EB-2016-0160

Hydro One Networks Inc. Transmission Application for electricity transmission revenue requirement and related changes to the Uniform Transmission Rates beginning January 1, 2017 and January 1, 2018

VULNERABLE ENERGY CONSUMERS COALITION

("VECC")
CROSS-EXAMINATION
COMPENDIUM PANEL 6
Execution, Operating, Common

December 5, 2016

TAB 1

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OUTSOURCING

1. INTRODUCTION

Hydro One relies on two main outsourcing arrangements in the operation of its businesses, one with Inergi LP ("Inergi") and another with Brookfield Asset Management.

2. INERGI LP

2.1 Background

Following a competitive procurement process, on March 1, 2015, Hydro One began a new services arrangement with Inergi ("Inergi Agreement"), a limited partnership wholly-owned by Capgemini Canada, which is held by Capgemini SA. The Inergi Agreement has a 58-month term and can be extended twice, at Hydro One's option, for additional one-year periods. Financial and performance guarantees have been provided by Inergi's affiliates.

In its procurement process, Hydro One retained an outsourcing advisory firm, Information Services Group, to assist in the design of the overall sourcing strategy and procurement process and supported the selection and negotiation processes.

2.2 Scope of Work

The scope of work under the Inergi Agreement is comprised of services ("Base Services") and project services performed over a finite period to produce a project deliverable, solution or result ("Project Services"). Base Services are divided into the

following areas (individually, a "statement of work" or a "SOW"), each of which relates to a line of business within Hydro One: (1) information technology services; (2) settlements; (3) supply chain services; (4) payroll; and (5) finance and accounting services. Supply chain services, excluding accounts payable, are recovered through the material surcharge rate, which is discussed in detail in section 2.3 of Exhibit C1, Tab 5, Schedule 1. Customer service operations is also a SOW under the Inergi Agreement, however it is not being considered in this Application as these services are not provided to Hydro One Transmission. Appendix A contains the descriptions of Base Services contracted for each SOW.

2.3 Fee Structure

Appendix B to this Exhibit sets out the outsourcing fees spent in historical period of 2013-2015.

Under the new Inergi Agreement, Inergi provides Base Services based on a declining fee structure. Fees for Base Services will decline over time so long as transaction volumes remain within normal volume ranges, as defined in the Inergi Agreement, while meeting or exceeding prevailing service levels. Additional charges apply if there are higher transaction volumes than the prescribed volumes. Conversely, Hydro One is entitled to fee credits if transaction volumes are lower than prescribed volumes.

Fees are subject to an economic cost adjustment ("ECA") using a government published index that reflects movements in a broad-based consumer-focused price index. The current index being used is "CPI - Ontario excluding Energy". The ECA is adjusted for inflation sensitivity as well.

The Inergi Agreement provides for optional benchmarking reviews of fees by an independent third party, the costs of which are borne equally by Hydro One and Inergi. The third party analyst is selected from a predetermined list included in the Inergi Agreement. The new agreement allows for continued competitive benchmarking cycles, but without restrictions on when the benchmarking can take place. Further, benchmarking can be undertaken at a SOW-level, rather than at a global level. The benchmarking exercises will use a group of peers who operate in a unionized, Ontario-only environment. The benchmarking arrangement retains the "automatic" feature of the previous agreement: if the benchmarking determines that Inergi fees are above the benchmark, Inergi must adjust its fees to the benchmark price.

2.4 Service Quality Assurances

The Inergi Agreement sets out a methodology to measure Inergi's performance, which includes defined service levels or performance indicators ("PIs") and client satisfaction surveys. Inergi's services are measured regularly (monthly, quarterly, and yearly) for achievement of PIs. The PIs vary based on the nature of the service in question and set both minimum and targeted service levels. When Inergi fails to meet certain PIs, Hydro One is entitled to either: (a) a service credit(s) calculated in accordance with predetermined formulae, (b) at Inergi's cost, remediation action based on a remediation plan that Hydro One has approved, or (c) both, depending on the level of criticality and frequency of such failures.[1] The PIs are adjusted upwards annually, where applicable, to drive continuous improvement. Inergi's performance for the contract life-to-date as of February 2016 met or exceeded 94% of all PIs for all SOWs.

[1] Termination of individual statements of work or any part thereof is allowed under defined circumstances without payment of any penalties or termination charges.

