue (including export revenue) forecasts appropriate?

Board staff Question 14:
Reference: ExhE1/Tab1/Sched1/p.1
Preamble:
Table 1 indicates that the return on capital includes AFUDC recovery for the Niagara Reinforcement Project ($5.5 M in 2009 and $6.6 M in 2010)
Question:

a) Please explain why this adjustment is necessary.
b) Please provide the calculation to determine these amounts.
c) What is the status and schedule for completion of the Niagara Reinforcement Project?

Board staff Question 15:
Reference: ExhE1/Tab1/Sched1/p.5
Preamble:
Table 4 at line 8 is a deduction of other cost charges. These cost charges are described as including deferred export credit refund, deferred tax refund and OEB cost adjustments offset by market ready cost recoveries.
Question:
Please provide a breakdown of the components that are included in the "other cost charges" category. Please provide any calculations showing how the other cost charges were determined.

Board staff Question 16:
Reference: ExhE1/Tab1/Sched1/p.6
Preamble:
Table 5 provides the components of change to the revenue requirement from the proposed 2009 to the proposed 2010. The change in load forecast accounts for $36 M of the total change.
Question:
Please provide a breakdown of the $36 M based on the categories shown in Table 4 of this Exhibit.

Board staff Question 17:
Reference: ExhE1/Tab1/Sched2/pp.2-5
Preamble:
Table 1 (External Revenues) projects a marked reduction in 2009 and 2010 Station Maintenance revenues and Engineering & Construction revenues. The reason given for the decline is the significant increase in Hydro One's Transmission work program and the reallocation of resources.
Question:

a) Has Hydro One implemented a reduction in resources dedicated to Station Maintenance and Engineering &Construction in the past? If so what were the reasons for the reduction and how was the resource reallocation managed.
b) Please provide details how Hydro One arrived at the 2009 and 2010 external revenues associated with Station Maintenance and Engineering & Construction.
c) Does Hydro One curtail its contracting in order to free up resources. Please explain how this is implemented.
d) Are there long-term contracts in place for any of the Station Maintenance and Engineering & construction work for which Hydro is committed through the test years? If so please provide details.

3. OM&A

Issue 3.1
Are the proposed spending levels for Sustaining, Development and Operations OM&A in 2009 and 2010 appropriate, including consideration of factors such as of system reliability and asset condition?

Board staff Question 18:
Reference: Letters and e-mails sent, on the Board proceeding website.
Preamble: Numerous letters of comment have been received from the public and public organizations:
Questions:
Please provide Hydro One's response to each of the following letters received:
Letters of Comment:
a) P. LeMay; received November 12, 2008.
b) Mrs. Joan Richters; received November 12, 2008.
c) Senior Citizens Club #270, President Alene Charron; received November 4, 2008.
d) Marcel & Alene Charron; received November 4, 2008.
e) Judy Bernstein; received October 31, 2008.
f) Grant Bull; received November 3, 2008.
Request for Observer Status:
g) Frank Falconer; received October 2008.

Board staff Question 19:
Reference: ExhC1/Tab1/Sched1/p4
Preamble: The pre-filed evidence states that "Labour costs are charged to OM&A and Capital work programs. The evidence contained at Exhibit C1, Tab 3 presents total staff levels and costs incurred by the Company..."
Question:

Total staff levels are not provided in the Exhibits cited. Please provide staff levels and labour costs in table format for historic years 2005, 2006, 2007, bridge year 2008 and test years 2009 and 2010. Please provide breakdown by MCP, PWU, Society and Total.

Board staff Question 20:
Reference: ExhC1/Tab2/Sched1/p2
Preamble: OM&A expenditure for 2009 is projected to increase by 8% over bridge year and OM&A expenditure for 2010 is projected to increase by 3% over 2009. Reasons noted are increasing maintenance of an aging and expanding transmission system.
Question:

How much of the increase in OM&A expenditure is due to aging and how much is due to expansion?

Board staff Question 21:
Reference: ExhC1/Tab2/Sched1/p2

Preamble: OM&A spending in test year 2008 is listed as $402.7 million and is lower than OM&A spending in historic year. It is noted that the drop in spending is primarily due to small decreases on some station and line maintenance programs, however, there is no supporting rationale provided in Schedule 1 or Schedule 2.

Question:

a) Why did these decreases in station and line maintenance programs occur?
b) Could these factors be ongoing or could they reoccur?
c) What has been the proportion of sustaining planned work vs unplanned work for historical years? What is the forecast for planned work vs unplanned work for bridge and test years? *(VB)*

Board staff Question 22:
Reference: ExhC1/Tab2/Sched2/p5

Preamble: Increases in planned expenditures for stations OM&A are attributed to a large portion of the asset base moving through mid-life and a large portion of the asset base nearing end of life.

Question:

What are these portions of asset base moving through mid-life and end of life expressed as percent of asset base?

Board staff Question 23:
Reference: ExhC1/Tab2/Sched2/p9

Preamble: Hydro One is currently evaluating the potential financial and operating impacts of new Federal government regulations related to management of PCBs.

Question:

a) When does Hydro One expect to complete the evaluation of the impact of the regulation?
b) As no funding has been allocated in the test years for any additional requirements stemming from the regulations, how does Hydro One propose to fund any environmental management that is required?

Board staff Question 24:
Reference: ExhC1/Tab2/Sched2/p12

Preamble: Hydro One is continuing a program to re-commission dormant mechanical spill containment drainage sumps to allow the containment units to purge rainwater automatically thus reducing demands on station maintenance resources.

a) Please quantify the benefit in terms of reducing demands on stations maintenance resources.

b) Has Hydro One identified any other opportunities to reduce demands on station maintenance resources?

Board staff Question 25:
Reference: ExhC1/Tab2/Sched2/pp33-34
Preamble:
The OM&A associated with vegetation management is noted as $21.6 million (2006), $27.0 million (2007), $21.2 million (2008), $23.3 million (2009) and $24.6 million (2010).
Question:

a) Is the higher vegetation management cost in 2007 related to the requirements of the NERC Vegetation Management Standard that came into effect during 2006?
b) If so, is the proposed spending for 2009 and 2010 sufficient to meet the requirements of the standard?

