EB-2008-0272

IN THE MATTER OF the Ontario Energy Board Act 1998, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an Application by Hydro One Networks Inc. for an Order or Orders approving or fixing just and reasonable rates and other charges for the transmission of electricity commencing January 1, 2009.

INTERROGATORIES
OF THE
SCHOOL ENERGY COALITION

I. Administration

1. Ref. Ex. A-12-1, Att. 7, S&P Ratings Report: At p. 7 of the S&P report there is a reference to HON's preparation for the Canadian Accounting Standards Board's convergence to International Financial Reporting Standards (IFRS).

   (a) Please set out all steps HON has taken in respect of this change in accounting standard, in particular as they relate to the rate filing.

   (b) Please specify any changes that HON has made or is planning to make to its capitalization policy as a result of the planned convergence to IFRS standards.

2. Ref. Ex. A/14/1: Business Planning

   (a) Please provide, on a confidential basis if necessary, a copy of the business plan provided to HON Board of Directors for approval.

3. A-14-1, Appendix A- Business Plan Assumptions

   (a) Have any of the assumptions in Appendix A changed since the application was prepared?

(b) In particular, have the assumptions for inflation rate (which are based on December 2007 data) and interest rates (which are based on April 2008 data) changed as a result of the recent economic conditions.

(c) If the answer to (a) or (b) is yes, please provide the updated assumptions and provide the corresponding amendments to the OM&A or capital budgets.

(d) With respect to labour escalation, HON has assumed 2.5% increase for Society staff, a 3% increase for PWU staff, and a 4% increase for MCP. What is the basis for the MCP assumption and why is it greater than either the PWU or Society escalation?

4. Ex. A/14/2: Economic Indicators

Pg. 4: there is a substantial increase in HON's credit spreads for the 5-year, 10-year and 30-year bond rates. The evidence, at p.5, states that the credit spreads "are based on the average of indicative new issue spreads for March 2008 obtained from our Medium Term Note program dealer group for each planned issuance term."

(a) Please provide HON's understanding for the increase in the actual credit spreads in 2008.

(b) Please explain the basis for assuming that the increase in credit spreads will continue in 2009 and 2010.

Cost of Capital

5. Ref. Exhibit B1/2/1, and B2/1/2- Cost Rate for Debt

(a) Please explain how the Effective Cost Rate for each of the three debt issuances in 2009 and 2010 was determined.

(b) With respect to the debt issued September 15, 2008, is the effective cost rate (5.5%) forecast or actual? If forecast, please provide the actual.

6. Ref. A/14/4, p.2-8

(a) Is there a document or documents that summarize(s) the planned Sustainment OM&A and capital program and provides justifications along the lines set out in this exhibit (i.e. summarising asset condition, reliability, utilization and formulating a plan)? If so, please provide a copy.

Load Forecast

7. Ex. A/14/3

(a) According to Exhibit E1/1/1, pg. 6, $36 million of the 2010 revenue deficiency is attributed to changes in load forecast for 2010. We have seen, however, that economic conditions underlying the forecast can change significantly in a short period of time. Therefore, does HON propose to update its load forecast prior to the 2010 test year to reduce the risk of forecasting error?

(b) Pg. 15- difference between IESO and HON treatment of CDM. It appears from Attachment B that one of the two main difference between the treatment of CDM as between IESO and HON is that IESO deducts demand response programs from the OPA CDM forecast, whereas HON does not.

(i) What is IESO's rationale for deducting the impact of demand response programs from the CDM forecast?

(ii) What is HON's rationale for not deducting demand response from CDM?

(iii) Demand response programs typically only operate during periods of extreme weather. Would HON's weather normalization methodology not already account for the impact of extreme weather such that including the impact of demand response programs is double counting?

(c) Another main difference between IESO and HON forecasts is the treatment of embedded generation:

(i) If possible, please separately identify the impact of the difference in CDM definitions and the impact of the difference in the definition/treatment of embedded generation (the evidence currently provides the impact for both combined- 400MW for summer 2009);

(ii) Please provide a more detailed explanation of the difference in the treatment of embedded generation as between IESO and HON, including an explanation as to how each party (IESO and HON) justifies its definition.

<u>C1/2/2- Sustaining OM&A</u>

8. The evidence states, at p. 2, that the increasing sustaining OM& A expenditures for assets reaching mid to end of life "will be alleviated in the longer term through capital investments to replace these aging assets." What proportion of the assets currently being repaired or refurbished have to be replaced within the next five years?

