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Our File No. 14-1578

November 18, 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 Employees, Local One - Intervenor

Further to the agreement of the parties at the first day of the Technical Conference in this matter, please find attached written questions and requests of Canada Union of Public Employees, Local One. We request that the attached document be entered as an exhibit.

Sincerely,



Stephanie Hobbs
SH:cw/cope 343

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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CUPE Interrogatory 2

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

- a) Please provide a numerical example of the 'Comparison Methodology' outlined in C3.4.1.1 pages 23-24

Questions and Requests:

- I. The table provided has not given any clarity regarding the comparison methodology employed by THESL. For instance, it is not clear what specific cost of capital assumptions are being employed and how this would compare to the D&C contractor's actual costs. Please provide a non-redacted numerical example with nominal \$s along with the detailed calculation methodology for each entry so the comparison methodology can be objectively examined.***
- II. How long has this arrangement with 6 external contractors been in place?***
- III. Under the contracts, as structured, what freedom do the contractors enjoy to change their prices annually?***
- IV. How does THESL prevent collusion between the contractors in terms of price fixing?***

b) is this comparison methodology used to determine whether the work will be awarded to a contractor or done with internal resources? If not, what is the criteria and basis of awarding a contract?

Response from THESL is: No, the comparison methodology is not used to determine whether the work will be awarded to a contractor or performed with internal resources. The comparison is done on the basis of already completed projects, and as such cannot be used as a tool. Toronto Hydro awards contracts to design and construction contractors through the Request for Proposal process and the associated criteria.

Questions and Requests:

- I. Please provide the relevant RFP's.***
- II. Please also provide the associated selection criteria.***

c) what is the threshold for "construction efficiency" where there is no real advantage to using D&C contractors rather than internal resources?

Questions and Requests:

- I. This question is not on the comparison methodology per se, but on the cost threshold where it is cheaper to use internal resources or there is no financial advantage of using external resources. Please answer the question asked: What is the threshold for construction efficiency where there is no real advantage to using D&C contractors rather than internal resources? Is this 5% or 10% or 15%?***

e) further to CUPE Interrogatory 2d), 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? As external D&C resources are facing high demand in the GTA due to construction related to the Pan-Am and mass transit investment it would seem that demand exceeding supply would inflate prices paid for these services in the 2015 and 2016 period.

In its response to this IR, THESL states: "the high demand for qualified services currently experienced in Toronto's electrical construction market is expected to remain a significant factor throughout the duration of the Request for Proposal term."

Questions and Requests:

- I. What annual price increases will be built into these 4 year contracts?***
- II. First principles of economic theory would dictate that, with "the high demand for qualified services" remaining a significant factor through the contract period, there will be rising costs for the contractors over time. How is this to be reflected in the contracts to be signed?***
- III. With the continuing expectation that the cost of capital will rise through this period, how will this be reflected in the contract terms?***
- IV. What will THESL do as the cost to get the work done externally exceeds the costs of having the work done internally?***

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?

Response from THESL: All design and construction contractors are required to comply with Toronto Hydro's certified Distribution Construction Standards and the Electrical Distribution Safety Regulation. In addition, all design and construction contractor projects are covered by a two-year warranty period; any rework required would be at the cost of the contractor (i.e., no additional costs to the utility).

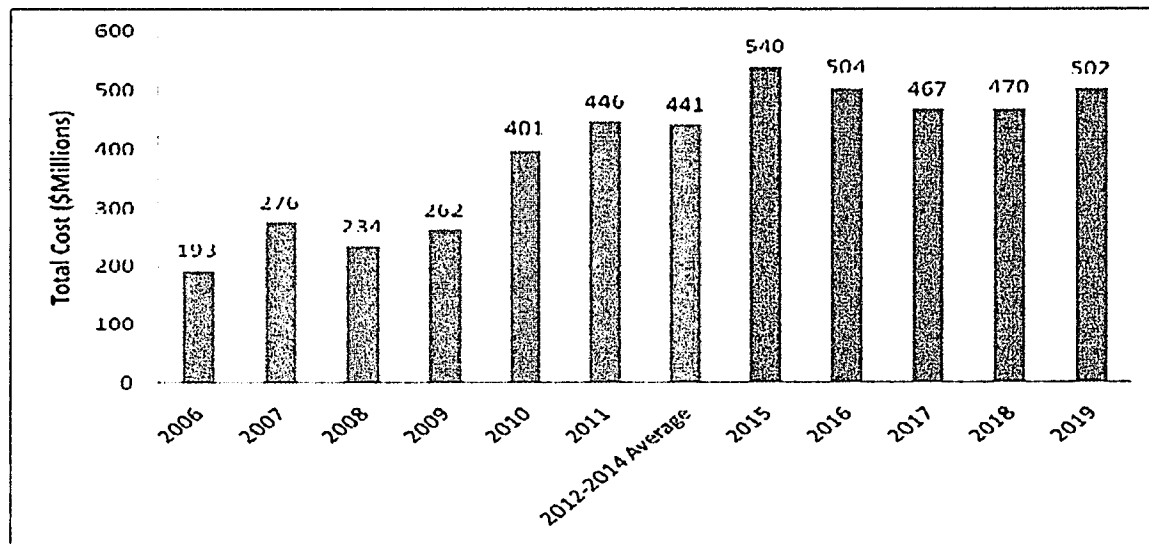
Questions and Requests:

- I. How much re-work has had to be done annually over the past five years?**
- II. How have the project completion delays resulting from rework impacted upon system reliability, THESL costs and customer satisfaction?**
- III. How are contract compliance and job quality verified?**
- IV. Are audits done on these elements in all externally contracted D&C work? If so, what actions are taken regarding non-compliance?**
- V. If no independent audits are done, then how can this be objectively verified?**
- VI. How are contract “extras” dealt with?**
- VII. How many D&C contracts were amended after they were awarded over the past five years? Please provide both the annual number and the total impact on contract costs in \$ and % terms.**

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.

Questions and Requests:

- I. Please provide the requested information for 2016-2019 as annual capex has been provided for these years in evidence. [ref Exhibit 1A Tab 2 Schedule 1 page 15]**



- II. What costs are covered in "Operating and Overhead"? How were they determined? That is, are they tracked separately or is this a ballpark estimate? [the Operating & Overhead values are ~1.5% of the capex]**
- III. Where are audit costs included in this table? Please separate them out or provide them if not included.**
- IV. Do these costs capture all costs incurred annually by Toronto Hydro due to the use of D&C contractors? If not explain why not and please provide.**

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.

Questions and Requests:

- I. Please confirm then that there is no contingency for overspending and that for 2011 to 2013 all contracted costs did NOT exceed original signed contract levels. Please provide audit confirmation of such.**

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.

Questions and Requests:

- I. How much rework has had to be done on work done by external contractors during the ice storm?**
- II. Have the external contractors had to absorb the entire costs of the rework? If not, what is the expected total incremental cost for 2014 and 2015 in \$ terms and % of contract costs?**

CUPE Interrogatory 3

With reference to Exhibit 2B, Section C, C3.4.1

a) Please provide for 2011 to 2019 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.

THESL reply: "For the 2016-2019 period, Toronto Hydro is not in a position to provide a specific forecast at this time, but expects results consistent with 2015 Test Year, subject to changes driven by the nature and volume of required work."

Questions and Requests:

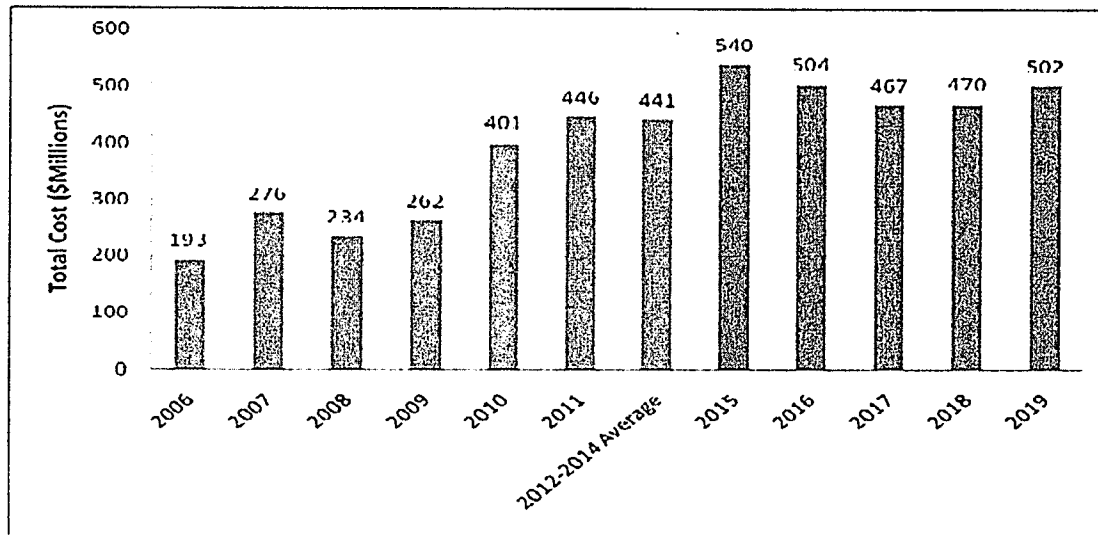
- I. The external contract costs have increased by 50% between 2011 & 2015. Consistent with 2015 costs, will 2019 external contractor costs be 50% higher?***
- II. Please breakout the annual external contract services costs by category e.g. consultants, vegetation management etc***

b) Please provide for 2011 to 2019 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.

