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Our File No. 14-1578

October 15, 2014

Via E-mail (boardsec@ontarioenergyboard.ca)

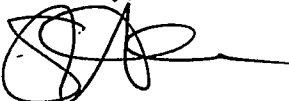
Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Application by Toronto Hydro-Electric System for an electricity distribution rate change
Board File: EB-2014-0116 - Our Client: Canadian Union of Public Employee,
Local One - Intervenor

Pursuant to the Board's Procedural Order No. 1, dated September 17, 2014, please find attached the interrogatories of CUPE Local One in respect of the above-captioned matter.

Sincerely,



Stephanie Hobbs
SH:cb/cope 343
Attachment

c.c. Mr. J. Camilleri (*via E-mail*)
Mr. M. Davis (*via E-mail*)
Ms. M. Helt (*via E-mail*)
Service List (*via E-mail*)

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LAW JUST RESULTS

TORONTO • OTTAWA

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 and for each following year effective January 1 through to December 31, 2019

INTERROGATORIES OF CUPE LOCAL ONE

1. With reference to Exhibit 2B, Section C, C3.1.1 pages 15, 16

One of the cost efficiency & effectiveness measures proposed is the overall progress of its Distribution System Plan implementation as a rolling ratio of total capital expenditures made over the plan years completed to date, divided by the five-year total amount of OEB-approved capital expenditures approved as a part of the utility's 2015-2019 Distribution System Plan, including the System Access, System Renewal, System Service, and General Plant investment categories. The proposed measure will be calculated using the following formula:

$$\text{Implementation Progress} = \frac{\sum (\$ \text{Spend Year } n + \$ \text{Spend Year } n + 1 \dots)}{\$ \text{Five Year OEB Approved Plan}} [\% \text{ of Plan Total}]$$

With regard to this proposed measure, please explain why:

- (a) Program spend is viewed as an appropriate measure of cost efficiency and effectiveness?
- (b) Toronto Hydro has not considered also providing units of work accomplished as well as money spent? For example, the total number of distribution stations to be refurbished, poles to be replaced, transformers to be replaced, *etc.* throughout the period.

2. With reference to "Construction Efficiency: Internal vs. Contractor Cost" at Exhibit 2B, Section C, C3.4 pages 22-25

- (a) Provide a numerical example of the "Comparison Methodology" outlined in C3.4.1.1, pages 23-24.
- (b) Is this comparison methodology used to determine whether the work will be awarded to a contractor or performed with internal resources? If not, what is the criteria and basis of awarding a contract?

- (c) What is the threshold for "construction efficiency" where there is no real advantage to using D&C contractors rather than internal resources?
- (d) Further to 2. c) above, with the expectation that qualified contractor prices will be increasing over time due to the "high demand for qualified services" in the GTA [C3.4.1.2 page 24] would it be reasonable to assume that internal resourcing of this work would be the most prudent and economic course of action for Toronto Hydro?
- (e) Further to 2. d) above, with the expectation of increasing prices, would it not be more economically prudent for Toronto Hydro to limit new D&C contracts for 2015-2016 rather than 2015-2018? External D&C resources are in high demand in the GTA due to the ongoing volume in the residential construction market and construction projects related to the Pan-Am and mass transit investment. Accordingly, is it not likely that demand exceeding supply would inflate prices for these services in the 2015 and 2016 period.
- (f) Does this "Construction Efficiency" factor include the rework and correction by Toronto Hydro staff of projects done by D&C contractors? If yes, what is the impact of this additional corrective work on the "Construction Efficiency" factor? If no, why not?
- (g) Provide the total annual costs for D&C contractors paid by Toronto Hydro for 2011 to 2019 split between capitalized costs and expensed costs. Include separately the annual contract administration costs which Toronto Hydro incurs and the total annual amount of Toronto Hydro incurred costs for rework and correction by Toronto Hydro staff of projects done by D&C contractors.
- (h) The price advantage external contractors might have in certain circumstances could be due to the use of different types of equipment and work methodologies. Does Toronto Hydro examine the work methodologies, processes, equipment and tools utilized by D&C contractors to complete their contracted projects for potential use by internal staff? If yes, please summarize the specific items adopted by Toronto Hydro and the benefits thereof. If no, please explain and rationalize why not.
- (i) For 2011 to 2019, please provide the annual percentage of these external contractor projects which are overspent [ie exceed the original contract cost] along with the total annual overspend in dollar and percentage terms of total spend on contracted projects.
- (j) For 2011 to 2019, please provide the annual percentage of these external contractor projects which have to be redone [whether by the same or another contractor or internal staff] along with the total resulting annual

spend in dollar and percentage terms of total spend on contracted projects.

3. With reference to Exhibit 2B, Section C, C 3.4.1

- (a) For the period 2011 – 2019 inclusive, provide the annual OM&A cost for all external contract services, such as consultants or vegetation management services, and including D&C contractors. Also provide the percentage this represents of total annual OM&A expenditures.
- (b) For the period 2011 – 2019 inclusive, provide the annual capital expenditures cost for all external contract services including consultants and D&C contractors as well as the percentage this represents of total annual capital expenditures.

4. With reference to Exhibit 4A, Tab 4, Schedule 3, page 11

The Applicant states:

To limit the rate increases for the upcoming rate period, Toronto Hydro proposes to continue to replace employees as they retire on a “just in time” basis. This is not the optimal approach to workforce renewal, given the time that is required to safely and effectively train new workforce entrants to work on Toronto Hydro’s distribution system. It was adopted, however, to constrain costs over the 2015 to 2019 period. As a long-term strategy, this approach is not preferred because it may compromise Toronto Hydro’s ability to satisfy its commitments.

Please explain:

- (a) What specifically is meant by the reference to the replacement of employees as they retire on a “just in time” basis.
- (b) How this approach constrains costs.
- (c) When this was approach implemented and why was it implemented.
- (d) Explain the rationale for the following statement: “as a long term strategy, this approach is not preferred because it may compromise Toronto Hydro’s ability to satisfy its commitments.”
- (e) The knowledge transfer strategy, if any, for “‘just in time’ replacement of employees as they retire”.

- (f) The health and safety impact and productivity impact of “just in time” replacement retiring employees. Also, quantify the annual impact of the program from the date of implementation until 2019.
 - (g) Since date of implementation of the program until 2019, please provide the annual gross and net cost savings derived from “just in time” replacement of employees as they retire. Also provide the number of retired employees who have been replaced in this manner according to the following categories: senior managerial; other non-represented; CUPE-represented; and, Society-represented.
 - (h) Further to 4. g) above, provide the annual gross and net cost savings from “just in time” replacement of employees as they retire” per retired employee who has been replaced in this manner.
5. **With reference to the Applicant’s evidence on staff retirement levels at Exhibit 4A, Tab 4, Schedule 3, page 16, table 4 “Toronto Hydro Retirement Projections (2014-2019)”:**
- (a) Provide the annual break down of these levels between senior management; other non-represented; CUPE represented, and; Society represented.
 - (b) Provide on an annual basis the actual retirements for 2007 to 2013 broken down by the categories in a) above.
 - (c) Provide the external staff hires [of new permanent staff on the Toronto Hydro payroll] resulting from retirements for 2007 to 2019. Also provide the number of these who were engaged initially as temporary staff by Toronto Hydro.
 - (d) Provide an explanation in the event that the annual levels of hires provided in c) above do not match the annual levels of retirements in a) and b) above.