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File 95498

VIA RESS and EMAIL: BoardSec@oeb.ca

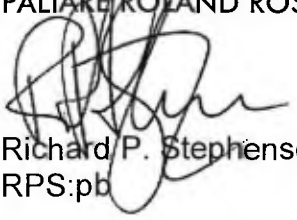
Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor, P.O. Box 2319
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

Re: EB-2018-0165 - Application by Toronto Hydro-Electric System Limited for an Order or Orders approving or fixing just and reasonable distribution rates and other charges, effective January 1, 2020 to December 31, 2024

Attached please find the Submissions of the Power Workers' Union in connection with the above-noted proceedings. An electronic copy has been filed through the Board's RESS filing system, and two paper copies will follow by courier delivery.

Yours very truly,
PALIARE ROLAND ROSENBERG ROTHSTEIN LLP



Richard P. Stephenson
RPS:pb

Attach.

Doc 3010405 v1

EB-2018-0165

IN THE MATTER OF the Ontario Energy Board Act, 1998, Schedule B to the Energy Competition Act, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Toronto Hydro-Electric System Limited for an Order or Orders approving or fixing just and reasonable distribution rates and other charges, effective January 1, 2020 to December 31, 2024.

Submissions of the Power Workers' Union

1. The following are the Power Workers' Union's ("PWU") submissions on the issues reviewed in the matter of Toronto Hydro-Electric System Limited`s ("Toronto Hydro") 5-year Custom Incentive Rate-setting ("IR") application, effective January 1, 2020 to December 31, 2024. These submissions do not specifically address all areas of application. Unless indicated otherwise, the PWU supports and adopts the submissions of Toronto Hydro in support of the application.

2.0 Custom Incentive Rate-setting

2. Toronto Hydro's cost performance is supported by a total cost benchmarking study conducted by Power Systems Engineering ("PSE").[1] Board Staff engaged an expert witness from Pacific Economics Group ("PEG") to provide an alternate total cost benchmarking study.[2] The differences in each consultant's report are summarized in the following table.[3]

[1] Exhibit 1B, Tab 4, Schedule 2
[2] Exhibit M1
[3] Board Staff Submission, page 21

Year	PSE Reply Report Results[71]	PEG Updated Report Results[72]
2015	-18.4%	-4.6%
2016	-15.7%	0.8%
2017	-13.8%	3.7%
2018	-10.5%	7.5%
2019	-9.3%	8.7%
2020	-7.2%	11.4%
2021	-5.5%	13.4%
2022	-3.3%	15.9%
2023	-1.6%	17.8%
2024	-0.1%	19.5%

3. The studies follow similar methodologies but differences in the sample, variables, and adjustments lead to different results. In particular, differences in the application of a new "Congested Urban" variable and the sample of comparator utilities were discussed at length over the course of the proceeding.

4. In its submission, Board Staff discusses the use of forecast performance through the rate period to derive the appropriate stretch factor.[4] Board Staff submits that forecast relative performance is unknown, as actual future costs of Toronto Hydro and its peers are not available, and relying on forecast performance instead of actual historic performance may reduce cost-saving incentives to the utility. This is consistent with the Board Report on Rate Setting Parameters and Benchmarking which determined the assignment of stretch factors to be distributors are to be determined based on a distributor's actual costs relative to its predicted costs.[5] The PWU agrees with Board Staff in this regard.

5. Another restriction of using forecast costs is that any cost disallowances may sufficiently reduce forecast costs to below the efficiency assessment group threshold. It is possible that a stretch factor reduction resulting from a disallowance would ultimately exceed the disallowance, resulting in a higher revenue requirement.

6. However, the stretch factor recommended by Board Staff's expert witness, PEG, is based on forecast costs. The 0.3% stretch factor is applied to utilities with costs within

[4] Board Staff Submission, page 44

[5] Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors – Report of the Board – Issued November 21, 2013, page 20

±10% of benchmark costs.[6] Toronto Hydro's costs have never exceeded 10% of predicted costs in any year in either PSE's or PEG's total cost benchmarking results.[7]

7. Since the current stretch factor derivation methodology was introduced in 2013 relative cost performance has been calculated as the average of the most recent three years of historical data.[8] The PWU submits that it would be inappropriate to change the methodology in this proceeding.

