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File 17834

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VIA EMAIL AND *RESS* FILING

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

Re: POWER WORKERS' UNION INTERROGATORIES
HYDRO ONE NETWORKS INC.
2010-2011 Electricity Distribution Rates Application
Board File No. EB-2009-0096

Enclosed herewith please find interrogatories filed by Power Workers' Union in connection with the above-noted proceedings.

Yours very truly,
PALIARE ROLAND ROSENBERG ROTHSTEIN LLP

Richard P. Stephenson
RPS:jr
encl.

cc: The Applicant
All Intervenors
J. Kwik
J. Sprackett

Doc 735032v1

POWER WORKERS' UNION INTERROGATORIES
HYDRO ONE NETWORKS INC.
2010-2011 ELECTRICITY DISTRIBUTION RATES APPLICATION
(EB-2009-0096)

GENERAL

PWU Interrogatory 1

Issue: 1.3: Is service quality, based on the OEB specified performance indicators, acceptable?

Ref (a): Exhibit A, Tab 4, Schedule 1, Page 18, Figure 3

Ref (b): Exhibit A, Tab 4, Schedule 1, Page 20, Figure 5

Ref (c): Exhibit A, Tab 15, Schedule 1, Page 10, Table 2 - Service Reliability Indicators

Ref (d): EB-2007-0681 - Exhibit H, Tab 6, Schedule 1, Page 1, PWU Interrogatory Response

<u>Questions</u>:

1. Ref (a) indicates that SAIFI has deteriorated in 2007 and 2008. HONI states that this deterioration was due to a shift in the customers impacted by storms in 2007 and 2008 compared to 2005 and 2006. Please explain.

2. Ref (b) indicates that defective equipment was responsible for 27% of SAIFI for the period 2005-2008, which is a significant amount. Please indicate if this situation could be improved by improving HONI's equipment and pole maintenance and replacement programs and increased funding for the programs.

3. Ref (c) provides a list of OEB reliability targets for 2006 to 2011. It is understood that HONI's definition of the targets for reliability indicators is based on sections 15.2.1, 15.2.2 and 15.2.3 of the 2006 Electricity Distribution Rate Handbook, which states: "A distributor that has at least 3 years of data on this index should, at a minimum, remain within the range of their historical performance."

a. Accordingly, HONI appears to use the largest value (the poorest performance indicator) of the three previous years as its target. Why does HONI consider that the achievement of the worst allowable performance to be an acceptable benchmark.?

b. How does this practice in ‘a’ above encourage HONI to strive for improved service quality/reliability year over year?

4. In Ref (c), please clarify how HONI’s SAIFI, SAIDI and CAIDI OEB targets are arrived at relative to the performance indicator values for the previous three years?

5. From Ref (c) and Ref (d), one can obtain the following about the actual SAIFI results for the period 2002 to 2008:

Performance Measure	2002 Act	2003 Act	2004 Act	2005 Act	2006 Act	2007 Act	2008 Act
SAIFI	2.9	2.9	3.1	2.9	2.9	3.6	3.5

Given that performance for the 5-year period between 2002 and 2006 ranged from 2.9 to 3.1, is it reasonable for HONI to increase its “OEB Targets” (to lower its performance target) for 2008 and 2009, which is **≤ 3.6 ,** on the basis of the 2007 actual performance alone?

PWU Interrogatory 2

Issue 1.5: Is the overall increase in 2010 and 2011 revenue requirement reasonable given the impact on consumers?

Ref (a): Exhibit C1, Tab 2, Schedule 5, Page 11, Lines 17-25

<u>Question</u>:

1. Ref (a) indicates that the Board has announced its intention that Ontario distribution companies introduce a Low Income Energy Assistance Program (“LEAP”), which is expected to be funded through Distributor’s OM&A costs. HONI states that such costs are not included in the Customer Care 2010 and 2011 test year costs as information was not available at the time the HONI business plan was prepared. Please provide any update in this regard since the preparation of HONI’s business plan.

OPERATIONS, MAINTENANCE and ADMINISTRATION COSTS (OM&A)

PWU Interrogatory 3

Issue 3.1: Are the overall levels of the 2010/2011 Operation, Maintenance and Administration budgets appropriate?

