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BY EMAIL AND RESS

August 12, 2014
Our File: EB20130416

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
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Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2013-0416 – Hydro One Networks Inc. Distribution – SEC Reply

We are counsel to the School Energy Coalition (“SEC”). Pursuant to Procedural Order No. 5, these are SEC’s reply submissions. SEC submits the Board should order Hydro One Networks Inc. (“Hydro One”) to produce the requested information sought in the Notice of Motion.

Inergi Fee Benchmarking Review (3.1-SEC-21/4.2-Board Staff-63(a)/4.2-Energy Probe-33(a))

Hydro One states in its submissions that the Inergi Free Benchmarking review should be treated as confidential. While it may be appropriate to do so, that is not the purpose of SEC’s motion. Hydro One has refused to file a copy of the unredacted version, and seek confidentiality treatment pursuant to the Board’s *Practice Direction on Confidentiality Filings*. It is only willing to file a redacted version. Its sole basis is Inergi’s refusal to allow an unredacted version to be filed, even in confidence. Inergi’s letter, which has been attached to Hydro One’s submissions, is essentially an argument for why the information should be granted confidential treatment. The Board has been clear in the past; an agreement between a utility and a third party is not a valid reason for non-disclosure. The redacted information, which is the underlying basis for the review’s conclusions, is clearly relevant to this proceeding and should be produced in its entirety. If Hydro One then wants to argue that it should be kept confidential that is a separate issue.

Customer Satisfaction Benchmarking Survey (2.6-Energy Probe-32b)

Hydro One’s basis for not providing an unredacted version of its customer satisfaction surveys, even on a confidential basis, is that, i) the information (identification of comparator utilities) is not relevant, and ii) other LDCs did not voluntarily participate in the survey.

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SEC submits the information is clearly relevant. Intervenor and the Board require the information to understand what organizations Hydro One is treating as comparators, and how it compares with various subsets of those organizations, which may be more appropriate.

There is no basis for Hydro One's position that an unredacted version should not be filed because LDCs did not voluntarily participate in the survey, and that they are sensitive to the fact that disclosure of their identities will put them in a situation in which they have no say. Surveys of customers in the service territories of other LDCs, by Hydro One (through its pollster Synovate), or any other utility, do not require the input of that LDC. An LDC whose customers are being contacted by third-parties does not have any sort of claim to confidentiality over the results of that survey, simply because they were not consulted in its preparation. It is not their survey, and they have no right to limit their customers' ability to speak plainly with pollsters. Anyone has the right to contact individuals or businesses in a given LDC's service territory to seek their views on their LDC.

Hydro One conducted the survey without being provided any customer information from comparator LDCs. If anything, the fact that the benchmarking survey is a product of Hydro One efforts alone is a further reason for disclosure.

Actual versus Planned In-Service Additions (3.2-SEC-25)

Hydro One claims that the request for information about internal budgeted amounts for in-service additions for years 2010 to 2014 is "excessive and invasive" and that "some items must be kept in confidence within the Company"¹. SEC submits the Board should reject these claims.

Hydro One has not provided any rationale for the statements. The request is neither excessive nor invasive. The requested information is no different than other types of utility data regularly provided during Board proceedings. SEC notes that in EB-2014-0002, Horizon Utilities provided similar information to what has been requested by SEC in this interrogatory.² Further, evidence on the record in this proceeding indicates that Hydro One has this information readily available as its corporate scorecard has a metric of actual versus planned distribution in-service capital.³

A utility's historical performance in delivering on its planned capital program is clearly relevant to the issues in this proceeding. A major issue in this proceeding is Hydro One's ability to forecast and execute on its proposal capital plan in a reliable manner. Hydro One is seeking, without any capital benchmarking, approval of a 5 year capital spending plan. The information is necessary to provide parties and the Board the ability to test the reasonableness of Hydro One's proposed capital forecast. SEC submits the information should be produced.

Internal Audit Reports (4.2-SEC-35/6.1-SEC-84)

Hydro One states that internal audit reports include details that have no relevance to this proceeding. Since Hydro One does not elaborate on what type of details are not relevant, it is hard for SEC to respond to the comment and it is no more than a bold assertion. For the reasons set out in the Notice of Motion, the information sought is relevant.