8. PSE's results indicate three-year average relative cost performance is below -10% and Toronto Hydro should therefore be assigned a 0.15% stretch factor. PEG's results indicate average historical cost performance and a stretch factor of 0.3%. The PWU submits that, regardless of which study the Board prefers, the maximum stretch factor applicable to Toronto Hydro is 0.3%. A stretch factor of 0.45% (as advocated by Board Staff) would be inconsistent with past practice and contrary to the Board's policy on stretch factor derivation.

9. Board Staff also proposes an additional stretch factor of 0.64% on capital.[9] Board Staff cites an undertaking response from PEG to support the use of a 0.64% capital stretch factor, or S-factor.[10] The PWU submits that this value should not be considered by the Board in this proceeding. The undertaking response was not provided until July 26th, after the conclusion of the oral hearing, so there was no opportunity for Toronto Hydro or intervenors to probe the methodology or calculations underlying that figure.

10. The figure relies greatly on forecast figures and not benchmarking results.[11] It is described as a "stretch" factor but does not rely on Toronto Hydro's relative cost performance. PEG's formula can be simplified as:[12]

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[6] Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors – Report of the Board – Issued November 21, 2013, page 21

[7] Board Staff Submission, page 21

[8] See the Report of the Board Issues November 21, 2013 and each PEG Report to the Board from 2014 to 2019.

[9] Board Staff Submission, Page 46

[10] J10.5

[11] J10.5, pages 7-11

[12] J10.5 equations 28 and 15. Versions of the equations are combined in Step 3 on page 10

$$\frac{CK_0 * (X+S)}{CK_1^{NEW}} = \frac{(M*CKD_0)}{VKA_1} \quad (1)$$

$$\frac{540.5 * (X+S)}{123.9} = \frac{(10\%*265.5)}{559.13} \quad (2)$$

$$4.36 * (X + S) = 4.75\% \quad (3)$$

$$(X + S) = 1.08945\% \quad (4)$$

$$S = 1.08945\% - X \quad (5)$$

Where CK_0 is opening capital cost, CK_1^{NEW} is the average capital cost of new additions through the rate period, M is OEB's ICM capital markdown, CKD_0 is opening depreciation expenses, VKA_1 is the average value of proposed gross plant additions through the rate period, X is the stretch factor, and S is the proposed capital stretch factor.

11. Aside from the X stretch factor (which acts to reduce the S capital stretch factor in consideration of the stretch factor already applied to capital), the variables do not depend on: (a) Toronto Hydro's historic performance; (b) its relative cost performance to predicted costs; or (c) its cost performance relative to its peers. The combined X + S value would be the same whether Toronto Hydro was the most cost efficient or least cost-efficient utility in Ontario.

12. The total stretch factor applied to incremental capital spending under this methodology would be 1.09%, regardless of the X stretch factor. This would be materially greater than the highest stretch factor envisioned in the OEB's Rate Setting Parameters and Benchmarking report.[13]

13. PEG's calculations rely on a simplifying assumption using average capital addition values from 2021 to 2024 in place of next-year capital additions, however, the figures are relative to a 2020 base year. The average values from 2021 to 2024, which are the variables labeled with a subscript "1", therefore reflect two years of average capital

[13] Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors – Report of the Board – Issued November 21, 2013, page 21

growth. When 2021 capital additions are applied instead of the rate period average, the (X + S) value declines to 0.558%.

$$\frac{540.5 * (X+S)}{53.9^{14}} = \frac{(10\% * 265.5)}{475^{15}} \quad (6)$$

$$10.02 * (X + S) = 5.589\% \quad (7)$$

$$(X + S) = 0.558\% \quad (8)$$

14. The stretch factor, by its nature, compounds each year through the rate period. It is unreasonable to apply an average of multi-year values to determine a capital stretch factor that is applied in each year. The PWU notes that a poor performing utility with a 0.6% X stretch factor would have a negative S stretch factor in this scenario.

15. The S-factor simply does not provide incentives for utilities to improve cost performance. There are no actions Toronto Hydro can take to impact the magnitude of the capital stretch factor. It is simply a means to disallow costs without justification.

16. As a result, the PWU submits that the Board should reject Board Staff's proposal to introduce a capital stretch factor. The capital stretch factor is based on questionable logic and methodology, improperly calculated inputs, it does not induce incentives to improve cost performance, and none of these elements have been probed by intervenors. The capital stretch factor acts as a means to disallow the costs of capital projects that the Board has otherwise deemed prudent. An arbitrary disallowance of capital projects cannot result in just and reasonable rates.