Ref (a): Exhibit C1, Tab 2, Schedule 7, Page 20, Table 9 - Corporate Security Functions

Ref (b): Exhibit A, Tab 16, Schedule 1, Page 5, Table 1

Question:

1. Ref (a) indicates that the total costs in 2010 and 2011 are $2.7 million and $2.8 million respectively of which $1.4 million and $1.5 million were allocated to Distribution in 2010 and 2011, respectively. HONI also states that in the last decade there has been a dramatic increase in the focus on the protection of critical infrastructure and the industries that comprise these key social, safety and security functions due to the recognition of the criticality for electricity delivery assets and global and domestic terrorist activities.

    a. Please describe the measures HONI has taken to improve security for its assets and employees.

    b. Please describe whether the historical and planned expenditure amounts on security have been sufficient to achieve this goal that is critical in the reliable delivery of electricity.

2. In Ref (b), please explain the significant increase in the level of Total Incremental Cost Savings attained in 2009 compared to the 2007 and 2008 amounts?

PWU Interrogatory 4

Issue 3.2: Is the 2010/2011 vegetation management budget appropriate?

Ref (a): Exhibit C1, Tab 2, Schedule 2, Page 35, Lines 21-23

Ref (b): Exhibit C1, Tab 2, Schedule 2, Page 36, Lines 5-6

Ref (c): Exhibit C1, Tab 2, Schedule 2, Page 39, Line 27

Ref (d): Exhibit A, Tab 15, Schedule 2, Attachment 1, Pages 29, 30 & 35

Questions:

1. In Ref (a), HONI states that “To ensure that the implementation does not result in unnecessary costs, a shorter cycle has been introduced in a gradual manner that takes into account the availability of resources.”

   Please describe what those “unnecessary costs” are and identify all resource constraints that prevent HONI from a speedy transition to a shorter cycle such as a 5- or 6-year cycle?

3. In Ref (b), HONI states that “Hydro One Distribution is proposing to gradually increase line clearing and brush control accomplishments to 13,500 km in 2010 and 14,300 km in 2011, which is the level of accomplishment that must be maintained to achieve a 7 year cycle.”

   a. Please provide historical accomplishments in terms of line clearing and brush control.

   b. How many kilometers would have been required to be cleared to achieve a target of 5- and 6-year cycles and what would have been the cost differential for the 2010 and 2011 test years?

   c. How long would it take HONI to achieve a 3-4 year cycle?

4. In Ref (c), it is indicated that “The planned 35% increase in the volume of work will target the rights-of-way contributing most to unreliability on Hydro One Distribution’s system, and should make appreciable improvements over time to the benefit of all customers.”

   Please identify and explain the reference for the 35% figure above and indicate whether the figure refers to line clearing only or not?

5. In Ref (d), Hydro One 2009 Vegetation Management Benchmarking Study, CN Utility Consulting, Inc. (“CNUC”) states that:

   > “**This long cycle is undeniably contributing to higher per unit costs depicted in the charts provided in this report. In relation to the other utilities, it is CNUC’s opinion that Hydro One is working a remediation program. Re-growth and new starts are abundant over the course of a decade. Long cycles between treatments push the workload on an upwardly exponential curve each time it is managed. When stump re-sprouts and new trees are allowed to grow higher than the shrubs, herbs, and grasses, the trees will extend their height rapidly to the height of the wire causing a need for remediation and unplanned maintenance. … Based on reported average cycle lengths, Hydro One is operating on a cycle that is at**

> **least twice as long as the peer utilities. The conclusion drawn from this key finding is that Hydro One's long cycle has resulted in excessive growth that naturally drives unit costs higher than those at utilities employing a shorter cycle.**"

The report also found that cycle length, in addition to vegetation density, is responsible for HONI's poor performance in reliability.

If HONI agrees that in the long-term the cost and reliability benefits of a short cycle is significant, is HONI's concern only on short-term rate impact? If yes, would it not be better to make the necessary investment now in order to improve reliability and save cost in the long-term, which will benefit the ratepayer and find a way to mitigate impacts on rates?

PWU Interrogatory 5

Issue 3.5: Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref (a): Exhibit A, Tab 11, Schedule 1, Attachments 1, 2, 3, 4 (Rating Agency Reports)

Ref (b): Ontario Government Announcement dated September 21, 2009 - "Hydro One to Kick-start Major Transmission Projects". (http://news.ontario.ca/mei/en/2009/09/hydro-one-to-kick-start-major-transmission-projects.html)

Questions:

1. In Ref (a), Standard & Poor's report is over a year old. Please provide an updated report if available.

2. Ref (b) indicates that "About $2.3 Billion will be spent by Hydro One on transmission and distribution projects over the next three years." Please provide the Government's directive/letter to HONI referenced in Ref (b).

