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By Email and RESS

July 13, 2015

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

**Re: Hydro Ottawa Limited Distribution Rates 2016-2020 (EB-2015-0004) -
SIA Interrogatories**

Dear Ms. Walli,

Please find attached the interrogatories of the Sustainable Infrastructure Alliance of Ontario (the "SIA") in the above noted proceeding.

Sincerely,

[original signed by]

Dionisio Rivera

EB-2015-0004

Hydro Ottawa Limited Application for electricity distribution rates for the period from January 1, 2016 to December 31, 2020.

Interrogatories on behalf of the Sustainable Infrastructure Alliance of Ontario

Exhibit A – Administration

1-SIA-1

[Ref: Exhibit A, Tab 2, Schedule 1, page 15]

In describing its approach to the productivity factor, HOL states that:

“To derive the productivity factor Hydro Ottawa has relied upon the empirical evidence submitted by expert witnesses in the OEB’s Report of the Board....Hydro Ottawa contends that this is the only empirical evidence of Ontario electricity distributors’ productivity trends over the last 10 years that is available to Hydro Ottawa. Hydro Ottawa has chosen to use the average productivity trend number from all of the studies. In this way, Hydro Ottawa has not endorsed any of the recommendations and has given each recommendation equal weight.”

- a) Did HOL consider commissioning or producing its own "empirical evidence" for productivity?
- b) Given that the OEB approved a productivity factor of 0 for all RRFE filers¹ after having reviewed the exact four expert witness recommendations HOL is relying upon in this application, why does HOL believe that in the absence of new evidence it is appropriate to rely on a productivity factor other than 0?

¹ EB-2010-0379, Report of the Board, page 17

1-SIA-2

[Ref: Exhibit A, Tab 2, Schedule 1, page 14]

HOL states that "For the inflation factor, Hydro Ottawa proposes to use the GDP-IPI forecast from the Conference Board of Canada ("CBofC") for the period of 2017 and 2018." However, in the RRFE Report the OEB determined that it would adopt a 2 Factor IPI methodology:

"The Board will adopt the 2 factor IPI methodology. The Board acknowledges stakeholders' concerns with excluding a capital sub index however the Board finds that the 2 factor IPI is the most appropriate approach at this time because of a lack of confidence in the proposed approaches for addressing the concerns which arise from introducing the capital sub index. The Board's concerns with other alternatives proposed by stakeholders outlined in its Draft Report are listed in Appendix A."²

In rejecting the GDP-IPI measure, the OEB also explicitly noted its concern that using the GDP IPI is "Inconsistent with policy direction to better align inflation with more Ontario industry specific inflation".³

Given the OEB accepted the 2 factor IPI methodology, and expressly rejected the GDP-IPI, why does HOL believe that it is nonetheless appropriate to use the GDP-IPI as part of this application?

1-SIA-3

[Ref: Exhibit A, Tab 2, Schedule 1, page 13]

HOL explains its need for a CIR application largely on the basis of capital investment requirements: "Hydro Ottawa propose a custom IR framework on the grounds that it must undertake unprecedented infrastructure investments in the near to medium term to avoid risks to system and service reliability."

a) Does HOL also consider its OM&A requirements as a reason for the need to file a CIR application?

b) Please explain what unique challenges HOL faces in terms of OM&A spending drivers that would justify a departure from the standard I-X inflation productivity formula applicable to all other utilities filing applications under the 4th Generation IRM methodology. That is, why would a custom approach to capital investment but a standard approach to OM&A not be appropriate for HOL's circumstances?

1-SIA-4

[Ref: Exhibit A, Tab 2, Schedule 1, page 13]

HOL states that its "proposal [is] to fix final rates for three years (2016-2018) then adjust the rates only to update for inflation and cost of capital variables. This is intended to build in rate protection for Hydro Ottawa's customers and to provide operating and business certainty to Hydro Ottawa and its shareholder."

a) Did HOL consider asking for final rates for all 5 years, or adjustment for certain elements for all 4 years following the rebasing year? If so, please comment as to why it decided that three years of final rates was the appropriate timeframe.

b) What concerns would HOL have if it were required to finalize its rates for each year following 2016? What factors that would normally be subject to adjustment does HOL believe would lead

² EB-2010-0379, Report of the Board, page 7

³ EB-2010-0379, Report of the Board, Appendix A, page i

to unacceptable "operating and business" uncertainty?