¹ Hydro One Submissions, dated August 8 2014 at p.4

² See Response to Interrogatory 2-SEC-14(c) in EB-2014-0002 (See Appendix)

³ See Hydro One Inc. Corporate Scorecard with 1st Quarter 2014 Results (Ex TCJ1.14, Attachment 2, p.3)

Hydro One relies on the recent Decision on a Motion in EB-2013-0326 (“OPA Decision”), in which the Board states on a motion for production of certain Ontario Power Authority (“OPA”) internal audit information, that “[i]t is only the outcome of the audit that is relevant going forward”.⁴ The statement and the Board’s decision in that proceeding need to be understood in context. The Board’s authority is significantly more limited in approving the OPA’s fees pursuant section 25.21(2) of the *Electricity Act*, then it is in setting “just and reasonable” rates pursuant to section 78 of the *Ontario Energy Board Act*. In this proceeding, Hydro One is not only seeking approval of test period capital and OM&A expenditures, but is seeking approval of past capital expenditures which will close to rate base in 2015. The Board must ensure the prudence of those past capital projects. The Board and parties require the information to ensure that the amounts for capital projects were prudently incurred. As noted in the Notice of Motion, internal audit reports for material capital projects were provided by Ontario Power Generation in EB-2013-0321.

In the OPA Decision, the Board only has jurisdiction to approve the administrative costs, which amount to a small fraction of its overall budget. The Board has the authority to regulate Hydro One’s entire budget. The Board was quite cognisant of the differences. While it did not order production of the OPA’s internal audit report, it stated in its decision that, “[i]n making this determination the Board emphasizes that this finding is not a general finding about audits but rather it is about the specific Audit Reports referred to in this proceeding.”⁵

SEC submits the Board should order Hydro One to produce its internal audit reports from 2010-2014 for material, i) capital projects (6.1-SEC-84), and ii) OM&A expenditures (4.2-SEC-35).

All of which is respectfully submitted.

Yours very truly,
Jay Shepherd P.C.

Original signed by

Mark Rubenstein

cc: Wayne McNally, SEC (by email)
Applicant and Intervenors (by email)

⁴ Decision on Motion For Production of Documents and Other Information (EB-2013-0326), dated July 24 2014 at p.5

⁵ *Ibid*

Appendix

2-SEC-14

[Ex.2-6-3/p.2]

- Although a DSP has not previously been filed before this application, please complete Table-62 (Appendix 2-AB) with planned capital expenditures for 2010-2013 based on internal or Board-approved budgets.
- Please also provide 2014 forecast actuals based on year-to-date actuals.
- Please provide plan versus actual variance % for each year between 2010-2014.
- Please explain material variance between plan and actual capital expenditures.

Response:

- Horizon Utilities provides the table below in response to parts a), b), and c). The planned capital expenditures represent Horizon
- Utilities' internal budgets with the exception of 2011 CGAAP which is Board-Approved. Horizon Utilities did not prepare the 2011
- budget on a MIFRS basis. Horizon Utilities' 2014 Q2 forecast includes five months of actuals (January to May 2014) and seven
- months of forecast (June to December 2014).