3. In Ref (a), all the three Rating Agencies identify "Significant capital expenditure programs" as one of the major challenges facing HONI in the following few years. Similarly, Ref (b) indicates that Ontario is asking HONI to immediately proceed with planning and implementing major transmission and distribution projects across Ontario and that about $2.3 Billion will be spent by HONI on transmission and distribution projects over the next three years.

a. How does the directive referenced in Ref (b) affect HONI's current application?

b. How is HONI planning to cope with the additional challenge related to Ref (b) over the significant capital expenditure program challenge identified in Ref (a)?

4. In Ref (a), Attachment 1, Page 6, S&P's report states:

> "**Labor force demographics unfavorable Hydro One faces labor demographics that, if not well managed, could pose a material risk to the company's day-to-day operations, and the implementation of its most ambitious capital program in two decades. Furthermore, if the regulator does not fully recognize related increases in labor expense, profitability could be negatively affected. Management's strategy is to address this through effective knowledge transfer to new hires, encouraging employee retention, and partnership with educational institutions. The company expects 30% of its workforce to depart in the next few years. This is a North America-wide phenomenon, making it that much more difficult to manage.**"

Please identify and explain any additional impact of the directive referenced in Ref (b) on the demographic challenge facing HONI?

PWU Interrogatory 6

Issue 3.5: Are the 2010/2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Ref (a): Exhibit C1, Tab 3, Schedule 2, Page 10, Lines 13-18

Ref (b): EB-2008-0272, Transmission Revenue Requirement and Rates 2009 and 2010, Decisions with Reasons, Page 29, Paragraph 4

Questions:

1. Ref (a) indicates that HONI, as directed by the Board in EB-2006-0501 Decision with Reasons, engaged an independent party, Mercer/Oliver Wyman, to submit an independent, testable and repeatable report on compensation cost and *productivity* for Hydro One and comparable companies. This study, "Compensation Cost Benchmarking", was submitted in evidence in EB-2008-0272, Hydro One Transmission's cost of service application for 2009 and 2010 revenue requirement. In Ref (b), however, the Board stated that it "does not accept that the productivity portion of the Mercer Study can be relied on to draw any conclusions on

productivity. *All of the key performance indicators have inherent weaknesses due to the fact that none of the data that was collected from the comparators was originally captured with the intent that it would also be used to perform comparative analysis with other companies*." [emphasis added]

Is it HONI's understanding that data on productivity collected from comparators in the above mentioned study was not done with the intention of conducting a comparative analysis? If so, how is this reconciled with the objective of the study established in Ref (a)?

2. In Ref (b), paragraph 3, the Board stated that "Many of the intervenors found fault with the productivity portion of the Mercer Study for one reason or another. The Mercer Study may be illustrative of the challenges associated with performing comparative analysis of this sort."

   How can HONI, going forward, make use of benchmarking studies of any of its expenditure categories without due consideration of productivity, which according to the above statement of the Board, is a significant challenge to make a comparative analysis with other companies?

3. Has Hydro One compared the wage escalations contained in its current collective agreements to data regarding the escalations contained in other Ontario and Canadian collective agreements entered into at or about the same time as compiled by, for example, the Ministry of Labour or Statistics Canada? If so, what does the comparison reveal?

CAPITAL EXPENDITURES AND RATE BASE

PWU Interrogatory 7

Issue 4.2: Are the amounts proposed for 2010/2011 Capital Expenditures appropriate including the specific Sustaining, Development and Operations categories?

Ref (a): Exhibit D1, Tab 3, Schedule 3, Page 2, Table 1 - Summary of Net Development Capital

Ref (b): Exhibit D1, Tab 3, Schedule 3, Page 22, Line 12-15

Ref (c): Exhibit D1, Tab 3, Schedule 3, Page 24, Line 1

<u>Questions</u>:

1. Does the Net Development Capital breakdown in Ref (a) reflect proposed amendments to the Distribution System Code issued by the Board on June 5, 2009 and subsequently updated on September 11, 2009 (proceeding EB-2009-0077)?

