K9.2

EB-2017-0049

CONSUMERS COUNCIL OF CANADA

COMPENDIUM

PANEL 6

SUMMARY OF OM&A

1. SUMMARY OF OM&A EXPENDITURES

The test year OM&A expenses result from the business planning and work prioritization processes described in Section 2.1 of the Distribution System Plan found at Exhibit B1, Tab 1, Schedule 1. This process reflects a risk-based decision making approach to ensure appropriate and cost-effective investments that demonstrate Hydro One's commitment to aligning customer needs and preferences, responsible stewardship of the Company's distribution assets and rate impacts.

Hydro One Distribution's OM&A budget is grouped into the following investment categories: Sustainment, Development, Operations, Customer Care, Common Corporate and Property Taxes and Rights Payments.

Table 1 provides a summary of Hydro One Distribution's OM&A expenditures for the historical, bridge and test years.

Table 1: Summary of Recoverable OM&A Expenses ($ Millions)

Description	Historic					Bridge		Test
	2014 IRM	2015		2016		2017		2018
	Actual	Actual	Approved	Actual	Approved	Forecast	Approved	Forecast
Sustainment	325.7	304.6	316.5	323.7	361.4	334.5	367.1	346.7
Development	11.0	10.9	15.4	11.9	17.8	13.2	17.0	11.0
Operations	29.5	27.6	35.8	31.5	39.4	33.4	37.5	36.7
Customer Care	209.3	155.4	111.7	118.8	110.9	132.6	111.6	131.6
Common Corporate Costs and Other	94.4	69.1	59.0	72.0	54.8	54.4	54.7	53.9
Property Taxes & Rights Payments	4.6	4.8	4.7	4.6	4.9	4.7	5.0	4.9
Total	**674.5**	**572.5**	**543.1**	**562.6**	**589.1**	**572.8**	**593.0**	**584.8**
% Change (year-over-year)		*-15.1%*	*-19.5%*	*-1.7%*	*8.5%*	*1.8%*	*0.7%*	*2.1%*
% Change (Test vs. 2016 Actual)								*3.9%*

"Approved" figures reflect OEB-directed reductions to Sustainment OM&A and Common Corporate Costs and Other OM&A line items (specifically, budgets for vegetation management, LEAP funding, and compensation).

1.1 SUSTAINING

Sustaining OM&A represents expenditures required to maintain existing components of the distribution system to ensure they continue to function as designed. Hydro One manages its Sustaining OM&A by dividing the expenditures into the following four investment categories: (a) stations; (b) lines; (c) meters, telecom, and control; and (d) vegetation management.

These Sustaining OM&A investments fund both planned work and unplanned demand work and are intended to ensure operational effectiveness by maintaining an acceptable level of reliability, deliver on commitments to customers, and be responsive to public policy by complying with all legislative, regulatory, safety and environmental requirements. Planned OM&A work involves the inspection, verification, and planned maintenance or repair of existing assets. Unplanned demand OM&A work requires an

SUMMARY OF COMMON CORPORATE OM&A

1. SUMMARY OF COMMON CORPORATE OM&A

Hydro One allocates Common Corporate OM&A costs to its distribution and transmission businesses and to each unregulated accounting segment based on clearly articulated shared functions and services and an established cost allocation approach based on cost causality principles. Table 1 summarizes Hydro One's total Common Corporate OM&A costs over the historic, bridge and test years.

Table 1: Summary of Total Common Corporate OM&A Costs ($ Millions)

	Historic			Bridge	Test
Description	**2014 IRM**	**2015**	**2016**	**2017**	**2018**
Planning	47.6	47.4	45.1	47.7	47.5
Common Corporate Functions & Services	173.9	187.5	186.6	200.0	201.3
Information Technology	166.0	142.5	143.8	145.7	137.9
Cost of External Revenue	15.6	14.2	9.1	9.4	8.9
Other OM&A*	(266.1)	(235.8)	(242.8)	(286.8)	(282.2)
Total	**137.1**	**155.8**	**141.7**	**115.9**	**113.5**

*Includes the pension adjustment described in Exhibit C1, Tab 1, Schedule 7.

Table 2 summarizes Hydro One Distribution's portion of the Common Corporate OM&A costs over the historic, bridge and test years.

Table 2: Summary of Common Corporate OM&A Costs Allocated to Distribution

($ Millions)

	Historic					Bridge		Test
Description	**2014 IRM**	**2015**		**2016**		**2017**		**2018**
	Actual	**Actual**	**Approved**	**Actual**	**Approved**	**Forecast**	**Approved**	**Forecast**
Planning	15.0	16.4	18.4	12.2	17.8	13.3	17.6	13.3
Common Corporate Functions & Services	76.8	80.5	77.3	85.8	76.8	87.2	76.7	88.0
Information Technology	109.3	85.8	85.7	85.3	86.4	85.6	86.1	80.4
Cost of External Revenue	4.5	5.4	2.1	4.3	2.1	4.5	2.1	4.6
Other OM&A*	(111.3)	(119.0)	(124.4)	(115.5)	(128.3)	(136.1)	(127.8)	(132.3)
Total	**94.4**	**69.1**	**59.0**	**72.0**	**54.8**	**54.4**	**54.7**	**53.9**

*OEB-directed reductions for compensation are reflected in this line item. Includes the pension adjustment described in Exhibit C1, Tab 1, Schedule 7.

Hydro One Common Corporate OM&A costs are comprised of: Common Corporate Functions and Services ("CCFS") as detailed in Exhibit C1, Tab 1, Schedule 7; Planning as detailed in Exhibit C1, Tab 1, Schedule 8; Information Technology ("IT") as detailed in Exhibit C1, Tab 1, Schedule 9; Cost of External Revenue as detailed in Exhibit C1, Tab 1, Schedule 10; and Other OM&A as detailed in Exhibit C1, Tab 1, Schedule 7.

Hydro One uses a centralized shared services model to deliver its common services to its transmission and distribution businesses and to its affiliated companies as described in Attachment 1 to Exhibit C1, Tab 4, Schedule 1. Many organizations have adopted a common corporate cost model as an effective method of delivering common services to multiple subsidiaries and/or multiple business units.

Witness: Joel Jodoin

Since 2009, Hydro One has applied a cost allocation methodology developed by Black and Veatch Corporation that utilizes a breakdown of activities and drivers. In 2016, Hydro One commissioned Black and Veatch Corporation to update the methodology to allocate common costs among the business entities using the common services, as discussed in Exhibit C1, Tab 4, Schedule 1.

2. VARIANCE EXPLANATION

Planning costs increased from 2014 to 2015 due to the establishment of a program management office. Costs in 2016 and beyond are forecast to be lower than OEB-approved amounts due to a June 2016 pension revaluation that reduced pension contribution operating expenses as detailed in Exhibit C1, Tab 2, Schedule 2.

CCFS costs have increased since 2014, primarily due to higher costs for Corporate Management, People and Culture and Internal Audit. The reasons for this increase are detailed in Exhibit C1, Tab 1, Schedule 7.

IT OM&A expenditures in 2017 and 2018 are trending lower on an annual basis primarily due to savings from several productivity initiatives as identified in the Distribution System Plan provided as Exhibit B1, Tab 1, Schedule 1 (the "DSP"), Section 1.5. Historical spending levels were materially in line with OEB-approved forecasts.

The Cost of External Revenue has been relatively flat since 2014. The actuals are higher than OEB-approved amounts, mainly due to higher volumes of contestable emergency restoration work, Hydro One Remotes vegetation management assistance, and emergency services.

Other OM&A has been decreasing since 2014, which is more favourable as it reduces the OM&A portion of revenue requirement. Capitalized overheads and indirect depreciation increase with increasing capital work programs. The environmental provision offsets work program costs as these costs have already been set aside and are drawn down as work progresses. Other OM&A is less favourable than OEB-approved amounts in 2015 and 2016 due to the reduced environmental provision matching the reduced PCB work program. The pension adjustment described in Exhibit C1, Tab 1, Schedule 7 is reflected in Other OM&A.

