

January 24, 2018

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

Dear Ms. Walli:

**Re: EB-2017-0049 – Hydro One Networks Inc. – 2018-2022 Distribution Rates – Custom IR Plan**

Please find, attached, interrogatories on behalf of the Consumers Council of Canada for Hydro One Networks Inc. pursuant to the above-referenced proceeding.

Please feel free to contact me if you have questions.

Yours truly,

*Julie E. Girvan*

Julie E. Girvan

CC: All parties  
G. Nettleton, McCarthy Tetrault  
Hydro One Networks Inc., Regulatory Affairs

**INTERROGATORIES FOR HYDRO ONE NETWORKS INC.**

**FROM THE CONSUMERS COUNCIL OF CANADA**

**2018-2022 DISTRIBUTION RATES – CUSTOM IRM**

**EB-2017-0049**

**A. GENERAL**

**A2-CCC-1**

Please describe, in detail, how HON has responded to the customer concerns expressed at the 10 Community Meetings held regarding this Application.

**A3-CCC-2**

Please provide all materials provided to HON's senior management, executives and to its Board of Directors when HON was seeking approval of the requests set out in the Application.

**A3-CCC-3**

Please describe, in detail, the overall planning process that HON undertook in developing its rate plan and in putting together its Application. Please include a complete timeline. Please provide all budget directives and guidance provided to employees.

**A3-CCC-4**

Please explain, how the acquisition of Avista Corporation could potentially impact HON's Distribution costs over the term of the plan. Have any studies been produced assessing the potential impacts? If so, please provide copies of those studies.

**A3-CCC-5**

Ex. A/T3/S1/p. 3

Please provide a copy of the 2018-2022 Distribution Business Plan referred to on p. 3 (Attachment 1 is the 2017-2022 Distribution Business Plan). Please provide a copy of the most recent Transmission Business Plan. When is the next Distribution Business Plan to be completed?

**A3-CCC-6**

Ex. A/T3/S1/p. 36

The evidence sets out the Total Bill Impacts by rate class. Please provide a schedule setting out the Total Bill impacts assuming the application of the Fair Hydro Plan.

Please explain, in detail, the process HON undertook to apply the elements of the Fair Hydro plan in arriving at the bill impacts. Please provide a sample residential bill that has been derived by applying the Fair Hydro Plan.

**A3-CCC-7**

Ex. A/T3/S1 – Attachment 1

The 2017-2022 Business Plan is dated December 2, 2016. Please provide a timeline setting out the steps that led to this final Business Plan. How describe how HON operates in the context of two separate business plans given many of the resources are shared between Transmission and Distribution (eg; work force, Common Corporate Costs)?

**A3-CCC-8**

Ex. A/T3/S2/p. 8 Table 3

Based on the proposed revenue requirement figures set out in Table 3 please confirm that HON is seeking to recover (on average) approximately an additional \$52 million per year from its customers over the plan term relative to current rates. Please provide the total amount per year (increases relative to current rates) inclusive of the deferral and variance account amounts.

**A3-CCC-9**

Ex. A/T3/S1

HON has provided a Corporate Organization Chart as it relates to HON Distribution. Please provide a complete corporate organization chart that includes all legal entities within HON Limited's organizational structure. In addition, please provide a complete organization chart for Hydro One Networks Inc. that includes both HON Transmission and Distribution (Please include employees down to the Director Level).

**B. CUSTOM APPLICATION**

**B7-CCC-10**

Ex. A/T3/S2/p. 1

HON is applying for a Revenue Cap Index with a Custom Capital Factor. What other approaches were considered by HON? Why were they rejected? Did HON use external consultants in developing the Rate Plan? If so, please provide any studies produced by those consultants

**B7-CCC-11**

Ex. A/T3/S1/p. 26

Please recast Table 9 – Summary of Distribution Capital and OM&A Expenditures – and include a column that sets out the Original Plan B. Please provide a variance analysis that explains the difference between the Original Plan B and the Modified Plan B.

