

EB-2014-0116

Ontario Energy Board

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 Toronto Hydro-Electric System Limited for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2015.

**VULNERABLE ENERGY CONSUMERS COALITION
("VECC")
CROSS-EXAMINATION COMPENDIUM**

FEBRUARY 24, 2015

Ontario Energy Board	
FILE No.	EB-2014-0116
EXHIBIT No.	K6.1
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**RESPONSES TO VULNERABLE ENERGY CONSUMERS
 COALITION INTERROGATORIES**

1 **RESPONSE:**

2 a) Toronto Hydro forecasts the capital expenditures for the Rexdale facility are
 3 estimated to be \$18.8 million in 2015 and \$14.4 million in 2016.

4

5 b) Toronto Hydro expects to have a detailed budget for the Rexdale facility by 2014Q4.

6

7 c) The “Facilities” line in the schedule noted above for 2014 – 2019 (Exhibit 2A, Tab 6,
 8 Schedule 2) includes both Facilities Management and Security and Operating Centres
 9 Consolidation Programs. Please refer to the table below for the 2014 to 2019
 10 “Facilities” capital expenditures breakdown. Facilities Management and Security
 11 capital expenditures in the table below agree to Exhibit 2B, Section E8.2, Table C and
 12 the OCCP capital expenditures in the table below agree to Exhibit 2B, Section E8.3,
 13 Table B.

PROGRAM	2014	2015	2016	2017	2018	2019
Facilities Management and Security	\$7.5	\$16.5	\$9.4	\$2.0	\$2.0	\$1.9
Operating Centers Consolidation Program	\$82.7	\$37.4	\$14.8	\$-	\$-	\$-
Total	\$90.3	\$53.8	\$24.2	\$2.0	\$2.0	\$1.9

1 **E8.3.2 Program Description**

2 **E8.3.2.1 Background**

3 The Operating Centers Consolidation Program concerns the consolidation of operating centers to
4 achieve security of tenure at Toronto Hydro's major operating centers supporting distribution
5 system construction and maintenance programs, and to permanently and significantly lower
6 operating center costs. It is also expected to resolve existing requirements and constraints
7 related to expiring leases on existing facilities, and the cessation of critical fibre-optic services at
8 Toronto Hydro's main Data Center. The primary driver for the OCCP is System Maintenance and
9 Capital Investment Support. The secondary, but nevertheless important driver is Business
10 Operations Efficiency.

11 This program does not involve facilities such as transformer stations, municipal stations, or
12 substations that are integral parts of the distribution system itself. Also it does not pertain to
13 ongoing capital and operating expenditures related to the maintenance and improvement of
14 existing facilities, apart from activities related specifically to the OCCP. Please refer to Facilities
15 Management and Security program (E8.2) for evidence pertaining to distribution system facilities
16 and ongoing support facilities programs.

17 Toronto Hydro's current operational facilities are described in further detail in the following sub-
18 section. The retained facilities are described in section E8.3.3. Figure 1 below depicts the
19 properties that would be retained and those that would be vacated.

Distribution System Plan 2015-2019



RETAINED



VACATE - SELL / EXIT LEASE

1
2

FIGURE 1: TORONTO HYDRO MAJOR OPERATING CENTERS

E8.3.2.2 Toronto Hydro Facilities

Toronto Hydro's distribution system and business support facilities consist of geographically dispersed, functionally integrated buildings and lands that house customer care, system control, operations and maintenance, system response, and other functions.

The OCCP facilities are functionally integrated in that Toronto Hydro conducts various operations and activities to serve its customers, and the overall collection of operations and activities must be housed in suitable facilities. To the extent a given facility is vacated or enlarged, the requirements for the remaining facilities in the portfolio will be increased or reduced accordingly.

In addition, Toronto Hydro considers it vital to maintain operations centers dispersed across the city in order to permit reduced travel times to worksites that are themselves widely dispersed across the city. Toronto Hydro strives to maximize the time spent by crews working directly on the distribution system ("wrench time") and minimize the time spent by crews travelling to the work sites across the City. Because Toronto Hydro's service area is a highly congested urban area,

Distribution System Plan 2015-2019

1 **Stream of Future Avoided Costs**

2 Table 5 below sets out the categories and amounts of avoided costs Toronto Hydro expects to
 3 realize over the CIR period as a result of disposing of the 5800 Yonge property. Over \$9.1 million
 4 of the \$16.7 million capital saving in 2015 is related to capital expenditures on upgrading the Data
 5 Centre if Toronto Hydro were to remain at 5800 Yonge. The majority of the remaining capital
 6 savings are also IT-related. } /C

