

July 13, 2015

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

Dear Ms. Walli:

Re: EB-2015-0004 – Hydro Ottawa Limited – Distribution Rates 2016-2020

Please find, attached, interrogatories for Hydro Ottawa Limited from the Consumers Council of Canada regarding the above-referenced proceeding. Please feel free contact the undersigned if you have questions.

Yours truly,

Julie E. Girvan

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CC: Regulatory Affairs, Hydro Ottawa
Geoff Simpson, Hydro Ottawa
Fred Cass, Aird & Berlis
Intervenors

**INTERROGATORIES FROM THE CONSUMERS COUNCIL OF CANADA
FOR HYDRO OTTAWA LIMITED**

RE: EB-2015-0004 – DISTRIBUTION RATE APPLICATION 2016-2020

A. ADMINISTRATION

A-CCC-1

(Ex. A/T2/S1/p. 8)

The evidence states that Hydro Ottawa's decision to adopt a Custom IR rate-setting model is justified in light of the significantly large multi-year capital investments needed. Please explain why Hydro Ottawa could not address those needs through the Board's Price Cap IR approach with an Advanced Capital Module.

A-CCC-2

(Ex. A/T2/S1/p. 9)

The evidence states that Hydro Ottawa's financial planning and budgeting approach included a number of interrelated steps, which started with the development of a detailed forecast of capital and operations, maintenance and administrative expenditures for the years 2016-2020. Please provide those detailed budgets.

A-CCC-3

Please provide all the materials presented to Hydro Ottawa's Board of Directors and senior management when seeking approval for the 5-year rate plan.

A-CCC-4

(Ex. A/T2/S1/p. 9)

The evidence indicates that the initial capital forecasts included funding requests that were greater than the final forecasts, as there was an opinion that higher funding levels were required from an asset needs perspective. That level was measured against a number of other key factors including rate impacts, resources and financial capability. Please describe the process used to pare down the initial forecasts. Please explain how Hydro Ottawa specifically took rate impacts into consideration when developing the final forecasts. How does Hydro Ottawa determine what level of rate increase might be acceptable (or not acceptable) to its customers?

A-CCC-5

(Ex. A/T2/S1/p. 11)

Please provide a copy of the budget memo provided to division leaders as part of the 2016 budgeting process (dated February 2014) and any other correspondence related to the budgeting process. Please set out the timeline regarding the 2016 budgeting process. When were the proposed budgets included in the Application finalized?

A-CCC-6

(Ex. A/T2/S1/p. 15)

Please explain how a negative X factor will provide an incentive for Hydro Ottawa to pursue productivity initiatives. Why should past industry performance be indicative of Hydro Ottawa's future performance?

A-CCC-7

(Ex. A/T2/S1/p. 16)

With respect to Hydro Ottawa's request for Z-factor relief, will the materiality threshold of \$880,000 apply to a one-time event or multiple events that would add up to amounts above the \$880,000?

A-CCC-8

(Ex. A/T2/S1/p. 20)

Please provide an explanation as to what OM&A items are captured by the following categories: non-discretionary; controllable; and discretionary.

A-CCC-9

(Ex. A/T2/S1/p. 16)

Hydro Ottawa is proposing an earnings sharing mechanism whereby the overearnings from 0-150 basis points are fully retained by the shareholder. Would Hydro Ottawa be agreeable to an ESM whereby the overearnings are shared on a 50:50 basis with its customers? If not, why not? Why is it appropriate to use utility overearnings to fund municipal activities outside of the electricity sector rather than flowing the benefits back to Hydro Ottawa's customers?

A-CCC-10

(Ex. A/T2/S1/p. 24)

Please indicate whether the Estimated Bill Impacts in Table 11 are inclusive or exclusive of the proposed DVA rate riders and Y factors. If the rider amounts are not included, please recast the impacts including the rider impacts.

A-CCC-11

(Ex. A/T2/S2/p. 5)

Hydro Ottawa is proposing an annual written reporting process. It is Hydro Ottawa's intent to only file the OEB Scorecard Results and a capital expenditure update? If not, what other reporting does Hydro Ottawa propose. What would be the specific timing of this process?