COMMON CORPORATE FUNCTIONS AND SERVICES AND OTHER OM&A

1. INTRODUCTION

Hydro One has identified certain functions that provide common services to all business units: corporate management, finance, people and culture, corporate relations, general counsel and corporate secretariat, regulatory affairs, security management, internal audit, and real estate and facilities. It was determined that these functions could be shared effectively by all business units, avoiding costly and unnecessary duplication. These functions are referred to as "common corporate functions and services" ("CCFS").

The allocation of CCFS costs between Hydro One Distribution, Hydro One Transmission, its shareholder and other affiliates is determined by the common cost allocation methodology described in Exhibit C1, Tab 4, Schedule 1. The allocation of these costs between Hydro One and its affiliates is governed by affiliate service level agreements described in Attachment 1.

This Exhibit discusses CCFS costs and other OM&A expenses, which are comprised of credits associated with capitalized overhead, environmental provisions, indirect depreciation and other costs.

2. VARIANCE EXPLANATION

Table 1 presents the total CCFS costs for Hydro One between 2014 and 2016, the bridge year and the first test year 2018.

Table 1: Summary of Total Common Corporate Functions and Services OM&A

($ Millions)

	Historic			Bridge	Test
Description	**2014 IRM**	**2015**	**2016**	**2017**	**2018**
	Actual	**Actual**	**Actual**	**Forecast**	**Forecast**
Corporate Management	9.2	16.4	16.1	23.4	23.3
Finance	40.0	39.1	38.1	41.8	40.4
People and Culture	12.8	13.6	15.6	16.4	16.2
Corporate Relations	19.5	17.3	15.2	15.8	17.5
General Counsel and Secretariat	8.7	8.6	10.1	10.0	10.1
Regulatory Affairs	23.0	24.1	23.3	22.6	22.9
Security Management	3.5	4.2	4.6	4.4	4.5
Internal Audit	3.6	4.2	4.9	6.8	6.9
Real Estate and Facilities	53.6	60.0	58.6	58.7	59.5
Total CCF&S Costs	**173.9**	**187.5**	**186.6**	**200.0**	**201.3**

Total CCFS costs increase from 2015 to 2018 primarily due to the following factors:

- higher Corporate Management costs from 2015 to 2017 due to increases in compensation resulting from the recruitment of senior managers with proven track-records of delivering on targeted commercial objectives (under this new leadership, incremental productivity savings are expected to significantly offset these increased costs as identified in the Distribution System Plan in Exhibit B1, Tab 1, Schedule 1 (the "DSP"), Section 1.5);
- higher Internal Audit costs mainly from 2015 to 2017 resulting from an increased staffing requirement to address an expanding work program to support construction and capital project audit capabilities. Increased staffing to support these capabilities will ensure the team can adequately support the work program;
- higher People and Culture costs from 2014 to 2017, primarily due to increased training costs for: (a) a larger new graduate population; and (b) existing employees, specifically on the topic of the "craft of management", with a focus on managers and

- supervisors requiring additional resources and skills to meet new requirements. Examples include: (a) building and sustaining new compensation structures; (b) a renewed focus on performance management; and (c) a renewed focus on change management intended to maximize the value of corporate change initiatives; and
- higher Corporate Relations costs starting in 2018 are anticipated costs associated with retendering Hydro One's largest outsourcing arrangement.

Table 2 shows the amounts that have been allocated to Hydro One Distribution during the same time period.

Table 2: Summary of Common Corporate Functions and Services OM&A Allocated to Distribution ($ Millions)

Description	Historic					Bridge		Test
	2014 IRM	2015		2016		2017		2018
	Actual	Actual	Approved	Actual	Approved	Forecast	Approved	Forecast
Corporate Management	2.4	2.4	2.4	4.3	2.4	5.6	2.4	5.7
Finance	16.4	16.2	18.0	16.6	17.6	16.9	17.3	16.3
People and Culture	5.8	6.8	5.7	7.3	5.4	7.8	5.4	7.7
Corporate Relations	10.5	9.6	6.6	7.6	6.6	7.6	6.6	8.3
General Counsel and Secretariat	3.8	3.6	4.1	4.5	4.1	4.2	4.2	4.3
Regulatory Affairs	13.0	13.6	12.0	14.0	12.4	12.8	12.1	13.0
Security Management	1.9	2.2	2.5	2.5	2.4	2.3	2.4	2.4
Internal Audit	1.2	1.6	1.1	2.2	1.1	3.1	1.1	3.1
Real Estate and Facilities	21.8	24.5	24.8	26.9	24.7	26.9	25.2	27.3
Total CCF&S Costs	**76.8**	**80.5**	**77.3**	**85.8**	**76.8**	**87.2**	**76.7**	**88.0**

The increases in the Hydro One Distribution portion of CCFS costs are due to the same factors noted above for increases in total CCFS costs.

Table 3 shows the detailed breakdown between labour, non-labour and where appropriate, other costs included in the CCFS costs.

PURCHASE OF NON-AFFILIATE SERVICES (OUTSOURCING)

1. INTRODUCTION

This Exhibit describes how Hydro One purchases goods and services from third parties other than its affiliates. Specifically, it describes arrangements with two of Hydro One's key outsourcing partners.

2. THE PROCUREMENT OF GOODS AND SERVICES FROM NON-AFFILIATES

In compliance with the Supply Chain Policy set out as Attachment 1 to this Exhibit, Hydro One acquires materials and services from non-affiliates through a process that drives value for money, provides transparency to its internal customers, and builds mutually valuable relationships with key suppliers. This process and the resulting agreements with non-affiliates show how Hydro One values performance management and continuous improvement as instruments of productivity that mitigate the impact of rates on its customers.

The Inventory Policy is incorporated by reference in the Supply Chain Policy and is provided as Attachment 2 to this Exhibit.

Purchases are made by using one or more of the following processes that are described in Attachment 3 to this Exhibit: request for information, request for proposals, request for quotes, request for pre-qualification, contract harmonization, direct negotiation (single sourcing) and sole sourcing process. Details on Hydro One's supply chain activities and their associated costs are provided in Attachment 3 to Exhibit C1, Tab 3, Schedule 1.

Purchases are authorized by the appropriate position identified in Hydro One's Expenditure Authority Register (EAR), which is a key element of Hydro One's internal control framework. The EAR delegates authorities from its Board of Directors to senior management and management at the subsidiaries and business units.

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. These arrangements are described in Sections 3 and 4 of this Exhibit.

3. INERGI LP

3.1 BACKGROUND

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. Under the agreement, Inergi provides Hydro One with back-office services and call centre services. The agreement for back-office services expires on December 31, 2019. The agreement for call centre services expires on February 28, 2018. Hydro One has an option to renew the agreement for two additional terms of approximately one year each. Financial and performance guarantees have been provided by Inergi's affiliates.

3.2 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; (5) finance and accounting services; and (6) customer service operations. Supply chain services, excluding accounts payable, are recovered through the material surcharge, which is discussed in detail in Attachment 3 to Exhibit C1, Tab 3, Schedule 1.

3.3 FEE STRUCTURE

Appendix A to this Exhibit sets out the outsourcing fees spent in the historical period of 2014-2016. Table 1 and Table 2 reflect dollars which are embedded in the cost forecasts contained in Exhibit C1, Tab 1, Schedules 5, 7 and 9.

Under the Inergi Agreement, Inergi provides Base Services based on a declining fee structure. Fees for Base Services will decline over time as 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 also adjusted for inflation sensitivity.

