

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 a review of an Application by
Hydro One Networks Inc. for an Order or Orders approving
rates for the transmission of electricity commencing January
1, 2011.

FINAL ARGUMENT ON BEHALF OF
ENERGY PROBE RESEARCH FOUNDATION

November 2, 2010

**Final Argument On Behalf Of
Energy Probe Research Foundation**

How these Matters came before the Board

- 1. On May 19, 2010, Hydro One Networks Inc. (the “Applicant” or “Hydro One”), filed an Application seeking approval for changes to its 2011 and 2012 revenue requirement and for changes to the provincial uniform transmission rates that Hydro One charges for electricity transmission, to be effective January 1, 2011 and January 1, 2012. The Applicant included its Transmission Green Energy Plan in the application.**
- 2. The Board issued a Notice of Application and Hearing on June 7, 2010. Energy Probe filed a Notice of Intervention on June 16, 2010 as a full time intervenor.**
- 3. Energy Probe participated in extensive pre-hearing consultations with Hydro One prior to the Application being filed with the Board. Meetings took place on November 16, 2009 and March 2, 2010. These consultations were well organized and the relevant information was well presented, resulting in enhanced information being brought forward to the Board by the applicant, and a better-informed stakeholder community. Energy Probe appreciated the Hydro One consultation process.**
- 4. Procedural Order No. 1 was issued by the Board on June 28, 2010 and provided both a Proposed Issues List and a procedural schedule for early stages of the proceeding. Parties were encouraged to make submissions on the proposed issues list. A July 20, 2010 date was set for hearing the Applicant’s Motion on the “High Five Proposal”.**

5. Energy Probe took part in the Motion Hearing. A Decision was issued at the Motion Hearing rejecting severance of the “High Five Proposal” from the proceeding and the issues list Decision was also issued at that time.

6. Procedural Order No. 2 was issued by the Board on July 21, 2010 rejecting the Applicant’s suggestion that no Settlement Conference needed to be held. A procedural schedule was provided which included a Settlement Conference and an Oral Hearing.

7. Energy Probe filed interrogatories on the approved issues list on July 28, 2010 and the Applicant’s interrogatory responses were received on August 16, 2010.

8. Energy Probe actively participated in a short Settlement Conference on September 16, 2010. The Oral Hearing convened on September 20, 2010 with Energy Probe in attendance and taking an active part including the cross examination of witnesses.

Argument Overview

9. Energy Probe has conducted itself as an all issues intervenor throughout this proceeding.

10. In its Argument, Energy Probe will not seek to explore all outstanding Issues before the Board, but will be examining those Issues of concern to Energy Probe where we believe we can be of most assistance to the Board, and has addressed some matters that might not be as thoroughly canvassed by other consumer-oriented groups.

11. Energy Probe has had the benefit of reviewing the draft submissions of BOMA and LPMA in respect of one issue in the proceeding and the complete submissions of Board Staff before preparing its final argument.

12. The following submissions are restricted to those areas in which Energy Probe focused its interrogatories and conducted cross examination.

Operations, Maintenance and Administration Costs

i) Sustaining

13. The Board in its Decision in EB-2008-0272 reduced the level of sustaining OM&A spending by \$15 M in each of the test years 2009 and 2010 (Decision EB-2008-0272 page 21) resulting in approved spending of \$211.5 M in 2009 and \$225.1 M in 2010.

14. Exhibit C2-2-1 page 1 of the current application shows the actual sustaining OM&A expenditures for 2009 came in at \$213.5 M and forecasts 2010 spending will total \$224.4 M both of which are approximately at the Board approved level in the EB-2008-0272 decision.

15. For the 2011 and 2012 test years total sustaining OM&A expenditures are forecast as \$233.0 M and \$243.1 M which represents an increase from Board approved 2010 spending of 3.5% in 2011 and 8.0% in 2012.

16. Energy Probe notes that the increased spending is not attributable to stations power equipment with which it took issue in the previous transmission rates proceeding but is spread over a number of categories including Protection and Control, Site Infrastructure, Right of Way and Lines maintenance activities.