Ontario Energy Board (Board Staff) INTERROGATORY #119

Reference:

Exhibit C1/Tab 3/Sch2, p. 12, Appendix B

Interrogatory:

This table of total Inergi contract fees over the 2013 to 2014 period, shows a marked drop in fees from 2015 to the 2016 Bridge year. What are the primary reasons for this significant 21% reduction in fees?

Response:

Under the new Inergi Agreement, Inergi provides Base Services based on a declining fee structure, which makes up approximately 3% of the decrease. The majority of the reduction is associated with a decrease in planned project work of approximately 18%.

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Ontario Energy Board (Board Staff) INTERROGATORY #117

Reference:

Exhibit C1/Tab 3/Sch2, p. 3

Hydro One indicates that "The Inergi Agreement provides for optional benchmarking reviews of fees by an independent third party, the costs of which are borne equally by Hydro One and Inergi."

Interrogatory:

Has Hydro One or Inergi called for a benchmarking review since the contract was initiated on March 15, 2015? Is Hydro One planning any such reviews it the near future? If not, is Hydro One satisfied that the contract is achieving its cost effectiveness and operational goals?

Response:

Given that the contract commenced as of March 1, 2015 following a competitive procurement process, Hydro One determined that it did not need to execute its benchmarking option in the initial year of service. Hydro One is not considering executing this option in the near future as Hydro One is satisfied that the contract is achieving its cost effectiveness and operational goals.

Ontario Energy Board (Board Staff) INTERROGATORY #118

Reference:

Exhibit C1/Tab 3/Sch2, p. 3

Hydro One discusses Performance Indicators (PIs), how they are regularly measured and how they are adjusted upwards annually to drive continuous improvement. In addition Hydro One indicates that the Inergi contract life-to-date as of February 2016 met or exceeded 94% for all SOWs with regard to the PIs.

Interrogatory:

Please provide a report of actual performance for the PIs, the monthly, quarterly and yearly measures, and an indication of the actual upward adjustments initiated.

Response:

The table below includes a report of actual results for Inergi's Performance Indicators (PIs), which include the monthly, quarterly and yearly measures, for the period from March 2015 to February 2016.

Inergi LP – Performance Indicators for the Period March 2015 to February 2016

		A	B	C	D	E = B / A
	Statement of Work	Performance Indicators Measured for period March 2015 through February 2016	Performance MET	Target Performance NOT MET	Minimum Performance NOT MET	% Met
1	Information Technology Services	423	401	17	5	95%
2	Finance and Accounting Services	207	189	16	2	91%
3	Payroll Services	166	152	7	7	92%
4	Supply Chain Services	342	319	15	8	93%
5	Settlement Services	145	145	0	0	100%
6	Total	1283	1206	55	22	94%

Witness: Gary Schneider

As indicated in cell E6, Inergi met or exceeded 94% of all PIs for all statements of work during the period. This is calculated by taking the total number of PIs that were met during the period in Column B, divided by the total number of PIs measured during the period in Column A.

Effective January 1, 2016, 96% of PIs were adjusted upward to achieve continuous improvement as per the Inergi Agreement, with the exception of PIs already at the highest possible service level.

TAB 2

APPENDIX B

Table 1 - Summary of Contract Fees ($ Million)

	Historic			Bridge	Test	
Description	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Fees for Base Services	$128,286,028	$119,869,783	$127,436,383.16	$131,938,400.98	$127,455,555.16	$124,587,512.42
Volume, Scope & Other	$13,741,856	$14,018,401	$20,055,300.24	$9,188,774.79	$11,263,363.56	$11,080,650.29
ECA	$6,420,890	$9,550,484	$1,828,520	$2,602,164.04	$5,206,312.15	$7,392,131.11
Subtotal Fees for Base Services	**$148,448,774.75**	**$143,438,667.90**	**$149,320,203.49**	**$143,729,339.81**	**$143,925,230.88**	**$143,060,293.82**
Project Spend (all LOB's)	$56,763,827.44	$84,464,566.38	$65,264,996.70	$25,704,782.76	$13,506,713.57	$15,488,046.93
Total Payments	**$205,212,602.19**	**$227,903,234.28**	**$214,585,200.19**	**$169,434,122.57**	**$157,431,944.45**	**$158,548,340.75**

Table 2 - Allocation of Fees to Transmission ($ Million)