5 Table 1

CATEGORY				Historical Period (previous plan ¹ & actual)															Forecast Period (planned)				
	2010 (CGAAP)			2011 (CGAAP)			2011 (MIFRS)			2012 (MIFRS)			2013 (MIFRS)			2014 (MIFRS)			2015	2016	2017	2018	2019
	Plan	Actual	Var	Plan	Actual	Var	Plan	Actual	Var	Plan	Actual	Var	Plan	Actual	Var	Plan	Q2F	Var					
	\$ '000		%	\$ '000		%	\$ '000		%	\$ '000		%	\$ '000		%	\$ '000		%					
System Access	13,137	13,558	3.2%	5,935	8,914	50.2%	n/a	5,629	--	5,078	6,602	30.0%	6,049	6,369	5.3%	7,540	7,451	-1.2%	8,243	8,472	7,896	8,092	8,273
System Renewal	14,185	14,082	-0.7%	22,254	22,475	1.0%	n/a	17,171	--	15,148	14,091	-7.0%	18,052	18,425	2.1%	15,372	16,071	4.5%	18,070	28,294	33,168	33,208	34,706
System Service	5,183	3,583	-30.9%	3,594	3,125	-13.1%	n/a	2,374	--	3,222	2,885	-10.4%	2,054	2,151	4.7%	4,101	3,401	-17.1%	4,140	295	535	2,032	2,057
General Plant	5,789	6,208	7.2%	7,217	4,584	-36.5%	n/a	4,584	--	7,534	8,748	16.1%	11,627	12,559	8.0%	10,760	11,149	3.6%	9,487	5,887	5,827	5,611	6,236
TOTAL EXPENDITURE BEFORE SMART METERS	38,294	37,432	-2.3%	39,000	39,098	0.3%	-	29,758	--	30,982	32,326	4.3%	37,783	39,505	4.6%	37,774	38,072	0.8%	39,940	42,948	47,426	48,943	51,272
Smart Meter Implementation										27,440	23,278								-				
TOTAL EXPENDITURE INLCUDING SMART METERS	38,294	37,432	-2.3%	39,000	39,098	0.3%	-	29,758	--	58,422	55,604	-4.8%	37,783	39,505	4.6%	37,774	38,072	0.8%	39,940	42,948	47,426	48,943	51,272
Hydro One Contribution		-			-			-		10,000			-			-			-				
TOTAL EXPENDITURES	38,294	37,432	-2.3%	39,000	39,098	0.3%	-	29,758	--	58,422	65,604	12.3%	37,783	39,505	4.6%	37,774	38,072	0.8%	39,940	42,948	47,426	48,943	51,272
Change in WIP	-	2,841			743			743			4,654		-	1,597		2,019	1,201		175				
TOTAL ADDITIONS	38,294	34,590	-9.7%	39,000	39,841	2.2%	-	30,501	--	58,422	70,258	20.3%	37,783	37,908	0.3%	39,792	39,273	-1.3%	40,115	42,948	47,426	48,943	51,272

Please note that the 2011 (CGAAP) column in the revised Appendix 2-AB above balances to the 2011 Board-Approved column in Table 1-8 on page 17 of Exhibit 1, Tab 2, Schedule 6 in total. However, the 2011 Board-Approved figures in Table 1-8 for System Access and General Plant figures were incorrect. A revised Table 1-8 is provided below.

Revised Table 1-8

Category	2011 Board-Approved	2015 Test Year	Variance (\$)	Variance (%)
System Access	\$5,935,383	\$8,242,598	\$2,307,215	38.9%
System Renewal	\$22,253,908	\$18,070,415	(\$4,183,493)	-18.8%
System Service	\$3,593,929	\$4,139,747	\$545,818	15.2%
General Plant	\$7,216,780	\$9,487,208	\$2,270,428	31.5%
Total	\$39,000,000	\$39,939,967	\$939,967	2.4%

Horizon Utilities provides an explanation of any material variances between plan and actual capital expenditures below:

2010 (CGAAP)

Horizon Utilities' 2010 actual capital expenditures of \$37,431,683 were 2.3% or \$862,317 below the 2010 planned capital expenditures of \$38,294,000. 2010 System Service actual expenditures were lower than plan, offset by higher than planned System Access and General Plant investments.

2010 System Access expenditures of \$13,558,203 were \$420,935 higher than plan of \$13,137,268 due to a higher volume of customer connections work and higher expenditures for the City of St. Catharines road relocations than anticipated at the time of the budget. System Access projects are non-discretionary.

General Plant expenditures of \$6,208,326 were \$419,565 higher than planned expenditures of \$5,788,761 due to higher than anticipated expenditures for vehicle replacements and buildings.

The higher than planned expenditures in System Access and General Plant were partly offset by lower than planned System Service expenditures. Actual system service expenditures of \$3,582,988 were \$1,599,553 lower than the plan of \$5,182,541 due to the following:

- The Spadina SP4 Feeder project was delayed to 2011 due to the postponed delivery and construction of specialized materials required for the project contributing \$220,000;

- A Municipalities, Universities, Schools and Hospitals ("MUSH") customer load relief project was delayed to 2011 due to project re-design issues contributing \$1,080,000; and
- Substation transformer purchases for the replacement of aging transformers were delayed to 2011 due to delivery delays from the manufacturer contributing \$300,000.

