

## **RESPONSES TO CANADIAN UNION OF PUBLIC EMPLOYEES LOCAL ONE INTERROGATORIES**

1 **INTERROGATORY 1:**

2 **Reference(s):** **Exhibit 2B, Section C, C3.1.1 pages 15, 16**

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

12

13 
$$\text{Implementation Progress} = \frac{(\$ \text{Spend Year } n + \$ \text{Spend Year } n + 1 \dots )}{\$ \text{Five Year OEB Approved Plan}} [\% \text{ of Plan Total}]$$

14

15

16 With regard to this proposed measure, please explain why:

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

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1 **RESPONSE:**

- 2 a) This particular measure is advanced to track the effectiveness of the Distribution  
3 System Plan implementation, rather than the cost efficiency. Consistent with section  
4 5.2.3 of the OEB's Chapter 5 Filing Requirements for Electricity Distribution  
5 Applications, Toronto Hydro presented all cost efficiency and plan implementation  
6 effectiveness measures in a single category. This measure is also consistent with the  
7 DSP plan implementation progress measure included into Toronto Hydro's 2013  
8 OEB Distributor Scorecard.
- 9
- 10 b) Toronto Hydro considered that a single measure of Distribution Plan Implementation  
11 progress is most appropriate with respect to reporting the progress of an overall work  
12 program within the RRFE framework. As described in Exhibit 2B, Section C, pages  
13 25-26, Toronto Hydro proposes to develop an Asset Assembly Labour Input measure  
14 which is expected to encompass 25 major "Asset Assemblies" to augment existing  
15 methods of planning and tracking program-specific work execution. As the utility  
16 and the OEB gain experience with this newly-introduced capital performance  
17 measurement and refine definitions of Asset Assemblies, Toronto Hydro may  
18 consider advancing other measures of cost efficiency and implementation  
19 effectiveness.

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1 **INTERROGATORY 2:**

2 **Reference(s):** **“Construction Efficiency: Internal vs. Contractor Cost“ at**  
3 **Exhibit 2B, Section C, C3.4 pages 22-25**

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6 a) Provide a numerical example of the “Comparison Methodology“ outlined in C3.4.1.1,  
7 pages 23-24.

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

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

13 d) Further to 2 c) above, with the expectation that qualified contractor prices will be  
14 increasing over time due to the “high demand for qualified services“ in the GTA  
15 [C3.4.1.2 page 24] would it be reasonable to assume that internal resourcing of this  
16 work would be the most prudent and economic course of action for Toronto Hydro?

17 e) Further to 2 d) above, with the expectation of increasing prices, would it not be more  
18 economically prudent for Toronto Hydro to limit new D&C contracts for 2015-2016  
19 rather than 2015-2018? External D&C resources are in high demand in the GTA due  
20 to the ongoing volume in the residential construction market and construction projects  
21 related to the Pan-Am and mass transit investment. Accordingly, is it not likely that  
22 demand exceeding supply would inflate prices for these services in the 2015 and 2016  
23 period.

24 f) Does this “Construction Efficiency“ factor include the rework and correction by  
25 Toronto Hydro staff of projects done by D&C contractors? If yes, what is the impact

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1 of this additional corrective work on the “Construction Efficiency“ factor? If no, why  
2 not?

3 g) Provide the total annual costs for D&C contractors paid by Toronto Hydro for 2011 to  
4 2019 split between capitalized costs and expensed costs. Include separately the  
5 annual contract administration costs which Toronto Hydro incurs and the total annual  
6 amount of Toronto Hydro incurred costs for rework and correction by Toronto Hydro  
7 staff of projects done by D&C contractors.

8 h) The price advantage external contractors might have in certain circumstances could  
9 be due to the use of different types of equipment and work methodologies. Does  
10 Toronto Hydro examine the work methodologies, processes, equipment and tools  
11 utilized by D&C contractors to complete their contracted projects for potential use by  
12 internal staff? If yes, please summarize the specific items adopted by Toronto Hydro  
13 and the benefits thereof. If no, please explain and rationalize why not.

14 i) For 2011 to 2019, please provide the annual percentage of these external contractor  
15 projects which are overspent [i.e., exceed the original contract cost] along with the  
16 total annual overspend in dollar and percentage terms of total spend on contracted  
17 projects.