Board staff Question 26:
Reference: ExhC1/Tab2/Sched2/p40
Preamble: The OM&A associated with preventative maintenance and asset condition assessment for overhead lines for bridge year 2008 does not align with historic and test years. The 2008 expenditure is lower than 2007.
Question:

a) As much of this work consists of regularly scheduled activities, were some activities not completed in 2008?
b) If so, could this affect reliability and increase unplanned maintenance?

Board staff Question 27:
Reference: ExhC1/Tab2/Sched3/p2
Preamble: Development OM&A as a percentage of total OM&A has generally increased each year from 2.0% in 2005 to 3.6% in 2010.
Question:

a) Please explain the drivers for this increasing percentage.
b) Is there an industry standard for development OM&A as a percentage of total OM&A? If so, how does Hydro One compare?

Board staff Question 28:
Reference: ExhC1/Tab2/Sched3/pp5-7
Preamble: Hydro One is performing pre-engineering development OM&A for future projects related to the IPSP and other long term projects. Hydro One is not seeking to recover the costs of this work in the current proceeding.
Question:

Will the scope of the projects and the cash flow per year change given the

September 17, 2008 Ministerial Directive and the adjournment of the IPSP hearing?

Board staff Question 29:
Reference: ExhC1/Tab2/Sched4/p3
Preamble: The pre-filed evidence states that, “Planned expenditures for Operations OM&A test years are higher than bridge and historical years due to increased operator training requirements, increased operating facilities maintenance and monitoring requirements, and labour and material escalation.”
Question:

Please provide a table outlining expenditures for operator training, operating facilities maintenance and monitoring requirements, and labour and material escalation for historic, bridge and test years.

Board staff Question 30:
Reference: b) Exh C1/Tab2/Sched 2
c) Exh D1/Tab 3/Sched 2
Question:

For each of the three categories of **OM&A** expenditure (Sustainment, Capital and Operations) please provide information on past **system reliability and asset condition** so as to enable an understanding of how they have determined OM&A expenditure. The information should be provided to the level of detail so that particular instances of inadequate reliability performance can be related to specific investments.

Issue 3.2
Are the proposed spending levels for Shared Services and Other OM&A in 2009 and 2010 appropriate?

Board staff Question 31:
Reference: ExhC1/Tab2/Sched6/p13
Preamble: Hydro One notes that the Human Resources Function will play a significant role in the demographic transition. "Approximately 25 percent of the workforce (>1000 employees) has become or will be eligible to retire in the next 1½ years. Hydro One must not only replace these people, but also find an additional 600 people to meet the need of the planned work programs."
Question:

a) Please provide planned work program information that supports the additional 600 people.
b) Will the additional 600 people be full time employees or will some be contract staff?

Board staff Question 32:
Reference: ExhC1/Tab2/Sched6/p18
Preamble: General Counsel and Secretary Function costs in bridge year 2008 is listed as $7.3 million and is lower than costs in historic year 2007, which are listed as $7.9 million.
Question:

Please provide the rationale for the decrease in 2008.

Board staff Question 33:
Reference: ExhC1/Tab2/Sched8/p4
Preamble: Asset Management costs in bridge year 2008 increased by 28% 2007. Some examples provided of work contributing to the increase are IPSP, CDM, smart meters and compliance activities (NERC, NPCC, SEC, OSC, Bill 198) and the Cornerstone initiative.

a) Please identify if any of the costs are one-time costs.
b) If any of the costs are one-time costs, please explain the level of asset management costs in 2009 and 2010.

Board staff Question 34:
Reference: ExhC1/Tab2/Sched8/p8
Preamble: System Investment costs have more than doubled in the period 2005 to 2008 and further increases are projected for test years. One of the reasons cited is an unprecedented number of requests for generation applications requiring connection impact assessments.

Question:

The system investment cost allocation to transmission is 76%. Is this appropriate given the high volume of requests for connection impact assessments to the distribution system?

Board staff Question 35:

Reference: ExhC1/Tab2/Sched9/p15

Preamble: Business Telecom OM&A expenditures in 2008 are 18.6% higher than 2007 costs. The "increases from 2008 reflect increase in services for the increased size of the Hydro One workforce, the increase in costs for services provided by Hydro One Telecom and in 2009 the costs associated with the renewal of the Bell contract"

Question:

a) What proportion of the 18.6% increase is associated with the increased size of the Hydro One workforce?
b) Provide a table summarizing the Hydro One workforce, and the transmission business workforce for historic, bridge and test years.

Board staff Question 36:

Reference: ExhC1/Tab2/Sched12/p6

Preamble: Rights payments associated with individual railways are being consolidated into master agreements with each individual railway. The pre-filed evidences states that, "This type of agreement will result in one annual payment per railway, reducing administrative efforts and should streamline the payment process."

Question:

a) Can Hydro One quantify the benefit of reducing administrative effort?
b) Are there other similar opportunities?

Board staff Question 37:

Reference: ExhC1/Tab5/Sched1/p2
ExhC1/Tab5/Sched1/Attachment1/p6

Preamble: The Rudden methodology for common corporate cost allocation was approved for 2007/2008 Transmission Rates filing. The consistency in the use of the cost allocation methodology for 2009 and 2010 has been reviewed by Rudden (now Black & Veatch).

Question:

Please explain the difference in the allocation of 2009 CCF&S Costs between the two references.

Board staff Question 38:
Reference: ExhC1/Tab5/Sched3/p3
Reference: ExhC1/Tab5/Sched3/Attachment1/p3
Preamble: The 2009-2010 common asset allocation using the Rudden (now Black & Veatch) methodology.
Question:
Why do the allocations, as at December 31, 2007, in the two references differ by $2 million?

Issue 3.3
Are the compensation levels proposed for 2009 and 2010 appropriate?