17. Energy Probe accepts the Applicant's evidence justifying these increased expenditures for sustaining OM&A and recommends that the Board approve the total sustaining OM&A expenditures requested.

ii) Development

18. In EB-2008-0272 the Board disallowed \$3.2 M in development OM&A spending in the 2010 test year on the basis that the evidence did not sufficiently substantiate the increase (Decision EB-2008-0272 page 23).

19. The increased spending proposed for 2011 and 2012 shown on Exhibit C2-2-1 is substantial but related mainly to the research required to evaluate smart grid technologies. Energy Probe accepts that smart grid research is necessary to prepare the grid for renewable generation but is not convinced that the evidence supports the requested \$4.0 M.

20. Although there are reverse power flow and reactive support requirements at transmission stations for distribution connected renewable generation, research for these issues appears to be captured by the Owen Sound TS capital project. Details on the OM&A activities involving smart grid are scant in the evidence. It is not clear, for example, that costs projected for OM&A smart grid activities are entirely attributable to the transmission system rather than the distribution system.

21. Energy Probe also notes that no expenditures for smart grid OM&A had actually been made to June 2010 and projected costs to year end 2010 were only \$2.0 M (See the response to SEC IR#3 Exhibit I-7-3 attachment 2, page 1 of Hydro One Report to the President & CEO – June).

22. In light of the lack of activity and lack of definition for smart grid OM&A activities, Energy Probe recommends that the Board reduce the requested expenditures of \$4 M in each of the test years to \$2 M. Energy Probe also recommends that the Board require Hydro One to file a detailed report in its next transmission rates application describing the OM&A activities for smart grid undertaken along with an analysis of the results achieved and how they relate to the transmission system.

iii) Operations

Operations Contracts

23. This category of OM&A expenses is projected to increase from 2009 expenditures of \$52.6 M to \$66.3 M in 2011 and \$68.2 M in 2012. (Exhibit C2-2-1 page 2) Most of the increase is for Operations Contracts.

24. In the response to Energy Probe IR #18, the increases were attributed to the new Network Management System as follows:

- **\$2.8M for licensing and vendor support**
- **\$1.6M for in-house support for NMS and associated tools**
- **\$0.5M for Scada Hub Support**

25. Energy Probe notes that the forecast of costs in EB-2008-0272 for 2010 Operations Contracts was only \$17.5 M which was only marginally higher than the \$17.1 M recorded for 2009. The discussion of operations support costs in that application did not mention any significant cost increases related to NMS support.

The evidence provided at Exhibit C1-2-4 page 6 stated:

“The Operations Support spending requirement for test year 2009 is \$17.1 million, which is an increase of 3% above the 2008 bridge year. The spending for 2010 is \$17.5 million, which is an increase of 2% over 2009. The test year increases reflect an expected expansion of software licensing and staffing requirements at the OGCC and the backup centres, as well normal escalation on labour and material.”

26. Energy Probe questions why operations support costs which, according to the excerpt above, anticipated “expansion of software licensing”, could have ended up being \$5 M more than expected for 2010 (\$17.5 M for 2010 in the previous application vs. \$22.6 M for 2010 in the current application).

27. Energy Probe recommends that the Board require the Applicant to provide a complete analysis of this project in its next application as well as prospective support costs for all future computer systems at the time it seeks approval for the capital expenditures associated with them.

Environmental, Health and Safety

28. Costs in this category are projected to increase from \$1.5 M in 2009 to \$4.0 M in 2012. In response to Energy Probe IR #19 (Exhibit I-2-19), \$1.2 M of the increased cost was attributed to “*programs to enhance health and safety*”.

29. In cross examination on the subject, Mr. Marcello attributed the majority of the increased cost to a new safety program called “*Journey to Zero*” (transcript Vol. 4 page 21 line 1). In cross examination, Mr. Marcello defended the additional cost of about \$1 M per year on the basis that the company had reached a plateau in safety performance and was intent on changing the culture of the company to achieve greater improvements.