18 j) For 2011 to 2019, please provide the annual percentage of these external contractor  
19 projects which have to be redone [whether by the same or another contractor or  
20 internal staff] along with the total resulting annual spend in dollar and percentage  
21 terms of total spend on contracted projects.

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### **RESPONSE:**

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25 a) The below table represents a numerical example of the comparison methodology  
26 described in Exhibit 2B, Section C3.4, pages 22-25. Internal Toronto Hydro project

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1 costs include material, direct labour and equipment costs, for both civil and electrical  
 2 components of the project, and applicable overhead and regulated return components.  
 3 Contractor costs include material and material handling fees, contractor unit price  
 4 costs, Toronto Hydro’s contractor administration costs and third-party verification  
 5 costs. The example shown below is an underground rehabilitation project, which is  
 6 one of ten reference capital projects selected for comparison. The redacted  
 7 information below has been filed confidentially, in accordance with the OEB’s *Rules*  
 8 *of Practice and Procedure*, and the OEB’s *Practice Direction On Confidential*  
 9 *Filings*.

Underground Rehab Project	THESL Costs (\$M)	Weighted Contractors Costs (\$M)
Material	\$ [REDACTED]	\$ [REDACTED]
PSO Contractors Material Handling Fees	N/A	\$ [REDACTED]
THESL Project, Labour and Equipment Costs	\$ [REDACTED]	N/A
THESL Overhead Admin & Return on Equity	\$ [REDACTED]	N/A
PSO Contractors Unit Price Costs	N/A	\$ [REDACTED]
PSO Overhead Admin	N/A	\$ [REDACTED]
PSO 3 <sup>rd</sup> Party Audit	N/A	\$ [REDACTED]
<b>Total</b>	\$ [REDACTED]	\$ [REDACTED]

10 b) No, the comparison methodology is not used to determine whether the work will be  
 11 awarded to a contractor or performed with internal resources. The comparison is  
 12 done on the basis of already completed projects, and as such cannot be used as a tool

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1 for awarding future work. Toronto Hydro awards contracts to design and  
2 construction contractors through the Request for Proposal process and the associated  
3 criteria.

4  
5 c) There is no construction efficiency threshold. The purpose of the comparison, as  
6 outlined in the evidence (Exhibit 2B, Section C3.4.1, page 22), is to compare the cost  
7 of select projects constructed “in-house“ to the unit prices charged for similar work  
8 performed by external design and construction contractors. The results of the  
9 comparison show the cost gap between internally and externally executed projects,  
10 which may provide Toronto Hydro with useful insights for continuous improvement  
11 of internal work execution. More generally, the utilization of design and construction  
12 contractor services enables the utility to complete the requisite volume of capital  
13 work in a safe and efficient manner, while providing the resourcing scalability and  
14 flexibility to account for changing capital funding levels.

15  
16 d) No. In light of the forecasted volumes of Toronto Hydro’s capital program over the  
17 2015-2019 timeframe and the circumstances outlined in answer (c), the prudent  
18 course of action is to use a combination of internal and external work execution  
19 crews, as the utility proposes in this application.

20  
21 e) Toronto Hydro has issued a Request for Proposal for the supply of design and  
22 construction services for civil and electrical infrastructure projects, for the reasons  
23 noted in (c). In addition, as indicated in the evidence (Exhibit 2B, Section C3.4.2,  
24 page 24), the high demand for qualified services currently experienced in Toronto’s  
25 electrical construction market is expected to remain a significant factor throughout  
26 the duration of the Request for Proposal term.

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f) All design and construction contractors are required to comply with Toronto Hydro’s certified Distribution Construction Standards and the Electrical Distribution Safety Regulation.<sup>1</sup> 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).

g) The below table represents the costs (i.e., Capex, operating and overhead), by fiscal year, for the six full-service design and construction contractors utilized by Toronto Hydro. As described above in the response to part (f), there are no additional costs to the utility for any rework, if required. The 2016 to 2019 figures are projected to remain consistent with the 2015 levels; however, the actual results will depend on a number of factors, including the nature and volume of approved work.