The Inergi Agreement provides for optional benchmarking reviews of fees by an independent third party. The costs of the benchmarking review are borne equally by Hydro One and Inergi. The third party analyst is selected from a predetermined list included in the Inergi Agreement. Hydro One is not restricted on when 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. If the benchmarking review determines that Inergi fees are above the benchmark, Inergi must adjust its fees to the benchmark price. To date, Hydro One has not exercised its option to benchmark. Hydro One's current decision to not benchmark is largely attributable to the status of customer service operations and IT SOWs, which financially make up the majority of the contract at approximately 88%. At this time, it is not practical to benchmark customer service operations as this SOW is near end-of-term. Hydro One is currently assessing whether to extend the current agreement or pursue other sourcing options. For IT, as described in Exhibit C1, Tab 1, Schedule 9, Hydro One is monitoring its IT cost performance using a metric it considers to be a good indicator of IT operational effectiveness.

3.4 SERVICE QUALITY ASSURANCES

The Inergi Agreement sets out a methodology to measure Inergi's performance in terms of timeliness, quality, accuracy and client satisfaction of services, among others. Service measurement ensures that Hydro One receives an acceptable level of service to achieve business outcomes. Service quality is measured using defined service levels or Performance Indicators ("PIs") and client satisfaction surveys. Inergi's services are measured regularly (daily, 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: (a) a service credit(s) calculated in accordance with predetermined formulae; (b) remediation action, at Inergi's cost, 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. In the contract year ending December 2016, Inergi met or exceeded 92% of total PIs across all SOWs. More details are available in Table 1 below.

Table 1: Inergi 2016 Performance

Statement of Work	Performance Indicators Measured for 2016	Performance MET	Target Performance NOT MET	Minimum Performance NOT MET	% Met
Information Technology Services	573	537	24	12	94%
Finance and Accounting Services	208	195	12	1	94%
Payroll Services	156	129	19	8	83%
Supply Chain Services	350	349	0	1	100%
Settlement Services	140	138	2	0	99%
Customer Service Operations	603	510	38	55	85%
Total	2030	1858	95	77	92%

Inergi's services are also measured through client satisfaction surveys conducted by Inergi of Hydro One's relevant business managers and internal users. Inergi must address dissatisfaction revealed by the surveys. Together, Hydro One and Inergi are to identify opportunities and strategies for responding to any issues the surveys reveal. The most recent surveys showed scores of 3.17 out of 5 for Base Services and 4.33 out of 5 for Project Services and service desk support.

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

3.5 CONTINUOUS IMPROVEMENT AND INNOVATION

The Inergi Agreement includes a commitment to continuous improvement, including a process to proactively and continuously introduce global best practices. The contract was negotiated such that the benefits of these improvements are guaranteed to be passed on to Hydro One through the declining fee structure and annual adjustment of PIs. In addition, the Inergi Agreement includes an annual requirement in the information technology services SOW to submit innovation proposals for commercially reasonable projects offering demonstrable savings to Hydro One.

3.6 GOVERNANCE

The Inergi Agreement sets out a governing structure to manage the outsourcing relationship. It operates to ensure strategic alignment between the parties, oversee relationship, review Inergi's global business strategies, review operational and project performance, change management, continuous improvement, and identify and resolve any risks and issues. A cadence of committee meetings is held at various levels of leadership to achieve the desired governance and business objectives. In addition, the governing structure includes processes that have been tailored to monitor and derive value in areas such as finance, compliance and performance. These processes have been enhanced to provide greater integration with Hydro One's lines of business.

4. BROOKFIELD ASSET MANAGEMENT

4.1 BACKGROUND

In accordance with terms of a purchased services agreement with the Power Worker's Union, on January 1, 2015, Hydro One began a new services arrangement (the "BGIS

Agreement") with Brookfield Johnson Controls Canada ("BJCC"), a joint venture between Johnson Controls and Brookfield Asset Management. Effective February 19, 2015, Brookfield Asset Management subsequently acquired the interest of Johnson Controls in BJCC and re-branded the entity as Brookfield Global Integrated Solutions ("BGIS"). BGIS is a wholly-owned subsidiary of Brookfield Asset Management.

The BGIS Agreement has a 10-year term, which can be extended at Hydro One's option for an additional three years. 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. Information Services Group also supported the firm selection and final negotiation processes.

4.2 SCOPE OF WORK

The scope of work under the BGIS Agreement is comprised of ongoing daily facilities management, accommodation activities and related maintenance and repair work at its operations centres, transmission stations facilities, distribution stations, administration facilities and rights-of-way locations. The BGIS Agreement also includes capital project management services related to new facilities as defined by Hydro One.

4.3 FEES

BGIS receives an annual management and administrative fee which includes overhead and profit. This fee is adjusted annually for inflation in accordance with the consumer price index and, as necessary, in the event of material changes in the scope of the work. Cost savings incentives for BGIS are built into the fee structure.

Work and services that are self-performed by BGIS, and supplies and services provided by third parties through BGIS, are billed to Hydro One at full cost, as a pass through expense with no mark up.

Fees are subject to an economic cost adjustment using a government-published index that reflects movements in a broad-based consumer-focused price index.

Hydro One may request third-party benchmarking after three years and every two years thereafter, with a "benchmark fee adjustment", if the aggregate fees are above five percent of the target results.

4.4 SERVICE QUALITY ASSURANCES

The BGIS Agreement provides for Critical Service Levels (CSLs), Key Performance Indicators (KPIs) and critical deliverables. BGIS's services are measured and reviewed regularly (monthly, quarterly and annually) to validate achievement of KPIs.

The CSLs and KPIs are based on the nature of the services provided by BGIS and establish expected and minimally accepted service levels. If BGIS fails to meet specific criteria, there are adverse financial consequences for BGIS.

BGIS performs client satisfaction surveys of Hydro One's relevant internal user. Results are measured with expected thresholds and reviewed regularly with Hydro One. Table 2 below summarizes CSL and KPI performance of BGIS for 2016.

Table 2: BGIS 2016 Performance

Key Measures: KPIs and CSLs	Number of Key Measures Jan to Dec 2016	Performance Met	Partially Met	Not Met
Finance	4	4		
H&SE	7	7		
Work Program Accomplishment	7	6	1	
Customer Satisfaction	4	2		2

4.5 CONTINUOUS IMPROVEMENT AND GOVERNANCE

The BGIS Agreement includes shared savings incentives which are directly attributable to process or service improvements made by BGIS.

As one of the world's leading commercial property owners, BGIS is able to leverage its capabilities and global reach of their broader organization to offer innovation and create value for clients.

The BGIS Agreement sets out a governing structure to manage the relationship between Hydro One and BGIS. The structure includes an executive steering committee, contract oversight committee and the line of business facility management committee. These committees meet regularly, at different intervals, to ensure strategic alignment between BGIS and Hydro One, oversee the relationship, review operational and project performance, change management, continuous improvement, and address any risks and issues. The processes have also been enhanced to provide greater integration with Hydro One's lines of business.