	2016	2017	2018
Finance and Accounting	$3,607,813.13	$3,472,278.73	$3,542,558.68
Payroll	$1,888,659.05	$1,886,830.57	$1,928,234.58
Information Technology Services	$25,785,206.62	$25,584,696.28	$25,185,457.97
Accounts Payable	$601,030.04	$577,433.37	$587,873.80
Settlements	$429,305.70	$438,437.10	$451,017.20
Subtotal Fees for Base Services	**$32,312,014.54**	**$31,959,676.06**	**$31,695,142.23**
Project Spend (all LOB's)	$2,976,613.84	$1,564,077.43	$1,793,515.83
Total Payments	**$35,288,628.39**	**$33,523,753.49**	**$33,488,658.06**

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Energy Probe INTERROGATORY #018

Reference:

Exhibit C1, Tab 3, Schedule 2, Page 12 and Appendix B, Table 1

Interrogatory:

a) With regard to former Hydro One Employees, have these been normalized in the INERGI work force, or are there still residual differences in compensation and benefits?

b) Please provide the Calculations of the 2016 and 2017-18 ECA amounts.

c) Please explain the ECA Changes from the previous contract and provide an illustrative example.

d) Other than the fact ECA is a negotiated item, please explain why it is fair and appropriate.

Response:

a) With regard to former Hydro One employees, Hydro One does not have a line of sight to the compensation and benefits of Inergi staff, as they are no longer Hydro One employees.

b) ECA is calculated using the CANSIM Index for "All-items excluding energy" (v41692050).

2016 Calculation:
Index at November 2014: 123.9
Index at November 2015: 126.4
(126.4-123.9)/123.9 = 0.0202
ECA for 2016 is 2.02%

The 2017 and 2018 rates are determined using an estimate for inflation. The estimates used for 2017 and 2018 are 1.7% and 1.8%, respectively.

c) In the previous contract, the ECA was referred to as a cost of living adjustment ("COLA"), but the ECA rate methodology has not changed from the previous contract.

d) The ECA rate is not negotiated. The CANSIM index for "All items- excluding energy" is publicly available. CANSIM is Statistics Canada's key socioeconomic database.

Witness: Gary Schneider

TAB 3

Ontario Energy Board (Board Staff) INTERROGATORY #061

Reference:

Exhibit B1/Tab3/Sch 1 – Section 2.4: Common Corporate Capital, pg. 5

"Common Corporate capital spending levels in the test years are forecast to be higher than historical levels due to: (a) higher capital spending on information technology development projects, which aim to improve productivity in Hydro One's operations; (b) increased facility needs for expanding Sustainment, Development and Operations work programs; and (c) incremental capital investments in transport and work equipment, primarily, a new helicopter. The capital spending levels are forecast to be relatively stable through the test years."

Interrogatory:

Please provide the business case for the decision to acquire a new helicopter rather than pursue other alternative options (e.g., drones, subcontracting, etc.).

Response:

Please see Exhibit B1, Tab 3, Schedule 11 - #CC2 (Investment Summary Document – Transport & Work Equipment), which describes the capital replacement requirements for fleet vehicles. Hydro One does not treat helicopters differently from other fleet investments.

Historically, and in keeping with industry standards, Hydro One has replaced helicopter equipment on a 15-year service or 10,000 flight hour life cycle. Currently, Hydro One has three machines past these milestones. The benefits of buying a new helicopter include improved safety, vehicular efficiency, reduced maintenance costs, manufacturer's warranties, and extending the time before component parts need to be overhauled.

The purchase of a new helicopter is needed to meet Hydro One's long-term program requirements, which cannot be met with Hydro One's current eight aircraft. Over time, Hydro One has increased its use of helicopters for construction, refurbishing, and sling work as well the transportation of people and equipment, and decreased use for patrolling and reconnaissance purposes. Over the past five years, work in Hydro One's lines, forestry, and construction organizations has increased significantly as has their helicopter usage due to the operational efficiencies offered by helicopters.

Hydro One's shield-wire bonding work demonstrates the efficiencies gained by helicopter use. For work spanning Thunder Bay to Marathon, conventional methods were estimated to take three

years, large crew numbers and approximately three million dollars to complete. With the use of one helicopter and two regional line maintainers, Hydro One completed this work within seven weeks for less than one million dollars. Use of helicopters decreases travel time for work crews and has minimal environmental impact compared to road transport, which involves road construction, bridge building, crop damage and environmental assessments. Time and cost savings are also associated with avoiding these activities.

Hydro One uses helicopters for higher risk, specialized work, such as aerial platforms, aerial construction in energized environments, mid-span conductor and shield-wire repairs, storm thermo-vision patrols to identify and prevent unplanned outages, transport to and from transmission and distribution corridors, storm restoration and trouble calls. Subcontractors are used for overflow lower risk helicopter work when internal resources are occupied. In the last several years, subcontracted helicopter work has increased significantly as internal resource utilization is at capacity.