**B8-CCC-12**

Ex. A/T3/S1/Attachment 1

In the 2017-2022 Business Plan HON has provided a Table setting out Productivity Improvements for the period 2017-2022. Please explain, in detail, how each of these numbers were derived.

**B8-CCC-13**

Ex. A/T3/S2/p. 4

HON is now proposing to use a stretch of .45% in its RCI formula in place of the originally proposed .6%. What is the impact on the proposed annual revenue requirement in each year arising out of this change?

**B9-CCC-14**

Ex. A/T3/S2/p. 10

HON is proposing a Capital In-service Variance Account (CISVA) to track the difference between the revenue requirement associated with the actual in-service capital additions in a test year and the revenue requirement associated with the OEB-approved in-service additions. HON plans to report on this account on an annual basis. Please indicate the level of detail that will be included in the annual report. When will this be filed each year?

**B13-CCC-15**

Ex. A/T3/S2

Please describe in detail the annual process that HON is proposing for setting rates and making annual adjustments. Please include a proposed timeline for that process.

**B14-CCC-16**

Ex. A/T3/S1 – Attachment 1

The evidence states that HON expects to continue to assess further opportunities to acquire other Ontario-based LDCs over the 2017-2022 business planning period. Please provide a list of any planned acquisitions and the timing of those acquisitions. Please explain how HON decides whether or not to pursue such acquisitions. What criteria are applied by HON? What are the key objectives of HON's acquisition policy?

**B16-CCC-17**

Ex. A/T3/S2/p. 2

The evidence states that one advantage of the RCI approach provides adequate flexibility to reset customer rates should the OEB proceed with the elimination of the Seasonal Rate Class over the 2018-2022 Custom IR term. What is the current status of the OEB Decision's to eliminate the Seasonal Class? Please file all correspondence between the OEB and HON regarding this issue. If the OEB determined that HON should proceed with the elimination of the Seasonal Class, what process would HON follow to comply the Decision?

**B16-CCC-18**

Ex. A/T3/S2/p. 11

What is HON's proposal regarding a materiality threshold for Z-Factor relief? What process is HON proposing to deal with Z-factors (e.g., annual filing)?

## **C. OUTCOMES, SCORECARDS AND INCENTIVES**

### **C17-CCC-19**

Ex. A/T4/S1

Please file copies of the following:

- The most recent Custom Satisfaction Transactional survey results (2016 and 2017)
- The most recent Customer Satisfaction Perception Surveys for retail and small business customers (2016 and 2017)
- Any recent reports related to the Customer Call Centre (2016 and 2017)
- Any recent reports related to the Customer Relationship Centre (2016 and 2017)

### **C21-CCC-20**

Ex. A/T3/S1/p. 22/Table 6 and Attachment 1, p. 19

Table 6 sets out "Detailed Productivity Savings Forecast". Please explain, in detail, how the numbers in these tables were derived. Are the capital amounts reductions in capital spending or reductions in the revenue requirement? For each year quantify the overall reduction to the revenue requirement as a result of these initiatives.

### **C21-CCC-21**

Ex. A/T3/S1/p. 29

The evidence states that HON has identified and applied significant productivity and efficiency improvements that have resulted in an OM&A plan that reflects a commitment to the top priority of keeping bills as low as possible. Please specifically identify these improvements and the expected annual cost savings related to each of them in each year of the rate plan.

### **C21-CCC-22**

Transcript – Presentation Day, p. 23

Mr. Lopez refers to a commitment to achieve \$380 million in productivity savings during the rate plan. Please provide a detailed explanation as to how that number is calculated.

## **D. DISTRIBUTION SYSTEM PLAN**

### **D24-CCC-23**

Ex. B1/T1/S1

When was the last DSP prepared by HON? Please describe in detail how the preparation of this plan differs from the approach used to develop the previous DSP. When is the next DSP expected to be developed? To what extent does HON coordinate investment planning between its Distribution and Transmission businesses. Do what extent does HON coordinate the prioritization of investments between its Transmission and Distribution businesses?