Board staff Question 39:
Reference: ExhC1/Tab3/Sched1/p1
Preamble: Hydro One notes that 1,000 Networks staff (transmission and distribution) are eligible for undiscounted retirement by December 31, 2008. The pre-filed evidence states that a greater number of staff eligible to retire will elect to retire sooner given the increased competition for these scarce resources in the marketplace.
Question:
a) What proportion of staff eligible to retire by December 31, 2008 has filed notice that they will retire?
b) Is Hydro One able to forecast retirements with respect to competition for resources as well as the current economic climate?

Board staff Question 40:
Reference: ExhC1/Tab3/Sched1/p5
Preamble: Hydro One is active in developing current staff to enhance and/or develop new skills.
Question:
a) Please quantify the benefits of this training?
b) Does Hydro One expect productivity to increase when skills are enhanced and new skills are developed?

Board staff Question 41:
Reference: ExhC1/Tab3/Sched2/p1
Preamble: Following the division of Ontario Hydro, Hydro One inherited collective agreements that already establish terms and conditions of employment for represented employees.
Request:
Please provide comparison of compensation, wages and benefits with other Ontario Hydro successor companies. Please provide the comparison for historic, bridge and test years.

Board staff Question 42:
Reference: ExhC1/Tab3/Sched2/p10
Preamble: The year end Hydro One Networks Inc. Payroll is summarized for the period 2005 to 2010 in Table 3. Hydro One believes that the upward trend in payroll costs is reasonable in light of the steadily increasing transmission and distribution work programs since 2005, as well as the negotiated increases in labour rates.
Request:
Please summarize the year over year increase in payroll cost and provide the allocation between increasing work programs and increase in labour rates.

Board staff Question 43:
Reference: ExhC1/Tab3/Sched2/p10
Preamble: Hydro One Networks payroll in historic year 2007 was $495.4 million and is $569.9 million in bridge year 2008.
Request:
a) What are the specific reasons for the 14.8% increase?
b) If there is more than one reason, provide the payroll increase associated with each reason.

Board staff Question 44:
Reference: a) ExhC1/Tab3/Sched2/p10
b) ExhC1/Tab4/Sched1/p17
Preamble: There are several references to increasing work program in this exhibit. On page 10, Hydro One states, "For the period 2008-2010, the total Networks (Transmission and Distribution) work program is expected to increase by over 20%, whereas the regular staff increase is expected to increase by approximately 6%.
Questions:
With regard to Reference a)
a) Does this indicate that Hydro One will get more work done without increasing resources, or will there be an increase in contract staff?
b) How is the work program increase measured?
c) Provide the information supporting the 20% increase in work program.
d) How is the staff increase measured?
e) Provide the information supporting the 6% increase.
f) What is the contribution of the projected staff increase to the total payroll increase from $569.0 million in 2008 to $619.9 million in 2010?

With regard to Reference b)
g) Reference b) states that, "the budget for supply chain management increases by 8.7% from 2008 to 2010, reflecting the need to support overall forecast growth in the transmission and distribution work programs (42.9% in the same period).
h) Explain the difference in growth in transmission and distribution work program increase/growth, as described in the two references.

Board staff Question 45:
Reference: ExhC1/Tab3/Sched2/p13
Preamble: Terms of Reference were prepared for the Mercer Canada Limited compensation benchmarking and the Oliver Wyman productivity benchmarking.
Question:
Please provide a copy of the terms of reference.

Board staff Question 46:
Reference: ExhC1/Tab4/Sched1/p2

Preamble: Table 1 summarizes the Standard Labour Rate Composition for "Stations Regional Maintainer – Electrical".
Question:
Please explain why the costs associated with field trades supervision and other management and technical staff providing support services increased 44% from 2007 to 2008.

Board staff Question 47:
Reference: ExhC1/Tab4/Sched1/p22
Preamble: There is work in progress to improve productivity in supply chain management, including obtaining quotes for materials required over multiple delivery dates, blanket purchasing orders and streamlining standards.
Question:
Please identify the financial benefit of these productivity improvements?

Board staff Question 48:
Reference: ExhA/Tab16/Sched1/p3
Preamble: One of the past and current cost efficiency initiatives is full use of temporary headquarters for work crews. The efficiency initiative reduces travel time and increases "wrench" time on the job.
Question:
Please provide the financial benefit of this productivity improvement.

Board staff Question 49:
Reference: ExhA/Tab16/Sched2/Attachment1/p19
Preamble: Mercer Canada benchmarked the compensation for 17 Power Workers' Union roles. The weighted average multiple of the market median for these 17 roles is 1.21.
Question:
Please provide the drivers behind the multiple of the market median for regional maintainer – lines (1.43), service dispatcher (1.42) and stock keeper (1.42).

Board staff Question 50:
Reference: ExhA/Tab16/Sched2/p31
Preamble: The Mercer/Oliver Wyman productivity benchmarking study analysed 4 indicators - total compensation per: gross fixed assets, MWh sold, km of line, service territory. The transmission and distribution results are summarized on page 31.
Question:
There are outliers for cost/MWh and for costs/service territory. As such, are these robust indicators for productivity benchmarking?

Board staff Question 51:
Reference: ExhA/Tab16/Sched2/p36
Preamble: The customer service productivity benchmarking results are summarized on page 36. Hydro One's productivity indicators for customer service are better than the median for all indicators and ranks as the best relative to al its peers.
Question:
Please explain the drivers behind this result.

Issue 3.4

Is Hydro One Networks' proposed transmission overhead capitalization rate appropriate?

Board staff Question 52:
Reference: ExhC1/Tab5/Sched2/Attachment1/p3
Preamble: The 2009-2010 overhead capitalization rate has been calculated consistent with Rudden (now Black & Veatch) methodology. The pre-filed evidence states that "..while the departments that perform the CCFS activities can determine with reasonable accuracy the portions of time they spend on Transmission, Distribution, and the other business units, they are unable to determine with reasonable accuracy the time they spend on OM&A vs capital projects."
Clarification:

Please indicate whether Hydro One is planning to introduce a time records process to increase the accuracy of cost allocation between transmission and distribution, and within each between OM&A and capital projects.