APPENDIX A: PURCHASE OF NON-AFFILIATE SERVICES (OUTSOURCING)

INERGI FEES

Table 1 - Summary of Fees

	Historic					Bridge		Test				
	2014 IRM	2015		2016		2017		2018	2019	2020	2021	2022
Description	Actual	Actual	Approved	Actual	Approved	Forecast	Approved	Forecast	Forecast	Forecast	Forecast	Forecast
Fees for Base Services	$119,869,783	$127,436,383	$116,549,822	$125,968,009	$112,862,722	$129,937,874	$109,166,622	$123,762,724	$113,887,003	$114,141,567	$114,141,567	$114,141,567
Volume, Scope & Other	$14,018,401	$19,897,518	$5,117,000	$4,274,422	$4,456,850	($843,292)	$4,520,700	($4,402,472)	($6,259,553)	($6,876,783)	($9,282,077)	($9,250,736)
ECA	$9,550,484	$1,828,520	$12,343,633	$2,370,948	$14,348,473	$4,569,335	$17,022,186	$6,516,119	$7,968,960	$9,919,070	$12,655,448	$14,735,301
Subtotal Fees for Base Services	**$143,438,668**	**$149,162,421**	**$134,010,455**	**$132,613,379**	**$131,668,045**	**$133,663,917**	**$130,709,508**	**$125,876,371**	**$115,596,410**	**$117,183,854**	**$117,514,938**	**$119,626,132**
Project Spend (all LOB's)	$84,464,566	$57,600,986	$30,150,000	$41,424,987	$30,150,000	$26,304,000	$30,150,000	$22,834,000	$22,834,000	$21,134,000	$19,134,000	$19,934,000
Total Payments	**$227,903,234**	**$206,763,407**	**$164,160,455**	**$174,038,366**	**$161,818,045**	**$159,967,917**	**$160,859,508**	**$148,710,371**	**$138,430,410**	**$138,317,854**	**$136,648,938**	**$139,560,132**

Table 2 - Allocation of Fees to Distribution

	2018	2019	2020	2021	2022
Finance and Accounting	$ 2,393,852	$ 2,446,429	$ 2,601,840	$ 2,647,616	$ 2,688,235
Payroll	$ 1,845,017	$ 1,897,355	$ 2,014,227	$ 1,998,772	$ 2,030,597
Information Technology Services	$ 30,434,013	$ 29,802,239	$ 29,849,969	$ 29,897,701	$ 29,897,700
Accounts Payable	$ 462,872	$ 473,710	$ 476,190	$ 476,190	$ 476,190
Settlements	$ 4,040,026	$ 4,149,644	$ 4,550,412	$ 4,624,935	$ 4,624,935
Customer Service Operations	$ 39,839,905	$ 40,337,388	$ 40,676,313	$ 41,306,833	$ 41,306,833
Subtotal Fees for Base Services	**$ 79,015,685**	**$ 79,106,765**	**$ 80,168,951**	**$ 80,952,047**	**$ 81,024,490**
Project Spend (all LOB's)	$ 15,706,000	$ 15,546,000	$ 15,606,000	$ 14,146,000	$ 14,946,000
Total Payments	**$ 94,721,685**	**$ 94,652,765**	**$ 95,774,951**	**$ 95,098,047**	**$ 95,970,490**

APPENDIX B: PURCHASE OF NON-AFFILIATE SERVICES (OUTSOURCING)

BGIS FEES

Table 1 – BGIS Fees ($ Millions)

Description	Historic					Bridge		Test				
	2014 IRM	2015		2016		2017		2018	2019	2020	2021	2022
	Actual	Actual	Approved	Actual	Approved	Forecast	Approved	Forecast	Forecast	Forecast	Forecast	Forecast
Management Fee and Admin	N/A	3.9	N/A	4.0	N/A	3.6	N/A	3.6	3.6	3.6	3.6	3.6
Reimbursable charges	N/A	20.7	N/A	24.7	N/A	25.2	N/A	24.7	24.3	23.9	23.5	23.1
Total	N/A	24.6	N/A	28.7	N/A	28.8	N/A	28.4	27.9	27.5	27.1	26.7

Table 2 - Allocation to Distribution ($ Millions)

	2018	2019	2020	2021	2022
Management Fee and Admin	1.2	1.2	1.2	1.2	1.2
Reimbursable Charges:	8.4	8.3	8.1	8.0	7.9
Total Cost	**9.6**	**9.5**	**9.4**	**9.2**	**9.1**

Witness: Rob Berardi

SPECIFIC SERVICE CHARGES

1. INTRODUCTION

Specific Service Charges are charges for specific services over and above the standard level of service as defined by the Distribution System Code. Each miscellaneous service has an OEB-approved fixed rate and is charged to a customer based on a customer's request or as the result of a customer's action or inaction that would impose a cost on Hydro One.

In its last distribution rate filing (EB-2013-0416), Hydro One proposed rates for miscellaneous services in Exhibit G2, Tab 5, Schedule 1 of that application. The rationale was that regular distribution rates only recover costs of providing standard distribution services. In its Decision issued on March 12, 2015 in relation to EB-2013-0416, the OEB directed Hydro One to file with this Application a study assessing whether its Specific Service Charges reflect its underlying costs to perform those services ("the Time Study") and propose changes accordingly. Hydro One has completed the Time Study and proposes the new charges detailed in this Exhibit.

2. THE STUDY

In response to the OEB's direction, with the support of Elenchus Research Associates Inc., Hydro One completed a year-long time 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. The charges studied included those included in Chapter 11 of the OEB's *2006 Electricity Distribution Rate Handbook* (the "Rate Handbook").

Hydro One used the approaches found in Chapter 11 of the Rate Handbook to define the level of the charge to bill the customer. The Study details its context and methodology and is includeded as Attachment 1 to this Exhibit.

3. THE PROPOSED SPECIFIC SERVICE CHARGES

A summary of all the proposed 2018-2022 charges can be found in Table 1 of this Exhibit (Schedule 11-1 of the Rate Handbook). Descriptions of the miscellaneous services (as found in Attachment 1 of this Exhibit) and details of the methodology used to determine the charges are provided in Appendices A and B to this Exhibit. Except where identified, the proposed charges align with the associated labour and materials identified in the Time Study.

In Appendices A and B, the Specific Service Charge for each service is based on average elapsed hours required to carry out the work, as well as burdened labour rates, vehicle costs, and material. Refer to Exhibit E1, Tab 1, Schedule 2, and Table 2 of this Exhibit ("Capital Contributions") for a summary of the historical volumes along with 2018-2022 forecasted volumes and projected revenues for each service.

Appendix A: Charges listed in Chapter 11 of the 2006 Rate Handbook and updated as per the Time Study.

Appendix B: Hydro One-specific charges, primarily calculated based on labour, as per the Time Study.

Appendix C: Hydro One-specific charges, calculated as per previously approved OEB methodology.

For the services listed in Appendix C, Specific Service Charges are determined by methodologies that take into account the value of assets, volumes of those assets and the costs associated with the maintenance of those assets.

Table 1: Schedule 11-1 Specific Service Charges: Standard Amounts

(* indicates charges which reflect the average cost over the forecast period)

OEB Rate Code	Specific Service Charge Standard Name	Calculation Method	Currently Approved Rate	2018 Charge	2019 Charge	2020 Charge	2021 Charge	2022 Charge
1	Arrears Certificate	As described in Time Study (See Attachment 1)	N/A	N/A	N/A	N/A	N/A	N/A
2	Statement of Account*		$15.00	$13.00	$13.00	$13.00	$13.00	$13.00
3	Pulling post-dated cheques		$15.00	N/A	N/A	N/A	N/A	N/A
4	Duplicate Invoices for Previous Billing*		$15.00	$13.00	$13.00	$13.00	$13.00	$13.00
5	Request for Other Billing Information*		$15.00	$13.00	$13.00	$13.00	$13.00	$13.00
6a	Easement Letter – Letter Request		$15.00	$86.90	$88.29	$89.67	$91.12	$92.51
6b	Easement Letter - Web Request		$15.00	$25.00	$25.00	$25.00	$25.00	$25.00
7	Income Tax Letter*		$15.00	$13.00	$13.00	$13.00	$13.00	$13.00
8	Notification Charge		$15.00	N/A	N/A	N/A	N/A	N/A
9	Account History*		$15.00	$13.00	$13.00	$13.00	$13.00	$13.00
10	Credit Reference/Credit Check *		$15.00 plus Credit Agency Costs	$13.00	$13.00	$13.00	$13.00	$13.00
11	Returned Cheque Charge*		$15.00	$7.00	$7.00	$7.00	$7.00	$7.00
12	Charge to Certify Cheque		$15.00	N/A	N/A	N/A	N/A	N/A
13	Legal Letter Charge		$15.00	N/A	N/A	N/A	N/A	N/A

