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December 4, 2008

VIA COURIER AND EMAIL

Ms. Kirsten Walli
Board Secretary
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli,

Re: Vulnerable Energy Consumers Coalition (VECC)
EB-2008-0272 Hydro One Networks Inc. – Electricity Transmission Revenue Requirement Change

Please find enclosed the interrogatories of VECC in the above noted proceeding.

VECC does not, at this time, anticipate filing any evidence in this proceeding. However, pending our review of the applicant's interrogatory responses, we cannot say definitively that we will not file any evidence. After reviewing the responses we receive from the applicant we will advise whether our position has changed.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

Hydro One Networks Inc. – Transmission

2009 and 2010 Revenue Requirement & Rate Application

Board File No. EB-2008-0272

VECC's Interrogatories

Question #1

Reference: Exhibit A/Tab 3/Schedule 1/page 2

Issue Number: 2 & 3 & 4 (per PO #2, page 2)

a) Please provide a copy of the 2009-2013 Business Plan referenced on lines 17-21.

Question #2

Reference: Exhibit A/Tab 4/Schedule 1/page 2

Issue: 2 & 3 & 4 (per PO #2, page 2)

a) The Application makes reference to 5-year performance targets. What is the 5-year period associated with these targets?

b) Please provide the 2003-2007 results for each of the performance measures set out on page 2 (if not provided in Exhibit A/Tab 15/Schedule 1).

c) Please describe the Environment Index referenced in Table 1, including:
   - How the index is defined.
   - How the index is calculated.
   - The projected result for 2008.

d) Please describe the Productivity Index referenced in Table 1, including:
   - How the index is defined.
   - How the index is calculated.
   - The projected result for 2008.
   - What "95% of Target Achieved" represents.

e) What are the Utility Comparables that Hydro One proposes to use in establishing its 5-year reliability targets?

f) Why is the number of smart meters installed an appropriate performance measure for Hydro One Networks' Transmission Business.

Question #3

Reference: Exhibit A/Tab 4/Schedule 1/page 4

Issue: 2 & 3 & 4 (per PO #2, page 2)

a) Please provide tables similar to Table 2 but for the years 2008, 2009 and 2010 based on the current Application.

Question #4

Reference: i) Exhibit A/Tab 9/Schedule 2/page 5
ii) EB-2006-0501 - Exhibit A/Tab 8/ Schedule 2/ page 5

Issue Number: 3.2

a) Please explain the more than 20% increase in 2008 General Counsel and Secretary Services costs charged to affiliates between the 2007-2008 Application and the current Application.

b) With respect to Financial Services, the increase in 2008 costs charged to affiliates is less than 2% as between the two Applications. However, there is a significant reduction in the amount assigned to Hydro One Inc. and a material increase in the amount assigned to Remotes. Please explain the reasons for this shift.

c) Please explain the more than 10% increase in 2008 Corporate Services costs charged to affiliates between the 2007-2008 Application and the current Application.

d) Please explain the more than 13% increase in 2008 Other Services costs charged to affiliates between the 2007-2008 Application and the current Application.

e) Please explain the almost quadruple increase in 2008 Utility Operation Services charged to Remotes between the 2007-2008 Application and the current Application.

Question #5

Reference: i) Exhibit A/Tab 9/Schedule 2/page 7
ii) EB-2006-0501 - Exhibit A/Tab 8/ Schedule 2/ page 7

Issue Number: 3.2

a) Please explain the more than 40% increase in 2008 charges to Hydro One Networks from Telecommunication Services as between the 2007-2008 Application and the current Application.

Question #6

Reference: i) Exhibit A/Tab 9/Schedule 2/Appendix A, page 8

Issue Number: 3.2

a) Please describe the basis on which the charges to Hydro One Networks were established.

Question #7

Reference: i) Exhibit A/Tab 9/Schedule 2/Appendix B, page 8 and Appendix C, page 1

Issue Number: 3.2

a) Please describe the basis on which the charges for the services provided by Hydro One Networks were established.

Question #8

Reference: i) Exhibit A/Tab 9/Schedule 2/pages 5-6
ii) EB-2007-0501 - Exhibit A/Tab 8/ Schedule 3/ pages 5-6

Issue Number: 3.2

a) Please explain why the 2008 General Counsel and Secretary Services costs payable by affiliates increase by roughly 14% as between the two Applications while the costs for Financial Services, Corporate Services, Telecommunications Services and Other Services are the same.

<u>Question #9</u>

Reference: i) Exhibit A/Tab 9/Schedule 2/Appendix D, Schedules A & B
ii) EB-2006-0501 – Exhibit A/Tab 8/Schedule 2, Appendix D, Schedules A & B

Issue Number: 3.2

a) Please describe the increase in services provided by Hydro One Telecom Inc. that leads to an increase in costs payable by Hydro One Networks for Power System - Operation of Telecommunications Services of 45% between 2006 and 2008. (See Schedules A of the two references)

b) Please describe the increase in services provided by Hydro One Telecom Inc. that leads to an increase in costs payable by Hydro One Networks for Business System - Operation of Telecommunications Services of 37% between 2006 and 2008. (See Schedules B of the two references)

<u>Question #10</u>

Reference: Exhibit A/Tab 9/Schedule 2/Appendices A-H

Issue Number: 3.2

Preamble: The Service Agreements provided in the Application appear to all pre-date the May 16, 2008 OEB revisions to the Affiliate Relationships Code.

a) Has Hydro One Networks reviewed its Service Agreements with affiliates to ensure they are consistent with the May 16, 2008 revised Code?

b) If not, when will such a review occur?

c) If yes, are there any changes required to the agreements that will impact on 2008 and future years' costs and what are they?