Issue 3.5

Are the amounts proposed to be included in the 2009 and 2010 revenue requirements for income and other taxes appropriate?

Issue 3.6

Is Hydro One Networks' proposed depreciation expense for 2009 and 2010 appropriate?

4. CAPITAL EXPENDITURES AND RATE BASE

Issue 4.1
Are the proposed 2009 and 2010 Sustaining and Development and Operations capital expenditures appropriate, including consideration of factors such as system reliability and asset condition?

Sustainment Capital

Board staff Question 53:
Reference: a) ExhD1/Tab3/Sched2/p14/lines 13-16
b) ExhD2/Tab2/Sched3/Ref.# S1 and #S2
Clarification:
(i) Please clarify how many of the Oil Circuit breakers will be replaced by the end of 2010, noting that in Reference b), the narrative for Ref.#S1 states that more than 50% of the total number of breakers of 4,000 are oil circuit breakers.
(ii) When does Hydro One expect to complete replacement of all the oil circuit breakers on its system?
(iii) What is the average cost of replacing a typical 115 kV and 230kV oil circuit breaker?

Board staff Question 54:
Reference: ExhD2/Tab2/Sched3/Ref.# S8/paragraph 1

Preamble:
In the Reference, under Need: the project (total capital cost of $120.9 million) includes provision of one new diameter and nine new breakers to accommodate New local generation and future network expansions.
Question:
(i) Please provide the cost of installing the additional diameter and the nine new breakers mentioned in that Reference.;
(ii) Please indicate the rationale for not classifying the cost of the new diameter and nine new breakers as “Development” capital.

Board staff Question 55:
Reference: a) ExhD1/Tab3/Sched2/p.21/Figure 6
b) ExhD1/Tab3/Sched2/p.24/Table 5
Clarification:
(i) In Reference a), is the number of transformers at EOL shown for the four years cumulative. If so, please confirm that there are:
- about 20 transformers would reach EOL during 2008 (225-205);
- about 15 transformers would reach EOL during 2009; and
- about 10 transformers would reach EOL during 2010.

(ii) In Reference b), the Table show the transformers listed for the various stations corresponding to the seven Projects S10 to S 16, which total 18 transformers that reached EOL during 2009 and 2010.

(iii) Please provide some clarification in regard to the two sources of information outlined in (i) and (ii) above, where in (i) there are a total of about 25 transformers reaching EOL and in (ii) there are only 18 transformers that reached EOL.

<u>Board staff Question 56:</u>
<u>Reference:</u> ExhD2/Tab2/Sched3/Ref.# S15/Summary - paragraph 2
<u>Preamble:</u>
The Reference indicates that replacement for Transformers T7 and T8, may be either:

- like-for-like where the size the new transformers will be the same as the replaced ones (each with capacity of 83 MVA); or
- Increase transformer capacity (each with capacity of 125 MVA)

<u>Questions:</u>
(i) If Hydro One opts to replace the transformers with larger size, would that be to accommodate increased load (load growth) from load customers served by these two transformers?
(ii) If response to (i) indicates that load growth is the trigger for the added capacity, please provide the name of the load customers, including distributors, and the amount of added load from each customer.
(iii) Would Hydro One follow the procedures outlined in the Transmission System Code to conduct economic evaluation to determine whether or not capital contributions need to be recovered from these load customers?

<u>Board staff Question 57:</u>
<u>Reference:</u> ExhD2/Tab2/Sched3/Ref.# S35/Summary - paragraph 2
<u>Preamble:</u>
The Reference indicates that replacement for the 115 kV circuit P3S from Port Hope Jct to Sidney TS (60.1 km) is recommended due to the deterioration of the circuit. In the Summary Section of the Reference, Hydro One stated in part that:

> *"This investment will consist of replacing the existing 477 kcmil ACSR conductor with new 732 kcmil conductor on the 60.1 km section of line between Port Hope Jct and Sidney TS. The 732 kcmil compact conductor is a readily available modern standard conductor that is adequate for replacement of the existing conductor while delivering additional current carrying capacity and reducing line losses by about 35%.*"

The Summary Section of the Reference goes on to state in part that:

> *"Proposed refurbishment work will return this section of line to a near-new condition and will also meet future load growth demands."*

Questions:

(i) Please identify the load customers whose load growth will be accommodated by the increasing the size of the conductors from 477 kcmil ACSR to 732 kcmil.

(ii) Would Hydro One follow the procedures outlined in the Transmission System Code to conduct economic evaluation to determine whether or not capital contribution need to be recovered from the load customers?

Development Capital

Board staff Question 58:

Reference: ExhD1/Tab1/Sched2/p1/Table 1

Request:

In Table 1, under "Development" category for 2007, a Variance of $ 73.6 Million is indicated. Please provide the name of the projects contributing to this variance of $73.6 Million, and for each project the amount attributed in $ Millions.

Board staff Question 59:

Reference:

a) Pre-filed Evidence for Proceeding RP-2000-0068, ExhB/Tab4/Sched2/p1

b) ExhD2/Tab2/Sched3/Invest.Summary/Ref. # D1

Preamble: In Reference a), the project cost estimate approved is shown to be $ 96.536 Million, and the cost for the same project is shown in Reference b) to be $122.8 million.

Request:

Please provide a short summary showing the variance in costs by category e.g. "Engineering & Studies", "Station and Telecommunication", "Transmission Line Facilities", and for each category to be broken to "Labour", "Material", and "Overhead".

Board staff Question 60:

Reference: ExhD1/Tab3/Sched3/Project D5/p15/lines 9-19

Preamble:

In the Reference above, Hydro One stated in part that:

> *"…Assuming a project life of 45 years, and assuming that these benefits remain constant, the Net Present Value ("NPV") of the benefits is estimated to be between $83 and $104 million based on a real (social) discount rate of 4% that is used in the OPA's Integrated Power System Plan. When discounting unescalated, non-utility cash flows such as congestion and reliability penalties, use of a real social discount rate is more appropriate rather than a utilityspecific, nominal, after-tax discount rate. Thus, the NPV of the benefits exceeds the$80.5 million cost of the discretionary work for unbundling the circuits."*

Questions:

(i) Please provide a definition of what is referred in the above Reference as "social discount rate";

(ii) Please provide details in regard to calculation of the social discount rate from basic principles, and how the social discount rate would vary in response to various varying economic conditions such as economic downturns, varying risk evaluation of a project, leading to either an increase or a decrease in the real discount rate etc.;

(iii) Please provide information on the experience in other jurisdictions in the U.S.A and in Canada in regard to assessment of electricity transmission projects where "social discount rates" were used. For each case please provide the details on how the social discount rate was calculated.