**D24-CCC-24**

Ex. B1/T1/Section 1.1/p. 19

The evidence indicates that the information contained in the DSP is considered current as the end of 2016. The asset information utilized in the report (e.g., condition data and performance data) is based on data as of August 2016 to allow time to process and analyze the information to facilitate preparation of the DSP for this filing.

**D24-CCC-25**

Ex. A/T3/S1/p. 14

Please provide all of the materials presented to HON's senior leadership team and Board of Directors regarding the three alternative candidate investment plans. (Plans A, B and C).

**D24-CCC-26**

Ex. A/T3/S1/p. 17 and Attachment 1 – p. 15

The evidence states that with respect to the Investment Plan Options Modified Plan B included a number of adjustments to the original Plan B. The projected capital expenditures were reduced by \$51 million. Please explain how the \$51 million was derived. Please reconcile this with the reductions set out on p. 15 of the Business Plan which amount to \$65 million. Please explain the process undertaken to determine the reductions in each of the categories listed – IT, Wood Pole Program, Station Refurbishment, Component Replacement Activities, Facilities and Fleet Investment.

**D24-CCC-27**

Please provide all HON policies regarding the use of helicopters with respect to the Distribution business. How large is the current fleet of helicopters? What are the annual operating and capital costs associated with the use of helicopters?

**E. RATE BASE AND COST OF CAPITAL**

**E33-CCC-28**

Ex. A/T3/S1/p. 31

Rate base in 2017 is expected to be \$161.5 million higher than the OEB-approved level. The explanation provided in the evidence is that the variance is related to higher than forecast spending on trouble calls and storm damage, as well as joint use and relocation projects. Please provide the original forecast of capital

expenditures for each of these items (trouble calls, storm damage, joint use and relocation projects).

**E33-CCC-29**

Ex. A/T3/S1/p. 26 and A/T3/S1 – Attachment 1/p. 15

Re: Capital Expenditures – Please reconcile the Distribution Capital Expenditures set out in the two referenced exhibits. Does HON prepare its budgets using the OEB-compliant asset investment categories, or the categories set out at p. 15 of the Business Plan (Sustaining, Development, Operations and Corporate Common Costs)?

**E33-CCC-30**

Ex. D1/T1/S2/p. 2

In-service additions are forecast to be \$44.2 million lower than the OEB-approved level primarily due to lower demand for distribution generation connections as a result of changes made to IESO program rules and more efficient completion of wood pole replacements. Please provide a detailed break-down of the \$44.2 million.

**E33-CCC-31**

Ex B1/T1/S1/Appendix A

HON is planning on spending between \$7.8 million and \$8.1 million on Capital in the years 2018-2020 for the Acquired Utilities. Has HON completed Business Cases for this spending? If not, why not?

**E34-CCC-32**

Please explain how the implementation of the Fair Hydro Plan has impacted HON's working capital requirements?

**F. OPERATIONS, MAINTENANCE & ADMINISTRATION COSTS**

**F38-CCC-33**

Please describe, in detail, the policy mentioned at the Presentation Day regarding "service guarantees". Has this policy and the resulting payments been factored into the 2018 revenue requirement? If not, why not? If so, what is the impact on the proposed revenue requirement for 2018?

**F38-CCC-34**

Please describe, in detail, the prepaid meter policy referred to at the Presentation Day. How does this policy specifically impact the request for relief included in the current application?

**F38-CCC-35**

Please set out, in detail, all of the costs (actual to date, and forecast) and the benefits related to the new bill redesign? Please provide details of all customer engagement activities undertaken by HON regarding new bill redesign.

**F38-CCC-36**

Ex. A/T4/S1/p. 6

Please provide a detailed budget for the 2018 External Relations Department. Please provide the actual costs incurred by this department in 2015, 2016, and 2017.