Fiscal Year	Basis	Operating and Overhead (in \$M)	CAPEX (in \$M)
2015	Plan	\$1.7	\$126.4
2014	Forecast	\$1.8	\$112.6
2013	Actual	\$1.6	\$107.2
2012	Actual	\$0.8	\$51.2
2011	Actual	\$1.1	\$80.5

14 h) Toronto Hydro continuously seeks opportunities for incremental improvement. As  
 15 described in the evidence (Exhibit 2B, Section C3.4.3, page 25), as the utility  
 16 continues conducting these comparative exercises over the 2015-2019 planning  
 17 horizon, it may undertake more detailed assessments of individual cost drivers that

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1       make up the cost gap between contractor-delivered and internally-constructed  
2       projects.

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4       i) As described in the measurement description (Exhibit 2B, C3.4.1, page 22, line 14),  
5       the aggregation of design and construction contractor's unit prices determines the  
6       total price that contractors are paid for delivering a project. Contractors are not paid  
7       on a time and material basis on a project but rather for a unit of work, the cost of  
8       which is determined through an RFP process. As such, contractors are ultimately  
9       responsible for managing the variances between the unit cost estimate and their actual  
10      costs for a specified scope of work.

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12      j) See response to part (f) above.

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<sup>1</sup> Ontario Regulation 22/04, made under the Electricity Act, 1998, S.O. 1998, c.15, Sched. A.

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1 **INTERROGATORY 3:**

2 **Reference(s):** **Exhibit 2B, Section C, C 3.4.1**

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

9 b) For the period 2011-2019 inclusive, provide the annual capital expenditures cost for  
 10 all external contract services including consultants and D&C contractors as well as  
 11 the percentage this represents of total annual capital expenditures.

12  
 13

14 **RESPONSE:**

15 a) Please see Table 1 below, which provides Toronto Hydro’s total OM&A costs for all  
 16 external contract services such as consultants or vegetation management services, and  
 17 including D&C contractors. For the 2016-2019 period, Toronto Hydro is not in a  
 18 position to provide a specific forecast at this time, but expects results consistent with  
 19 2015 Test Year, subject to changes driven by the nature and volume of required work.

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21 **Table 1: External OM&A Contractor Costs**

Category	2011Actual	2012Actual	2013Actual	2014Bridge	2015Test
External OM&A Costs	\$55.6M	\$54M	\$66.2M	\$71.3M	\$84.9M
% Total OM&A	23%	25%	27%	29%	32%

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- 1 b) Please see Table 2 below, which provides Toronto Hydro's total capital expenditures  
2 for all external contract services such as consultants or vegetation management  
3 services, and including D&C contractors. For the 2016-2019 period, Toronto Hydro  
4 is not in a position to provide a specific forecast at this time, but expects results  
5 consistent with the 2015 Test Year. The actual results, however, will depend on a  
6 number of factors, including the nature and volume of approved work.

7

8 **Table 2: External Capital Contractor Costs**

<b>Category</b>	<b>2011 Actual</b>	<b>2012 Actual</b>	<b>2013 Actual</b>	<b>2014 Bridge</b>	<b>2015 Test</b>
External Capital Costs	\$220.5M	\$133.7M	\$261.6M	\$376.7M	\$300.8M
% Total Capital	50%	46%	59%	64%	56%

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1 **INTERROGATORY 4:**

2 **Reference(s):** **Exhibit 4A, Tab 4, Schedule 3, page 11**

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5 The Applicant states:

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

14

15 Please explain:

16 a) What specifically is meant by the reference to the replacement of employees as they  
17 retire on a “just in time” basis.

18 b) How this approach constrains costs.

19 c) When this was approach implemented and why was it implemented.

20 d) Explain the rationale for the following statement: “as a long term strategy, this  
21 approach is not preferred because it may compromise Toronto Hydro’s ability to  
22 satisfy its commitments.”

23 e) The knowledge transfer strategy, if any, for “‘just in time’ replacement of employees  
24 as they retire”.

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- 1 f) The health and safety impact and productivity impact of “just in time” replacement  
2 retiring employees. Also, quantify the annual impact of the program from the date of  
3 implementation until 2019.
- 4 g) Since date of implementation of the program until 2019, please provide the annual  
5 gross and net cost savings derived from “just in time” replacement of employees as  
6 they retire. Also provide the number of retired employees who have been replaced in  
7 this manner according to the following categories: senior managerial; other non-  
8 represented; CUPE-represented; and, Society-represented.
- 9 h) Further to 4 g) above, provide the annual gross and net cost savings from “‘just in  
10 time’ replacement of employees as they retire” per retired employee who has been  
11 replaced in this manner.