1-SIA-5

[Ref: Exhibit A, Tab 3, Schedule 1, page 31]

With regard to HOL's customer feedback, HOL notes that "while a majority of customers indicated that electricity costs have a major impact on their finances, a larger majority stated that they were willing to pay a bit more because investing in the system is money well spent." Please reconcile these and other similar customer engagement conclusions with the positions reflected in the sizeable number of letters of comment filed by individual HOL customers in this proceeding. To what factor(s) does HOL attribute the notably different positions and responses between the groups?

1-SIA-6

[Ref: Exhibit A, Tab 2, Schedule 1, Table 5, Page 16 of 29]

a) On what basis did HOL construct the Earnings Sharing Proposal table, specifically the thresholds and respective treatment (e.g. why 0-150 basis points, rather than 0-50 or 0-100? etc)?

b) What is the corresponding incremental (dollar value) of earnings represented by each 50 basis points increase above approved rates?

Exhibit B – Rate Base

2-SIA-7

[Ref: Exhibit B, Tab 1, Schedule 2, page 42]

Does HOL have annual targets attached to all its Key Performance Indicators? If so, please provide the targets and results for each of 2011-2014, and the current targets for 2015. If the KPIs do not have targets, please explain how HOL determines the degree to which the results are positive or negative.

2-SIA-8

[Ref: Exhibit B, Tab 1 Schedule 2, page 248, Table 3.5.3]

Please explain why the vast majority of System Renewal spending in 2011-2015 is classified as driven by "substandard performance", while a vast majority of spending in this category over 2016-2020 is expected to be driven by "failure risk". What factors led to such a drastic shift in categorization of the majority of investments in this category from 2015 into 2016?

2-SIA-9

[Ref: Exhibit B, Attachment B1(A), page 43]

HOL notes that its "pole replacement program replaces wood poles, and pole fixtures, on the overhead distribution system that are aged or in poor condition. Existing composite, concrete and metal poles, in general, are in good condition and will not require replacement. Poles and fixtures will be replaced with an equivalent pole on a like-for-like basis."

a) What are the reasons for why composite, concrete, and metal poles are in better condition than wood poles? (i.e. inherent material qualities? more recent installation dates? etc.)

b) Did HOL consider exploring the cost lifecycle effectiveness of a non-like-for-like replacement? (replacing wood with concrete, for example) Why or why not?

2-SIA-10

[Ref: Exhibit B, Attachment B1(A), page 154]

HOL proposes to install remote disconnect meters for approximately 36,000 customers, noting that "Remote disconnect meters reduce the expense requirements associated with travelling to the premise for disconnect and reconnect requirements."

a) Please detail the cost savings per disconnection associated with remote vs. onsite disconnection. What are the projected total cost savings over the 2016-2020 period if all 36,000 meters are installed?

b) How will the operational process for remote disconnection differ from regular disconnections? What measures will HOL put in place to ensure that the timing of remote reconnections do not result in safety hazards? (e.g. stove left on without customer present, etc).

2-SIA-11

[Ref: Exhibit B, Attachment B1(A), page 352]

HOL notes that its "vision of '2-way, proactive, personalized, and premise-based Outage Communications' is totally consistent with industry thought leaders." Please provide sources for this statement, specifically identifying the referenced "thought leaders" and the description of the communication system that they advocate or support.

2-SIA-12

[Ref: Exhibit B, Attachment B1(A), page 363-364]

For each vehicle type, please breakdown HOL's current vehicle fleet by asset condition as determined by age and km (e.g. via scatter graphs with age and km on the x and y axis respectively).

2-SIA-13

[Ref: Exhibit B, Attachment B1(A), page 363-364]

a) How many vehicles by vehicle type are currently beyond their life cycle (as defined in Table 122)?

b) How many additional vehicles by vehicle type are expected to be beyond their life cycle (as defined in Table 122) by the end of 2020?

c) For each vehicle type, please provide the estimated numbers of vehicles planned to be replaced over 2016-2020.