2011 (CGAAP)

Horizon Utilities' 2011 actual capital expenditures of \$39,097,840 were 0.3% or \$97,840 higher than the 2011 Board-Approved capital expenditures of \$39,000,000. 2011 System Service and General Plant actual expenditures were lower than 2011 Board-Approved, offset by higher than System Access investments.

System Access investments of \$8,913,944 were \$2,978,561 higher than Board-Approved of \$5,935,383 due to the following:

- The project costs for constructing new circuits to supply a new large customer were higher than Board-Approved due to higher than estimated costs required to construct the circuits underground within the Hydro One transmission right of way;
- Delays in obtaining the necessary Connection Cost Recovery Agreements ("CCRAs") with a large MUSH customer delayed the start of the project to upgrade the feeder for this customer. The project was budgeted for completion in 2010 but the delayed start resulted in the project extending into 2011;
- A higher volume of work was required to support the connection of commercial customers than anticipated at the time of budget;
- Unanticipated construction costs were incurred to construct additional capacity required for a large use customer in Hamilton. Underground congestion resulted in extra costs required to construct ductwork beneath two major downtown arteries (King and Main streets in downtown Hamilton).

System Service expenditures of \$3,124,521 were \$469,408 lower than plan of \$3,593,929. Horizon Utilities was able to mitigate the increased System Access requirements through deferral of the following System Service projects:

- A feeder upgrade between Vansickle TS and Glendale TS to provide increased load transfer capability between these transformer stations;
- The Glen Morris capacity upgrade project to replace undersized conductor to provide redundancy to the Glendale M16 feeder.

General Plant expenditures in 2011 of \$4,584,443 were \$2,632,337 lower than Board-Approved of \$7,216,780. General Plant expenditures were significantly reduced from Board-Approved to mitigate the non-discretionary increase in System Access obligations. Projects were either deferred or savings were realized during the implementation of 2011 projects. The following projects were either cancelled or deferred:

- The Identity and Access Management tools project was cancelled; and
- Investment in the Microsoft Communications Server was deferred from 2011 to 2015.
- Savings were achieved in the following areas:
 - Reduction in scope for the building renovation and refurbishment projects;
 - Lower than anticipated expenditures required for the radio replacement project
 - The ongoing Corporate Computer & Printer Renewal programs were under budget
 - Reduction in office furniture expenditures

2012 (MIFRS Basis)

Horizon Utilities' 2012 actual capital expenditures of \$32,326,380 (before smart meters) were \$1,344,080 or 4.3% higher than the 2012 planned capital expenditures of \$30,982,300. 2012 System Access and General Plant actual expenditures were higher than plan, offset by lower than planned System Renewal and System Service investments.

1 System Access actual expenditures of \$6,602,316 were \$1,524,675 higher than the plan of
2 \$5,077,641 due to the following:

- 3 • Higher than anticipated project costs were required to relocate the Glendale Transformer
4 Station ("TS") egress feeders in St. Catharines. This project was required due to the
5 Glendale Road widening project in St. Catharines which was initiated by the Region of
6 Niagara; and
- 7 • A higher volume of work was required to support the connection of commercial
8 customers than anticipated at time of budget.

9 General plant expenditures were \$8,747,623 were \$1,213,388 higher than the plan of
10 \$7,534,235 due to the following:

- 11 • Replacement of the John Street electrical main building supply as a result of a fire.
- 12 • Increase in scope of the building renovations project to support the first phase of the
13 Accessibility for Ontarians with Disabilities Act ("AODA") at the Vansickle Road location.
14 These expenditures included the installation of a new elevator and new customer service
15 entrance and reception area.

16 Higher than planned System Access and General Plant expenditures were partly offset by lower
17 than planned System Renewal and System Service expenditures.

18 System Renewal expenditures of \$14,090,964 were \$1,057,353 lower than plan of \$15,148,318
19 levels due to the deferral of renewal projects to offset the increased System Access expenditure
20 requirements. The primary program affected by the deferral was the underground XLPE cable
21 replacement program and Pole Residual programs. Other smaller renewal projects, identified
22 through maintenance and inspection programs were also deferred.