A-CCC-12

(Ex. A/T2/S2/p. 6)

Hydro Ottawa held a customer engagement process to collect customer opinions on planned expenditures and outcomes identified in the 2016 application. Please indicate to what extent Hydro Ottawa changed its proposals or budgets in response to that customer engagement.

A-CCC-13

(Ex. A/T3/S1/p. 1)

Please provide a copy of Hydro Ottawa's *2012-2016 Strategic Direction: Creating Long-Term Value*.

A-CCC-14

(Ex. A/T3/S1)

Please provide a schedule which sets out detailed historical costs related to all Customer Engagement activities and forecast costs for the period 2012-2020.

A-CCC-15

(Ex. A/T3/S1/p. 20)

Was the work produced by Innovative Research Group subject to an RFP process? If so, please provide the RFP. If not, why not? Please provide the Terms of Reference for the Innovative Research work. What is the total expected cost of this work? Please identify any aspects of the Application that were changed as a result of this research.

A-CCC-16

(Ex. A/T6/S9)

Hydro Ottawa expects to be in a position to file a new lead/lag study in Q3 of 2015. What is the status of the study? Who is undertaking the study? Is Hydro Ottawa proposing that the results of that study be used in setting rates for the years 2016-2020? If not, why not?

B. RATE BASE

B-CCC.17

(Ex. B/T1/S2/p.135/Table 3.1.2)

The Capital program/System Access/Plant relocation is described as work triggered by 3rd party typically 50% contributed capital. Please explain why the contribution would only be 50% when the work is triggered by 3rd party projects. Please provide the specific % contribution for each type of plant relocation Hydro Ottawa is involved with.

B-CCC.18

(Ex. B/T1/S2/p.222/Table 3.4.3/Table 3.4.4)

Please provide the categories of plant relocation project (i.e. the City of Ottawa Light Rail Transit) for each year and the percentage of cost that Hydro Ottawa had/will have to pay for each category.

B-CCC.19

(Ex. B/T1/S2/p.226/lines7-11)

The evidence states that, "Hydro Ottawa expects the spending in this category to remain at the current levels through to 2020" for the reasons listed in this section.

Please explain why Hydro Ottawa has not included actual forecasted costs for these projects since most of the projects in this category will already be planned into the future, with known projected costs and percentage on contribution? Please provide these costs and percentages.

B-CCC.20

(Ex. B/T1/S2/Table 3.4.3)

The evidence states that trends should remain consistent with the historic values. Given the actual costs in 2014 are 16% less than forecast should the projected costs for 2016 to 2020 shown in table 3.4.4 not be updated?

B-CCC.21

(Ex. B/T1/S2/Table 3.4.3 and p.223)

The evidence states that the overall trend has seen a relatively consistent spending profile. This is not illustrated in Table 3.4.3 where it is shown that Commercial System Access in 2014 was \$3M less than in 2013. Even with this 23% downturn Hydro Ottawa has forecasted a \$5M increase in 2015 from 2014 and another increase in 2016 of over \$1M greater than the 2015 forecast. Please explain the rationale for these large increases in the plan years.

B-CCC.22

(Ex. B/T1/S2/Table 3.4.3)

Are there any 3rd party contributions for System Expansion work? If so, please list what they were and are expected to be for the years 2011 – 2020.

B-CCC.23

(Ex. B/T1/S2/Table 3.4.3)

Are there any 3rd party contributions for Infill & Upgrade work? If so please list what they were/are expected to be for the years 2011 – 2020.

B-CCC.24

(Ex. B/T1/S2/p.138/Figure 3.1.2)

This Figure illustrates the breakdown for the System Renewal Investment Category. It illustrates the capital programs that match the categories shown in Tables 3.4.5 and Table 3.4.6 (Ex. B/T1/S2p.228-229). Figure 3.1.2 also illustrates the budgeted programs and projects. Attachment B-1(A) then describes each project. Please expand Tables 3.4.5 and Table 3.4.6 to include the list of budgeted programs and the specific projects for Station Assets and Distribution Assets (since they are above the threshold dollar value) in the year they are in-service. CCC is looking to cross-reference these Tables with the projects listed in Attachment B-1(A).