2-SIA-14

[Ref: Exhibit B, Tab 3, Schedule 1, page 2]

HOL notes that "The new lead lag study will be submitted in September 2015 to be incorporated into final rates. Until the lead lag study is complete, Hydro Ottawa is using its 2012 Board approved rate of 14.2."

Please confirm that the 14.2 value is a temporary placeholder, and that it is HOL's intention to use the new rate resulting from its Lead Lag Study for rates for 2016-2020.

2-SIA-15

[Ref: Exhibit B, Tab 5, Schedule 4]

For 2010 to 2014, please provide historical SAIFI and SAIDI broken down by cause code (loss of supply, defective equipment, etc). Please provide this breakdown both including and excluding major event days.

2-SIA-16

[Ref: Exhibit B, Tab 5, Schedule 4]

Does HOL have a forecast of its projected SAIFI and SAIDI over the 2016-2020 period? If so, please provide it. If not, please explain why such a projection has not been considered, particularly in light of the significant system renewal investments planned over the 2016-2020 period.

2-SIA-17

[Ref: Exhibit B, Tab 5, Schedule 4, page 1]

HOL notes that “Overall, since 2009, Hydro Ottawa’s system SAIDI and SAIFI has been steadily increasing, due to the increase of storms with severe wind and rain as well as an increase in equipment failures.”

a) With the assumption that all investments will to some limited extent incrementally improve system reliability and restoration time, please list and summarize or provide references to all planned investments that specifically aim to mitigate the reliability impact to customers of severe weather (storms, severe wind and rain, etc).

b) Given severe storms are an identified and substantial risk, is mitigation against the impacts of severe storms an explicit part of HOL's capital investment strategy? If yes, please explain how. If not, please explain why.

2-SIA-18

[Ref: Exhibit B, Tab 1, Schedule 2, page 242]

As part of its facilities strategy, HOL is proposing “to credit ratepayers with the entire value of the after tax proceeds of sale for the 2 buildings and for 50% of the after tax proceeds for the sale of the lands”.

a) Please further explain the statement that “The 50% share of the after tax proceeds for the sale of the lands recognizes that land is an undepreciated asset.” Please elaborate on the justification for a 50/50 split.

b) Given that HOL is proposing to replace one facility for another, and one parcel of land for another – why would it not be appropriate to credit the full value of the old facilities as an offset to constructing the new ones?

2-SIA-19

[Ref: Exhibit B, Tab 1, Schedule 2, page 242]

HOL states that it “is proposing to establish a deferral account to record the after tax proceeds from the sale of the buildings and lands and will bring forward the deferral account for clearance in a future proceeding once the buildings and lands have been sold”.

Given that the costs of the new facilities will be incurred over the 2016-2018 period, has HOL considered refunding some portion of the value of the old facilities in advance of a formal sale

(with a variance account for any differences), both to better align costs and revenues and allow for rate mitigation during the 2016-2018 period?

Exhibit C – Operating Revenue

3-SIA-20

[Ref: Exhibit C, Tab 2, Schedule 1, page 1, table 1]

Please explain the drivers behind the notable above average specific service charges revenue received in 2013 (i.e. \$5.3M, as compared to ~\$3.5M in other years prior to 2016).

Exhibit D – Operating Expenses

4-SIA-21

[Ref: Exhibit D1, Attachment D1(D), PSE Benchmarking Report, Section 1.5, page 9 and 35]

The PSE Benchmarking Report generally concludes that HOL is forecast to be an above average performer noting that “Hydro Ottawa’s Custom IR total cost performance remains statistically superior at the 90% confidence level. These results indicate a stretch factor of 0.15% based on the 4th Generation IR stretch factor criteria.”

Has HOL incorporate this stretch factor into its proposed I-X methodology? If not, why not?