Board staff Question 61:

Reference:

a) ExhD1/Tab3/Sched3/pp 16-17/ projects D7, D8
b) ExhD2/Tab2/Sched3/Invest.Summary/Ref.#D7&D8c)
c) Filing Requirements for Transmission and Distribution Applications, November 14, 2006 (EB-2006-0170)/Sec. 5.3.2/paragraph 3

Preamble: Reference a) and Reference b) refer to the two projects as "Non-Discretionary", and this appear to be the reasons for not showing an economic evaluation to demonstrate the economic benefits of the two projects.
Reference c) indicate that even though the net present value for a non-discretionary project need not be shown to be greater than zero, an evaluation of the economic benefits e.g., the evaluation of the reduced congestion on the system is appropriate.

Request:

Please provide an estimate of the reduced congestion attributable to the two projects over an appropriate study horizon, and listing all assumptions.

Board staff Question 62:

Reference:

a) ExhD1/Tab3/Sched3/pp 17-18 / Project D9, D10, D11
b) Filing Requirements for Transmission and Distribution Applications, November 14, 2006 (EB-2006-0170)/Sec. 5.3.2/paragraph 3

Preamble:

Reference a) above indicate that the projects will only be implemented if the OPA so recommends.
Reference b) indicate that even though the net present value for a non-discretionary project need not be shown to be greater than zero, an evaluation of the economic benefits e.g., the evaluation of the reduced congestion on the system is appropriate.

Questions:

(i) are these projects included in the IPSP?

(ii) If the response to (i) is affirmative, is it reasonable to assume that the OPA will recommend implementation of these projects once its IPSP plan is approved by the OEB?

(iii) Please provide an estimate of the reduced congestion attributable to the three projects over an appropriate study horizon, and listing all assumptions.

Board staff Question 63:

Reference:

ExhD2/Tab2/Sched3/Invest.Summary/Ref.#D23, #D24, #D25, #D26, #D27, #D28, and #D29

Preamble:

Hydro One is seeking approval in this hearing for the seven "Load Customer Connection" projects whose in-service dates are within the two test years 2009/2010.

Request:

Please provide for each project a copy of the spread sheet depicting the economic evaluations, showing all assumptions including the discount rate..etc, pursuant to the requirements of the Transmission System Code (Section 6.3). Where for any project, more than a single customer is contributing capital, please provide the details of the study for each customer.

Board staff Question 64:

Reference: ExhD2/Tab2/Sched3/Invest.Summary/Ref.#D30, #D31, #D32, #D33, and #D34

Preamble:

Hydro One is seeking guidance in this hearing for the five "Load Customer Connection" projects whose in-service dates are beyond the two test years 2009/2010.

Request:

Please provide for each project a copy of the spread sheet depicting the economic evaluations, showing all assumptions including the discount rate …etc, pursuant to the requirements of the Transmission System Code (Section 6.3). Where for any project, more than a single customer is contributing capital, please provide the details of the study for each customer.

Operational Capital

Board staff Question 65:

Reference: a) ExhD2/Tab2/Sched3/Ref.# O1
b) ExhD1/Tab3/Sched4/p 5/Table 2

Preamble:

In Reference a), the cost for the "Grid Operations Control Facility" is shown to be $ 27 million, while in Reference b), the investment for the two test years for that same investment is shown to be $15.1 million for 2009, and $9.8 million for 2010 i.e., a total of $ 24.9 million.

Clarification:

Please provide clarification in regard to the apparent discrepancy between the two amounts.

Board staff Question 66:

Reference: a) ExhD2/Tab2/Sched3/Ref.# O2
b) ExhD1/Tab3/Sched4/pp 10-13

Preamble:

In Reference a), the cost for the "Integrating Operating Infrastructure" is shown to be $ 11.4 million for the period up to mid 2010.

In Reference b), there are a number of investments listed as shown in the Table below:

Operating Infrastructure	2009	2010
Hub-Site End of Life Replacement	$3 million	$3 million
Telecom Wide Area Network		$13 million
Other Miscellaneous Projects	$0.1 million	$3.1 million

Clarification:

Please provide clarification in regard to the apparent discrepancy between the two sources in regard to the investment amounts.

Board staff Question 67:

Reference: a) Exh D1/Tab2/Sched 1/AttA

Preamble:

Tables 3-1, 3-2, 3-3 summarize the findings of the ACA Process Audit. In regard to report section 4.5 HV/LV Switches, the findings indicate that a reasonable data collection plan should be established.

Question:

Please indicate:

a) what is Hydro One's plan to address the issue of stale data?

b) what is the timeline?

Board staff Question 68:
Reference: a) Exh D1/Tab2/Sched 1/AttA
Preamble:
Tables 3-1, 3-2, 3-3 summarize the findings of the ACA Process Audit. In regard to report section 4.9 Wood Poles, the findings indicate that the Health Index formulation is not an investment driver.
Question:
Does Hydro One intend to implement the auditor's recommendation of developing a health index in such a manner as to facilitate specific investment decisions?

Board staff Question 69:
Reference: a) Exh D1/Tab2/Sched 1/AttA
Preamble:
Tables 3-1, 3-2, 3-3 summarize the findings of the ACA Process Audit. In regard to report section 4.11 Right of Way, the findings indicate that the Health Index is not generally used in making investment decisions.
Question:
What does Hydro One intend to do in this regard?