THESL reply: "For the 2016-2019 period, Toronto Hydro is not in a position to provide a specific forecast at this time, but expects results consistent with the 2015 Test Year. The actual results, however, will depend on a number of factors, including the nature and volume of approved work."

Questions and Requests:

- I. Please breakout the annual external contract services costs by category e.g. consultants, D&C contractors etc***
- II. Please provide the requested information for 2016-2019 as annual capex has been provided for these years in evidence. [ref Exhibit 1A Tab 2 Schedule 1 page 15]***



CUPE Interrogatory 4

With reference to Exhibit 4A, Tab 4, Schedule 3, page 11, where THESL 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:

- d) Why “as a long term strategy, this approach is not preferred because it may compromise Toronto Hydro’s ability to satisfy its commitments.”

THESL Reply: The rationale for this statement is that sustained use of the “just-in-time” approach may not allow enough time to provide for knowledge transfer and integrate employees into the workforce on a long term basis. In addition, based on the challenges in the Canadian utility sector as cited in the Conference Board of Canada report, Toronto Hydro may have difficulty recruiting employees with the necessary skills and experience from the external labour market when they are required.

Questions and Requests:

- I. With reference to this reply, and THESL’s reply to part f), please explain how this approach of not allowing enough time for knowledge transfer and employee integration into the workforce will not impact productivity?***
 - II. Please also explain why it makes sense to THESL not to hire the staff they need now and have proper knowledge transfer etc., but rather leave it to the future when in its own words “Toronto Hydro may have difficulty recruiting employees with the necessary skills and experience from the external labour market when they are required”.***
- e) The knowledge transfer strategy for “‘just in time’ replacement of employees as they retire”.

Questions and Requests:

- I. Please confirm whether the following is correct: in effect, what THESL is saying in its response is that rather than utilizing the retiring employees “to transfer corporate and technical knowledge to newly hired employees”, instead it will use the senior and***

experienced employees who are not retiring to do this. This is in place of these experienced staff spending their time doing core work.

II. So THESL will have a double loss of productivity and effectiveness hit by using this approach i.e. the existing staff who remain and the new hires will not be as productive and effective. Is this how THESL looks to effectively constrain costs?

- f) Since date of implementation until 2019, please provide the annual gross and net cost savings from “just in time” replacement of employees as they retire along with the number of retired employees who have been replaced in this manner.

THESL reply: “Toronto Hydro has not quantified the **precise** annual cost savings of “just in time” hiring model.”

Questions and Requests:

- I. Precise annual cost savings are not necessary to address this question. Please provide a ballpark estimate of savings. Please utilize the staff retirement figures provided in 4A-CUPE-5 part a) to estimate these savings.***

CUPE Interrogatory 5

With reference to evidence on staff retirement levels at Exhibit 4A, Tab 4, Schedule 3, page 16, Table 4 “Toronto Hydro Retirement Projections (2014-2019)”

- b) Provide on an annual basis the actual retirements for 2007 to 2013 broken down by the categories in a) above.
- c) 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.

THESL Response to both parts b) & c):

The table below provides a breakdown of actual retirements by the requested categories, for 2011 to 2013. Toronto Hydro objects, on the basis of relevance, to providing pre-2011 actual retirements as this information predates the utility's last rebasing application (EB-2010-0142), and has no probative value to deciding the issues in this Application.

Questions and Requests:

- I. Provide the 2007-2010 data as has been requested. THESL has provided data for 2007 to 2010 in assorted points in submitted evidence as noted below.*

Clearly, the data for this period is relevant to the issues to be determined in the application and THESL has itself relied on the data in respect of this period. Data starting in 2006 or 2007 is provided & discussed in evidence at numerous points including the following:

- *Exhibit 1B, Tab 2, Schedule 5, page 32 D16 – Safety Gains [occupational injury costs since 2007]*
- *Exhibit 1B Tab 2 Schedule 5 Appendix A “THESL Historic Performance and Productivity Initiatives From Amalgamation to Present” [the period beginning 2007 is discussed]*
- *Exhibit 2B Section E2 page 10 [capex since 2006 is presented & discussed]*
- *Exhibit 2B Section E6.1 pgs 19, 20, 24, 25, 27, 28 [underground equipment failures are presented & discussed]*
- *Exhibit 2B Section E6.7 pg 16 table 5 HISTORICAL RELIABILITY FOR FEEDERS PROPOSED FOR CONVERSION [data beginning in 2007 is provided]*
- *Exhibit 4A, Tab 4, Schedule 3, page 2, Figure 1 provides staffing and capex for 2007 to 2019*