30. The evidence in the application shows that Hydro One has an exemplary safety record achieving top quartile performance in benchmarking studies. (See I-1-8 attachment 1 page 1 and page 2).

31. Exhibit A-13-1 page 3 Table 1 shows a decline from 0.6 lost time injuries per 200,000 worked hours in 2006 to 0.3 lost time injuries per 200,000 worked hours in 2007, 2008 and 2009.

32. This evidence demonstrates that Hydro One has a very effective safety program in place that has been achieving industry leading results and also driving lost time injuries down steadily from 2006 to 2009.

33. Energy Probe submits that the evidence in support of the “Journey to Zero” program is vague and does not provide the Board with sufficient detail to distinguish it from existing programs that have served Hydro One well over the past five years.

34. Accordingly, Energy Probe recommends that the Board disallow the additional \$1 M expense attributed to the new program and require Hydro One, in its next application, to provide more comprehensive analysis of the need for new spending in an area in which it is an industry leader.

Compensation

35. Compensation, particularly for Power Workers Union (PWU) staff, has been an ongoing issue throughout the last few Hydro One transmission and distribution rates applications in which the Mercer Report on compensation levels was presented in evidence. Hydro One has acknowledged in its response to Board Staff I-1-56 in the current application that the Mercer study previously filed in EB-2008-0272 has not been updated.

36. Board staff have made the argument in its submissions that nothing much has changed in relative compensation since the last Hydro One application. Energy Probe supports that conclusion.

37. In cross examination on the subject, Mr. Goldie undertook to provide a comparison of Hydro One wages in the Powerline Maintainer category against recent wage settlements in other distribution utilities. That undertaking, J4.7, provided a comparison that, in Energy Probe’s submission, did little to dispel the impression that Hydro One PWU represented employees are overcompensated compared to their counterparts in other utilities.

38. The analysis provided in J4.7 is against Hydro One’s “Powerline Maintainer” classification which had a 2009 hourly rate of \$35.46. However, in a footnote, Hydro One points out that its employees are actually classified as “Regional Maintainer – Lines” which pays \$38.30 per hour. The rationale for comparing to the evidently unused “Powerline Maintainer” classification is that Hydro One lines staff are “multi skilled” and therefore compensated higher than other distributor line staff to recognize those additional skills.

39. This argument has appeared in Hydro One’s evidence before and appears again in this application at Exhibit C1-3-2 page 11 line 17 to page 12 line 8. Hydro One’s claims that its employees are multi skilled compared to other distributors’ trades staff are not supported by any objective evidence such as third party studies.

40. Some of the claimed distinctions do not, in Energy Probe’s submission, stand the test of common sense. For example, one of the differentiating skills attributed to the Regional Maintainer is CVOR qualifications. (line 1 on page 12 of the referenced exhibit). CVOR is a Ministry of Transport acronym for Commercial Vehicle Operator Registration and applies to drivers who operate large trucks (among other things).

41. Since all distributors operate large line trucks, it is not sensible to suggest that only Hydro One line staff have the qualifications to do so. In fact, in Energy Probe’s submission, qualification under CVOR is probably a requirement for most line trade staff in all distributors.

42. Hydro One also claims that its staff are different from other distributor staff in having the skills to work on high voltage equipment. Although it is probably true that most distributors do not have transmission voltage lines, many do own, operate and maintain 230 kV transformer stations with their own trades staff. Therefore, to claim high voltage work as a distinguishing feature for Hydro One’s trades staff is not entirely accurate.

43. Similarly, the claim that Regional Maintainers differ from other distributor line staff in being able to work on “overhead, underground and submarine cables” does not sound sensible. All urban distributors have extensive underground cabling systems and their staff no doubt spend more time on the more difficult cable work than they do on overhead wires.

44. Because the distinguishing skills claimed for Regional Maintainers in Hydro One have not been independently verified, Energy Probe submits that the real comparator of line maintainer wages should be the Regional Maintainer rate of \$38.30 that Hydro One actually pays its staff.