4-SIA-22

[Ref: Exhibit D, Tab 2, Schedule 4, Appendix 2M]

a) Please identify the costs of preparing this CIR application (identifying specifically consulting and legal costs).

b) Given that HOL has left the "One-time costs" section of Appendix 2M blank, please confirm that HOL is not seeking to recover any costs related to the preparation of this application as part of its 2016-2020 rates.

4-SIA-23

[Ref: Exhibit D, Tab 1, Schedule 1, page 1]

Please provide an updated version of Table 1 with actual year-end 2014 values.

4-SIA-24

[Ref: Exhibit D, Tab 1, Schedule 2, page 2]

HOL notes that “The 2016 budget forecast exercise began with the development of the Budget Memo from the office of the Chief Financial Officer that provided top down guidance on the areas of constraints which informed the individual divisions in the development of their bottom up budgets.”

a) Please confirm that the referenced memo is the memo provided as Attachment D1 (A).

b) Were any other memos, documents, or presentations circulated to individual divisions concerning guidance as to the preparation of the CIR application? If so, please provide copies.

4-SIA-25

[Ref: Exhibit D, Tab 1, Schedule 8, Appendix 2K]

a) Please reproduce Appendix 2K by splitting the “Management” category into Executives, Management (Directors and Managers), and Professionals (Supervisors and Professionals)

separately.

b) Using the revised Appendix 2K as per a) above, please show Average Salary and Wages, Average Benefits, and Average Total Compensation per employee by employee type (i.e. Executive, Management, Professionals, Non-union, Union, Total)

4-SIA-26

[Ref: Exhibit D, Tab 1, Schedule 3, page 6]

HOL explains that its bad debt increased to abnormally high levels in 2013, but using “several mitigation strategies, management was able to bring bad debt expense down in 2014 and back to the industry average going forward”. Given that bad debt cost has decreased over the last few years from a high of \$2.3M in 2013 to \$1.5M in 2015, why does HOL nonetheless forecast a nearly 25% increase in bad debt costs between 2015 and 2016?

Exhibit H – Rate Design

8-SIA-27

[Ref: Exhibit H, Tab 1, Schedule 1, page 2]

HOL notes that its fixed/variable split for the "Residential Class was adjusted with the Board's April 2015 Report in mind and therefore goes beyond a 50% fixed component." However, the referenced April 2015 OEB report notes that:

"The OEB has determined that the change will be phased in, with a four year transition period. During the transition period, the fixed charge will be increased gradually and the usage charge will be reduced slowly. At the end, there will be a fixed charge which recovers the distributor's costs, and there will no longer be any usage charge. We are phasing the change to reduce the impact on those customers whose bills will increase. The rate changes will begin in 2016 and will be completed in 2019."⁴

Given the clear direction to complete conversion to fully fixed rates within four years (by 2019), why is HOL proposing its 2020 residential rates to be based on a fixed variable ratio of only 66.2% ?

8-SIA-28

[Ref: Exhibit H, Tab 7, Schedule 1, page 4]

With regard to the Special Billing Service charge, HOL is effectively not proposing a fixed “charge”, but an approved hourly rate that will be applied based on the amount of effort involved in any particular request. However, the Distribution Rate Handbook 2006 already permits utilities to charge for services “on an actual cost, time, and materials basis”⁵ without seeking OEB approval. Given this provision, why does HOL feel it is nonetheless necessary to have an approved hourly rate for this particular service? (as opposed to requesting that this service charge simply be dropped from HOL's Tariff sheet?)

8-SIA-29

[Ref: Exhibit H, Tab 7, Schedule 1, Attachment H-7(A) - Special Billing Service Calculation Table]

a) Please confirm that the \$95 labour rate is meant to be the "Direct labour (Inside Staff) Straight

⁴ EB-2012-0410, A New Distribution Rate Design for Residential Electricity Customers, page 24

⁵ Distribution Rate Handbook 2006, page 107

Time" (rather than "field staff"). If not, please recalculate the charge using the rate for Inside Staff.

b) Please clarify the basis for the labour rates used for this and other service charges for both "inside staff" and "field staff".