17. Following the Board's decision on its 2015-2019 CIR application, Toronto Hydro has included a growth variable ("g-factor") to its Custom Price Cap Index ("CPCI").[16] This factor accounts for increased customer counts and loads throughout the rate period that reduce the need for rate increases. The g-factor of 0.2% is calculated as the average forecast increase in revenue that is expected from increasing units of billing determinants.

[14] J10.5, 2021 Total
[15] J1.7, 2021 In-Service Additions
[16] Exhibit 1B-Tab 4, Schedule 1, Page 2 of 14

18. Board Staff submits that Toronto Hydro incorrectly rounded the factor to 0.2%.[17] Board Staff do not provide any form of support for this submission. The average growth value is rounded to the nearest thousandth (or tenth of a percentage point), which is consistent with the rounding convention used for the inflation factor. The inflation factor is calculated as the weighted average of non-labour input growth, rounded to the first percentage decimal, and labour input growth, also rounded to the first percentage decimal. The weighted average is then rounded to the first percentage decimal.[18] The 2019 inflation factor set by the Board is 1.5% but would be 1.525% without rounding and 1.53% if rounded to the second percentage decimal. The following table[19] demonstrates that the inflation factor would be 0.025% higher if the final value was not rounded down.

	Non-Labour GDP-IPI(FDD) - Normal			Labour AWE- All Employees - Ontario			Resultant Values	
	Annual Average	Annual % Change	Weight	Annual	Annual % Change	Weight	Annual	Annual % Change
2016	116.825			973.75			104.9	
2017	118.425	1.37%	70%	992.55	1.93%	30%	106.5	1.525%

19. The inflation factor would be 1.54% if the average input changes were not also rounded.[20] Had this g-factor been applied in 2019, a CPCI factor with rounded inflation and growth factors would be nearly the same as a CPCI factor with unrounded inflation and growth factors. However, there is a material difference when one factor is rounded and the other is not.

20. The difference in the CPCI factor advocated by Board Staff would be based entirely on the decision to round the growth factor in a different way than the inflation factor. The PWU submits that Toronto Hydro's 0.2% growth factor is appropriate as it is consistent with the methodology used to determine the inflation factor.

3.0 Rate Base and Capital Plan

[17] Board Staff Submission, page 49
[18] Implicit Price Index (ICI) table – OEB Electricity Distribution Rate Applications page, Updates Section
[19] Based on the Implicit Price Index (ICI) table
[20] Calculated as 1.54% = (1.37% * 70%) + (1.93% * 30%)

3.2 Is the level of proposed 2020-2024 capital expenditures and capital in-service additions, arising from the distribution system plan, appropriate and is the rationale for planning and pacing choices appropriate and adequately explained?

21. The basis for the proposed 2020-2024 capital expenditures is the Distribution System Plan ("DSP"). Toronto Hydro indicates that the DSP is grounded in thorough analysis, including the use of improved business planning and asset management processes and tools, incorporation of customer feedback, benchmarking studies and third-party assessments.

22. In developing the DSP and hence the proposed 2020-2024 capital expenditures, there is no question that Toronto Hydro was faced with competing priorities, including its obligation to prudently manage its assets; meet new and emerging needs of the system; deliver outcomes that customers value - such as maintaining or improving service, reliability and safety – all at a price that customers are willing to pay; as well as meeting other regulatory and legal obligations.

23. The DSP is therefore a result of trade-offs among these and other competing priorities and objectives. However, the one trade-off that stands out as the most relevant and fairly understandable to customers and one that in fact embodies most of the above mentioned trade-offs is the one between service reliability and rate impact on customers. The significance that customers accord to this trade-off is evident from the customer feedback that Toronto Hydro received through its customer engagement:[21]

> **Customers consistently, across rate classes value price and reliability above other priorities, with price constantly at the top priority for non-large use customers.**

24. The evidence in this proceeding, including that described in the Applicant's Argument-in-Chief, is that Toronto Hydro's determination of what it considered to be the optimal balance between service reliability and rate impact was based on customer feedback and that rate impact was a crucial consideration in the development of the DSP and the proposed capital expenditures:

[21] Exhibit 1B, Tab 3, Schedule 1, Attachment A, p. 3

...this plan was built on the basis of customer feedback, which included thorough planning consideration of rate impacts and the outcomes that customers value. With regard to this feedback, Toronto Hydro produced an optimized plan that enables the utility to fund critical capital investments and operational expenses required to operate the system safely and efficiently, while keeping prices as low as possible.[22]

"Toronto Hydro developed and refined its capital and operational plans having regard to customer feedback that limited price increases was a paramount concern, to the degree that doing so would not adversely affect service performance and performance would improve in certain areas."[23]

25. Toronto Hydro's expert witness confirmed that the ranking of rate impact as the top priority by customers was a significant consideration that led the Company to propose a capital expenditure amount lower than what was needed from an asset management perspective:[24]

MR. STEPHENSON: So it is fair to say, as you have indicated, that customer feedback regarding limiting price increases was a paramount concern. Fair?

MR. LYBEROGIANNIS: Absolutely.

MR. STEPHENSON: Okay. And that paramount concern caused you to adjust aspects of your plan that you might have otherwise undertaken. Fair?

MR. LYBEROGIANNIS: Yes.

MR. STEPHENSON: And that were addressing other priorities, such as the ones that we have addressed previously. Fair?

MR. LYBEROGIANNIS: Yes.

MR. STEPHENSON: And so you indicate at lines 21 and 22 [of Ex 1B/T1/S1/page 28] **that your capital plan was constrained as a consequence of this rate impact, and that the number that you selected was lower -- you say that even though a higher level is preferable from an asset management perspective, so in other words your asset managers would have liked a bigger number?**

MR. LYBEROGIANNIS: Yes

26. The result is that Toronto Hydro has proposed a "restrained plan that represents the minimum level of investment necessary to maintain average reliability and customer service performance and deliver targeted improvements for customers experiencing

[22] TH Argument-in-Chief, page 6
[23] Exhibit 1B, Tab 1, Schedule 1, page 28
[24] OEB Transcript, Volume 3, page 72-73

below average service"[25] and this restrained plan is achieved by "aggressively reducing expenditures in the DSP relative to what the utility's experts determined would be more optimal investment strategies."[26] For example, the evidence indicates that between the initial and final plans, it reduced its total capital expenditure plan by more than $400 million, which included over $250 million in deferred investments in System Renewal programs.[27]

The information provided to customers with respect to rate impact was incomplete

27. Given the paramount concern that customers have over rate/bill impact, it was essential that they were provided with complete information with respect to the rate/bill impact of proposed investment plans. The consequence of not doing so would be that customers would not be able to make an informed decision with respect to the level of service reliability that they are willing to pay for. The purpose of customer consultation is to permit the utility to understand the customers appetite and preferences regarding available trade-offs. As a consequence, it is critical that trade-offs are properly explained to customers.

28. The evidence on customer engagement indicates that customers were informed that the rate impact of the proposed investment plan would be an average annual increase of 3.4% (now updated to 3.0%) to base distribution rates for a typical residential customer using 750kWh. Customers of other classes were also presented with even higher rate increases. What has come to light over the course of this proceeding is that the rate/bill impacts presented to customers did not include the effect of rate riders which is to actually reduce the overall ultimate final rate impact of the proposed investment plans to an effective rate of less than 1.1% for the typical average residential customer, which is below the inflation rate.[28]

29. In its Argument-in-Chief, Toronto Hydro indicated that actual rate impacts will be even lower than this once the revenue requirement updates identified in response to

[25] TH Argument-in-Chief, page 23; Exhibit 2B Section A1at page 1, lines 22-27
[2626] OEB Transcript, Volume 4, page 132, lines 12-28
[27] 2B Staff-73; TH Argument-in-Chief, page 24
[28] OEB Transcript Volume 3, page 84; TH Argument-in-Chief, page 6

undertaking J1.2 are factored in.[29] Table 1 below, which is an extract from a chart provided by Toronto Hydro in response to Undertaking J7.4, shows that effective rate increases arising from the 2020-2024 investments would be much lower than those presented to customers and also substantially lower than historical effective rates increases:

