



June 13, 2014

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VIA Canada Post and RSS Filing

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

**Re: EB-2013-0416 Hydro One Networks Inc.
2015 - 2019 Distribution Custom Incentive Rate Setting Application
The Society of Energy Professionals Interrogatories to Hydro One Networks Inc.**

Dear Ms. Walli,

Please find attached the Society of Energy Professional's interrogatories to Hydro One Networks Inc. in their 2015 - 2019 Distribution Custom Incentive Rate Setting Application, EB-2013-0416.

Two (2) hard copies of these interrogatories have been sent to your attention.

Sincerely,

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INTERROGATORY QUESTIONS

EB-2013-0416 Hydro One Networks Inc.

2015 - 2019 Distribution Custom Incentive Rate Setting Application

13 June 2014

EB-2013-0416: Society Interrogatory Questions

Issue 3.3 Has Hydro One proposed sufficient, sustainable productivity improvements for the 2015-2019 period, and have those proposals been adequately supported, for example, by benchmarking?

3.3 Society#1 In Exhibit A, Tab 17, Schedule 6, “Work Execution Strategy”, page 4 lns 7-13, in reference to “External Work Capacity” it is concluded that

All categories of external resources and services are becoming harder to contract as the North American demand increasingly exceeds available supply.

A basic premise of economics, which is widely understood and accepted, is that when demand exceeds supply the market price of supply increases.

- a) Please explain how under these conditions Hydro One finds it fiscally prudent to engage external resources and services at ever increasing prices.
- b) Would it not be economically prudent to build up internal resources to complete this expanding volume of work, as outlined in sections 2.1, 2.2 and 2.3 of this schedule, and which indications are will not plateau for a number of years?
- c) Would using internal resources rather than external resources and services mitigate the risk that large numbers of external resources will not be available to perform necessary work when required?

3.3 Society#2 In Exhibit A, Tab 17, Schedule 6, page 7 lns 23-25, it is stated:

Strategic sourcing which includes “bulk purchasing” is a significant contributor to Hydro One’s cost savings initiatives and the Company’s ability to complete the work programs. Bulk purchasing has been more broadly facilitated by the use of standardized designs.

- a) In the context of the material increase in work program spend through this period, please provide the annual cost savings from 2010 until 2019 due to bulk purchasing.
- b) If these savings do not increase materially through this period, please explain why not.
- c) Where are these savings included in Exhibit A, Tab 19, Schedule 1 “Cost Efficiencies/ Productivity”?

3.3 Society#3 In Exhibit A, Tab 17, Schedule 6, page 8, lns 24-25 it is stated:

An increased use of standardized and modular designs are being used to streamline the design process, allowing faster, more consistent, and lower cost work execution.

- a) In the context of the material increase in work program spend through this period, please provide the annual cost savings from 2010 until 2019 due to standardized and modular designs.
- b) If these savings do not increase materially through this period, please explain why not.
- c) Where are these savings included in Exhibit A, Tab 19, Schedule 1 “Cost Efficiencies/ Productivity”?

3.3 Society#4 With reference to Exhibit A, Tab 19, Schedule 1 “Cost Efficiencies/ Productivity”, page 3, Table 1 “Impact to Revenue Requirement Inclusive and Exclusive of Productivity Savings”:

- a) What are the Total OM&A productivity savings for 2015 to 2019?
- b) What is the average annual Total OM&A productivity savings for 2015 to 2019?
- c) What is the annual average percentage productivity savings of OM&A expenditure for 2015 to 2019?
- d) Using the data provided in Exhibit E1, Tab 1, Schedule 1, page 1 Table 1, what is Hydro One’s average annual Revenue Requirement less External Revenue for the period 2015 to 2019?
- e) What percentage is the average annual Total OM&A productivity savings for 2015 to 2019 of Hydro One’s average annual Revenue Requirement less External Revenue for the period 2015 to 2019 [ie the value provided in b) above expressed as a percentage of the value provided in d) above]? How does this figure compare to the OEB’s productivity analyses?
- f) Please calculate the figures provided in a) and b) above for the Total Capital Expenditures productivity savings.
- g) A general rule of thumb of is that Revenue Requirement increases by roughly 10% of capital expenditures placed into service in the prior year. Accepting that this rule of thumb is correct, recalculate the percentage calculated in e) above to include 10% of the average annual Total Capital Expenditures productivity savings for 2015 to 2019. How does this figure compare to the OEB’s productivity analyses?

3.3 Society#5 With reference to Exhibit A, Tab 19, Schedule 1 “Cost Efficiencies/ Productivity”, page 4, Table 2 “Total Annual Savings - Distribution” and the savings from Telephony:

- a) Why do the savings from Telephony decline from \$2.1M in 2012 to \$1.0M in 2013?

3.3 Society#6 With reference to Exhibit A, Tab 19, Schedule 1 “Cost Efficiencies/ Productivity”, pages 13, 14 section 2.6 “Process Improvement”. The annual savings for Process Improvement do not appear to change between 2015 and 2019, however overall OM&A and capital expenditures change significantly over this period. Under these circumstances, one would expect that the level of savings from reduced potential design changes or rework would change from year to year over this timeframe. For example, in Exhibit D2, Tab 2, Schedule 3, ISD #S7 shows that between 2015 and 2018, Distribution Station Refurbishments increase from 36 to 41 stations and total spend increases from \$34.6M to \$44.5M. However there does not appear to be materially increased savings in prefabricated, integrated modular distribution station design.

- a) Have any Process Improvements savings been inadvertently omitted or understated?

3.3 Society#7 With reference to Exhibit A, Tab 19, Schedule 1 pages 18, 19 Section 3.0 “Utility Transformation”:

- a) Have any annual savings for Utility Transformation been inadvertently omitted?

3.3 Society#8 With reference to Exhibit A, Tab 19, Schedule 1 pages 19, lns 21-22:

- a) Please explain what ESA regulations are.

3.3 Society#9 With reference to Exhibit A, Tab 19, Schedule 1 “Cost Efficiencies/ Productivity”. Recently, Hydro One has shifted the administration of its employee benefits program from Great West Life to Green Shield Canada.

- a) Are there any cost savings projected from this change?
- b) If there are cost savings where are they included in the filed evidence?

Issue 4.4 Is the compensation strategy for 2015-2019 appropriate and does it result in reasonable compensation costs?

4.4 Society#10 Exhibit C1, Tab 3, Schedule 1, page 1, ln 14-15 it states:

2011 Labour Market Information (LMI) Study, states "Between 2011 and 2016, Canada's electricity and renewable energy industry will need to recruit 45,000 new employees almost half of the starting workforce ..."

- a) Please provide the annual number of new employees recruited between 2011 and 2013 in Hydro One.
- b) Please provide Hydro One's forecast annual new employee recruits for 2014 to 2016
- c) Please provide the total annual new employee recruits for 2011 to 2016 and the percentage this is of the 2010 year end regular staff.
- d) Please explain the variance if this percentage is not almost 50%.