9. 0C1/2/2: Sustaining OM&A: Stations

(a) Pg. 10, line 21: Please provide the current demographic profile of HON's transformer assets.

(b) Pg. 10, line 23: the evidence states that transformer oil leaks are increasing in volume because many of the leaking units have temporary repairs or temporary oil leak containment. Please explain when the temporary repairs or containment were done and why they were done in that fashion.

(c) Pg. 11-12- Stations: Environmental Management budget: the budget for Environmental Management is increases by $5.6 million, or 160%, between 2005 and 2009.

(i) Please provide a breakdown of the drivers of the increase between 2005 and 2007 (from $3.5 million to $8.4 million), separated by new work accomplishment (and the associated cost) and inflationary increases.

(ii) Please provide a breakdown of the drivers of the increase between 2007 and 2009, separated by new work accomplishment (and the projected associated cost) and projected inflationary increases.

10. Exhibit C1/2/2, pg. 12: Sustaining OM&A: Stations; Power Equipment- by 2010, the Power Equipment budget will be nearly double what it was in 2005 ($82 million vs. $42.2 million in 2005, a 94% increase).

(a) Provide the proportion of the increase from 2005 that is due to inflationary factors (wage escalation, materials, etc.);

(b) For the proportion of the increase that is due to new work programs, please specify what new work was accomplished;

(c) Please provide greater detail as to what new work will be accomplished to account for the $14.2 million (2009) and $22 million increase (2010) in expenditures over 2008 in each of the test years.

11. Exhibit C1/2/2, p. 25: Sustaining OM&A: Stations: Ancillary Systems Maintenance: the budget for this program nearly doubles from 2005 to 2010- from $9.9 million to $18.2 million. Please:

(a) Provide the proportion of the increase from 2005 that is due to inflationary factors (wage escalation, materials, etc.);

(b) For the proportion of the increase in the test years that is due to new work programs, please specify what new work will be accomplished;

(c) Please provide the number of trouble calls from 2005 to 2007 as well as the forecast numbers in 2009 and 2010.

(d) To the extent that a projected increase in trouble calls accounts for increased budget forecast in the test years, please quantify the impact.

12. C1/2/2, p. 33: Sustaining OM&A: Vegetation Management

The evidence states, at p. 35, that the proposed spending for brush control and line clearing will allow annual clearing of about 2,800 kilometres of rights of way.

(a) Please provide the annual accomplishment for the years 2005-2008.

(b) Please explain any significant year over year variation in per unit costs.

13. C1/2/2, p. 45: Sustaining OM&A: Overhead Lines: Planned Corrective Maintenance

(a) Please provide the projected cost of the corrective work for the Sudbury-Barrie 500kV lines and the London-Sarnia circuits as well as the basis for the projections. (Provide costs for each year that the projects have been or will be underway.)

14. C1/2/3: Development OM&A

(a) The Research and Development function has increased from $1.1 million in 2005 to a projected level of $9.2 million by 2010. Please provide a summary of all projects planned for 2009 and 2010, their associated costs, and any "business case" type analysis that was done to approve the project.

(b) Please provide a breakdown of the $3.1 million increase in Standards Development costs from 2007 to 2008, 2009 and 2010. What <u>new</u> work is being accomplished and how were the costs budgeted for the test years?

15. C1/2/3: Development OM&A- Pre-Engineering work for IPSP

(a) With respect to the anticipated $47.9 million in pre-engineering work for IPSP, the costs of which HON is proposing to track in a "variance account":

(i) Provide any updates that HON has received from the OPA regarding these projects now that the IPSP is under review;

(ii) as there is no forecast of these expenditures in rates, confirm that the account HON is requesting should properly be called a deferral account and not a variance account.

(iii) Please explain why these costs are being treated as Development OM&A instead of development capital.

16. C1/2/4- Operations OM&A

(a) Operations costs increase from $28.4 million in 2007 to $33.1 million in 2009, a 17% increase. Please:

(i) provide a breakdown of the increased expenditures in 2009 and 2010 over 2007 by cost driver, including increased training requirements, labour escalation, and the cost of hiring new junior staff to work alongside more senior staff.

(ii) with respect to the demographic issues identified at p. 2, line 10, please provide the number of new staff who have been hired thus far.

(iii) Provide the portion of the 2009 and 2010 budgets for Operations that is made up of the cost of new hires being trained alongside senior operators?

17. C1/2/8- Shared Services: Asset Management

The Asset Management budget increases substantially in 2009 over historical levels. The evidence generally describes the work of each line item and provides some general explanations for the increase in costs, but does not provide a specific explanation as to how the increased budgets were arrived at.