Table 1: Average Annual rate increases including rate riders

	Average Annual Rate Increase		
	2010-14	**2015-19**	**2020-24**
Residential - 750 kWh			
annual change - %	2.9%	6.6%	1.1%
Competitive Sector M-Unit Res. - 300 kWh1			
annual change - %		5.3%	1.8%
General Service < 50 kW - 2,000 kWh			
annual change - %	6.2%	5.5%	1.7%
General Service 50-999 kW - 200 kVA			
annual change - %	3.4%	7.2%	1.4%
General Service 1,000-4,999 kW - 2,000 kVA			
annual change - %	1.9%	7.3%	1.7%
Large Use - 9,700 kVA			
annual change - %	5.2%	7.7%	1.4%
Street lighting - 2,700 kVA			
annual change - %	9.1%	3.5%	2.3%
USL - 285 kWh			
annual change - %	9.7%	7.7%	-0.9%

Note: These bill impacts are overstated as they do not include the revenue requirement updates set out in Undertaking J1.2, which would further reduce bill impacts.

30. The post rate rider numbers in Table 1 were not presented to customers in any form during the customer engagement consultations. There can be no doubt that when customers hear "rate impact" they understand that to mean the rate impact that will actually appear on the bill that they will receive. Toronto Hydro agreed with this statement in cross-examination with the PWU:[30]

[29] TH Argument-in-Chief, page 6.
[30] Oral Hearing Transcript, Volume 7, Page 45

MR. STEPHENSON: And is it fair to say that a person receiving the information that is reflected on this page would understand that if the plan that was being discussed here was in fact implemented and in fact approved, they would be experiencing these kinds of changes on their bill, namely the 3.4 percent? That is what they would understand?

MR. HIGGINS: That's how we presented it, yes.

31. Customers cannot be expected to understand the nuances of rate riders. They implicitly understand all such factors to be included.[31] As a result, Toronto Hydro materially overstated the bill impact of its proposed plans when it reviewed them with its customers.

32. Mr. Lyle of Innovative Research agreed the consultations would have been improved if the impact of rate riders was considered:[32]

MR. LYLE: I need to learn more about the particular rate riders that we're talking about here, but if the effect of the rate riders is that they're paying more now and then the rate comes down, the relative rate increase comes down, then it seems to me that if Toronto Hydro had done that that they would actually end up with a better result.

If the relative increase is lower, then they might have actually had people choose to increase to spend rather than decrease it.

33. Viewed from another perspective, the takeaway from the customer engagement is therefore that customers accepted that a 3.4% rate increase was a reasonable price to pay in exchange for the proposed investment plan and an improved level of service reliability. The fact is that the effect of the rate riders was to permit Toronto Hydro to undertake a materially larger work plan, and generate more of the service reliability improvements that its customers are seeking, all within a 3.4% rate impact (inclusive of rate riders). Toronto Hydro testified that it deferred needed reliability improvement spending, out of concern for rate impacts. Proper disclosure to customers of the true rate impact would have rendered such reductions unnecessary.

Deferral of investment on the system will cost more later and expose the system to increased level of risk

[31] The necessity of informing customers of the "post-rider" rate impact is revealed by the scenario where effect of an applicable rider would be to *increase* the bill impact of the proposed rates. In such a case, no utility could credibly rely on consultation results indicating customer acceptance of the proposed rates. The same is true here.
[32] Oral Hearing Transcript, Volume 7, Page 118

34. Toronto Hydro decided to defer investment in its system, particularly in the System Renewal category (such as in pole replacement program), on account of its flawed customer consultation. This logic supports a larger work program, generating greater reliability improvements. The PWU recognizes that, as a practical matter, the Board is unlikely to order such an outcome. However, any further disallowance by the Board of the already minimum level that is proposed by the Applicant will pose even more challenges.

35. First, the deferred work must be undertaken in the future at a higher cost, because the likelihood is that some of this deferred work will be carried out reactively, resulting in additional costs and lower reliability than is optimal from an asset management perspective. It is less expensive to replace and maintain assets on a planned basis rather than on a reactive basis.

36. Second, underinvestment in the System Renewal category will lead to the loss of recent performance improvements achieved by Toronto Hydro owing to its increased effort to proactively replace deteriorating and PULs assets. The evidence is that 23% of the asset base is currently operating beyond Useful Life and Toronto Hydro projects this number to increase by another 8% by 2025.[33] Given that age is an important indicator of asset condition, Toronto Hydro needs to deal with the still significant backlog of its aging assets.