7 **TABLE 5: COSTS AVOIDED BY THE DISPOSAL OF 5800 YONGE**

Avoided Costs - 5800 Yonge Street					
	2015	2016	2017	2018	2019
	\$000s				
Operational Savings	\$ 843	\$ 1,722	\$ 1,758	\$ 1,795	\$ 1,833
Avg 2015-2019	\$ 1,590				
Capital Savings	\$ 16,722	\$ 7,616	\$ 7,646	\$ 1,517	\$ 1,549
Avg 2015-2019	\$ 7,010				

8 **E8.3.3.2 Phase 2 – Transfer of Staff and Operations from 601 Milner to**
 9 **715 Milner**

10 Phase 2 of the OCCP principally involves the transfer of existing staff and functions from the
 11 operations centre at 601 Milner to the facility Toronto Hydro owns at 715 Milner. In addition,
 12 some staff currently located at 601 Milner would be transferred to 500 Commissioners. No further
 13 capital expenditures, apart from those shown for Phase 1, are required for this reason at 500
 14 Commissioners. Some staff from 5800 Yonge will also be transferred to 715 Milner.

15 A high-level timeline for Phase 2 is presented below in Figure 3.

Phase 2 Project Time Line											
	2014			2015				2016			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Design											
Tender/Permits											
Construction											
Staff Relocations - to 500 Commissioners											
Staff Relocations - to 715 Milner											
Exit 601 Milner											

16

FIGURE 3: PHASE 2 HIGH-LEVEL TIMELINE

Distribution System Plan 2015-2019

1 **Stream of Future Avoided Costs**

2 Table 7 below sets out the categories and amounts of avoided costs Toronto Hydro expects to
3 realize over the CIR period as a result of disposing the 601 Milner property. The average OPEX
4 cost saving over the 2015 to 2019 period is \$2.3 million per year; capital maintenance costs are
5 also avoided. The avoided capital expenditure of approximately \$8.8 million relates to the initial
6 capital expenditures on leasehold improvements that are assumed to be necessary when newly
7 occupying a leased facility. Thereafter, capital expenditures resume a normal pattern. The
8 amount was based on historical averages for both the 601 Milner and 6 Monogram facilities.

9 **TABLE 7: COSTS AVOIDED BY EXITING 601 MILNER**

Avoided Costs - 601 Milner					
	2015	2016	2017	2018	2019
	\$000s				
Operational Savings	\$ -	\$ 2,057	\$ 2,780	\$ 3,291	\$ 3,360
Avg 2015-2019	\$ 2,298				
Capital Savings	\$ -	\$ 8,850	\$ 74	\$ 76	\$ 78
Avg 2015-2019	\$ 1,816				

10 **E8.3.3.3 Phase 3 – Transfer of Staff and Operations from 6 Monogram**
11 **to 71 Rexdale**

12 Phase 3 involves the transfer of staff and operations from the leased facility at 6 Monogram to the
13 Toronto Hydro-owned facility at 71 Rexdale, which was purchased in June 2014. The reasons for
14 the move from leased facilities to owned facilities in the northwest quadrant of the City are the
15 same as those of Phase 2; the objectives are to achieve security of tenure and long-term cost
16 savings. A high-level timeline for Phase 3 is presented in Figure 4 below.

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1 Upon completion of the remediation process, and the transfer of System Response equipment
2 and staff, 28 Underwriters will be prepared for marketing. Toronto Hydro intends to market the
3 property in clean, vacant, but otherwise "as is" condition, and does not anticipate any
4 modifications to or demolition of either of the buildings on the site by Toronto Hydro.

5 Toronto Hydro anticipates that the work to prepare 28 Underwriters for sale (including transfer of
6 the System Response function) will be complete by the end of Q3 2014, and that closing of the
7 sale transaction could occur by the end of 2014 or Q1 of 2015. During the interim period between
8 the vacating of 28 Underwriters and closure of the sale transaction, Toronto Hydro will continue to
9 bear property-related costs, although at a reduced level reflecting vacant, baseline maintenance
10 of the facility.

11 Stream of Future Avoided Costs

12 By disposing of the Underwriters property, Toronto Hydro expects to save approximately
13 \$800,000 per year in operating costs, as well as a further \$100,000 per year in capitalized
14 maintenance costs.

15 Table 10 below sets out the categories and amounts of avoided costs Toronto Hydro expects to
16 realize over the CIR period as a result of disposing of the Underwriters property.

17 TABLE 10: COSTS AVOIDED BY DISPOSING OF 28 UNDERWRITERS

Avoided Costs - 28 Underwriters					
	2015	2016	2017	2018	2019
	\$000s				
Operational Savings	\$ 750	\$ 766	\$ 782	\$ 798	\$ 815
Avg 2015-2019	\$ 782				
Capital Savings	\$ 100	\$ 102	\$ 104	\$ 106	\$ 109
Avg 2015-2019	\$ 104				

18 E8.3.4 Timing & Pacing of the Program

19 Timing and Pacing of the OCCP

20 The expected timelines for the OCCP are detailed on a phase-by-phase basis in Section 8.3.3.

Distribution System Plan 2015-2019

1 of which \$33.2 million is proposed for the 2015 to 2019 period. The preliminary budget for the
2 construction necessary at Rexdale is set out below in Table 8.