<u>Question #11</u>

Reference: i) Exhibit A/Tab 10 Schedule 1
ii) Exhibit A/Tab 3/Schedule 1, page 6

Issue Number: 3.6

a) Reference (ii) attributes the increase in revenue requirement for 2009 to increased carrying costs associated with asset growth. However, in reference (i) in-service fixed assets grow by 10% between 2004 and 2007 but the level of depreciation charges stays constant at $207 M. Please explain why historically depreciation charges have not increased as assets in-service increase and why this changes for 2009.

Question #12

Reference: i) Exhibit A/Tab 13/Schedule 1, page 5
ii) OEB Staff IR #9

Issue Number: 3.2

a) Along with the annual costs, as requested in reference (ii), please indicate:
   - What are the costs in each year that are allocated to Hydro One Networks' Transmission Business?
   - How is the portion allocated to the Transmission Business determined?
   - Why is it not appropriate to defer such conversion costs until 2011 and beyond?

Question #13

Reference: i) Exhibit A/Tab 14/Schedule 1/Appendix A
ii) Exhibit A/Tab 14/Schedule 2, pages 1-6

Issue Number: 2 & 3 & 4 (per PO #2, page 2)

a) Given the recent changes in economic conditions worldwide, does Hydro One Networks consider it reasonable to rely on a forecast economic outlook that is roughly a year old? If yes, please explain why.

b) With respect to page 1, is Hydro One Networks aware of any more recent projections of inflation and cost escalation for 2009 and 2010? If yes, please provide.

c) With respect to page 1, please provide an update of the interest rate forecast for 2009 and 2010 provided at lines 14-15 based on the October 2008 edition of Consensus Forecasts.

d) With respect to reference (ii), please update the 2008 forecast interest rates applicable to HOI as used in the Application based on the most recent forecasts/actual results to-date.

e) With respect to reference (ii) – page 3, please update the exchange rate forecast based on the October 2008 edition of Consensus Forecasts.

f) What is the sensitivity of Hydro One Networks' proposed 2009 and 2010 revenue requirements to:
  - A 100 basis point change in forecast interest rates. (Note: Please exclude any impact on ROE or short-term interest rates used in determining the cost of capital)
  - A 10 cent change in the forecast exchange rate (CDN$ per US$)?

g) With respect to page 2 of reference (i), what are the labour escalation assumptions used for the 2008 bridge year?

Question #14

Reference: i) Exhibit A/Tab 14/Schedule 3, pages 6-7

Issue Number: 2 & 3 & 4 (per PO #2, page 2)

a) Reference is made to a "consensus forecast" (page 6, line 7 and page 7, line 6). Is this the April 2008 Edition of Consensus Forecasts? If not, what is it?

b) Please update the forecast of Ontario GDP, Housing, Commercial Floor Space and Industrial Production for the most recently available forecast(s).

Question #15

Reference: i) Exhibit A/Tab 14/Schedule 3, pages 8-10
ii) Exhibit A/Tab 14/Schedule 3/Attachment C
iii) OEB Decision EB-2006-0501, pages 91-92

Issue Number: 2.1

a) With respect to Attachment C (Section 2.0 and Appendix A), please confirm that Demand Response programs contributed 590 MW towards the 1390 MW savings set out in Table 2? If Hydro One Networks does not agree, please explain why.

b) Based on the Board's comments in reference (iii), please explain why the 350 MW number the Board set out in its decision wasn't updated to reflect the actual 590 MW of demand response.

c) With respect to Attachment C (Section 4.0), what is Hydro One Networks' understanding as what is included in Demand Management Programs that contributes to the MW reductions shown in Table 3?

d) With respect to Attachment C (Section 4.0) and the Board's EB-2006-0501 Decision, is it reasonable to assume that under normal weather conditions, loads will be reduced by the total MWs attributed to Demand Management programs? Please fully explain the response.

e) Are the embedded generation by-pass MWs (reference (i), page 10) for 2009 and 2010 based entirely on known commitments for embedded generation or do they include assumptions regarding future commitments that will be made and come into service in 2009 and/or 2010? If the later, please explain why this reasonable given the lead times required for new generation.

<u>Question #16</u>

Reference: i) Exhibit A/Tab 14/Schedule 3, pages 8-10
ii) Exhibit A/Tab 14/Schedule 3/Attachment B

Issue Number: 2.1

a) With respect to Attachment B (Section 4.3 and Table 5), please provide the derivation of the 370 MW set out in reference (ii), Section 4.3 using the formulae described on lines 13-16,

b) Similarly, please provide the derivation of the 400 MW shown in Table 5 for the summer of 2009.

c) Please reconcile the CDM and Embedded Generation values used in response to parts (a) and (b) with the CDM and embedded generation values Hydro One has use in its Load Forecast per reference (i).