14	Account Set Up Charge/Change of Occupancy Charge (Plus Credit Agency Costs, if applicable)*		$30.00	$38.00	$38.00	$38.00	$38.00	$38.00
15	Special Meter Reads*		$30.00	$90.00	$90.00	$90.00	$90.00	$90.00
16	Collection of Account Charge – No Disconnection*		$30.00	$100.00	$100.00	$100.00	$100.00	$100.00
17	Collection of Account Charge – No Disconnection – After Regular Hours		$165.00	N/A	N/A	N/A	N/A	N/A
18 & 19	Collection – Disconnect/Reconnect at Meter & Install/Remove Load Control Device – During Regular Hours*		$65.00	$120.00	$120.00	$120.00	$120.00	$120.00
20 & 21	Collection – Disconnect/Reconnect at Meter & Install/Remove Load Control Device – After Regular Hours*		$185.00	$430.00	$430.00	$430.00	$430.00	$430.00
22	Collection – Disconnect/Reconnect at Pole – During Regular Hours*		$185.00	$320.00	$320.00	$320.00	$320.00	$320.00
23	Collection – Disconnect/Reconnect at Pole – After Regular Hours*		$415.00	$850.00	$850.00	$850.00	$850.00	$850.00
24	Meter Dispute Charge – Measurement Canada*		$30.00	$290.00 plus Measurement Canada fees	$290.00 plus Measurement Canada fees	$290.00 plus Measurement Canada fees	$290.00 plus Measurement Canada fees	$290.00 plus Measurement Canada fees
25	Service Call – Customer Owned Equipment – During Regular Hours		$30.00	$210.00	$210.00	$210.00	$210.00	$210.00
26	Service Call – Customer Owned Equpiment – After Regular Hours		$165.00	$775.00	$775.00	$775.00	$775.00	$775.00
27	Temporary Service Install & Remove – Overhead – No Transformer		$500.00	N/A	N/A	N/A	N/A	N/A

28	Temporary Service Install & Remove – Underground – No Transformer		$300.00	N/A	N/A	N/A	N/A	N/A
29	Temporary Service Install & Remove – Overhead – With Transformer		$1,000.00	N/A	N/A	N/A	N/A	N/A
30	Specific Charge for Access to Power Poles – Telecom*		$41.28	$47.43	$48.16	$48.90	$49.65	$50.40
31a	Vacant Premise – Move in with Reconnect of Electrical Service at Meter*		NEW	$95.00	$95.00	$95.00	$95.00	$95.00
31b	Vacant Premise – Move in with Reconnect of Electrical Service at Pole		NEW	$300.00	$300.00	$300.00	$300.00	$300.00
32	Reconnect Completed after Regular Hours (Customer/Contract Driven) – at Meter*		NEW	$245.00	$245.00	$245.00	$245.00	$245.00
33	Reconnect Completed after Regular Hours (Customer/Contract) Driven) – at Pole*		NEW	$475.00	$475.00	$475.00	$475.00	$475.00
34 & 35	Additional Service Layout Fee – Basic/Complex (more than one hour)		$635/$845	$561.08	$569.51	$577.91	$586.72	$595.20
36	Pipeline Crossings		$2,540.00	$2,363.12	$2,396.75	$2,430.28	$2,465.43	$2,499.29
37	Water Crossings		$3,225.00	$3,522.56	$3,570.65	$3,618.57	$3,668.82	$3,717.21
38	Railway Crossings		$6,095.00	$4,690.71 plus Railway Feedthrough Costs	$4,760.48 plus Railway Feedthrough Costs	$4,830.33 plus Railway Feedthrough Costs	$4,899.24 plus Railway Feedthrough Costs	$4,965.66 plus Railway Feedthrough Costs
39a	Overhead Line Staking Per Meter		$4.95	$4.17	$4.24	$4.30	$4.36	$4.42
39b	Underground Line Staking Per Meter		$4.95	$3.00	$3.05	$3.09	$3.14	$3.18
39c	Subcable Line Staking Per Meter		$4.95	$2.62	$2.66	$2.70	$2.74	$2.78

40	Central Metering – New Service <45 kW		$120.00	$100.00	$100.00	$100.00	$100.00	$100.00
41	Conversion to Central Metering <45 kW		$1,035.00	$1,534.07	$1,553.47	$1,572.92	$1,593.19	$1,612.75
42	Conversion to Central Metering >=45 kW		$915.00	$1,434.07	$1,453.47	$1,472.92	$1,493.19	$1,512.75
43	Tingle/Stray Voltage Test – excess of 4 hours, if customer equipment is defective		$140.00	N/A	N/A	N/A	N/A	N/A
44	Standby Administration Charge		N/A	N/A	N/A	N/A	N/A	N/A
45a	Connection Impact Assessments – Net Metering		$5,620.00	$3,146.11	$3,192.85	$3,239.70	$3,285.66	$3,329.86
45b	Connection Impact Assessments – Embedded LDC Generators		$5,620.00	$2,825.21	$2,873.57	$2,921.93	$2,960.07	$2,996.97
45c	Connection Impact Assessments – Small Projects <= 500 kW		$5,620.00	$3,216.36	$3,266.07	$3,315.83	$3,361.46	$3,405.38
45d	Connection Impact Assessments – Small Projects <= 500 kW, Simplified		$5,620.00	$1,941.06	$1,971.27	$2,001.42	$2,028.44	$2,054.41
45e	Connection Impact Assessments – Greater than Capacity Allocation Exempt Projects – Capacity Allocation Required Projects		$12,055.00	$8,518.75	$8,641.91	$8,765.05	$8,890.57	$9,011.83
45f	Connection Impact Assessments – Greater than Capacity Allocation Exempt Projects – TS Review for LDC Capacity Allocation Required Projects		$12,055.00	$5,637.93	$5,727.89	$5,817.80	$5,895.15	$5,969.89
46a	Retailer Services – Establishing Service Agreements (rates as per the Handbook)		$100/agreement/ Retailer +$20/month/ Retailer +$0.50/month/ customer + other	$100/agreement/ Retailer +$20/month/ Retailer +$0.50/month/ customer + other	$100/agreement/ Retailer +$20/month/Retailer +$0.50/month/ customer + other	$100/agreement/ Retailer +$20/month/ Retailer +$0.50/month/ customer + other	$100/agreement /Retailer +$20/month/ Retailer +$0.50/month/ customer + other	$100/agreeme nt/Retailer +$20/month/R etailer +$0.50/month/ customer + other
46b	Retailer Services – Other (includes Bill Ready for Retailers		$0.30/month/ customer +	$0.30/month/ customer +	$0.30/month/ customer +	$0.30/month/ customer +	$0.30/month/ customer +	$0.30/month/ customer +

	and Service Transaction Requests) as per the Handbook		$0.25/request for request fee + $0.50/request for process fee	$0.25/request for request fee + $0.50/request for process fee	$0.25/request for request fee + $0.50/request for process fee	$0.25/request for request fee + $0.50/request for process fee	$0.25/request for request fee + $0.50/request for process fee	$0.25/request for request fee + $0.50/request for process fee
47	Specific Charge for Access to Power Poles – LDC (for 10' of power space)*		$47.82	$85.33	$86.64	$87.97	$89.32	$90.68
48	Specific Charge for Access to Power Poles – Generators (for 10' of power space)*		$47.82	$85.33	$86.64	$87.97	$89.32	$90.68
49	Specific Charge for Access to Power Poles – Municipal Streetlights		$2.04	$2.04	$2.04	$2.04	$2.04	$2.04
50	Sentinel Light Rental Charge		$9.51	$10.00	$10.00	$10.00	$10.00	$10.00
51	Sentinel Light Pole Rental Charge		$4.15	$7.00	$7.00	$7.00	$7.00	$7.00
52	Late Payment Charge		1.5%/month	1.5%/month	1.5%/month	1.5%/month	1.5%/month	1.5%/month

*Updated to incorporate modified productivity factor (as per Exhibit A, Tab 3, Schedule 2) and 2016 actual cost data.