The use of drones is still in early stages. Currently Hydro One has eight unmanned aerial vehicles, which it uses in for the following applications: structure inspection, storm response management, area/asset inspection, determining access points, and 3D mapping.

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Association of Major Power Consumers in Ontario (AMPCO)
INTERROGATORY #047

Reference:

Exhibit B1 Tab 3 Schedule 1 Page 1

Interrogatory:

a) Please provide a Table that shows the forecast in-service additions compared to actuals for the years ears 2010 to 2015 and forecast for 2006 to 2018 under the categories sustaining, development, operations, common corporate costs capital and Totals.

Response:

Please refer to table below for the data requested, for the four most recent historical years (2012 to 2015) in accordance with the Transmission Filing Guideline, in the following table, and also in Exhibit D1, Tab 1, Schedule 2, Table 1 filed to the OEB on May 31, 2016.

Table 1: In-Service Capital Additions 2014 – 2018 ($ Millions)

	2012	2012	2013	2013	2014	2014	2015	2015	2016	2016	Test Years	
	ISA Actuals	OEB Approved	ISA Actuals	OEB Approved	ISA Actuals	OEB Approved	ISA Actuals	OEB Approved	Bridge Projected	OEB Approved	2017	2018
Sustaining	351.6	394.5	403.8	443.3	655.8	588.4	569.7	572.2	604.5	480.9	771.1	747.7
Development	793.8	1074.8	231.7	261.8	177.9	177.3	27.9	134.7	209.5	119.4	64.6	374.9
Operations	10.6	52.7	5.9	15.1	12.1	14.7	29.4	50.4	15.1	10.0	8.0	10.3
Common & Other	43.5	69.9	62.4	64	68.7	82.9	72.2	64.1	82.6	63.1	87.8	76.8
Total	**1199.5**	**1591.9**	**703.8**	**784.2**	**914.5**	**863.3**[1]	**699.1**	**821.3**	**911.7**	**673.3**	**931.4**	**1,209.7**

[1] The total amount represents the revised in-service capital additions in 2014, presented in the Settlement Agreement which was subsequently accepted by the OEB in EB-2014-0140.

3.3 North West Bulk Transmission Deferral Account

This account was approved by the Board in EB-2014-0311, to establish a deferral account that records expenses relating to the North West Bulk Transmission Line associated with preliminary design/engineering, cost estimation, public engagement/consultation, routing and siting, and Environmental Assessment preparation work. These costs would not qualify as construction work in progress ("CWIP") and therefore would be OM&A costs. These OM&A costs were not included in the rates for 2014 or 2015-2016, thereby necessitating the establishment of this deferral account.

As at December 31, 2015, no liability balance has been recognized by Hydro One Transmission, but the balance is expected to grow in 2016. This account is reported to the Board on a quarterly basis consistent with the Board's Reporting and Record Keeping Requirements.

Hydro One expects a forecast asset account balance of $1.5 million to be recorded in this account by the end of 2016. Hydro One is not requesting the disposition of the forecast balance until the audited balance becomes available at a later date.

3.4 In Service Capital Additions Variance Account

As per the Settlement Agreement approved by the Board, relating to Hydro One Transmission's 2015 and 2016 rates in EB-2014-0140, parties agreed that Hydro One will establish a net cumulative asymmetrical variance account for 2014, 2015 and 2016 to track the impact on revenue requirement of any in-service addition shortfall compared to OEB approved amounts, for disposition in a future rates application.

Once the 2016 actual in service additions amount becomes available in 2017, Hydro One will assess the net cumulative variance between the Board Approved and actual amounts for the period 2014 to 2016. Consistent with the terms in the Settlement Agreement, if the cumulative in service additions exceed the OEB approved amount, no entry will be made; if the cumulative in service additions are lower than the OEB approved amount, Hydro One will record a balance in this variance account and the balance will be sought for disposition in the next Transmission rate application.

Ontario Energy Board (Board Staff) INTERROGATORY #101

Reference:

Exhibit B2/Tab 1/Sch1 – Section 10.3.2: Project Delivery and Construction, pg. 23

"In Service Additions as a % of OEB approved budget: Selected to measure whether capital placed in service aligns with estimates developed during the planning process."