<u>Question #17</u>

Reference: i) Exhibit A/Tab 14/Schedule 3, page 22
ii) Exhibit A/Tab 3/Schedule 1, page 6

Issue Number: 2.1

Preamble: Reference (ii) suggests that while the overall load forecast is declining, there are areas of the province where loads are increasing.

a) Please provide a breakdown of the 2008-2010 load forecast by region, including for each region:
   - The regional peak demand forecast
   - The regional peak demand forecast consistent with the system peak

   (Note: If possible, please provide the breakdown based on the IESO's regional definitions)

b) Please provide a schedule that provides the information requested in part (a) for 2003 – 2007 on a monthly basis.

c) Please confirm that the forecast of Network Connection charge determinant takes into account the 85% of NCP adjustment where appropriate.

Question #18

Reference: EB-2006-0501, Exhibit J/Tab 5

Issue Number: 2.1 and 7.1

a) Please update the response to VECC IR#121 such that parts (i) and (ii) cover 2008-2010 and part (iii) included 2007 data.

Question #19

Reference: i) Exhibit A/Tab 15/Schedule 1, pages 3-15
ii) Exhibit A/Tab 4/Schedule 1, page 2

Issue Number: 2 & 3 & 4 (per PO #2, page 2)

a) With respect to reference (i) and Safety Performance, is there a difference between the "Lost Time Injuries" performance measure used in reference (ii) and the "Serious Lost Time Injuries" measure used in reference (ii)?

b) Are the CEA survey participants (reference (i), page 8) the "utility comparables" identified in reference (ii)? If so, please re-do Figures 4 and

5 from reference (i) so as to compare Hydro One Networks' performance against the CEA's first quartile performance.

c) Based on the comments on page 13 (reference (i)) regarding the nature of Hydro One Networks' transmission system, why is it reasonable to expect Hydro One Networks' reliability performance to be in the first Quartile – as targeted in reference (i)?

Question #20

Reference: Exhibit A/Tab 15/Schedule 1, Appendix C

Issue Number: 2 & 3 & 4 (per PO #2, page 2)

a) With respect to pages 5-6, please clarify the cost responsibility for improving Group Performance outliers. Does Hydro One Networks cover the full cost of remedial action to improve Group CDPP standards to: i) the minimum standard or the established standard (per Table 1)?

Question #21

Reference: Exhibit A/Tab 15/Schedule 2, Attachment 1

Issue Number: 3.3

a) Page 18 sets out the results of the benchmark analysis. Please provide a schedule that for the Asset Replacement metrics and those Cost Metrics that are express in percentage terms sets out the average (two-year) results for Hydro One Networks' based on its 2009-2010 Application.

Question #22

Reference: Exhibit A/Tab 16/Schedule 2, Attachment 1, pages 31-35

Issue Number: 2 & 3 & 4 (per PO #2, page 2)

a) Please calculate the Hydro One Network values for the four productivity measures (per Table 8) using 2009 and 2010 data.

Question #23

Reference: Exhibit A/Tab 16/Schedule 1

Issue Number: 3.1 & 3.2 & 4.1 & 4.2

a) With respect to pages 5-6 and Table 1, for the years 2005-2008, how much of the incremental savings in each year is expected to continue through to the 2009 and 2010 tests years and, therefore, are embedded "savings" (per page 5, lines 9-14)?

b) Are the measures set out on pages 10-11 meant to be calculated specifically for Hydro One Networks' Transmission business or just for Hydro One Networks' overall?

c) With respect to pages 10-11, please provide a schedule that sets out for the years 2006-2010 based on Hydro One Networks' transmission business:
   - Total Asset Management Costs relative to Total Work Program
   - Total CF&S costs relative to Total Networks' program costs

   For the years 2008 - 2010, please provide references as to where the data used in the calculations can be found in the Application.

Question #24

Reference: Exhibit A/Tab 18/Schedule 1

Issue Number: 1.1

Preamble: With respect to the Settlement Agreement Undertaking regarding Export and Wheel Through Tariffs, the Application (page 1) states that Hydro One will file to modify the rates after the study undertaken by the IESO has been reviewed and approved by the OEB. However, the terms of the Settlement Agreement were that:

"It is agreed that the IESO will make its report available to the Board upon completion which will be no later than June 1, 2009 with the results of reciprocal arrangement negotiations and the study including recommendations for an appropriate ETS tariff. Hydro One Networks Inc. remains responsible for seeking changes to its approved transmission revenues and rates and will do so as part of the 2010 transmission rate-resetting process period, following the publishing of the study."

a) Does Hydro One Networks agree that, after the IESO has published its study, it is Hydro One Networks that is responsible for preparing an

Application to the Board for a modified ETS tariffs and that the study will be reviewed the Board as part of its consideration of said Application?

b) If not, please clarify what Hydro One Networks' views regarding the process after the IESO has completed its study and made it available to the Board.

Question #25

Reference: Exhibit B1/Tab 1/Schedule 1, page 3

Issue Number: 4.4

a) Please provide a schedule that sets out how much of the deemed long-term debt for 2009 ($205.8 M) and 2010 ($0.3 M) is affiliate debt callable on demand and how much is the remaining amount of debt required to balance the total financing with rate base.

b) Hydro One Networks has valued the short fall between the actual debt level (including affiliate debt) and deemed debt level at the deemed cost of long-term debt. Other alternatives include: i) using an interest rate equivalent to the short-term cost debt and ii) using the average cost of actual long-term debt. Please provide references to Board decisions/guidelines that specify how such shortfalls should be treated for purposes of calculating the average cost of debt that support Hydro One Networks' approach.