B-CCC.25

(Ex. B/T1/S2/Table 3.4.3)

Please explain why Stations Asset costs are projected to increase by \$4M from 2014 to 2015.

B-CCC.26

(Ex. B/T1/S2/p. 228)

On line 4 it states that, “the focus on proactive replacement is expected to reduce the required spend on plant failure”, but the cost variance and explanation for costs (pp. 229/113) explains that the costs are “mainly due to spending in the Distribution Plant Failure Budget Program” Please explain.

B-CCC.27

(Ex. B/T1/S2/Table 3.4.3)

Please explain why Stations Asset costs are projected to remain \$5M to \$7M higher from 2016 to 2020 compared to the historic spend.

B-CCC.28

(Ex. B/T1/S2/Figure 3.1.3)

This Figure illustrates the breakdown for the System Services Investment Category. It illustrates the capital programs that match the categories shown in Tables 3.4.7 and Table 3.4.8 (Ex. B/T1/S2/p.234-236). Figure 3.1.3 also illustrates the budgeted programs and projects. Attachment B-1(A) then describes each project. Please expand Tables 3.4.7 and Table 3.4.8 to include the list of budgeted programs and the specific projects for each of the Capital Program categories (that are above the threshold dollar value) in the year they are in-service. CCC is looking to cross reference these Tables with the projects listed in Attachment B-1(A).

B-CCC.29

(Ex. B/T1/S2/Table 3.4.11)

Please provide the specific reference to the project(s) that make up the large expenditure in Customer Service in 2019.

B-CCC.30

(Ex. B/T1/S2/Table 3.4.11)

Please explain the large increase in spending on the ERP program in 2016.

B-CCC.31

(Ex. B/T1/S2/Table 3.4.9/3.4.11)

On page 240/l.17-18 it states the IT New Initiative project – Asset Planning software was completed in 2014. Please explain why costs are higher in 2015 and 2016 than they were in the year the project was completed (2014).

B-CCC.32

(Ex. B/T1/S2/Table 3.4.9)

Please provide further details regarding the \$17,682M expenditure for Hydro One payments in 2014.

D. OPERATING EXPENSES

D-CCC-33

(Ex. D/T1/S2)

Does Hydro Ottawa undertake compensation studies to assess its compensation levels relative to other like organizations? If not, why not? If, so please provide all of the studies.

D-CCC-34

(Ex. D/T1/S2/Attachment D-1(A))

The 2014 budget letter states that a vacancy allowance will continue to be budgeted at the corporate level at a rate of 2.5% per annum. How does this vacancy rate impact OM&A levels? How was the 2.5% derived?

D-CCC-35

(Ex. D/T1/S3)

Has Hydro Ottawa assessed the extent to which the smart meter program has reduced its distribution operating costs? If not, why not? If so, are those efficiencies embedded in the 2016 forecast? Please identify any savings embedded in the forecasts.

D-CCC-36

(Ex. D/T1/S3/p. 3)

The evidence states that Hydro Ottawa has taken measures to constrain benefits and pensions, one of which was to partner for a new insurance provider for benefits. What are the annual savings associated with the change? Are those savings reflected in the 2016 base revenue requirement?

D-CCC-37

(Ex. D/T1/S3/p. 4)

Please provide Hydro Ottawa's detailed policy regarding vegetation management. What is the rationale for the current cycle? What are the annual savings expected in 2016 and beyond related to the 2014 and 2015 storm hardening program. Please provide a detailed breakdown of the \$3.507 million budget for vegetation management in 2016. Does Hydro Ottawa benchmark its vegetation management program in any way?

D-CCC-38

(Ex. D/T1/S3/p. 6)

Please explain why IT maintenance costs are increasing in 2016 relative to previous years. Please provide a detailed breakdown of the 2016 IT Maintenance costs.

D-CCC-39

(Ex. D/T1/S3/p. 6)

Please explain how the 2016 forecast for Bad Debt was derived. Why is there an increase over 2015 despite the evidence that it is expected to stay relatively flat out to 2016?