(a) Therefore, for each of the line items in Table 1 (Strategy & Business Development, System Investment, etc.), please provide an explanation as to how the increase in expenditures from 2007 to 2010 will be spent, using a bottom-up approach. For example, what additional work is forecast (over 2007 levels) and how was the cost of that new work forecasted? Please break down the costs by, for example, incremental labour costs, facilities costs, etc.

(b) For incremental labour costs, please provide an analysis of the anticipated number of additional staff dedicated to the asset management functions and what functions they will be performing.

18. C1/2/8, pg. 15- Shared Services- Real Estate & Facilities: with respect to the Real Estate & Facilities function, please provide a detailed breakdown of the new facilities and

their cost as well as the increasing work programs that have led to an $9 million increase in this budget over 2007 levels. For example,

(a) What new facilities are being added, and what is the associated cost?;

(b) What specific new work activities are planned, and what are the costs of each?

19. C1/2/9: Shared Services- Information Technology

Preamble: IT costs increase by $23.9 million in 2009 over 2007, a 25% increase.

IT: Sustainment costs increase by $15.8 million, or 25%, in 2009 over 2007. At p. 2, HON states that a portion of the increase is due to the Cornerstone Phase 1 and 2 projects moving from project status to "in-service", which means the costs to sustain the applications move to Sustainment OM&A costs. Please:

(a) specify what portion of the increase in IT: Sustainment is due to having Cornerstone project move to in-service costs;

(b) provide a summary of the cost increases in IT: Sustainment that are not related to the Cornerstone project.

20. Ex. C1/2/9: Shared Services: Business Telecom: With respect to the Business Telecom IT budget, please provide a breakdown of the extra $3.2 million forecast for 2009 over 2008 levels (an 18% increase), as follows:

(a) What proportion is due to the increased size of the HON workforce? How many new employees does that represent?

(b) What proportion is due to increase in costs for services provided by Hydro One Telecom and Bell?

(c) What other factors contribute to the increase?

21. C1/2/9: Shared Services: IT Management & Project Control increases by $4.9 million in 2009 over 2007 (a 73% increase over two years). The pre-filed evidence provides a general description of the work to be performed in 2009/2010 but no specific explanation for the large increase over historical levels. Therefore:

(a) Please provide a breakdown of how the additional $4.9 million over 2007 will be spent, including what new work is planned and how that new work has been budgeted (incremental labour costs, overhead, etc.).

22. C1/2/12: Property Taxes: Please explain the projected increase in property taxes for Transmission Lines from $38 million in 2007 to $42.2 million in 2009.

23. C1/3/1 and C1/3/2: Corporate Staffing and Compensation

(a) Please provide a breakdown of Table 3 at C1/3/2, p. 10 by major employee groups (PWU, Society, MCP, Hiring Hall) and a further breakdown by compensation components (base salary, overtime, benefits, incentive compensation, etc.)

(b) If possible, please provide the component of Table 3 at C1/3/2, p. 10 that applies to the Transmission business.

(c) Please provide the number of employees in each employee group for the years 2005-2010 (preferably FTE, but if that is not possible, end of year) for the years 2005-2010.

24. C1/3/1, pg. 3: Apprentice and Graduate Training Programs

(a) Please provide a chart showing the number of new hires and graduates from the Apprentice and Graduate Training programs for the years 2004-2010.

(b) Please provide the cost of the program for each year.

25. A/16/2: Compensation and Productivity Benchmark Studies

A/16/2, pg. 3: HON states in the pre-filed evidence that the "benchmarking study results provide further support for Hydro One's position that its continued productivity accomplishments offset its relative compensation levels."

(a) Please confirm that this statement reflects Hydro One's position and is not necessarily that of Mercer/Wyman.

(b) Given that its compensation levels are, on average, 17% above the median level, does HON agree that in order to be offset by higher productivity, HON's productivity levels would also have to be significantly above the median?

(c) It does not appear as though the Mercer/Wyman report looked at productivity on a position by position basis. Therefore, does HON agree that the results do not necessarily provide a justification (in terms of higher productivity) for particular employee groups that are above the market median for compensation?

26. Ex. A/16/2, Attachment 1 (Mercer/Wyman Study)

(a) For each of the benchmarks used (T&D Compensation per MWh sold, T&D Compensation per Gross Asset Value, T&D Compensation per KM of Line, etc.) please provide the value for HON using 2009 data.

(b) To the extent possible, please provide the numerator and denominator values used to derive the values for each comparator in Tables 9-12 of the Productivity study.