Question #26

Reference: Exhibit B2/Tab 1/Schedule 2, page 6

Issue Number: 4.4

a) Please explain why, for debt forecast to be issued in 2009 and 2010, the longer term (higher cost) debt is issued first and the shorter term (lower) cost debt issued later in each year.

b) What would be the impact on the average cost of debt for 2009 and 2010 if the shorter term/lower cost debt was issued first in each year?

Question #27

Reference: i) Exhibit C1/Tab 2/Schedule 1, pages 4-5

ii) EB-2006-0501, Exhibit C1/Tab 2/Schedules 2 and 5

Issue Number: 3.1 & 3.2

a) Please provide a schedule that compares the breakdown of the approved Sustaining OM&A spending for 2007 (per reference (ii), Schedule 2, page 7) with the actual level of Sustaining OM&A for 2007 using a similar break down. Please explain the variances by line item, noting where the higher spending for storm response and other unforeseen asset needs are reported.

b) Please explain the increase in Operations OM&A as between the 2007 approved level and the 2007 actual level. In particular what gave rise to the more than 35% increase in Operations Support OM&A?

c) Please provide a schedule that compares the breakdown of the approved Shared Services and Other OM&A spending for 2007 and 2008 (per reference (ii), Schedule 5, page 4) with the actual level of Shared Services and Other OM&A for 2007 and 2008 using a similar break down. Please explain any major variances by line item.

<u>Question #28</u>

Reference: i) Exhibit C1/Tab 2/Schedule 2, pages 3-30 (Stations)
ii) EB-2006-0501, Exhibit C1/Tab 2/Schedule 2, page 7

Issue Number: 3.1

a) With respect to reference (i), page 11 (lines 24-28), what specific information led Hydro One Networks to conclude that a significant increase in spending levels for Spill Containment System Commissioning and Emergency Response programs is required for 2009 and 2010?

b) With respect to reference (i), pages 15-16, please provide the following:
   - The number of transformers that have/will undergo mid-life refurbishment in 2005, 2006, 2007, 2008, 2009 and 2010.
   - The number of failures of large 750 MVA transformers annually in the last few years.
   - The number of transformers that have/will be replaced annually over the period 2005-2010.

c) With respect to reference (i), pages 16-17, please provide the following:
   - The number of breakers (by type) that have/will undergo planned maintenance in 2005, 2006, 2007, 2008, 2009 and 2010.

- The number of breakers (by type) that have/will be replaced annually over the period 2005-2010.

d) With respect to reference (i), pages 19 and 22, given that compliance with new cyber standards is required by the end of 2009, why are 2010 costs for Cyber Security 30% higher than those for 2009?

e) With respect to reference (i), pages 25-28, please provide:
   - Evidence to support the contention that an increasing number of Ancillary Systems are “moving through their mid-life region”.
   - Evidence that an increasing number of such systems are reaching end-of-life.
   - An explanation as to why the replacement of ancillary systems reaching end of life is “delayed” (page 28, lines 3-5).

<u>Question #29</u>

Reference: i) Exhibit C1/Tab 2/Schedule 2, page 5, Table 2
ii) Exhibit D1/Tab 2/Schedule 1, Attachment 1
ii) EB-2006-0501, Exhibit D1/Tab 2/Schedule 1, Appendix A

Issue Number: 3.1

a) With respect to the Power Equipment and Ancillary Systems categories set out in Table 2 (reference (i)), please provide a schedule that compares the findings of the 2006 and 2008 asset condition assessments for the assets covered by each of these categories. Please comment on the extent to which the increase in spending requirements for 2009 and 2010 over those planned (per EB-2006-0501, Exhibit C1/Tab 2/Schedule 2, page 10) or actually spent (reference (i)) is supported by a deterioration in asset condition.

<u>Question #30</u>

Reference: i) Exhibit C1/Tab 2/Schedule 2, pages 30-50 (Lines)
ii) EB-2006-0501, Exhibit C1/Tab 2/Schedule 2, page 37

Issue Number: 3.1

a) The current Application indicates that the Planned Corrective Maintenance activities for 2009 and 2010 are related to the 500 kV lines between Barrie and Sudbury and the 230 kV circuits between London and Sarnia (reference (i), page 45). These are the same two projects that were identified in the 2007-2008 Application (reference (ii)) as requiring funding in 2007 and 2008. Furthermore, it appears that total spending for 2007 and 2008 in this category was $7.5 M less than approved (i.e., $10.8 M vs. $18.3 M). Please explain why the project was not completed in 2007-2008 as originally planned.

Question #31

Reference: i) Exhibit C1/Tab 2/Schedule 2, pages 50-51
ii) EB-2006-0501, Exhibit C1/Tab 2/Schedule 2, page 47

Issue Number: 3.1

a) Hydro One Networks is requesting $10.2 M annually for Engineering and Environmental Support. The EB-2006-0501 Application included an increase in the level of funding for 2007 and 2008 to roughly $9.2 M per year based on the same rationale as presented in the current Application. However, average annual spending over the 2007-2008 period is only $8.2 M. Why is the rationale and resulting forecast in this Application more credible?

Question #32

Reference: i) Exhibit C1/Tab 2/Schedule 3
ii) Exhibit F1/Tab 1/Schedule 2, page 1

Issue Number: 3.1 and 5.3

a) Will the costs of the pre-engineering work related to Darlington "B" GS ultimately be OPG's responsibility? If not, why not? If yes, why is it necessary to record these expenditures in a deferral account?