Table 2: Capital Contributions

Rate Code	Description	2013	2014	2015	2016	Bridge Year 2017		Test Years 2018		2019		2020		2021		2022	
		Volume	Volume	Volume	Volume	Volume Forecast	Proposed Capital	Volume Forecast	Proposed Capital	Volume Forecast	Proposed Capital	Volume Forecast	Proposed Capital	Volume Forecast	Proposed Capital	Volume Forecast	Proposed Capital
34 & 35	Additional Service Layout Fee – Basic/Complex (More than One Hour)	N/A	N/A	N/A	141	144	$92,649.60	144	$80,795.52	144	$82,009.44	144	$83,219.04	144	$84,487.68	144	$85,708.80
36	Crossing Application – Pipeline	N/A	N/A	N/A	0	1	$2,540.00	1	$2,363.12	1	$2,396.75	1	$2,430.28	1	$2,465.43	1	$2,499.29
37	Crossing Application – Water	N/A	N/A	N/A	0	1	$3,225.00	1	$3,522.56	1	$3,570.65	1	$3,618.57	1	$3,668.82	1	$3,717.21
38	Crossing Application – Railroad (Plus Railway Feedthrough Costs)	33	N/A	N/A	27	30	$179,802.50	30	$134,203.47	30	$133,099.87	30	$134,936.54	30	$136,785.01	30	$138,672.72
39a	Overhead Line Staking – per meter	81,200	86,800	137,900	108,031	97,650	$483,367.50	97,650	$407,200.50	97,650	$414,036.00	97,650	$419,895.00	97,650	$425,754.00	97,650	$431,613.00
39b	Underground Line Staking – per meter	34,800	37,200	59,100	46,299	41,850	$207,157.50	41,850	$125,550.00	41,850	$127,642.50	41,850	$129,316.50	41,850	$131,409.00	41,850	$133,083.00
39c	Subcable Line Staking - per meter	6,650	4,150	8,430	7,130	6,365	$31,506.75	6,365	$16,676.30	6,365	$16,930.90	6,365	$17,185.50	6,365	$17,440.10	6,365	$17,694.70
40	Central Metering – New service < 45 kW	148*	345*	387*	261*	796	$95,520.00	796	$79,600.00	796	$79,600.00	796	$79,600.00	796	$79,600.00	796	$79,600.00
41	Conversion to Central Metering < 45 kW	122*	285*	277*	241*	824	$865,200.00	824	$1,264,077.70	824	$1,280,063.05	824	$1,296,082.66	824	$1,312,791.18	824	$1,328,907.21
42	Conversion to Central Metering >= 45 kW	19*	67*	84*	72*	53	$49,290.00	53	$76,005.97	53	$77,034.15	53	$78,064.54	53	$79,139.24	53	$80,175.83
	Total Capital Contributions						**$1,000,248.85**		**$2,189,995.14**		**$2,216,383.32**		**$2,244,348.63**		**$2,273,540.46**		**$2,301,671.76**

*Data unavailable at the time the Application was originally filed.

Consumers Council of Canada Interrogatory # 58

Issue:

Issue 38: Are the proposed OM&A spending levels for Sustainment, Development, Operations, Customer Care, Common Corporate and Property Taxes and Rights Payments, appropriate, including consideration of factors considered in the Distribution System Plan?

Reference:

C1-03-01-02 Page 2

Interrogatory:

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

Response:

As stated in Exhibit C1, Tab 3 Schedule 2, Attachment 2, page 2, line 19, the increase in Operations and Repairs from 2016 to 2017 is due to additional costs related to the Telematics project. On page 3, line 5 of the Exhibit it states that the Depreciation costs are expected to be higher beginning in the bridge year due to an increase in fleet size to support planned work programs.

Witness: BERARDI Rob

COSTING OF WORK: FLEET RATE

1. OVERVIEW: FLEET RATE

Hydro One controls and manages approximately 8,000 vehicles and other fleet equipment to support its work programs and staffing requirements. Fleet assets are used for both distribution and transmission work and are strategically spread out across Hydro One's vast service territory. The number of vehicles and other equipment in use has grown by 200 since 2015, reflecting an increase in the work programs that need to be executed.

Fleet assets are categorized into 63 classes of equipment. A standard equipment rate, or "Hourly Fleet Rate", is calculated for each class of equipment. Each rate is calculated by dividing the annual forecast cost to maintain each class of equipment by the annual forecast hours that the class of equipment is required to work (utilization hours). Utilization hours are defined as the hours the equipment is being used "on the job". Utilization hours are derived from a review of historical trends and an annual review of the upcoming work program. To illustrate, Table 1 shows the composition of the hourly fleet rate for a line maintenance truck, one of the common classes of equipment used by Hydro One.

Table 1: Hourly Fleet Rate - Line Maintenance Truck

Description	Historic			Bridge	Test				
	2014	2015	2016	2017	2018	2019	2020	2021	2022
Operations & Repairs	35.7	36.0	38.0	38.0	38.0	38.7	38.7	39.3	39.3
Fuel Costs	8.9	8.9	6.9	6.9	6.9	7.0	7.0	7.1	7.1
Depreciation	19.9	20.1	12.1	12.1	12.1	12.3	12.3	12.6	12.6
Hourly Rate	**64.5**	**65.0**	**57.0**	**57.0**	**57.0**	**58.0**	**58.0**	**59.0**	**59.0**

In 2017, it is forecast that operations and repair costs will make up 67% of the fleet rate, while fuel costs and depreciation costs will comprise 12% and 21%, respectively.

Table 2 provides total expenditures of the components comprising the fleet rate for historic, bridge and test years. Each of the 63 classes of equipment shares in these expenditures.

Table 2: Fleet Management Services Budget Expenditures ($ Millions)

Description	Historic			Bridge	Test
	2014	2015	2016	2017	2018
	Actual	Actual	Actual	Forecast	Forecast
Operations & Repairs	60.5	69.7	70.8	74.8	76.2
Fuel Costs	37.3	37.8	21.5	23.9	25.1
Depreciation	30.3	25.0	39.7	40.4	41.4
Subtotal	**128.1**	**132.5**	**132.0**	**139.0**	**142.7**
External Fleet Rentals	2.0	0.6	1.2	**2.0**	**2.0**
Total	**130.1**	**133.1**	**133.2**	**141.0**	**144.7**

2. FLEET RATE COMPONENTS

2.1 OPERATIONS AND REPAIRS

This cost category primarily consists of repair costs (external and internal labour and parts). The budget is based on a forecast of the annual maintenance schedules for each piece of equipment with consideration given to age and performance history. Throughout the year, all repair costs are charged directly to each piece of equipment. Operations costs include administration staff and their allocated share of central service support costs. The increase in forecast for the bridge year is attributable to additional costs related to the telematics system described in Section 3.2.2 of this Exhibit.

2.2 DEPRECIATION

The depreciation for each class within the fleet is calculated based on the current depreciation policies of Hydro One, the current composition of the fleet, and annual forecast additions and deletions. Depreciation costs are expected to be higher beginning in the bridge year due to an increase in fleet size to support work programs.

2.3 FUEL COST

Fuel cost per class of equipment is calculated based on past history, current market projections, and the current composition of the class. Throughout the year, fuel costs are charged directly to the piece of equipment consuming the fuel.

2.4 EXTERNAL FLEET RENTALS

Due to the seasonal and fluctuating nature of its work program, Hydro One uses externally-owned equipment to meet the peaks in its programs. Using a process similar to that used to cost Hydro One's own fleet, standard rates are calculated and costs are distributed to programs and projects.