(c) How did Mercer/Wyman define "Customer Service compensation"?

(d) Do the numerator and denominator for the Customer Service benchmarks for HON (Tables 14-17) include the Transmission business? If so, would these numbers not be skewed by the fact that the Transmission business is allocated a very small proportion of overall customer care costs?

27. C1/4/1: Costing of Work

(a) Please explain the 73% increase in the cost of Field Supervision and Technical Support between 2005 and 2010;

(b) Please explain the 65% increase in the cost of Support Activities between 2005 and 2010.

(c) Pg. 14: What assumptions regarding the cost of fuel did HON make for its forecast of 2009/2010 Fuel cost shown in Table 3? Does HON believe those assumptions should be revised in view of the recent dramatic reduction in the cost of fuel?

Rate Base and Capital Expenditures

28. Ex. D1/2, p. 1: In-Service Capital Additions

The variance in 2008 was approximately 13% of the OEB approved level of in-service additions ($73.1 million of $577.8 million). In-service additions for 2009 and 2010 are forecast to be 57% and 90% higher, respectively, than the 2008 projected actual. Capital expenditures in 2007 were 27% lower than Board approved amount [see Ex. D1/3/1, pg. 4] and in 2008 they will be 12% lower.

(a) How will HON ensure that its 2009 and 2010 work programs are reasonably proximate to their projected levels given the problems HON has encountered in 2007 and 2008 [as set out at Ex. D1/3/1]

(b) Please identify any risks that HON has identified that may cause its 2009 and 2010 in-service additions to be lower than anticipated.

(c) What would the 2008 and 2009 revenue requirement impact be assuming 2009 and 2010 in-service additions are 15% lower than the level projected?

29. Ref. Ex. D1/2.1, Asset Condition Assessment by Hatch International Ltd.

(a) Has Hatch International Ltd. or any of its subsidiaries bid on or been selected to perform the work, or act as project manager, on any of the capital projects planned by Hydro One? If so, please advise which projects.

(b) Please explain how the results of the Asset Condition Assessment were used in preparing HON's capital budget for the test years. What specific components of the capital budget were developed as a result of the findings of the Asset Condition Assessment?

30. D1/3/2: Sustaining Capital

(a) Pg. 6: Copper theft issues: the evidence states that HON is spending $30.5 million in 2008 on improved security to address the increase incidence of copper theft.

(i) What is the value of the copper stolen from HON annually?

(b) Circuit breakers: how many breakers (oil and metaclad) will be replaced in 2009 and 2010?

(c) Please provide the expenditures for each of Oil Circuit breakers and Metaclad breakers for 2005 to 2007 (Table 3 provides a breakdown for 2009 and 2010 only)

(d) The Investment Summary Document for Oil Circuit Breaker Replacements (S1) states that performance has improved from 1997-2004 "since the onset of annual replacement and refurbishment programs." The test year budgets, however, propose a large increase in expenditures, from an average of $1.6 million from 2005-2007, to an average of $16.9 million from 2008-2010 (although this is for Circuit Breakers as a whole). Please explain why the steady level of replacement in the years 2005-2007 is insufficient going forward.

31. Ex. D1/3/2- Sustaining Capital- Station Re-Investment

(a) How much of the test year budget is due to "de-merger" of Hydro One-owned transmission facilities from facilities owned by Ontario Power Generation? Why is the "de-merger" necessary?

32. Ex. D1/3/2: Sustaining Capital- Power Transformers

(a) What portion of the transformer budget is for "unplanned (demand) capital replacement of failed transformers? How does this differ from the years 2005-2007?

(b) The evidence at pg. 20 refers to the design life of a power transformer as being 40-60 years. Is this what HON refers to as the end of life region? Can HON provide a narrower time frame to forecast when major repairs and/or replacement of transformers normally occurs?

(c) Figure 6 on pg. 21 does not show a significant increase in the number of transformers entering the "end of life" region in 2009 and 2010 over past years.

(i) Is the doubling in capital expenditures for power transformers due to age issues or performance?

(ii) Please provide a table showing the relevant performance metrics of HON's power transformers from 2005 to 2008.

33. D1/3/3- Development Capital

(a) What is HON seeking from the Board in this proceeding with respect to Category 4 projects?

(b) Please provide a list of Category 2 and 3 projects (including their respective cash flow during each of the test years and total cost) that were already considered by the Board in a previous proceeding.

34. Exhibit G: Cost Allocation

(a) Please provide a definition of which customers fit into each of the four rate pools.