Question #33

Reference: i) Exhibit C1/Tab 2/Schedule 6
ii) EB-2006-0501, Exhibit C1/Tab 2/Schedule 5, page 7

Issue Number: 3.2

a) Please provide the CCF&S costs allocated to transmission for the 2008 Bridge broken down as per reference (i), Table 1. Please also provide an explanation of any variances from the 2008 values included in the 2007-2008 Application (per reference (ii)) that are greater than 5%.

b) With respect to page 5, please provide the 2007 and 2008 allocation to the Transmission business for Finance costs.

c) With respect to page 13, what are the new HR programs anticipated for 2009 and what is the associated cost (lines 18-21)?

d) With respect to pages 16-17, has the methodology for allocating Corporate Communications costs to the transmission business been reviewed in light of the creation of the new First Nation and Métis Relations directorate? If yes, please provide the results. If not, why not?

e) With respect to pages 18-20, please explain why the Transmission business' costs for the General Counsel and Secretary function increase by 15% between the 2008 value (per reference (ii)) and the 2009 value in the current Application. The description in the current Application does not make note of any material change in activities or responsibilities.

f) With respect to pages 20-23, please explain why the Transmission business' costs for Regulatory Affairs (excluding OEB Assessments) increases from the $3.6 M for 2008 included in the 2007-2008 Application to $5.0 M for 2009 in the current Application.

g) With respect to page 27, Table 1, please explain the reason for the $21.5 M credit for "Other" in 2008.

Question #34

Reference: i) Exhibit C1/Tab 2/Schedule 8
ii) EB-2006-0501, Exhibit C1/Tab 2/Schedule 5, page 42

Issue Number: 3.2

a) Please provide the Asset Management function costs allocated to transmission for the 2008 Bridge year broken down as per reference (i), Table 1. Please also provide an explanation of any variances from the 2008 values included in the 2007-2008 Application (per reference (ii)) that are greater than 5%.

b) With respect to Table 2 (reference (i)), what is the reason for the increase in costs between 2007 and 2008?

c) With respect to Table 3 (reference (i)), what is the reason for the increase in costs between 2007 and 2008?

d) With respect to Table 5 (reference (i)), what is the reason for the increase in costs between 2007 and 2008?

<u>Question #35</u>

Reference: i) Exhibit C1/Tab 2/Schedule 9
ii) EB-2006-0501, Exhibit C1/Tab 2/Schedule 5, page 60

Issue Number: 3.2

a) Please provide the Information Technology costs allocated to transmission for the 2008 Bridge year broken down as per reference (i), Table 1. Please also provide an explanation of any variances from the 2008 values included in the 2007-2008 Application (per reference (ii)) that are greater than 5%.

b) With respect to page 5 (reference (i)), please explain how the annual COLA cost factors relate to the increase in Base IT Sustainment Services costs shown in Table 2. For example, the COLA cost factor increases by $2.3 M from 2008 to 2009 but the cost increase in Table 2 is $4.9 M.

<u>Question #36</u>

Reference: i) Exhibit C1/Tab 2/Schedule 11
ii) Exhibit E1/Tab 1/Schedule 2, pages 1-2

Issue Number: 2.2 and 3.2

a) Please explain why for 2009 and 2010 Engineering and Construction revenues equal costs, when reference (ii), page 1 suggests there is a margin built into the setting of revenues.

<u>Question #37</u>

Reference: i) Exhibit C1/Tab 3/Schedule 2
ii) EB-2007-0681/Exhibits H-1-71 and H-12-20
iii) Exhibit A/Tab 14/Schedule 1, Appendix A, page 3

Issue Number: 3.3

a) Please provide updated responses for the interrogatories listed in Reference (ii) covering the years 2005 – 2010.

b) Please explain the variance between the 2008 Total Wages as reported in EB-2007-0681 ($580.7 M) and that reported in the current Application ($569.0 M).

c) With respect to reference (i), page 10, please provide the staffing level data and work program data that supports the 6% and 20% figures used at lines 17-19. Note: Where possible please provide cross references as to where the data can be found in the current Application.

d) With respect to reference (iii), when were the various incentive plans discontinued. Please reconcile the discontinuation of various incentive plans with the continuing increase in incentive plans costs (per reference (i), Table 3).

Question #38

Reference: i) Exhibit C1/Tab 3/Schedule 2, pages 16-17
ii) OEB Decision with Reasons, EB-2006-0501, page 36
iii) OEB Staff IR #2

Issue Number: 1.1

a) What are savings in executive salary costs for 2007 and 2008 (relative to what was included in the EB-2006-0501 filing) as a result of Hydro One's acceptance of the Arnett Panel recommendations regarding executive compensation?

Question #39

Reference: i) Exhibit C1/Tab 3/Schedule 2, Appendix A

Issue Number: 3.3

a) Please confirm whether the $95 M value reported on page 3 for 2007 actual pension contributions and the $107 M value shown on page 2 for 2009 are comparable in terms of definition.
   - If no, please explain the difference and indicate what the 2007 cash pension cost that is equivalent to the $107 M value for 2009.
   - If yes, please explain the reason for increase from $95 M to $107 M.

b) Please provide the anticipated annual cash pension cost for 2008 broken down in a manner similar to that shown for 2009 and 2010 on page 2.