3. FLEET MANAGEMENT SERVICES

The Fleet Management Services function ("Fleet Management Services") provides centralized and turnkey services that include maintenance, administration, vehicle replacement and disposal. Vehicles are maintained to an optimum level to ensure public and employee safety, and compliance with laws and Ministry regulations, including, but not limited to CSA 225, the *Highway Traffic Act* and the Commercial Vehicle Operator's Registration. Fleet Management Services also ensures that environmental impacts are

- product information, including vendor-specific information;
- repair and safe practices manuals;
- process and policy information;
- invoice and cost-management details;
- monthly and ad-hoc reports; and
- work order management.

3.2.2 TELEMATICS

Fleet Management Services has implemented a fleet telematics system for 4,700 fleet vehicles that provides significant enhancements to operator safety, workplace efficiency and reduction of environmental impacts. This project was completed at the end of 2016.

In 2017, Fleet Services will leverage the telematics data to institute a framework to define the baseline metrics with respect to equipment utilization and productivity. Analysis of the telematics data will allow Hydro One to realize sustainable efficiencies throughout the 2018 to 2022 planning period, preventing the need to purchase additional resources and reducing costs without compromising service quality. Such efficiencies allow Hydro One to maintain service levels without asking customers to pay more. The expected savings and benefits are detailed in Section 1.5.1 and 2.3.3.3 of the DSP using 2017 as the base year.

3.3 FLEET COMPLEMENT AND UTILIZATION

Inventory levels are controlled and set by the Hydro One lines of business and Fleet Management Services within the guidelines set for staffing versus fleet ratio, type and volume of work programs, geographic locations, and utilization targets. The increase in

OEB Staff Interrogatory # 173

Issue:

Issue 29: Are the proposed capital expenditures resulting from the Distribution System Plan appropriate, and have they been adequately planned and paced?

Reference:

Q-01-01
1.2 A reduction in the capital forecast; updated rate base and in-service additions forecasts

Interrogatory:

Hydro One has updated the capital forecast for the years 2018-2022 due to adjustments made to General Plant projects and productivity targets.

Please provide the updated ISD for each General Plant investment that has affected the updated capital forecast and highlight the changes in project scope or explain the productivity change that attributed to the updated capital forecast.

Response:

The attachment to this response includes the following updated ISDs:

- GP-01
- GP-02
- GP-03
- GP-04
- GP-05
- GP-06
- GP-07
- GP-08
- GP-09
- GP-10
- GP-11
- GP-12
- GP-13
- GP-14
- GP-15
- GP-17

Witness: FROST-HUNT Lincoln, BERARDI Rob, IRVINE Tom, GARZOUZI Lyla

Investment Description:

Fleet capital replacement requirements are based on:

1. Industry standards (manufacturer's recommendations) for life cycle expectancy;
2. Net Book Value (NBV) to Original Capital Value (OCV) ratios; and
3. Operating cost drivers which are then linked to the Business Plan and Work Programs.

Currently, the fleet is at 39% NBV to OCV where industry standards, established through a combination of Canadian Utility Fleet Manager workshops, direction from Fleet Management Companies and Industry experts, suggest that 45% as an optimum level. Our present replacement criteria are based on manufacturers' recommendations and repair history.

Key contributors to the 2018-2022 capital program include:

- The replacement of core transport and work equipment (about 7%, approximately 500 vehicles, of Fleet annually);
- Replacement of aging helicopters.

Table 1 – Forecast of Acquisitions for 2018 to 2022

Equipment Type	2018		2019		2020		2021		2022	
	Cost ($M)	# of Units	Cost ($M)	# of Units	Cost ($M)	# of Units	Cost ($M)	# of Units	Cost ($M)	# of Units
Light[1]	3.7	292	6.4	294	7.7	331	7.7	334	7.8	336
Heavy[2]	11.0	77	10.4	77	12.5	87	12.6	88	12.7	88
Off-Road[3]	5.3	21	5.0	22	6.0	24	6.0	25	6.1	25
Miscellaneous[4]	3.6	140	3.4	141	4.1	159	4.1	160	4.2	161
Helicopter	0	0	4.7	1	0.	0	0	0	0	0
Service Equipment [5]	2.5	12	1.9	9	1.9	9	1.9	9	2.0	9
Total	**29.1**	**542**	**31.8**	**543**	**32.1**	**611**	**32.4**	**615**	**32.6**	**620**

Note: Number of units is based on average unit costs per category of equipment and is subject to change based on specific LOB staff and the right-sizing initiative being completed by Fleet Management Service to reduce the Fleet complement by analysing the Telematics utilization data.
Numbers of units are based on the Tx and Dx Capital Investment Costs.

[1]Light – cars, SUVs, pickups, vans
[2]Heavy – service trucks, highway tractors, radial boom derricks (RDB), bucket trucks

Consumers Council of Canada Interrogatory # 27

Issue:

Issue 24: Does Hydro One's investment planning process consider appropriate planning criteria? Does it adequately address the condition of distribution assets, service quality and system reliability?

Reference:

None

Interrogatory:

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?

Response:

See Attachment 1 - Helicopter Usage Policy for Hydro One's Helicopter Use Procedure.

Currently Hydro One Networks has 7 Helicopters. The annual operating costs are approximately 10 million dollars. Helicopter Services does not have any annual capital expenditures. The replacement or addition of any helicopter in the fleet will be included in the Transport and Work Equipment Capital Replacement Program, shown in Exhibit B1, Tab 1, Schedule 1, DSP Section 3.8 ISD-GP-01.

Witness: BERARDI Rob

Document Number: **SP 0700 R0**

Document Name: **Helicopter Usage Policy**

Issue Date: **April 2007**

The requirements of this document are mandatory.

Purpose

This document communicates the corporate policy which must be adhered to when requesting helicopter support within Hydro One.

Revision

This is a new document.

Contents

1.0 Policy

The Hydro One Code of Business Conduct establishes the policy for the "Proper Use of Assets" (refer to Appendix A). In support of the Code of Business Conduct Fleet Services must ensure that proper authorization is obtained prior to any helicopter usage whether utilizing the internal Hydro One helicopter fleet or an external helicopter operator.

Authorization for helicopter support is required by Director level or higher, or the Manager of Fleet Services or the Manager of Construction Services.

2.0 Request for Helicopter Support

All requests for helicopter support must be channelled through Hydro One Helicopter Services. This will provide assurances that the Hydro One helicopter fleet is utilized prior to the use of an external helicopter operator.

2.1 Requirement for Flight Manifest

A manifest (see Appendix B) is required for all helicopter flights including a listing of passengers by name, department, destination, stops, and reason for flight and includes a signature of authorization, from a Director level or higher, or the Manager of Fleet Services or the Manager of Construction. This manifest will be filled out and given to the pilot prior to the flight. The pilot will confirm the passengers listed are present and amend the manifest identifying any additional passengers that were not listed. The manifest will be attached to the Hydro One Helicopter Services flight report and filed at the main base for a period not less than 2 years.

A manifest is not required for helicopter flights in support of approved work programs for the individual lines of business and when responding to an emergency. Pilots and Crew members must be signed on to the appropriate job plan which includes the work description. Justification for the use of helicopter support is determined by the individual lines of business.

Appendix A: Code of Conduct

REFERENCED SECTION FROM CODE OF BUSINESS CONDUCT BOOKLET

Proper use of assets

We protect the company's assets (fixed and moveable property, personnel, information, intellectual property and commodities), use them properly, safely, efficiently, and only for Hydro One business.

We do not use company assets in a manner that compromises our competitive business practices or offends, harasses, or promotes unacceptable behaviour (improper use of email and Internet).

We protect our assets from theft, fraud, destruction, vandalism or neglect. We dispose of company property in an ethical and approved manner. Internal or employee theft or fraud will not be tolerated.

Any use of company assets for a non-business reason (charitable work, for example) must be approved by the supervisor accountable for that asset. Effective protection of our company assets can enhance our competitive edge.

Appendix B: Flight Manifest

Click to view Helicopter Flight Manifest in pdf format.