**F38-CCC-37**

Ex. A/T4/S1/p. 7

What is the annual cost of the Ombudsman Office included in the 2018 Revenue Requirement? Please describe how this office operates. Please provide the 2016 Report to the HON Board of Directors prepared by this office. Please file the 2017 Report if it is available. Please provide all data regarding the number of complaints, the nature of the complaints etc. for 2016 and 2017. How does the Ombudsman assess whether a complaint is “resolved”? Please identify any areas/issues where the Ombudsman has flagged the need for improvement.

**F38-CCC-38**

Ex. A/T3/S1/p. 2

The evidence states that with respect to OM&A, “The planning process followed by Hydro One also resulted in significant reductions in investments in 2018, to mitigate customer rate impacts in that year. As a result, the Application is responsive to Hydro One’s customers’ needs and preferences.” Please explain, in detail, what significant reductions in investment were made and how these were responsive to HON’s customer needs and preferences. Does HON assume that programs that have been initiated prior to 2018 can be characterized as productivity initiatives?

**F38-CCC-39**

Ex. C1/T1/S1/ p. 2

Re: Table 1 – Summary of Recoverable OM&A Expenses - The footnote states that “Approved” figures reflect OEB-Directed reductions to Sustainment OM&A and Common Corporate Costs and Other OM&A Line items. Please recast Table 1 to provide additional columns setting out the original budgets prior to the OEB-directed reductions in each year where those reductions were made.

**F38-CCC-40**

Please describe, in detail, the budgeting process HON has used to develop the 2018 OM&A budgets. Please provide all budget directives used to guide the process. Please provide a timeline for that process.

**F38-CCC-41**

Ex. C1/T1/S1/p. 6 and C1/T1/S2/p. 29

The evidence states that the 2016 and 2017 (forecast) Sustaining expenditures are below the OEB-approved amounts, primarily due to improvements in the vegetation management program. The evidence also states that the 2018 test year spend is increasing, in part, to address the backlog in vegetation maintenance. How much of the variances in 2016 and 2017 are related to productivity and how much is related



to the “backlog”? Of the \$7 million increase for 2018 how much is related to “backlog”?

**F38-CCC-42**

Ex. C1/T1/S2/p. 14

With respect to Underground Cable Locates, please explain how HON arrived at the expected volume level of 200,000 per year. What was the level of requests in each year 2015-2017(forecast)? Why was there such a significant variance between the actual and forecast amounts for 2016?

**F38-CCC-43**

Ex. C1/T1/S2/pp. 17-19

With respect to Line Maintenance please explain, in detail, how these amounts are forecast. Has the method of forecasting these activities changed in recent years? Please explain why, in each year since 2015, the actual amounts spent were significantly less than the forecasts?

**F38-CCC-44**

Ex. C1/T1/S2/p. 28

The evidence states that the vegetation management program has undergone a significant reorganization to improve the areas of opportunity identified by the Auditor General of Ontario, the OEB and peer benchmarking. Please provide all internal reports related to the newly organized program. Please explain how HON developed the forecast for 2018 in light of the program reorganization.

**F38-CCC-45**

Ex. C1/T1/S3/p. 2

With respect to Development OM&A - Research Development and Demonstration please explain why HON has consistently spent less than the approved amounts in each year 2015-2017?

**F38-CCC-46**

Ex. C1/T1/S4/p. 2

Please provide details regarding HON’s Smart Grid program. How does HON budget for Smart Grid Program expenditures? Please provide details regarding the Distribution Management System Upgrade Project including the full budget for the project.

**F38-CCC-47**

Ex. C1/T1/S4/p. 7

Please explain how HON budgets expenditures related to unplanned outages. Please provide the budget (approved) and actual amounts related to unplanned outages for the years 2014-2018. Does HON explicitly budget for storm damage? If so, how is that budget developed? What amounts are included in the 2018 budget for storm damage?