Question #40

Reference: i) Exhibit C1/Tab 4/Schedule 1
ii) EB-2007-0681/Exhibit H-13-26

Issue Number: 3.3

a) Please provide an updated response to the interrogatory listed in Reference (ii) covering the years 2005 – 2010.

b) With respect to reference (i), please provide a schedule similar to Table 1 for:
   - Regional Line Maintainer
   - Field Business Clerk
   - MP4

Question #41

Reference: i) Exhibit C1/Tab 5/Schedule 1, pages 2-3 and Attachment 1
ii) EB-2006-0501/Exhibit C1/Tab 3/Schedule 1, page 5

Issue Number: 3.2

a) Schedule 1 reports total 2009 and 2010 CCF&S costs for Transmission of $47.5 M and $47.9 M respectively. However, in Attachment 1, total Transmission CCFS costs for 2009 and 2010 are reported as $95.1 M and $96.0 M respectively. Please reconcile.

b) With respect to reference (i), Attachment 1, the total 2009 CCFS costs for transmission are reported as $95.1 M. The comparable value from the EB-2006-0501 Application appears to be $73.4 M for 2008. Please confirm that this is the case and, if so, explain the more than 30% increase over the one year.

Question #42

Reference: i) Exhibit C1/Tab 5/Schedule 2, Attachment 1

Issue Number: 3.4

a) With respect to page 3, was the Asset Management time study used for this Application the same one that was used for EB-2006-0501. (Note: The evidence for both cases makes reference to an April 2006 study)
   - If yes, please explain why the percentage of costs to be capitalized are different as between the two applications.
   - If no, please explain what changed in terms of the studies used.

b) A comparison of the current Overhead Capitalization Study with that performed for EB-2006-0501 shows an increase in both the transmission labour and spending percentages associated with capital versus OM activities between 2007 and 2009 & 2010. Page 3 states that the current study used the results of a 2006 time study. Why are the results of the time study performed in 2006 still appropriate to use for 2009 and 2010? Why wouldn't it be reasonable to assume there would be a need to increase the proportion of Asset Management costs that are capitalized.

c) Please provide cross-references as to where the Application's description of OM&A costs the values for the following inputs used in the Overhead Capitalization study can be found:
   - Total CCFS costs (line 16)
   - Asset Management costs (line 46)
   - Operating and Outage Management (line 50)
   - Customer Care Management (line 51)

d) What was the basis of the percentages (lines 56 &57) used to establish the amount of Operating & Outage Management and Customer Care to be capitalized?

<u>Question #43</u>

Reference: i) Exhibit C1/Tab 3/Schedule 2, page 10
ii) Exhibit C1/Tab 5/Schedule 2, Attachment 1

Issue Number: 3.3

a) Please explain how the transmission labour dollars values reported on lines 28-30 of Reference (ii) – Attachment A were determined and how they relate to the total labour dollars reported in reference (i).

b) Using the methodology from reference (ii) please provide a schedule that sets out the total TX labour costs for 2006-2010 and, for each year, breaks down the results between capital and O&M.

Question #44

Reference: Exhibit C1/Tab 6/Schedule 2, Attachment 1

Issue Number: 3.6

a) Please provide a "qualitative discussion/explanation" as to why the depreciation charge for Communication Equipment has increased by $1.9 M.

Question #45

Reference: Exhibit C2/Tab 6/Schedule 1, Attachment 2, page 1

Issue Number: 3.5

a) Please explain how the CCA classes used by Hydro One Networks account for the changes in CCA rates introduced in the Federal 2007 budget.

Question #46

Reference: Exhibit D1/Tab 1/Schedule 3, page 2

Issue Number: 4.3

a) Please provide cross references as to where in the application the 2009 and 2010 cost values for each of the line items in Table 1 can be found.

Question #47

Reference: Exhibit D1/Tab 3/Schedule 1, pages 4-6

Issue Number: 4.1

a) With respect to page 5, since total Development spending in 2007 was less than the Board approved level, why was it necessary to redirect resources from Sustainment to Development work?

b) Please indicate what sustainment spending was foregone in 2007 and discuss how the choice of these projects is consistent with:

- The asset condition assessment results (i.e., were the spending reductions in areas that were not deemed to be high priority assets and/or assets not in poor condition?)
- Hydro One Networks' overall investment prioritization process outlined at Exhibit A/Tab 14/ Schedule 4, page 3.)

c) Given the inability to complete planned Development work in 2008, why weren't more resources redirected to Sustainment activities, particularly in light of the significant under spending in that area in 2007?

d) With respect to page 6 (lines 15-19), specifically what actions will increase work execution capability in 2009 and 2010 relative to 2008. Please address labour and material availability separately.

e) Please provide a schedule of the major development projects that were delayed in 2007 and 2008 and indicate which ones were impacted by labour and material resource availability and which ones were impacted by an inability to obtain the required outages from the IESO.

Question #48

Reference: i) Exhibit D1/Tab 3/Schedule 1, page 7

Issue Number: 4.1

a) What was the originally planned in-service date for the NRP?

b) What are the current system implications, in terms system reliability and congestion, of the NRP not coming into service when planned?

c) At what point in time do the implications become more significant?

Question #49

Reference: i) Exhibit D1/Tab 3/Schedule 2
ii) Exhibit A/Tab 14/Schedule 4, page 3

Issue Number: 4.1

a) Based on Hydro One Networks' investment prioritization process (reference (ii) please respond to the following:
   - What areas of Sustainment spending would be reduced if Hydro One Networks' Sustainment funding was reduced by 10% - 20%. Please

explain, with reference to risks and impacts, why these areas were selected.