Consumers Council of Canada Interrogatory # 48

Issue:

Issue 38: Are the proposed OM&A spending levels for Sustainment, Development, Operations, Customer Care, Common Corporate and Property Taxes and Rights Payments, appropriate, including consideration of factors considered in the Distribution System Plan?

Reference:

C1-01-05 Page 2

Interrogatory:

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?

Response:

Hydro One's Application was submitted prior to the introduction of Fair Hydro Plan. As such, OM&A forecast are not reflective of the Fair Hydro Plan. Additional impacts of the Fair Hydro Plan can be found in Exhibit I-33-Staff-179.

Witness: MERALI Imran

OEB Staff Interrogatory # 179

Issue:

Issue 33: Are the amounts proposed for the rate base from 2018 to 2022 appropriate?

Reference:

E1-01-01 - Revenue Requirement, Determination of Net Utility Income

Interrogatory:

Please update tables in this exhibit to reflect the Fair Hydro Plan which came into effect on July 1, 2017 and any other changes to the components of rate base changed as a result of budget updates or responses to interrogatories.

Response:

Please find below updated tables from Exhibit E1, Tab 1, Schedule 1, reflecting updates as a result of the Fair Hydro Plan including cash working capital impact and a reduction to OM&A as a result of lower bad debt expense by $2.9 million and the changes described in Exhibit Q, Tab 1, Schedule 1 filed on December 21, 2017.

Table 1 (updated): Revenue Requirement ($ Millions)

Components	**2017**[1]	**2018**
OM&A	593.0	576.7
Depreciation and Amortization	390.2	397.1
Income Taxes	48.7	64.9
Return on Capital	435.8	472.5
Total Revenue Requirement	**1,467.6**	**1,511.2**
Deduct External Revenues and Other	(52.7)	(53.6)
Rates Revenue Requirement	**1,414.9**	**1,457.6**
Regulatory Deferral and Variance Accounts Disposition	11.1	6.2
Rates Revenue Requirement (with Deferral and Variance Accounts)	**1,426.0**	**1,463.8**

Table 2 (updated): OM&A Expense ($ Millions)

	2018
Sustaining	346.7
Development	11.0
Operations	36.7
Customer Service	128.7
Common Corporate Costs and Other Costs	48.7
Property Taxes & Rights Payments	4.9
Total OM&A	**576.7**

Table 3 (updated): Depreciation and Amortization Expense ($ Millions)

	2018
Depreciation	383.9
Amortization (Excluding Other Reg. Amortization)	13.1
Total Expense	**397.1**

Table 4 (updated): Corporate Income Taxes ($ Millions)

	2018
Regulatory Taxable Income	249.5
Tax Rate	26.5%
Subtotal	**66.1**
Less: Credits	(1.2)
Total Income Taxes	**64.9**

Table 5 (updated): Return on Capital ($ Millions)

	2018
Return on Debt	198.0
Return on Equity	274.5
Return on Capital	**472.5**

Table 6 (updated): Comparison of Revenue Requirement: 2018 vs. 2017 ($ Millions)

Description	**2018 vs. 2017**
OM&A	(16.2)
Depreciation and Amortization	6.9
Income Taxes	16.2
Return on Capital	36.8
Total Revenue Requirement	**43.7**
Less External Revenues	(0.9)
Rates Revenue Requirement	**42.8**
Regulatory Deferral and Variance Accounts Disposition	(4.9)
Rates Revenue Requirement (with Deferral and Variance Accounts)	**37.9**

CUSTOMER CARE OM&A

1. SUMMARY OF CUSTOMER CARE OM&A

Hydro One's distribution system is among the largest in North America, providing approximately 1.3 million customers in many of Ontario's most hard to reach locales with a safe, reliable connection to the electricity they need to live their lives. At Hydro One, connection is about more than just wires and poles – it is about understanding customer needs and providing solutions that meet those needs. Hydro One's Customer Care OM&A funds customer-facing activities that serve the needs of its customers, which include residential, small business, commercial, and industrial customers.

Table 1 details the funding that allows Hydro One to: (a) respond to customer inquiries when they contact the call center; (b) obtain meter readings; (c) issue timely and accurate bills; (d) process customer payments; (e) manage a collections program to recover revenue; and (f) provide financial assistance to low-income customers through the Ontario Energy Board's Low-Income Energy Assistance Program (LEAP).

Through its interactions with customers, Hydro One aims to educate customers about their bill, explain electricity prices and smart meters, provide energy usage analytics, and offer social service assistance to low-income customers. Successful execution of these primary activities leads to meaningful improvements in customer satisfaction and customer perception. Hydro One will monitor several key measures, as outlined in Table 10, in order to continually shape its vision of an enhanced customer experience.

Table 1 consolidates information previously provided in Hydro One's last distribution rate application (EB-2013-0416) in Tables 1 to 3 of Exhibit C1, Tab 2, Schedule 5, as described in the notes to Table 1.

Table 1: Summary of Customer Care OM&A Allocated to Distribution ($ Millions)

Description	Historic					Bridge		Test
	2014 IRM	2015		2016		2017		2018
	Actual	Actual	Approved	Actual	Approved	Forecast	Approved	Forecast
Call Center Operations [1]	79.5	56.4	38.5	41.5	38.8	43.8	39.9	44.5
Meter Reading	23.5	18.7	14.9	17.8	14.3	19.4	14.0	19.2
Third Party Support [2]	13.6	13.2	12.2	14.1	12.5	14.0	12.9	14.6
Field Support	4.9	12.0	7.1	14.0	7.3	10.0	7.5	8.1
Regulatory Compliance (LEAP)	2.2	4.2	2.1	4.1	2.2	4.3	2.3	4.3
Net Bad Debt	66.8	29.5	15.5	6.8	15.4	21.1	14.4	21.1
Customer Care Staffing [3]	18.9	21.5	21.3	20.5	20.4	20.1	20.6	19.8
Total Customer Care OM&A [4]	**209.3**	**155.4**	**111.6**	**118.8**	**110.9**	**132.6**	**111.6**	**131.6**

(1) Previously referred to as "Customer Service Operations", "Customer Operations" and "Settlements".
(2) Previously referred to as "Service Support" and "Service Enhancements".
(3) Previously referred to "Customer Service Management", "Customer Business Relations", "Customer Care Management", "Customer Experience", and "Conservation and Demand Management".
(4) Costs associated with the Smart Grid Pilot are now included in the Exhibit C1, Tab 1, Schedule 4 (Operations OM&A) Exhibit.

2. VARIANCE EXPLANATION

2.1 CALL CENTER OPERATIONS

Table 2: Call Centre Operations OM&A Allocated to Distribution ($ Millions)

Description	Historic					Bridge		Test
	2014 IRM	2015		2016		2017		2018
	Actual	Actual	Approved	Actual	Approved	Forecast	Approved	Forecast
Call Center Operations	79.5	56.4	38.5	41.5	38.8	43.8	39.9	44.5

Call Centre Operations reflect Hydro One's costs under its outsourcing agreement with Inergi LP to deliver customer-facing services, including: call center services, billing, collections, settlements, and distributed generation services to Hydro One customers. Customers contact Hydro One in several ways, including telephone, interactive voice recognition (IVR), letters, fax, email, and through the company's website. In 2016, the call center handled over 2.7 million calls from customers and responded to over 63,000 emails.

In 2014 and 2015, actual expenditures were higher than OEB-approved levels due to the increased costs associated with the implementation of Hydro One's Customer Information System ("CIS") in May 2013 and the following support period.

Hydro One also initiated a competitive Request for Proposal in 2014 in preparation for the expiration of the outsourcing agreement. As a result, actual expenditure was higher than OEB-approved levels in 2015 due to the market price of the new outsourcing contract, higher than expected transition costs associated with the new outsourcing contract, and the elimination of a sub-contractor.