2. In Ref (b), HONI states that the Smart Grid requires substantial cost and expert resources; it is a relatively new concept, and its implementation requires the use of systems that have not been previously deployed.

    a. Is Hydro One aware of any collaboration among Ontario's distributors/ transmitters and other organizations in such areas as research & development and technology transfer which can accelerate implementation as well as reduce overall cost to the province? If yes, please describe Hydro One's role and provide a status update of any such collaboration.

3. Ref (c) makes a reference to "CDM Controllers", which HONI plans to implement as part of its Smart Grid program. Please describe what they are.

PWU Interrogatory 8

Issue 4.3: Is the proposed level of 2010/2011 Shared Services and Other Capital expenditures appropriate?

Ref (a): Exhibit D1, Tab 3, Schedule 8, Page 6, Table 3 - Total Security Infrastructure Capital Expenditures

<u>Question</u>:

1. Given that security infrastructure expenditures are needed to help maintain reliability, reduce power outages and improve employee and public safety, and recognizing that security threats to infrastructure have been public knowledge for a while, please explain why the historic capital expenditures on security infrastructure for 2006, 2007, 2008 & 2009 is nil.

PWU Interrogatory 9

Issue 4.6: Does Hydro One's Asset Condition Assessment information and Investment Planning Process adequately address the condition of the distribution system assets and support the O&MA and Capital expenditures for 2010/2011?

Ref (a): Exhibit D1, Tab 2, Schedule 1, Page 7, Table 4.1 - Summary of Priority 1 (P1) ACA Results

Ref (b): Exhibit D1, Tab 2, Schedule 1, Page 17, Lines 1-10

<u>Questions</u>:

1. Ref (a) indicates that about 35% (36,000 km) of rights-of-way are in the “Very Poor” and “Poor” category and are at risk and require clearance work within the next two years.

    a. What is the planned average accomplishment of clearance for 2010 and 2011 in km of lines and what will be the forecast share of vegetation in “Very Poor” and “Poor” categories for 2010 and 2011 considering the fact that some of the vegetation in the “Fair” category will deteriorate to “Very Poor” or “Poor” category?

    b. At the rate of the response to question (a), will HONI be able to accomplish clearance of the 35% vegetation in the “Very Poor” or “Poor” categories?

2. Ref (b) refers to the problem of premature decay of a particular subset of its red pine poles that have been installed between 1997 and 2004.

    a. What year did HONI become aware of the problem?

    b. Is the problem universal to all red pine poles?

    c. The reference indicates that currently, the poles of concern make up approximately 55,000 of the total 1.7 million poles that are in-service. Does the 55,000 figure refer to the total number of red pine poles or red pine poles affected?

    d. Given the safety risks to Hydro One Distribution staff that have to replace these poles, what is HONI’s plan to conduct the replacement of these poles expeditiously in order to minimize safety risk?

CAPITAL STRUCTURE AND COST OF CAPITAL

PWU Interrogatory 11

Issue 5.1: Is the proposed Capital Structure and Rate of Return on Equity for Hydro One’s distribution business appropriate?

<u>Question</u>:

1. Please provide the Board allowed ROE for HONI for the period 2000-2009.

GREEN ENERGY PLAN

PWU Interrogatory 12

Issue 9.2: Has Hydro One appropriately addressed the Green Energy Plan expenditures in the context of its overall Capital and O&M budgets?

Ref (a): Exhibit A, Tab 14, Schedule 2, Page 2, Paragraph 1

Ref (b): Exhibit A, Tab 14, Schedule 2, Page 18

Ref (c): Exhibit A, Tab 14, Schedule 2, Page 24

<u>Question</u>:

1. In Ref (a), HONI states that:

> **Hydro One Distribution assumes that expansion and enabling investments for renewable generation contained in the Plan will be recovered through an external funding mechanism such as the Global Adjustment Mechanism ("GAM"). This assumption reflects the fact that Hydro One Distribution's service territory covers the majority of regions in the Province with high potential for renewable energy generation development, and given that connecting renewable energy generation benefits all load customers in the Province, it is not appropriate for Hydro One Distribution's customers to bear those costs alone. The Plan further assumes that Conservation and Demand Management ("CDM") program costs will also be externally funded through a GAM.**

   Since HONI prepared/filed the current application, there have been legislative developments relating to the *Green Energy and Green Economy Act, 2009* ("GEGEA").. Please describe how these developments affect HONI's evidence and assumptions indicated above.

2. What is the rate and average customer bill impact in 2010 and 2011 that is solely attributable to the Green Energy Plan filed by HONI in the current application?