45. Using that wage rate, the only comparator in the undertaking response paying more is ATCO Electric at \$38.75. All others in the table provided pay less and the difference ranges from a low of about 1% for SaskPower Power Line Technicians to a high of about 38% for Newfoundland and Labrador Hydro Line Worker “A”.

46. Compared to PowerStream Linesperson rates specifically referenced by Mr. Goldie in cross examination, the difference in rates compared to Hydro One is 17%.

47. Energy Probe also notes that the undertaking provided only base wage rates and makes no comparison on other compensation elements like benefits, pensions or other allowances not included in wage rates.

48. Therefore, Energy Probe concludes that the material provided in the undertaking does not provide any evidence that the wage disparity identified in the Mercer report has changed.

49. Energy Probe supports Board Staff’s recommendation that the Board consider a reduction in revenue requirement as it did in EB-2008-0272 to reduce the burden on ratepayers for excessive compensation levels paid to Hydro One staff.

Cost Efficiencies

50. Section 3.0 on page 2 of Exhibit A-14-1 discusses cost efficiencies that Hydro One has undertaken to improve its operation. Under cross examination, Mr. Marcello was asked about whether the cost efficiency measures referred to in the exhibit were new or simply ongoing (transcript vol 4 page 28 line 7 to line 5 page 42).

51. The initiatives on pages 2, 3 and the top of 4 were explored with the witness in detail and most turned out to be ongoing initiatives. Mr. Marcello conceded as much at lines 2-4 on page 38 of the transcript.

52. Some of the initiatives are questionable as efficiency measures. For example, new Network Management System applications to be implemented in the test years are expected to “*result in reductions in support requirements, improvements in operator decision-making, and improvements in efficiency and work flow*” (Exhibit A-14-1 page 3 lines 13-14).

53. Mr. Tremblay projected that efficiency gains from the NOMS system might reach \$1 M per year (Transcript Vol 4 page 35 line 18). Other efficiencies are also expected from new applications of the NMS system planned for the test years although the witness was not able to quantify them.

54. In Energy Probe’s submission, if the efficiencies from the NOMS and NMS systems will approach even \$1.5 M per year but the system licensing and support requirements add \$5 M per year in costs, overall efficiency will deteriorate not improve. It may be that the new systems are necessary for system control but because they cost more than the old systems to maintain and operate, they cannot be said to contribute to better cost efficiency.

55. In summary, Energy Probe submits that most of the efficiency improvements cited in the evidence have been in place for years and should not be considered by the Board as new initiatives. Some of the newer initiatives might actually reduce cost efficiency by introducing more costs than they save.

56. Energy Probe supports Board Staff's recommendation that a reduction in overall OM&A increase of 2-3% is appropriate in addition to the Mercer Report related compensation reductions. (This figure would be inclusive of the specific disallowances recommended by Energy Probe previously in these submissions under the Safety Program costs and the Smart Grid costs.)

Rate Base

57. Energy Probe believes that the Applicant has adequately supported its expenditure requests for capital in the sustaining, operations and shared services categories. In the development capital category, Energy Probe agrees with Board staff submissions, particularly those regarding the Green Energy Plan.

58. The Applicant's request that the Board approve the Plan conceptually is not reasonable given the uncertainty around what advice will be provided to the Minister by the Ontario Power Authority. Energy Probe recommends that the Board postpone any approval of the Green Energy Plan until such time as the OPA's advice is known and the impact of that advice assessed.

Accelerated Cost Recovery of CWIP for the Bruce to Milton Project

59. Energy Probe has had the benefit of discussions with the Consultant for BOMA and LPMA, Mr. Randy Aiken, and the benefit of reviewing the draft submissions of BOMA and LPMA on CWIP. Energy Probe adopts and supports both the analysis offered in those submissions and the recommendation to not approve accelerated cost recovery for this project.

60. As the subject has been most capably analyzed by Mr. Aiken, Energy Probe has no further submissions to make on it.

Costs

61. Energy Probe submits that it participated responsibly in this proceeding. Energy Probe requests the Board award 100% of its reasonably incurred costs.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

November 2, 2010

Peter Faye

Counsel to Energy Probe Research Foundation