Table 6: Performance of Productivity Metrics

	Metric	2011	2012	2013	2014	2015
Work Execution	ISA as % of the OEB approved budget	95%	75%	90%	106%	85%
	% of budgeted work completed on or ahead of schedule	N/A	N/A	50%	85%	67%
	Engineering costs/ ECS Capital $	N/A	9.15%	9.14%	7.96%	8.23%
	Ratio of Stations unplanned work to planned work	36%	35%	38%	42%	41%

Interrogatory:

a) Please explain what happens to the capital projects that are not placed in service within the specified test period. Does the associated rate base addition roll over to the next filing?

b) Please explain in detail how Hydro One dealt with the 6% ISA spent in excess of the OEB approved budget in Year 2014 of Table 6.

c) Please explain the discrepancy between the values for ISA as % of the OEB approved budget and the % of budgeted work completed on or ahead of schedule in 2013, 2014 & 2015. What do these results indicate regarding project schedule management performance, given that a significant portion of forecast total annual expenditures were spent before capital year-end in each of these years?

Response:

a) Yes, capital projects that are not placed in service within the specified test period roll over to the next filing period. Hydro One reconciles variances with the OEB through the regulatory filing process.

Witness: Brad Bowness

b) As part of EB-2014-0140 settlement process, an in-service variance account was implemented to track the cumulative variance of in-service additions over 2014, 2015 and 2016. Hydro One managed within the approved portfolio for the test years and on an overall basis. The account balance is calculated on a cumulative basis over the three year period and no entries were made on an annual basis. There were minor adjustments on an annual basis as shown in Table 6 (above) however Hydro One is on target to achieve the cumulative approved budget.

c) Given the unpredictable nature of transmission projects, due to outage constraints and other externally driven factors, Hydro One may have to advance or delay the project completion date for causes that are not always in its control, including scheduling of outages by customers. The in-service addition measure accounts for this variability and measures the target and actual on an annual basis. Therefore if a project misses its budgeted completion date but remains within the calendar year it will be captured in the in-service addition measure. Hydro One's recent focus has been to align budget and actual in-service additions at the portfolio level but recognizes that there is an opportunity for improvement at a project level. There are several improvement initiatives underway including the Project Controls initiative to improve the risk management, scheduling and change management. For more information on these improvement initiatives please refer to Exhibit B1, Tab 4, Schedule 1.

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School Energy Coalition (SEC) INTERROGATORY #064

Reference:

F1/1, p.13

Interrogatory:

With respect to the In-Service Capital Additions Variance Account, please provide:

a. The account's current balance, including a breakdown of that calculation.

b. A forecast of the account's balance at the end of 2016, including a breakdown of that calculation.

Response:

a) & b) Please see below for the two year and three year totals of in-service additions, relative to OEB approved.

$ Millions	**Actual / Forecast**	**OEB Approved**	**Variance**
2014 Actual	$914.5	$863.3	$51.2
2015 Actual	$699.1	$821.3	($122.2)
2-year total	**$1,613.6**	**$1,684.6**	**($71.0)**
2016 Bridge	$911.7	$673.3	$238.4
3-year total	**$2,525.3**	**$2,357.9**	**$167.4**

As stated in the Settlement Agreement approved by the OEB in EB-2014-0140, the variance account tracks the three year cumulative total for in-service additions over the 2014 to 2016 period. As the in-service additions are forecasted to be in excess of what was embedded in rate base; and due to the asymmetrical nature of the account, there will be no balance recorded in this account.

2.11 External Revenue – Partnership Transmission Projects Account

The intent of this deferral account is to record costs for services provided by Hydro One employees for work they are performing for partnership companies, whether partnered with Hydro One Networks Inc. or Hydro One Inc., working on competitive or other partnership transmission projects.

Hydro One has and will identify specific employees to work with partnership companies in which the company has a vested interest. The company will track employee time and any expenses and the resulting costs will be invoiced to the appropriate partnered company. The amount of invoiced costs will be recorded in the External Revenue Partnership Transmission Project Account for reduction to future revenue requirements.

2.12 In Service Capital Additions Variance Account

Hydro One proposes the continuation of this variance account to record the net cumulative variance over 2017 and 2018 between the Board approved in service capital additions and the actual amounts. The account balance will be calculated on a cumulative basis over the two year period and no entries will be made on an annual basis, given the unpredictable nature of transmission projects, due to outage constraints and other externally driven factors that may delay or advance the project completion date. It is expected that Hydro One has the ability to manage in-service additions on a portfolio basis to minimize the variance between what the Board approves in this application and the actual amount in 2017 and 2018 on an overall basis.