Board staff Question 70:
Reference: a) Exh D1/Tab2/Sched 1/AttA
Preamble:
Tables 3-1, 3-2, 3-3 summarize the findings of the ACA Process Audit for Priority 2 Assets. In regard to report sections 5.4, 5.8, 5.10, 5.14 and 5.15, the findings indicate various concerns.
Question:
Please indicate what Hydro One intend to do in each instance?

Issue 4.2
Are the proposed 2009 and 2010 levels of Shared Services and Other Capital expenditures appropriate?

Information Technology Capital

Board staff Question 71:
Reference: a) ExhD1/Tab3/Sched5/p 3/Table 2
b) Proceeding EB-2005-0501, ExhD1/Tab3/Sched5/p 2/Table 2

Preamble:
The investment amounts allocated to Transmission in $ millions for various categories in Reference a) for the years 2007 and 2008 are not consistent with the corresponding amounts reported in Reference b). For convenience, the table below lists the information from the two references.

	Reference.a), EB-2008-0272		**Reference.b), EB-2005-0501**	
	2007 in $ million	2008 in $ million	2007 in $ million	2008 in $ million
Information Technology	14.7	11.9	67.1	26.0
Facilities & Real Estate	3.2	5.4	4.0	4.2
Transport&Work Equipment	9.9	12.4	10.4	9.7
Service Equipment	3.4	5.3	3.1	2.8

Clarification:
Please provide explanation to the change in the investment between the forecasted amounts in Reference b), EB-2005-0501, and the amounts listed in the submission by Hydro One for this proceeding in Reference a), EB-2008-0272.

Board staff Question 72:
Reference: a) ExhD1/Tab3/Sched6/p 5/Table 3
b) Proceeding EB-2005-0501, ExhD1/Tab3/Sched5/p 8/Table 4
Preamble:
The investment amounts in $ millions (total amount before allocation to Transmission) for the "Software Refresh & Maintenance" and for the "Windows (O/S)" in Reference a) for the years 2007 and 2008 are not consistent with the corresponding amounts reported in Reference b). For convenience, the table below lists the information from the two references.

	Amounts of Investment before Allocation to Transmission			
	Reference.a), EB-2008-0272		**Reference.b), EB-2005-0501**	
	2007 in $ million	2008 in $ million	2007 in $ million	2008 in $ million
Software Refresh & Maintenace	11.9	7.2	6.6	6.4
Windows (O/S)	-	-	-	1.9

Clarification:

Please provide explanation to the change in the investment between the forecasted amounts in Reference b), EB-2005-0501, and the amounts listed in the submission by Hydro One for this proceeding in Reference a), EB-2008-0272. *(NM)*

Board staff Question 73:

Reference: a) ExhD1/Tab3/Sched6/p 7/Table 4
b) Proceeding EB-2005-0501, ExhD1/Tab3/Sched5/p 10/Table 5

Preamble:

The investment amounts in $ millions (total amount before allocation to Transmission) for the three components comprising the "IT Minor Fixed Assets Program Capital Expenditures" in Reference a) for the years 2007 and 2008 are not consistent with the corresponding amounts reported in Reference b). For convenience, the table below lists the information from the two references.

	Amounts of Investment before Allocation to Transmission			
	Reference.a), EB-2008-0272		**Reference.b), EB-2005-0501**	
	2007 in $ million	2008 in $ million	2007 in $ million	2008 in $ million
IT Mainframe, servers, and Storage Program	8.4	8.2	3.9	2.7
IT Desktops, Tablets, Printers & Plotters	4.8	4.0	3.9	3.9
TelecomNetworks& PBX/Voicemail	1.2	3.3	0.8	1.4
Total	**14.4**	**15.4**	**8.6**	**8.0**

Clarification:

Please provide explanation to the change in the investment between the forecasted amounts in Reference b), EB-2005-0501, and the amounts listed in the submission by Hydro One for this proceeding in Reference a), EB-2008-0272.

Board staff Question 74:

Reference:

a) ExhD1/Tab3/Sched7/pp 1-3 &Table 1(p 2)

b) Proceeding EB-2005-0501, ExhD1/Tab3/Sched5/pp 15-17&Table 6(p 15)

Preamble:

- In Reference a), Table 1(p 2), show the following "Total Capital Costs" in $ Millions for the Cornerstone project as shown below:

	Historic	**Bridge**	**Test Years**	
	2007	**2008**	**2009**	**2010**
Total Capital Cost in $ Millions	63.6	130.6	100.3	63.5

- In Reference a), p 1 (lines 11-14) it is also stated in part that:

*“ **Phase 1** (Completed June 2008)….”*

- In Reference b), Table 6 (p 15), showed a forecast for the Cornerstone project for the two Test years 2007, and 2008 as follows:

	Historic	**Bridge**	**Test Years**	
	2005	**2006**	**2007**	**2008**
Capital Expenditures in $ Millions	0	0	102	28

- In Reference b), page 17(lines 18-24), it is also stated in part that:
  *“**Phase 1** - …..The EAM initiative has an estimated capital cost of $130 million in the period from 2007 to 2008…”*

Questions:

(i) Please indicate what was the actual cost of “Phase 1” of the Cornerstone project, and provide an explanation of the variance between the actual cost and the forecasted cost of $ 130 Million as outlined in Reference b).

(ii) Please provide the forecast cost of Phase 2 and Phase 3 of the Cornerstone project as described in Reference a), p 1 where Phase 2 is expected to be in Service in Q3, 2009 and Phase 3 is expected to be in service in Q4, 2010.

Issue 4.3
Are the amounts proposed for rate base in 2009 and 2010 appropriate?

Board staff Question 75:
Reference: a) ExhD1/Tab3/Sched3/pp 33-35/Table2, Table 3 &Table 4
b) ExhD1/Tab1/Sched2/p 1/Table 1

Preamble:
There is need to reconcile the results in Reference a) with those presented in Reference b) for the “Development Capital Additions”.

From Reference a), the Table below lists those “Development” projects that are categorized as either Category 1 or Category 2 and identifies the amount of investment that, once approved by the Board, can be included in the Rate Base in 2009 and 2010.