23 System Service expenditures of \$2,885,476 were \$336,629 lower than plan of \$3,222,105 due
24 to the following:

- 25 • Horizon Utilities received a credit from Hydro One Networks upon closure of the
26 Vansickle TS upgrade project completed in 2010;
- 27 • Deferral of some smaller 2012 projects to 2013 to mitigate increased System Access
28 investment requirements; partly offset by;

- The completion of System Service projects deferred in 2011.

Smart meter expenditures of \$23,277,588 were \$4,162,471 lower than plan of \$27,440,059 due to the deferral of the GS<50kW program to re-verification dates; and the deferral of the installation of meters with access restrictions and metering constraints ('hard-to-reach' meters). These meters were and will be installed in 2012 through 2014 as discussed on page 1 of Exhibit 2, Schedule 1, Tab 1.

2013 (MIFRS basis)

Horizon Utilities' 2013 actual capital expenditures of \$39,504,643 were \$1,721,429 or 4.6% higher than the 2013 planned capital expenditures of \$37,783,215.

System Access actual expenditures of \$6,369,274 were \$319,981 higher than the plan of \$6,049,292, which has been a consistent trend over recent years. This trend is being driven by:

- An increased volume of work required to support the connection of commercial customers, and
- The increased size and complexity of road reconstruction projects within Horizon Utilities' service territory. Horizon Utilities services an older service territory. The road infrastructure, similar to the distribution assets, requires renewal and refurbishment resulting in an increased demand and complexity of road relocations. Scope changes to these jobs, beyond the control of Horizon Utilities, often result in cost increases to Horizon Utilities for completion of the electrical distribution work.

System Renewal actual expenditures of \$18,424,977 were \$372,687 higher than the plan of \$18,052,290. Additional costs were largely due to additional reactive costs incurred as a result of the July wind storm and December ice storm.

System Service expenditures of \$2,151,349 were \$97,035 higher than plan of \$2,054,314 due to the completion of a projects carried over from 2012 – specifically the addition of the feeder tie on Centennial between Nebo TS and Lake TS project to support the capacity requirements at the Nebo station was carried over from 2012 and completed in 2013.

General Plant actual expenditures of \$12,559,044 were \$931,726 higher than plan of \$11,627,318 due to increased expenditures related to the long-term renewal and refurbishment of Horizon Utilities' John Street, Nebo Road, and Vansickle Road facilities.

2014 Q2 Forecast vs. 2014 Plan

Horizon Utilities' 2014 forecasted capital expenditures of \$38,071,863 are expected to be \$298,292 or 1.8% higher than the 2014 planned capital expenditures of \$37,773,571. The 2014 forecasted expenditures for System Renewal and General Plant are expected to be higher than plan, partly offset by lower than planned System Access and System Service investments.

System renewal expenditures of \$16,070,564 are forecast to be \$698,511 higher than the plan of \$15,372,053. Horizon Utilities plans to perform additional system renewal work due to the forecasted reduction in System Access and System Service expenditures as identified below. There is no impact to the cumulative 2014 and 2015 capital expenditures - a system renewal project originally budgeted for 2015 will be constructed in 2014. The decrease in 2015 system renewal will be offset by the completion of the Nebo Egress Cable replacement project in 2015, originally budgeted for completion in 2014.

General plant expenditures of \$11,148,756 are forecast to be \$388,291 higher than the plan of \$10,760,465 due to a change in the original scope of:

- Phase 3 of the Vansickle Road refurbishment project:
 - During the demolition phase, conduits carrying 600 volts of power under the cement floor slabs of the current washroom/showers location were discovered that required re-engineering and additional efforts. The as built plans from when the building was constructed in the 1970s did not identify these conduits.
- Phase 2 of the Nebo Road refurbishment project
 - Additional structural and mechanical requirements were required in order to obtain permit and site plan approvals,

System service expenditures of \$3,401,053 are forecasted to be \$700,000 lower than the plan of \$4,101,053 due to the delay in the completion of the Horizon Utilities' portion of the Nebo Egress Cable replacement project in conjunction with the City of Hamilton. Horizon Utilities' portion of the project is scheduled to commence after the completion of work by the City of Hamilton. The City is currently behind schedule.