TABLE 8: PRELIMINARY BUDGET FOR COMPLETION OF REXDALE PROPERTY

OCCP Budget - Phase 3	Budget (\$000s)
Office Space - Constuction and Fit-out	\$ 15,500.0
Warehouse - Constuction and Fit-out	\$ 10,500.0
Parking	\$ 3,500.0
Ancillary Work - WH Demo	\$ 500.0
Land and Building	\$ 13,600.0
IT	\$ 4,136.4
Capitalized maintenance during construction	\$ 4,400.0
Total Budget	\$ 52,136.4

4 **Stream of Future Avoided Costs**

5 Table 9 below sets out the categories and amounts of avoided costs Toronto Hydro expects to
6 realize over the CIR period as a result of disposing of the 6 Monogram property.

7 The avoided capital expenditure totals \$9.1 million over the 2015 to 2019 period. The majority of
8 this (\$8.9 million) relates to the initial capital expenditures on leasehold improvements that are
9 assumed to be necessary when newly occupying a leased facility; thereafter, capital expenditures
10 resume a normal pattern. The amount was based on historical averages for both the 601 Milner
11 and 6 Monogram facilities.



TABLE 9: COSTS AVOIDED BY EXITING 6 MONOGRAM

Avoided Costs - 6 Monogram					
	2015	2016	2017	2018	2019
	\$000s				
Operational Savings	\$ -	\$ 321	\$ 4,521	\$ 4,616	\$ 4,713
Avg 2015-2019	\$ 2,834				
Capital Savings	\$ -	\$ 8,850	\$ 74	\$ 76	\$ 78
Avg 2015-2019	\$ 1,816				

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES

- 1 • Appendix G – 2014 Electric Utility Business Customer Satisfaction Study,
2 prepared by J.D Power and Associates (February 2014)
- 3 • Appendix H – 15th Annual Electric Utility Customer Satisfaction Survey,
4 prepared by Simul Corporation / Utility PULSE Division (2013)
- 5 • Appendix I – Utility Safety Benchmarking Study, prepared by UMS Group
6 (February 2014)
- 7 • Appendix J – Reliability Benchmarking Analysis: Comparative Evaluation of
8 Toronto Hydro to United States Power Distributors, prepared by Power System
9 Engineering (January 2013)
- 10 • Appendix K – Cost Benchmark Analysis: Comparative Evaluation of Toronto
11 Hydro to North American Electric Distributors, prepared by Power System
12 Engineering (February 2013)
- 13 • Appendix L – Review of the Reliability of Supply to Toronto Hydro, prepared by
14 KEMA, Inc. and UMS Group (October 2014)
- 15 • Appendix M – Strategic Facility Review, prepared by Bennet, Cresa and All Steel
16 (May 2014)

17

18 At the request of J.D. Power and Associates, Toronto Hydro has redacted identifiable
19 information about other utilities that participated in the studies filed at Appendices G and
20 H. However, to assist the OEB and intervenors in understanding who the comparators
21 were, Toronto Hydro has attached a list of the participants in each study.

22

23 In addition to the studies noted above, Toronto Hydro also participated in a number of
24 benchmarking studies through the Canadian Electricity Association (“CEA”). However,
25 Toronto Hydro is unable to provide copies of these materials as the CEA has advised that

Strategic Facility Review

Prepared For:
Toronto Hydro

Date:
May 22, 2014



Allsteel

2. CURRENT SITUATION

Summary of Current Real Estate Portfolio

Toronto Hydro's current real estate portfolio is comprised of 8 facilities totaling 1,369,873 square feet of total useable area. The office area within these facilities is comprised of 666,875 square feet of useable area. The current annual operating expense for the entire Toronto Hydro real estate portfolio was approximately \$20 million for 2013. Table 1.0 provides a summary of the office and non-office areas of each of the current facilities along with the annual operating expense for each facility. The Office Annual Cost represents the proportionate share of the Total Annual Cost which was calculated by dividing the Office Area over the Total Area and then multiplying by the Total Annual Cost.