37. Similarly, the system continues to show deterioration in asset condition under the proposed work program. Toronto Hydro states that it expects the proposed plan to maintain the number of all assets in HI4 and HI5 condition over the 2020-2024 period.[34] It is not clear how that is achievable. In Exhibit K3.2, the PWU compiled a chart comparing the current and projected health scores for the various asset categories. In J3.3, Toronto Hydro confirmed the accuracy of the numbers in the chart. The current number of wood poles in HI4 (exhibiting material deterioration) and HI5 (reaching end of serviceable life) categories, for example, is projected to increase by 6,572 and 15,750, respectively, by

[33] U-AMPCO-133

[34] TH Argument-in Chief, page 29

2024.[35] Toronto Hydro's plan is to replace 11,530 poles over the 2020-2024 period[36], far lower than what is required to replace poles in the HI5 class alone. Toronto Hydro witnesses confirmed in cross examination that wood poles were one of the casualties of rate impact consideration,[37] which the PWU submits was significantly overstated to customers during engagement:

> **MS. NARISETTY: So we are predicting that in 2024, without any investments, we'll have roughly 33,000 wood poles in HI4 and 5 categories, and we have drawn your attention to our plan for how many wood poles we expect to replace in the next rate period.**
>
> **MR. STEPHENSON: I can go and do the math. I appreciate that. But I would have thought this is something you actually know the answer to. Do you have more or less -- given your anticipated replacement rate, do you have more or less poles in the 4 and 5 at the end of the period than you do at the beginning?**
>
> **MR. LYBEROGIANNIS: Generally our programs have been calibrated to maintain the condition of the system. However, with respect to wood poles, Mr. Stephenson, we do expect that we will not necessarily be keeping up with the pole conditions as you have identified in our forecast.**
>
> **MR. STEPHENSON: Okay. And is that one of the casualties of rate impact, if I can call it that? In other words, but for your price constraints or your rate impact constraints that we talked about earlier, your rate would be higher?**
>
> **MR. LYBEROGIANNIS: If I can direct you to 2B-Staff-73. This is a particular interrogatory that Staff had asked us, asking specifically about details as we stepped through from our initial, to our penultimate, to our final plan. Yes, we did make a reduction to the overhead system renewal program, so this was one of the programs that we reduced as a result of constraints that we had.**
>
> **MR. STEPHENSON: About 53 million, it looks like.**
>
> **MR. LYBEROGIANNIS: It was 53 million.**

38. Board Staff has recommended that a reduction to the total 2020-2024 capital expenditures of $246.8 million, including a reduction to the system renewal budget of $162 million (excluding area conversions and reactive/corrective capital budget) is appropriate.[38] The main rationale for Board Staff's recommendation that the system renewal budget be reduced by $162 million appears to be that Toronto Hydro has not fully transitioned to its new asset condition assessment ("ACA") methodology. As a result,

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[35] Exhibit K3.2
[36] U-AMPCO-130
[37] OEB Transcript, Volume 3, page 95-96
[38] Board Staff submission, pages 64-69

the outputs of the ACA which are used, in part, to develop the capital plans, are not fully developed and the proposed planned asset replacements could be overstated.[39] As related to the ACA, Board Staff also submits that Toronto Hydro has not calculated future HI scores and therefore cannot show how the proposed system renewal capital investments will impact the health of the asset population at the end of the 2020-2024 Custom IR term.[40]

39. The PWU disagrees. Board Staff's stated reason can equally be used to make the argument that proposed investments could have been understated, because in the absence of supporting evidence, it would only amount to speculation. Toronto Hydro has presented evidence listing the limitations of the old ACA methodology and how the new methodology fares better both in terms of properly reflecting the critical conditions of its assets, unlike the old methodology which has the effect of masking them, and in the health score that it assigns to those assets.[41]

40. It is true that the new ACA methodology will have to mature fully in order to give the Board and all stakeholders full confidence in its output, which is one of the inputs used to plan investment. For example, the PWU would like to see, as would Board Staff, future health scores calculated on the basis of proposed investment capital, in order to be able to justify and/or assess the adequacy of proposed investments.