12  
13

### **RESPONSE:**

- 15 a) “Just-in-time” refers to the practice of hiring replacement employees as existing  
16 employees exit the organization. The objective of this approach is to constrain costs.  
17
- 18 b) The “just-in-time” hiring approach constrains costs because it eliminates the overlap  
19 between existing employees and their future replacements. In other words, if Toronto  
20 Hydro’s practice were to hire new employees in advance to fulfill future vacancies,  
21 the utility would incur both the costs of the new employee and the existing employee  
22 during the period of overlap.  
23
- 24 c) As outlined in Exhibit 4A, Tab 4, Schedule 4, page 11, this approach will be  
25 implemented in 2015, to constrain costs and limit rate increases over the 2015 to 2019  
26 rate period.

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

8

9 e) As detailed in Exhibit 4A, Tab 4, Schedule 4, page 12, lines 16-19, Toronto Hydro’s  
10 strategy is to leverage senior and experienced employees to transfer corporate and  
11 technical knowledge to newly hired employees. This strategy includes training,  
12 supervision and mentorship of newly hired employees on Toronto Hydro’s practices,  
13 procedures, and standards.

14

15 f) Toronto Hydro does not expect the “just-in-time” hiring model to have any adverse  
16 health and safety or productivity impacts over the rate period.

17

18 g) Toronto Hydro has not quantified the precise annual cost savings of “just in time”  
19 hiring model. See the response to question (b) for an explanation of how this  
20 approach is expected to constrain costs. As outlined above in the response to  
21 question (c), the “just-in time” approach will be implemented in 2015; therefore,  
22 Toronto Hydro cannot provide the number of retired employees who have been  
23 replaced in this manner.

24

25 h) See the response to question (g).

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1 **INTERROGATORY 5:**

2 **Reference(s):** **Evidence on staff retirement levels at Exhibit 4A, Tab 4,**  
3 **Schedule 3, page 16, Table 4 “Toronto Hydro Retirement**  
4 **Projections (2014-2019)”**

5

6

7 a) Provide the annual break down of these levels between senior management; other  
8 non-represented; CUPE represented, and; Society represented.

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

11 c) Provide the external staff hires [of new permanent staff on the Toronto Hydro  
12 payroll] resulting from retirements for 2007 to 2019. Also provide the number of  
13 these who were engaged initially as temporary staff by Toronto Hydro.

14 d) Provide an explanation in the event that the annual levels of hires provided in c)  
15 above do not match the annual levels of retirements in a) and b) above.

16

17

18 **RESPONSE:**

19 a) The table below provides the requested breakdown:

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<b>THESL RETIREMENT PROJECTIONS - 2015 TO 2019</b>						
<b>CATEGORY</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>SENIOR MANAGEMENT</b>	1	1	1	0	3	1
<b>OTHER NON-UNION</b>	6	3	11	10	17	22
<b>CUPE</b>	70	31	33	47	51	82
<b>SOCIETY</b>	3	1	2	2	1	1
<b>ANNUAL TOTAL</b>	<b>80</b>	<b>36</b>	<b>47</b>	<b>59</b>	<b>72</b>	<b>106</b>
<b>CUMULATIVE TOTAL</b>	<b>80</b>	<b>116</b>	<b>163</b>	<b>222</b>	<b>294</b>	<b>400</b>

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

<b>THESL RETIREMENTS</b>			
<b>CATEGORY</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
SENIOR MANAGEMENT	6	1	2
OTHER NON-UNION	10	9	14
CUPE UNION	46	20	38
SOCIETY ENGINEERS	0	2	0
<b>TOTAL</b>	<b>62</b>	<b>32</b>	<b>54</b>

- 6 c) The table below provides the requested information with respect to the replacement of  
 7 retired employees. Toronto Hydro objects, on the basis of relevance, to providing  
 8 pre-2011 information as it predates the utility's last rebasing application (EB-2010-  
 9 0142).

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	2011	2012	2013	2014
<b>External Hires</b>	40	3	4	22
<b>External Hires (Temporary Staff<sup>1</sup> Initial Engagement)</b>	1	0	0	3

- 1 d) The annual levels of hires provided in c) do not match the annual levels of retirements  
2 in responses a) and b), above, because Toronto Hydro sustained a workforce  
3 reduction to constrain costs during the IRM period.

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<sup>1</sup> Temporary staff refers to employees hired on contract for a defined term.