8-SIA-30

[Ref: Exhibit H, Tab 7, Schedule 1, page 1]

a) Given the large increases requested for other service charges, please explain why HOL is not proposing to update the rates charged for the six items listed on lines 22-27.

b) Please calculate the real cost based rate for each of the six items in a) above, as well as projected revenue using those rates, and the variance in revenue as compared to continuing to use the current rate over 2016-2020.

8-SIA-31

[Ref: Exhibit H, Tab 7, Schedule 1 and Exhibit B, Attachment B1(A), page 154]

HOL proposes to install remote disconnect meters for approximately 36,000 customers. HOL also proposes to maintain the same rate for its "Disconnect/Reconnect" service charge.

a) Given that "Remote disconnect meters reduce the expense requirements associated with travelling to the premise for disconnect and reconnect requirements", why has HOL not considered a different (lower) "Disconnect/Reconnect at meter" service charge rate for customers served by remote disconnect meters? Alternatively, would HOL consider a blended cost rate (i.e. remote and non-remote) for all disconnect/reconnects?

b) Please calculate a new "disconnect/reconnect at meter (remote meter)" charge based on the costs of performing this task using a remote disconnect meter.

c) Please calculate a "disconnect/reconnect at meter" charge based on HOL's blended costs of performing this task (assuming 36,000 remote disconnect meters, with all others non-remote).

8-SIA-32

[Ref: Exhibit H, Tab 7, Schedule 1, page 7]

HOL describes the High Bill Investigation charge as being "intended to recover the direct costs associated with offsite high bill investigations, when all other means of addressing customer high bill concerns have not been satisfactory to the customer."

a) Please outline "all other means" that HOL would employ prior to proceeding with a High Bill Investigation.

b) Please explain why HOL believes it to be appropriate to apply an additional charge to a customer who is already concerned and stressed with a high bill. Would an additional payment for an investigation not exacerbate the problem?

8-SIA-33

[Ref: Exhibit H, Tab 7, Schedule 1, Attachment H7(A)]

a) For each of the three proposed Basic Temporary Service connection charges (i.e. overhead, underground, and overhead with transformer), please provide the detailed assumptions and calculations for the materials cost line item.

b) What happens to the materials used for the connection after the temporary connection is removed. Are they scrapped or reused?

c) Please confirm that for all materials that can be reused or retain value after the temporary

connection is terminated (e.g. the overhead transformer for the “with transformer” charge), that HOL's charge calculations use a discounted value for each material (e.g. not the full value of the transformer, but some discounted value based on connection duration assumptions). In the alternative, please explain why it would be appropriate to assume the full value of the materials in establishing the charge.

d) If HOL used the full cost of materials without discounting for residual value in c) above, please recalculate the charges assuming the temporary connection is in place for 1 year, and exclude the residual value of any assets recovered after the connection is terminated.

Exhibit 9 – Deferral and Variance Accounts

9-SIA-34

[Ref: Exhibit I, Tab 1, Schedule 2, page 2]

Concerning the Y Factor, HOL states that it is designed to recover “routine or expected **cost changes** outside the scope of the annual adjustment mechanism”. However, HOL goes on to say that it “proposes to use a Y factor to pass along to ratepayers **the costs** associated with the construction of the administrative and operational buildings” (emphasis added)

Please confirm whether the Y factor is meant to address only the cost changes or the total costs of the buildings.

9-SIA-35

[Ref: Exhibit I, Tab 1, Schedule 2, page 2]

HOL states that it prefers to “use the Y factor as opposed to embedding the full cost into revenue requirement as the precise costs and the timing in which they will be incurred remain unknown at this time. Hydro Ottawa proposes to record the expenses incurred due to the construction of new head office and operations facilities by using a Y factor Variance or Deferral Account.”

a) Please clarify the difference, if any, between the “Y factor” and a standard deferral or variance account.

b) Please confirm whether the “Y Factor” is meant to be a deferral account (in which no amounts are included in rates) or a variance account (in which a forecast is included in rates, but variances are tracked for subsequent clearance).

c) Under what assumption (variance or deferral) has HOL presented the Y factor throughout this CIR application? What portion of the costs (if any) of the head office and operations facility are currently factored in the capital spending, rate base, and bill impact tables in this CIR application?