Delivered: July 27, 2016

Page 1 of 2

Unredacted version filed Sept. 6, 2016 in response to Sept. 2, 2016 OEB Decision on Confidentiality Requests

B-STAFF-7

Reference(s): Exh B/T5/ Sch 5, p.8

Preamble:

The Applicants have estimated that sustained operating, maintenance and administration ("OM&A") savings net of transition costs will be approximately \$42.5MM in year five and beyond. The OM&A savings will be achieved through \$270MM (net of transition costs) in savings over the first ten years post consolidation from payroll reductions and \$42MM (net of transition costs) for non-payroll cost reductions. The OM&A budget for LDC Co is therefore anticipated to be approximately 15% lower than the sum of the OM&A budgets for the Parties, three to five years following completion of the consolidation.

- a) Please identify the specific operational areas/functions where the planned payroll and non-payroll reductions will occur.
- b) Please explain what assumptions have been made by the applicants for the proposed payroll and non-payroll reductions.
- c) Please identify risks that could negatively impact the applicants' projected OM&A savings, setting out the applicants' projected savings if those risks materialize.

Response:

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a) Table 1 below identifies the specific operational areas/functions where the planned payroll 1 2 and non-payroll reductions are anticipated to occur.

Table 1 – Payroll and Non-Payroll Reductions by Operational Area/Function (\$MM)

Functions	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Payroll	6.7	17.5	28.0	34.5	36.7	36.7	36.7	36.7	36.7	36.7	306.9
Asset Management & Engineering	0.9	2.3	2.1	2.3	2.3	2.3	2.3	2.3	2.3	2.3	21.4
Corporate	0.1	0.1	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	5.8
Customer Service	-	0.8	2.1	7.4	7.4	7.4	7.4	7.4	7.4	7.4	54.7
Finance	1.3	1.7	3.2	3.8	4.2	4.2	4.2	4.2	4.2	4.2	35.2
Human Resources	(1.1)	0.6	1.2	1.7	1.7	1.7	1.7	1.7	1.7	1.7	12.6
Information Technology	0.5	0.9	3.7	3.7	4.2	4.2	4.2	4.2	4.2	4.2	34.0
Metering	0.3	0.9	1.1	1.2	1.3	1.3	1.3	1.3	1.3	1.3	11.3
Procurement	0.4	0.6	1.2	1.4	1.4	1.4	1.4	1.4	1.4	1.4	12.0
Regulatory	(0.1)	0.5	1.5	1.5	2.4	2.4	2.4	2.4	2.4	2.4	17.8
Facilities, Logistics, Fleet	0.8	2.1	2.0	1.8	1.8	1.8	1.8	1.8	1.8	1.8	17.5
Construction, Control Room, Trouble Response	3.6	7.0	9.2	9.0	9.3	9.3	9.3	9.3	9.3	9.3	84.6
Non Payroll	0.5	2.6	3.7	6.1	5.8	5.8	5.8	5.8	5.8	5.8	47.7
Asset Management & Engineering	-	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	1.8
Corporate	-	ı	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.8
Customer Service	-	ı	(0.1)	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.7
Finance	0.1	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	3.6
Human Resources	0.3	0.8	1.1	1.3	1.3	1.3	1.3	1.3	1.3	1.3	11.3

Page 2 of 2

Information Technology	-	(0.4)	0.6	1.8	1.8	1.8	1.8	1.8	1.8	1.8	12.8
Metering	-	0.1	0.1	0.4	0.4	0.4	0.4	0.4	0.4	0.4	3.0
Regulatory	-	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	1.6
Facilities, Logistics, Fleet	-	0.8	1.1	1.4	1.4	1.4	1.4	1.4	1.4	1.4	11.7
Construction, Control Room, Trouble Response	0.1	0.7	0.1	0.1	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	0.4
Grand Total	7.2	20.1	31.7	40.6	42.5	42.5	42.5	42.5	42.5	42.5	354.6

6 b) Please see the Applicants' response to Interrogatory B-Staff-3b).

c)

The primary risks that could negatively impact the Applicants' projected OM&A savings relate to projected synergies and transition costs in respect of the consolidation of the following core enterprise applications during the three years post consolidation: (i) legacy Customer Information Systems will be migrated to a single consolidated Oracle Customer Care and Billing system; (ii) legacy Enterprise Resource Planning systems will be migrated to a single consolidated system; and (iii) legacy Geographic Information Systems and Outage Management Systems will be consolidated to a single system.

The Applicants expect \$270MM (net of transition costs) in savings over the first ten years from payroll reductions. The savings result from redundant positions largely in administration and back-office functions.

Additionally, the Applicants expect \$42MM (net of transition costs) in savings in the first ten years from other non-payroll reductions. Savings are related to the elimination of costs due to the duplication of business processes across the four entities and adoption of best practices.

Delays in the completion of one or more of the aforementioned IT systems consolidation projects would likely result in a deferral of projected net OM&A savings; principally from projected savings from redundant administration and "back-office" functions. Additionally, such delays may potentially result in additional transition costs to complete IT system migration and integration.