41. However the PWU recognizes that first, condition is only one of many indicators of investment needs; there are many others including oil leaks, PCB's, safety issues, reliability, worst performing feeders, et cetera.[42] Secondly, in the absence of future health scores projected on the basis of proposed investments, which Toronto Hydro has not done at this time, the other reasonable approach to assess the impact of proposed investments on future health scores is to compare the number of planned asset replacements with the number of assets that would be in worst condition, i.e., assets in HI4 and HI5 categories, at the end of the plan. That is what the PWU has done, for example, with respect to wood poles. As discussed earlier, the result has shown that

[39] Ibid, page 69.
[40] Ibid.
[41] JTC1.16; OEB Transcript, volume 4, page
[42] OEB Transcript, Volume 4, page 138, lines 26-28; page 139, line 1

wood pole replacements planned for the 2020-2024 period are far lower than the number required to replace poles that will be in the HI5 category by 2024, let alone addressing those in HI4 category. To be fair, Board Staff has undertaken a similar exercise, for example, relating to proposed underground transformer replacements as shown in the following table:[43]

Table 18
2020-2024 Underground Transformer Replacements in the Underground Renewal - Horseshoe Program

Underground Transformers	2017[280]	2024 without investment[281]	Replacement Required to Maintain level[282]	Proposed Replacements[283]
HI4 & HI5	559	1,738	1,179	1,941

42. Based on this breakdown, Board Staff submits that Toronto Hydro, on a planned basis, intends to replace 762 (64.6%) more underground transformers than would be required based on the HI scores determined through its ACA.[44] In other words, Toronto Hydro is proposing to replace more than required to maintain current level (559 HI4 &HI5 transformers in 2017), which is 1179.

43. There are two problems with this argument: First, it considers maintaining the 2017 HI4 & HI5 levels as the preferable asset management practice and ignores the fact that Toronto Hydro's decision to only maintain current levels of asset condition was due to customers' concern over rate impact. Secondly, it plays down the fact that transformers have PCBs and as Board Staff acknowledges Toronto Hydro has obligations that require it to remove them from service by 2025.[45] In this respect, Board Staff speculates that the transformers in HI4 and HI5 categories are very likely to already include the transformers that have PCBs.[46] Board Staff offers no evidence to show the absence of PCBs in transformers that fall in the other HI categories.

[43] Board Staff submission, page 75
[44] Ibid.
[45] Ibid., page 76
[46] Ibid.

44. Board Staff also submits that the change in the ACA methodology has made it difficult to determine whether the system renewal capital investments made over the 2015-2019 Custom IR term approved by the OEB have been targeted effectively and resulted in a reduction in the quantity of assets that are in the worst condition.[47] It is not clear to the PWU how the asset condition impact of investments made over the 2015-2019 period, which could have only been calculated using the old ACA methodology (that Toronto Hydro no longer uses), can be used as a reason to challenge proposed investments going forward. The reality on the ground is that the new ACA methodology, unlike the old ACA methodology which Toronto Hydro says has the effect of masking condition, has produced a result that shows Toronto Hydro's asset base is exhibiting serious asset deterioration that requires proactive investment. It is this reality, among many other factors, that the Board should consider when assessing the justification for proposed investments.

45. Board Staff also submits that the planned system renewal budget should be reduced because, according to Board Staff, Toronto Hydro's estimate that only 10% to 20% of its reactive capital work requests involves intervention on assets that are already part of a planned work is either understated or, alternatively, Toronto Hydro is not targeting its planned capital investments at assets that are in the worst condition.[48] According to Toronto Hydro, these reactive capital work requests result in less than $5 million in capital expenditures annually and only a fraction ($2 million of this overlap of work) result in opportunities to reduce planned capital.

46. Underlying Board Staff's submission is its assumption that a significantly larger share of Toronto Hydro's planned capital work will end up being undertaken on a reactive basis.[49] The PWU submits this assumption is unreasonable in a number of respects. First, while the planned capital investments target mainly assets in HI4 and HI5 categories, a number of assets in HI4 and HI5 categories are not targeted for planned investment. This is due to Toronto Hydro's decision to defer investment out of concern over rate impact. The proposed planned replacement budget is the minimum required to maintain the

[47] Ibid., page 73
[48] Ibid., page 77-78
[49] Ibid., page 78

system and this should be an important consideration in budgeting the required reactive capital. As a consequence, Toronto Hydro cannot afford to use its reactive capital to fund the replacement of a 'significant' portion of assets that are already targeted for planned replacement. Secondly, the reactive budget will also be used to replace assets that are not necessarily classified as HI4 or HI5. For example, a new asset could require replacement for a number of reasons such as accidental malfunction. Finally, Board Staff appears to be operating under the understanding that there is a precise number of assets that should be replaced within any prescribed period. The reality is that asset renewal is a constant process and need always exceeds the planned replacement rate. Insofar as some incremental asset renewal is accomplished as a result of the overlap with reactive replacements, this should be viewed as a positive and desired outcome.