**F38-CCC-48**

Ex. C1/T1/S5/p. 2

Has HON assessed whether the implementation of the Fair Hydro Plan will impact the cost of its Call Centre Operations, Bad Debt Expense and Customer Care Staffing? If so, have those impacts been taken into account in the development of the 2018 OM&A Budgets? If not, why not?

**F38-CCC-49**

Ex. C1/T1/S7/P. 3

For each of departments included in the Common Corporate Functions and Services OM&A please provide an explanation as to how the budgets were developed for 2018.

**F38-CCC-50**

Ex. C/T1/S7/p. 21

The evidence indicates that the Regulatory Affairs Budget is increasing in part because of additional staffing needs related to an aggressive regulatory agenda. If HON's 5- Year rate plan is approved by the OEB, and a 5-Year Plan is approved for HON Transmission, why would the additional staffing be required? Please quantify the reduction in Regulatory Affairs costs in 2017 and 2018 related to the fact that a significant portion of the group moved to Planning to benefit from system reliability reporting synergies. Please quantify the cost of the additional staffing related to an aggressive regulatory agenda.

**F38-CCC-51**

Ex. C1/T2/S1/p. 2

The evidence refers to the People Strategy as a critical component in driving high performance and achieving corporate objectives. Is there a formal document setting out this strategy? If so, please provide the document. When was this strategy adopted by HON?

**F38-CCC-52**

Ex. C1/T2/S1/p. 1

Please explain how HON has changed its approach to corporate staffing since the last HON Distribution proceeding. Specifically, how did HON make "gains in either reducing or limiting compensation costs and actively managing the efficiency an size of its work force, taking into account the size of its work programs."

**F38-CCC-53**

Ex. C1/T2/S1/p. 9

Please provide the FTEs for 2015 and 2016 as set out in Table 1. Please explain why the PWU Hiring Hall FTEs ramp up in 2018 and decline again in 2019

**F38-CCC-54**

Ex. C1/T2/S1/p. 19

Please provide examples of how the STIP and LTIP programs operate.

**F-38-CCC-55**

Ex. C1/T2/S1/p. 26

Please provide all documents that fully describe the Employee Share Ownership Plan.

**F-38-CCC-56**

Ex. C1/T2/S1

What would be the impact on the 2018 revenue requirement assuming the Board applies compensation cost reductions consistent with its findings in the EB-2016-0160 Transmission Decision?

**F38-CCC-57**

Ex. C1/T2/S1/p. 37

The 2016 Mercer Compensation Benchmarking Study results in HON being positioned as 14% above the market median. Please explain to what extent HON is making efforts to bring HON more in line with the comparators?

**F38-CCC-58**

Ex. C1/T3/S1/ Attachment 2/p. 2

Please explain why the Fleet Management Services Budget is increasing significantly in 2018 relative to historical levels – 2014-2016.

**F38-CCC-59**

Ex.C1/T2/S1

Has HON ever engaged its customers regarding its employee compensation levels? If not, why not? If so, please provide the results of that engagement.

**F40-CCC-60**

Ex. C1/T4/S1/Attachment 1

Was the Black and Veatch Study regarding the Allocation of Common Corporate Costs subject to an RFP process? If not why not? If so, please provide a copy of the RFP.

**G. REVENUE REQUIREMENT**

**G42-CCC-61**

Ex. E1/T1/S2/p. 4

Please explain how the External Regulated Revenue Forecast is derived as set out in Table 3. Please refer specifically to each of the revenue categories.

**H. LOAD AND REVENUE FORECAST**

**H43-CCC-62**

Please explain to what extent the Fair Hydro Plan will impact HON's load forecast as set out in the Application. Does HON intend to update its load forecast to incorporate the impacts of the Fair Hydro Plan? If not, why not?

## **I. COST ALLOCATION AND RATE DESIGN**

### **I49-CCC-63**

Please provide all materials/reports produced by HON regarding Seasonal Rates in the last three years.