- What areas of Sustainment spending would be increased if Hydro One Networks' Sustainment funding was increased by 10%-20%. Please explain, with reference to risks and impacts, why these areas were selected.

Question #50

Reference: i) Exhibit D1/Tab 3/Schedule 2, page 5
ii) EB-2006-0501, Exhibit D1/Tab 3/Schedule 2, page 6

Issue Number: 4.1

a) Please explain why 2008 Sustaining spending on Stations is $30 M higher than the OEB approved level. Is the additional work all carry over from 2007 or is some of it new work not included in the 2007-2008 plan?

Question #51

Reference: i) Exhibit D1/Tab 3/Schedule 2, page 5 and page 6, lines 8-20
ii) EB-2006-0501, Exhibit D1/Tab 2/Schedule 1, Appendix A

Issue Number: 4.1

a) With respect to the spending for Circuit Breakers, Station Re-Investment and Power Transformers in Table 2 (reference (i)), please provide a schedule that compares the finding of the 2006 and 2008 asset condition assessments for the assets covered by each of these categories.

b) Please comment on the extent to which the increase in spending requirements for 2009 and 2010 over those planned (per EB-2006-0501, Exhibit D1/Tab 3/Schedule 2, page 6) for 2007 and 2008 is supported by a deterioration in reported asset condition.

c) What other facts have changed since the 2007-2008 Application that support the need for increased spending in these areas?

Question #52

Reference: i) Exhibit D1/Tab 3/Schedule 2, page 47-52
ii) EB-2006-0501, Exhibit D1/Tab 3/Schedule 2, page 21

Issue Number: 4.1

a) With respect to Overhead Lines Refurbishment and Component Replacement, the Application states (page 49) that projections based on condition data and reliability performance are for structure replacements to increase in the test period. Please provide a data comparison (i.e., asset condition and reliability data submitted for EB-2006-0501 which supported the 2007-2008 expenditure levels versus current asset condition and reliability data) that substantiates this resported change in circumstances and supports the increased need.

<u>Question #53</u>

Reference: i) Exhibit D1/Tab 3/Schedule 2, pages 53-58
ii) EB-2006-0501, Exhibit D1/Tab 3/Schedule 2, page 21 & 26

Issue Number: 4.1

a) Please confirm that the Port Hope to Peterborough project was included in the 2007-2008 Application with a 2009 completion date.

b) What is the reason for the project's delayed completion until late 2010?

<u>Question #54</u>

Reference: i) Exhibit D1/Tab 3/Schedule 1, page 2
ii) Exhibit D1/Tab 1/Schedule 1, page 3

Issue Number: 4.3

a) Please provide a schedule that integrates the capital spending and fixed asset information in the above two references into one continuity schedule that shows capital spending as well as in-service additions for each year and shows assets under construction at year end as well as total fixed assets in-service.

<u>Question #55</u>

Reference: i) EB-2006-0501, Exhibit D1/Tab 3/Schedule 3

Issue Number: 4.3

a) Please provide a listing of development capital projects identified in the EB-2006-0501 Application as coming into service in 2006, 2007 or 2008 and approved by the OEB for inclusion in rate base in the 2007 and/or 2008 test years. For each project please indicate whether or not it is currently projected to be in-service December 31, 2008. If not, please indicate its status.

b) Please provide a listing of any development projects (with total costs greater than $3 M) that were not included the EB-2006-0501 Application but are projected to be in-service by December 31, 2008. For each such project, please provide an investment justification and also explain why project was unforeseen but necessary to complete by 2008.

<u>Question #56</u>

Reference: Exhibit D1/Tab 3/Schedule 3

Issue Number: 4.1

a) With respect to projects D3 and D4, what it the latest in-service date required for each project in order to provide necessary support voltage and accommodate new generation in SW Ontario?

b) With respect to project D5, please explain further the statement that the project is "partially discretionary".

c) Also, how reasonable is the projected December 2010 in-service date for project D5?

d) Why are projects D7 and D8 required to be in-service on the currently planned dates?

e) What is the impact of projects D9 and D10 on the revenue requirement for 2010? It appears that these projects will only proceed if the OPA recommends them. When must this recommendation be received by in order to meet a 2010 in-service date?

<u>Question #57</u>

Reference: i) Exhibit D1/Tab 3/Schedule 3, page 24 (lines 18-19)2
ii) Exhibit D1/Tab 3/Schedule 3, Tables 4 & 5

Issue Number: 4.1

a) Load customer connections are funded through a combination of future rate revenues and a capital contribution. Generation connection customers only pay for their connections through capital contributions. However, while the capital contributions from load customer represents almost half the gross cost of their projected connections (Table 4) – for generation customers capital contributions represent only 38% of the projects' costs. Please reconcile.

Question #58

Reference: i) Exhibit D1/Tab 3/Schedule 4, page 5
ii) EB-2006-0501 – Exhibit D1/Tab 3/Schedule 4, page 5 and Project Sheet O1

Issue Number: 4.1

a) In the EB-2006-0501 Application the NMS Upgrade project had an in-service date of 2008 and a total cost of $17.5 M. The current Application calls for an in-service date of 2009 and a total project cost of $27 M. Please explain the increase in project costs.