D-CCC-40

(Ex. D/T1/S3/p. 7 – Table 8)

Please provide the Board approved numbers for each budget category.

D-CCC-41

(Ex. D/T1/S4 – Appendix D-1(c)– Balanced Productivity Metrics)

Does this represent all of the metrics proposed for the rate plan period? If not, what other metrics are being proposed? Why will it take until year-end 2015 to establish targets?

D-CCC-42

(Ex. D/T1/S4/p. 9)

Hydro Ottawa describes it streamlined project management processes and has indicated that the savings are \$400,000 annually. Are these savings reflected in the 2016 base revenue requirement? If so, in what categories?

D-CCC-43

(Ex. D/T1/S4/p. 10)

Hydro Ottawa has signed three year standing offer arrangements with two Toronto based contractors. What is the annual cost of those contracts? How do these contracts operate? What happens at the end of the three years? What is the specific value this brings to Hydro Ottawa?

D-CCC-44

(Ex. D/T1/S4/p. 15)

Please explain how the Capital Efficiency Gains from the AIP Implementation will be tracked and reported.

D-CCC-45

(Ex. D/T1/S5/ Attachment D-1(D))

Was the work undertaken by Power System Engineering Inc. subject to an RFP process? If not, why not? If so please provide the RFP. Please provide the Terms of Reference for the PSE work. What is the total expected cost of the PSE work? How much has been incurred to date?

D-CCC-46

(Ex. D/T1/S6/p. 1)

The evidence states that Hydro Ottawa has a 28% adoption rate for e-billing. What are the annual savings associated with this level of take-up? Does Hydro Ottawa

expect this to increase over the term of the rate plan? If so, by how much? What type of e-billing service does Hydro Ottawa provide?

D-CCC-47

(Ex. D/T1/S6/Attachment D-1 (F))

What was the cost of the Customer Persona Research Program? How were those costs recovered?

D-CCC-48

(Ex. D/T1/S8/p. 2)

Please describe in detail the Incentive Based Pay Program. What are the financial and non-financial objectives? What is the cost of the program in 2015 and 2016? Does Hydro Ottawa expect this program to change during the term of the rate plan? If so, in what ways would it change?

D-CCC-49

(Ex. D/T2/S4)

What are the expected regulatory costs associated with this proceeding? Please provide a detailed budget including costs incurred to date? Does Hydro Ottawa intend to amortize these costs over the 5-year term of the plan? If not, how will these costs be recovered?

E. COST OF CAPITAL AND CAPITAL STRUCTURE

E-CCC-50

(Ex. E/T1/S1)

Please provide the actual and Board approved ROE levels for the years 2010-2014.

H. RATE DESIGN

H-CCC-51

(Ex. H/T1/S1/p. 2)

Did Hydro Ottawa survey/engage its residential customers regarding the fixed and variable split? If not, why not? If so, please present the customer research specifically related to this topic. Were customers specifically asked about the move from a residential fixed charge of \$9.67 to \$12.25?

H-CCC-52

(Ex. H/T7/S1/p. 1)

Hydro Ottawa undertook a review of its service charges in 2014. Though that review did Hydro Ottawa did Hydro Ottawa review whether the charges were reflective of the costs for all of the service charges? If not, why not?

H-CCC-53

(Ex. H/T7/S1/p. 3)

How does Hydro Ottawa intend to inform its customers about the changes to the service charges proposed? How has Hydro Ottawa developed the forecasts (2016-2020) for the revenue from existing service charges and new service charges?

H-CCC-54

(Ex. H/T12/S1/p. 2)

For the residential class please set out the distribution rate increases for the following monthly consumption levels – 400 kWh and 1000kWh.

I. DEFERRAL AND VARIANCE ACCOUNTS

I-CCC-55

(Ex. I/S2/p. 4)

Please explain why Hydro Ottawa does not know the market value of the Albion Road, Merivale Road and Bank Street facilities. Would the value of these facilities not have been an important input in terms of making decisions regarding the Facilities Implementation Plan? If not, why not?