### **I49-CCC-64**

Ex. H1/T1/S1/p. 2, Table 1

Table 1 sets out the Distribution Rates over the 5-year rate plan period. Is this the most updated Table? If not, please provide a table setting out the actual rates for which HON is seeking approval.

### **149-CCC-65**

The Fair Hydro Plan effectively mutes the increases embedded in this Application. What are HON's plans regarding the customer communication/education regarding the rate changes that result from this Application?

### **I49-CCC-66**

Ex. H/T1/S1/p. 2

The monthly service charges are increasing significantly over the test year period for all of the residential classes. What is HON planning with respect to customer communication regarding the increases? Also, please elaborate on any proposed customer communication initiatives planned regarding the elimination of the volumetric charge and the move to a fully fixed charge (which will occur for the UR class during the plan term).

### **I53-CCC-67**

Ex. A/T7/S1/p. 9

HON is requesting approval to create new customer rate classes for the former customers of Norfolk, Haldimand and Woodstock. To what extent did HON engage the customers of the acquired LDCs regarding its rate proposals? Please provide any materials related to such engagement.

### **I53-CCC-68**

Ex. A/T7/S1/p. 9

Please provide a schedule setting out the rate and bill impacts for the acquired customers as a result of HON's proposals for 2021 and 2022. Please set out current rates for all rate classes and the proposed rates. Please include all assumptions regarding bill impacts.

### **I53-CCC-69**

Ex. A/T7/S1/pp. 3-5

Please provide a detailed explanation as to how the Norfolk Power Distribution Inc. OM&A Costs, Capital Costs and Savings found in Table 1 were derived. Please provide a detailed explanation as to how the Haldimand County Utilities Inc. OM&A Costs, Capital Costs and Savings found in Table 2 were derived. Please provide a detailed explanation as to how the Woodstock Hydro Services Inc. OM&A Costs, OM&A Costs and Savings found in Table 3 were derived.

**I53-CCC-70**

Ex. A/T7/S1/p. 11

Please explain how the OM&A numbers in Table 4 were derived.

**I53-CCC-71**

Ex. A/T7/S1/p. 11

Please explain how the \$150.9 million increase in the opening balance of net fixed was derived. Please explain how the \$14.9 million of working capital related to the Acquired Utilities was derived.

**I51-CCC-72**

Ex. H1/T2/S3

HON undertook a study of the tasks involved in providing miscellaneous services and the associated costs, including labour rates and burdens, fleet costs, material costs and pass-through charges. As a result HON is proposing changes to many of its currently approved charges:

1. On the list provided on pages 4-9 please identify the charges that apply specifically to residential customers;
2. What is HON planning with respect to customer communications regarding changes to the Specific Service Charges;
3. Many of the charges are increasing significantly in 2018. Did HON consider phasing the increases in over a multi-year period? If not, why not?;
4. Did HON do any customer engagement regarding the proposed changes to service charges? If so, please provide all the materials related to the engagement(s). If not, why not?;
5. Was the external independent expert review subject to an RFP process? If not, why not?;
6. Please provide the Terms of Reference for the Study.

**J. DEFERRAL AND VARIANCE ACCOUNTS**

**J54-CCC-73**

Ex. A/T6/S1/p. 3, F1/T3/S1/p. 7

Please provide a status report regarding the long-term load transfer program. Why is the current balance in the LTLT Deferral Account \$0?

**J54-CCC-74**

Ex. F1/T2/S1/Attachment 1

HON is proposing to recover the \$30.9 million overall balance in the Regulatory Account balances over the 5-year rate plan period. Would HON support a shorter recovery period? What is HON's plan with respect to the disposition of the balances that will accumulate over the rate plan period?

**J55-CCC-75**

Ex. F1/T3/S1/p. 4

HON is proposing to establish a Lost Revenue Adjustment Mechanism Variance Account. Please describe how this account will operate. For 2018 what is the proposed Board-approved CDM adjustment? How was that amount derived?