			Development Capital in $ Millions		
		In-Service	Gross	Rate Base Amounts	
Item #	Investment Description for Categories 1 & 2	Year	Total Cost	2009	2010
D1	Hydro One-Hydro Quebec	Mid 2009	122.8	122.8	0
D2	500 kV Bruce-Milton	Mid/09-Late/11	619.8	0.0	0
D3	Seven Cap.Banks-Southwestern Ontario	Late 2009	56.5	56.5	0
D4	Bruce Special Protection System	Mid 2010	5.8	0.0	5.8
D5	Cherrywood x Claireville - 500 kV Unbundle	Late 2010	107.3	0.0	107.3
D6	Static Var Compen.-Lakehead TS	Late 2010	22.5	0.0	22.5
D7	Static Var Compens.-Porcupine&Kirkland Lake	Late 2010	108.6	0.0	108.6
D8	Series Capacitors at Noble TS	Late 2010	47.2	0.0	47.2
D9	100 Mvar Shunt Capacitors - Algoma TS	Late 2010	9.7	0.0	9.7
D10	Two 75 Mvar Shunt Capacitors - Mississaugi TS	Late 2010	10.3	0.0	10.3
D15	Southern Beorgian Bay Trans. Reinforcement	Mid 2009	88	11.0	0
D16	Hurontario Station and Trans. Reinforcement	Mid 2010	43.5	0.0	43.5
D17	Trans.Reinforcement - Jim Yarrow TS	Mid 2011	49.1	0.0	0
D18	Woodstock Area Trans. Reinforcement	Mid 2011	69.8	0.0	0
D23	Kingston Gardiner TS (Add Capacity)	Late/08-Mid/09	8.5	8.5	0
D24	Holland TS (Build new TS & Line Connection)	Mid 2009	26.2	26.2	0
D25	Goreway TS (New Second DESN in the TS)	Mid 2010	14.8	0.0	14.8
D26	Vansickle TS (Increase Capacity)	Mid 2010	4.7	0.0	4.7
D27	Churchill MeadowTS-New TS&Line Connection	Late 2010	21.3	0.0	21.3
D28	Glendale TS(Increase Capacity)	Late 2010	3.2	0.0	3.2
D29	Dunnville TS (Increase Capacity	Late 2010	0.8	0.0	0.8
	TOTAL		1440.4	**225.0**	**399.7**

Clarification:

Please review the Table above, and provide explanation in regard to the variances for the Development Capital category that are eligible to be added to Rate Base for the two years 2009 and 2010 between the two References:

- the amount of $ 225.0 Million for 2009 and $ 399.7 Millions for 2010 in the above Table (Extracted from Reference a); and
- the amounts from Reference b) which show $347.9 Million for 2009 and $527.6 Million for 2010.

Board staff Question 76:

Reference: a) ExhD2/Tab2/Sched1/p.1
b) ExhD1/Tab1/Sched2/p 1/Table 1

Preamble:

There is a need to reconcile the results in Reference a) with those presented in Reference b) for the "Sustaining Capital Additions".

Clarification:

Please provide explanation in regard to the variance for the Sustainment Capital category to be added to Rate Base for the two years 2009 and 2010 between the two References:

- the amount of $ 279.9 Million for 2009 and $ 321.6 Millions for 2010 as shown in Reference a); and
- the amounts from Reference b) which show $315.7 Million for 2009 and $319.5 Million for 2010.

Board staff Question 77:

Reference: a) ExhD2/Tab2/Sched1/p.2
b) ExhD1/Tab1/Sched2/p 1/Table 1

Preamble:

There is need to reconcile the results in Reference a) with those presented in Reference b) for the "Operations Capital Additions".

Clarification:

Please provide explanation in regard to the variance for the Operations Capital category to be added to Rate Base for the two years 2009 and 2010 between the two References:

- the amount of $ 18.2 Million for 2009 and $ 28.9 Millions for 2010 as shown in Reference a); and
- the amounts from Reference b) which show $19.6 Million for 2009 and $24.2 Million for 2010.

Board staff Question 78:

Reference: a) ExhD2/Tab2/Sched1/p.2
b) ExhD1/Tab1/Sched2/p 1/Table 1

Preamble:

There is need to reconcile the results in Reference a) with those presented in Reference b) for the "Shared Services and Other Costs".

It is noted that:

- In Reference a) the capital investment categorized as "Shared Services and Other Costs" is $ 92.4 Million in 2009 and 64.9 Million in 2010; and
- In Reference b), there is a category named "Other" which list $ 110.8 Million for 2009 and 90.5 Million for 2010.

Clarification:

(i) Please clarify whether the two categories outlined above are the same

(ii) If the response to (i) indicates that they are the same, please provide explanations of the variances outlined above for the two years, 2009 and 2010.

(iii) If the response to (i) indicates that the two categories are different, please provide where in the submission is the "In-service Capital Additions" for "Shared Services and Other Costs" is included.

Issue 4.4
Is the Forecast of long-term debt for 2008-1010 appropriate?

5. DEFERRAL AND VARIANCE ACCOUNTS

Issue 5.1
Are the proposed amounts and disposition for each of the deferral and variance accounts appropriate?

Board staff Question 79:
Reference: Ref: ExhF1/Tab1/Sch1/p3
Preamble:
Hydro One indicates that the OEB Cost Assessment Differential Account was "established based on the Board's Decision on Hydro One's Transmission Rate for 2007 and 2008 (EB-2006-0501) which accepted the establishment of the OEB Cost Assessment Differential Account."
Question:
Please provide the specific reference from the EB-2006-0501 decision that showed the acceptance of the establishment of this account.

Board staff Question 80
Reference: Ref: ExhF1/Tab1/Sch1
Hydro One is applying for disposition of three deferral and variance accounts. Provide the information as shown in the attached continuity schedule for these accounts. In the continuity schedule, please breakout the sub-accounts for 1508. Please note that forecasting principal transactions beyond December 31, 2007 and the accrued interest on these forecasted balances and including them in the attached continuity schedule is optional.