Figure 2 | Current Portfolio Area & Cost Summary

Building Address	Office Area	Non-Office Area	Total Area	Total Annual Cost	Office Annual Cost
14 Carlton St.	142,114	0	142,114	\$2,863,817	\$2,863,817
500 Commissioners St.	161,555	182,596	344,151	\$4,697,064	\$2,204,945
5800 Yonge St.	81,038	0	81,038	\$2,248,031	\$2,248,031
6 Monogram Pl.	117,867	149,715	267,582	\$4,258,440	\$1,875,797
60 Eglinton Ave. W.	19,834	5,423	25,257	\$285,912	\$203,320
601 Milner Ave.	73,207	130,200	203,407	\$3,404,781	\$1,225,394
715 Milner Ave.	71,261	193,418	264,679	\$1,043,563	\$280,964
28 Underwriters Rd.	31,755	90,430	122,185	\$1,127,481	\$293,024
Totals	698,631	751,782	1,450,413	\$19,977,717	\$11,230,741

Figure 2, on the following page, is a map of the existing locations of all current Toronto Hydro facilities. Given that Toronto Hydro is in the middle of its portfolio optimization program, there are currently a number of surplus facilities that provide some geographical overlap. These include primarily 28 Underwriters Road, 601 Milner Avenue and 715 Milner Avenue in the eastern portion of Toronto. In addition, 5800 Yonge Street was identified as surplus in that the employees and functions located within this property could be consolidated into vacant areas throughout the portfolio.

6. CONCLUSIONS

As discussed the Toronto Hydro is currently in the middle of a multi-year project to rationalize and increase efficiencies throughout its real estate portfolio and as such the full impact of this project is subject to change. The Consultant Team has completed its review of the existing real estate portfolio and the planned Future State of Toronto Hydro's real estate portfolio once the rationalization project is complete. The following are our preliminary conclusions of the impact of the rationalization project to Toronto Hydro and its real estate portfolio.

- The total number of properties will be reduced from 8 to 5.
- The total area of these properties will be reduced from 1,450,413 square feet to 856,201 square feet.
- The total annual cost of the Toronto Hydro real estate portfolio will be reduced from \$19,977,717 to \$13,197,308 square feet.
- The reduced number of facilities will still provide adequate geographical coverage of Toronto Hydro's service area.
- The total office area within Toronto Hydro's portfolio will be reduced from 698,631 square feet to 469,764 square feet.
- Square Foot per Employee will be reduced from 294 square feet to 255 square feet which is below Toronto Hydro's industry peers and many real estate industry benchmarks.
- Square Foot per Occupant will be reduced from 466 square feet to 334 square feet.
- The Annual Cost per Seat of Toronto Hydro's real estate portfolio will be reduced from \$4,725 to \$4,410.
- Annual Cost per Occupant will be reduced from \$7,492 to \$5,760.
- Office standards used throughout Toronto Hydro's real estate portfolio will be reduced to two general standards.
- New interior offices will be built using demountable partitioning that will allow for ease of reconfiguration provided increased flexibility throughout Toronto Hydro's portfolio as well as reducing the total cost of moves/adds/changes in the future.
- Workstation standards have been reduced from over 9 standards ranging in size from 265 square feet to 22 square feet to 4 general standards ranging in size from 72.5 to 12 square feet.
- The new Workstation standards incorporate a smarter *kit-of-parts* that share components across all sizes and will allow for easier, faster and less expensive moves/adds/changes in the future.

OEB Appendix 2-L
Recoverable OM&A Cost per Customer and per FTE

	Last Rebasing Year (2011 Actuals)	2012 Actuals	2013 Actuals	2014 Bridge Year	2014 Bridge Year	2015 Test Year	
Reporting Basis	CGAAP	USGAAP	USGAAP	USGAAP	MIFRS	MIFRS	/C
Number of Customers (mid-year)	705,756.00	713,093.00	724,144.00	736,974.00	736,974.00	749,679.00	
Total Recoverable OM&A from Appendix 2-JB	\$238.6	\$215.8	\$246.4	\$246.6	\$245.3	\$269.5	/C
OM&A cost per customer	\$ 338.08	\$ 302.63	\$ 340.26	\$ 334.68	\$ 332.91	\$ 359.51	/C
Number of FTEs	1,737	1,601	1,527	1,537	1,537	1,564	/C
Customers/FTEs	406.30	445.46	474.10	479.62	479.62	479.49	/C
OM&A Cost per FTE	137,360.81	134,806.50	161,319.54	160,517.12	159,671.09	172,378.66	/C

Notes:

- 1 If it has been more than three years since the applicant last filed a cost of service application, additional years of historical actuals should be incorporated into the table, as necessary, to go back to the last cost of service application. If the applicant last filed a cost of service application less than three years ago, a minimum of three years of actual information is required.
- 2 The method of calculating the number of customers must be identified.
- 3 The method of calculating the number of FTEs must be identified. See also Appendix 2-K
- 4 The number of customers and the number of FTEs should correspond to mid-year or average of January 1 and December 31 figures.
- 5 Toronto Hydro notes that its OM&A per customer metrics do not account for an estimated 300,000 behind-the-bulk-meter multi-unit dwelling customers.