Question #59

Reference: i) Exhibit D1/Tab 3/Schedule 5, pages 2-3
ii) EB-2006-0501 – Exhibit D1/Tab 3/Schedule 5, page 16

Issue Number: 4.1

a) With respect to reference (i), Tables 1 and 2, please provide a breakdown of the annual spending on Cornerstone between Phase 1 and Phase 2.

b) Please provide a schedule that sets out the actual capital cost of Cornerstone-Phase 1 and the projected cost as per the EB-2006-0501 Application for both the project's total costs and the transmission business' share. Please provide an explanation of the variance.

Question #60

Reference: i) EB-2006-0501, Board Decision, page 49
ii) EB-2006-0501, Exhibit M/Tab 1/Schedule 1, page 18
(iii) Exhibit F1/Tab 1/Schedule 2, page 4

Issue Number: 5.1 and 1.1

a) As part of its EB-2006-0501 Decision the OEB approved the establishment variance/deferral accounts to:
   - Track customer capital contributions that could be required regarding the Cambridge Preston TS project (reference(i))
   - Track amounts paid out as result of Transmission System Code changes (references (ii) and (iii)).

   Please provide a status report for each of these accounts, including a year to year continuity schedule to December 31, 2008.

Question #61

Reference: Exhibit F1/Tab 1/Schedule 1,page 3 (lines 10-11)

Issue Number: 5.1

a) Did the Tax Rate Changes account also reflect changes to the CCA rate for Class 1 as introduced in the 2007 Federal Budget? If not, why not?

Question #62

Reference: (i) EB-2006-0501 – Exhibit M/Tab 1/Schedule 1, page 18
(ii) EB-2006-0501 – Exhibit F1/Tab 2/Schedule 1, page 2

Issue Number: 5.1

a) As part of its EB-2006-0501 Application Hydro One indicated it would establish a Regulatory Asset Recovery Account with respect to those Regulatory Assets approved as of April 30. 2007. Please indicate the current status of this account and provide a continuity schedule through to December 31, 2008.

Question #63

Reference: (i) Exhibit G2/Tab 3/Schedule 2, pages 1-2
(ii) EB-2006-0501 – Exhibit G2/Tab 3/Schedule 2, page 1

Issue Number: 6.2

a) In the current Application there are considerably more (i.e., more than double) Generator Station Connections identified than in the previous application. Are all of the additional stations new stations in-service since the last Application or has there been a change in how stations deemed to be generator station connections are defined?

Question #64

Reference: (i) Exhibit G2/Tab 1/Schedule 1
(ii) EB-2006-0501 – Exhibit G2/Tab 1/Schedule 1

Issue Number: 6.2

a) How are the assets classified as "OTHER" in reference (i) functionalized to the rate pools?

b) Are there any transmission lines whose Functional Category has changed since the EB-2006-0501 Application? If yes, please identify the lines and the reason for the change.

Question #65

Reference: (i) Exhibit G1/Tab 3/Schedule 1, page 4 and Attachment 1
(ii) OEB Staff IR #87
(iii) EB-2006-0501, Exhibit G!/Tab 1/Schedule 1,page 4

Issue Number: 6.1

a) In responding to the OEB Staff IR please indicate whether or not Hydro One Networks considers the current cost allocation practice to be more closely aligned with how the transmission system is used and its cost allocation principles (per reference (iii)).

b) Does "45" represent the total number of transmission customers that are currently not charged for line connection service (reference (i), Attachment 1, page 4). Under the alternative approach would there be any customers who would just pay for Network Service and not be billed for Line Connection service and, if so, please explain the type of supply arrangement that would not attract a Line Connection charge.

c) With respect to the three different configurations discussed on pages 2-3, please confirm that:
   - Page 3 (lines 20-22) describe how the "connection" costs associated with those customers in first category were determined.
   - Page 3 (lines 24-29) describe how the "connection" costs associated with those customers in the second category were determined.

- How “connection” costs for those customers in the third category were determined.

Question #66

Reference: (i) Exhibit G2/Tab 5/Schedule 1,.page 1
(ii) Exhibit H1/Tab 5/Schedule 1, page 2
(iii) EB-2006-0501, Exhibit J/Tab 5

Issue Number: 2.2

a) Please provide a schedule setting out the actual monthly revenues received by Hydro One Networks for Export Transmission Service from January 2006 to the most recent month available.

b) Please update the response to VECC IR #126 from EB-2006-0501 to include 2007 and 2008 year to date.

Question #67

Reference: (i) Exhibit H1/Tab 2/Schedule 1

Issue Number: 7.1

a) With respect to page 2, why is the fact that end-use transmission customers non-coincident peaks are 28% higher than their coincident peak evidence that “increased ability of end-use transmission customers to shift load away from system peak” as opposed just evidence that they don’t peak at the same time as the LDCs who (due to the fact they are 90% of demand) set the system peak?

b) With respect to page 3, please provide a schedule that sets out the number of Delivery Points for LDCs, End-Use Customers and Transmission Connected Generators where, for 2009, the Sum of the Higher of Monthly CP or 85% of NCP (7 am to 7 pm) is greater than the Sum of the Average Monthly CP Demand.

Question #68

Reference: (i) EB-2006-0501, Exhibit J/Tab 5

Issue Number: 7.1

a) Please update the response to VECC IRs #116 (ii) to include 2007 actual and weather corrected values.

Question #69

Reference: Exhibit H1/Tab 4/Schedule 1, page 2

Issue Number: 7.1

a) Has Hydro One Networks undertaken any analysis that supports the continuation of the $5,200 per meter exit fee? If yes please provide. If no, why is the current value viewed as appropriate?