[Note: Excel spreadsheet continuity schedule attached]

Board staff Question 81
Reference: Ref: ExF1/Tab1/Sch1
Questions:

Regarding the Tax Rate Changes Account, did Hydro One include the impact of the repeal of the Large Corporation Tax (LCT) in this account? If not, why not? To what account did Hydro One book these amounts in the period January 1st 2006 to the repeal of the LCT?

Board staff Question 82
Reference: Ref: ExhF1/Tab1/Sch1
Preamble: Usual practice in the electricity sector is to use audited numbers for the last fiscal year as the basis for balances in the deferral and variance accounts for disposition, with interest forecasted up to the start of the new rate year.

Questions:
a) Please provide the regulatory precedent for principal transactions being forecasted beyond December 31, 2007 for accounts requested for disposition.
b) Please recalculate the appropriate rate rider schedules using the December 31, 2007 balances with interest forecasted to June 30, 2009.

Board staff Question 83
Reference: Ref: ExhF1/Tab2/Sch1
Preamble: Hydro One is proposing to refund the deferral and variance accounts to customers over a period of 4 years.
Question:
a) Why is Hydro One proposing a four year recovery period, seeing as the company may be rebased with new rates in place in January 2011?

b) Please provide a schedule identifying the rate riders associated with the disposition of the deferral and variance accounts over a one, two and three year periods. Please show all relevant calculations.

Issue 5.2: Is the proposed continuation of the deferral/variance accounts appropriate?

Board staff Question 84
Reference: Ref: ExhF1/Tab1/Sch2
Preamble: Hydro One proposes to continue the Pension Cost Deferral Account but does not mention the OEB Cost Assessment Differential Account or Tax Rate Changes Account.
Question:
Does Hydro One also propose to continue the latter two accounts? If so, please provide justification, and details of the accounts such as the proposed journal entries to be recorded.

Issue 5.3 Are the proposed new Deferral/Variance Accounts appropriate?

Board staff Question 85
Reference: Ref: ExhF1/Tab1/Sch2/p4
Preamble: Hydro One indicates that the Transmission System Code and Cost Responsibility Changes Account was previously approved by the Board.
Question:
Please provide the specific reference of this Board decision that showed the approval of this account.

Board staff Question 86
Reference: Ref: ExhF1/Tab1/Sch2
Preamble: Hydro One is requesting for new deferral/variance accounts related to the IPSP and Other Preliminary Planning Costs and related to Transmission System Code and Cost Responsibility Changes.
Questions:
a) What is the regulatory precedent for the collection of each of the identified costs proposed to be included in these deferral accounts?
b) What account numbers does Hydro One propose to use in the USoA?
c) Can Hydro One provide the expected journal entries to be recorded?
e) If the costs or fees are not known, what would be the basis of the approval to record these amounts in a deferral account?
f) What new or additional information is available that would improve the Board’s ability to make a decision on this request?

6. COST ALLOCATION

Issue 6.1
Would it be appropriate to make changes to cost allocation in response to the study submitted on line connection costs for customers directly connected to networks stations?

Board staff Question 87
Reference: a) ExhG1/Tab1/Sch1/p.2
b) ExhG1-3-1/Attachment 1
Preamble:
In ExhG1/Tab1/Sch1/p.2 it is stated that:

> *"Per the Settlement Agreement approved by the Board under EB-2006-0501, an internal study was done to investigate an alternative definition of the Line Connection assets at Network Stations….Hydro One Transmission is not recommending any changes to the currently Board approved Cost Allocation and Charge Determinants methodology."*

Question:
Please state why Hydro One Transmission did not recommend any changes to the currently Board approved cost allocation and charge determinants methodology.

Board staff Question 88
Reference: a) ExhG1/Tab3/Sch1/p.4
b) ExhG1-3-1/Attachment 1/p.8
Preamble: In ExhG1/Tab 3/Schedule 1, p.4, it is noted that Hydro One's internal study on connection facilities terminating in Network Stations had identified bill impacts on transmission customers ranging from -1.4% to 330% on the transmission bill. Table 4 of Exhibit G1-3-1/Attachment 1/p.4 provides a breakdown of these impacts by customer group.

Question:
Please provide a more detailed breakdown of these bill impacts including the number of customers that would see bill impacts in excess of 10%, the type of customers these would be and an explanation as to why these impacts are occurring.

Board staff Question 89
Reference: a) ExhG1-3-1/Attachment 1/p.1
Preamble:
On p.1 of Exhibit G1-3-1/Attachment 1, it is stated that:

> *"A study was done to identify the possible Network assets used to connect delivery points at a Network Station for re-classification as Line Connection assets.""*

Question:
Please provide a copy of this study.

Board staff Question 90Reference: a) ExhG1-3-1/Attachment 1/p.3
Preamble:
On p.3 of Exhibit G1-3-1/Attachment 1, it is stated that:

"To determine the additional cost of a customer connection directly to a network station, the cost of connecting a load serving transformer station inside the fence of a network station (Option 2) was used as the configuration encompasses the majority of these connections. The cost would be in the range of $1 Million to $1.5 Million depending on the connection point and land requirements"

Question:

a) Please state whether any other definition of configuration costs was considered in the above context and if so why it was rejected. Please clarify what is meant by Option 2.

b) Please provide a more detailed explanation as to how the cost range of $1 to $1.5 million was determined.

Board staff Question 91
Reference: a) ExhG1-3-1/Attachment 1/p.4/L 14-16
Preamble:
It is stated that:

"The total of 45 delivery points includes 2 Direct customers who are connected to their Network Station through their own lines, that based on this definition would now be levied Line Connection charges."

Question:

a) Please clarify whether or not the two Direct Customers each own their Network Station as well as the connecting lines
b) If the answer to a) is yes, please provide the rationale for Hydro One assuming that Line Connection charges are justified under such a scenario.

Issue 6.2
Has Hydro Networks‘ cost allocation methodology been applied appropriately?

7. CHARGE DETERMINANTS

Issue 7.1
Is the proposal to continue with the status quo charge determinants for Network and Connection service appropriate?