47. The PWU is also concerned with Board Staff's view that the amount spent on rear lot conversions is 'extremely high' on a per customer converted basis, regardless of whether the unit costs used are as proposed by Toronto Hydro ($0.036 million) or OEB Staff ($0.03 million). Board Staff further recommend that the Board reduce the pacing of the program and require the completion of the conversions over a longer period of time.[50] It is unreasonable for Board Staff to recommend a reduction to the rear conversion budget of $20 million (which is calculated on the basis of a unit cost that it believed was appropriate) and then suggest this same amount spent per customer basis is somehow 'extremely high'. The PWU is particularly concerned with the suggestion that the conversions be completed over a longer period of time. The program is undertaken not only to reduce outage time for a significant number of customers (2350) but also to address crew and public safety concerns.

48. Board Staff's recommendation ignores the seriousness of these reliability and safety concerns. Board Staff's submission is made without there being any cost/benefit analysis of the two scenarios – undertaking the program as proposed or completing it over a longer period of time. It is not clear from Board Staff's submission why spreading the costs over a longer period of time is better for customers. Part of the justification for the program is the high maintenance costs associated with the present configuration and

[50] BS Submission, page 83

therefore the Board should be concerned about the potential incremental maintenance costs that will be incurred as a result of a deferral of the conversion program. Spreading the conversion program over a longer period will also result in incremental increases in unreliability. Board Staff's recommendation also raises the inter-generational equity question: why are later cohort of ratepayers better to absorb these conversion costs than the current cohort? The PWU submits that the Board should reject Board Staff's recommendation.

49. Finally, the PWU submits that the Board should approve Toronto Hydro's proposed dual control centre. Board Staff appears to accept that there are valid benefits of the dual control centre-such as in a scenario where the primary control centre is compromised for any reason like cyber-attack, terrorism and extreme weather- but then submit that the proposal be denied on the ground that the London Economics International ("LEI") report indicated only a few other utilities considered in LEI's review have dual control centres.[51] The PWU notes that the proposed centre, while costing $40 million, the incremental OM&A costs are insignificant and there will be no incremental FTEs or compensation costs.

50. Security, safety and reliability risks and threats in a mega city like Toronto remain real and as such the dual control centre is a step forward to prevent or mitigate the impact of these potential risks. The fact that only a few other utilities have dual control centres so far does not imply that Toronto Hydro should not have one either; nor does it indicate that the others are not planning to have such centres since the threats are common to all utilities in big cities like Toronto. The project proposal should be assessed on the basis of the rationales identified by Toronto Hydro.

Comparison of Internal vs. External Costs

51. Toronto Hydro has increasingly relied on third-party external contracting services for both capital and maintenance work and plans to increase its reliance on external resources in the test period. It plans to spend $417.7M in OM&A and capital expenditures on third-party service providers in the test year.[52] This represents an 8.9% increase over

[51] BS Submission, page 93
[52] 4A-Staff-131, part b)

the average spending of $383.7M in the 2015-2019 rate period and a 14.1% increase over 2019 third-party service provider costs.

Table 1: Third-Party Service Provider Costs ($M)

2015 Actual	2016 Actual	2017 Actual	2018 Bridge	2019 Bridge	2020 Test
385.6	398.5	398.3	370.9	365.0	417.7

52. Approximately 60% of Toronto Hydro's capital expenditures are undertaken by third-party contractors.[53] This figure does not include materials provided by Toronto Hydro or any other Toronto Hydro costs, so the share of non-material capital expenditures undertaken by third-party contractors is greater than 60%.[54] The share of third-party contractor costs within OM&A is approximately 40%.[55]

53. Toronto Hydro has not sufficiently justified the level of external contractor spending or demonstrated that contracted services have resulted in lower revenue requirements. The analysis that has been provided by Toronto Hydro on this issue was not made available to the public.[56] The information that was provided confidentially is not materially more illuminating.

54. The Board's decision on confidentiality described Toronto Hydro's cost comparison as follows:[57]

> **The Toronto Hydro comparison was based on the actual cost of only a small percentage of the construction projects undertaken in-house, compared with estimates of external costs based on unit pricing information, derived internally from Toronto Hydro's term contract.**

55. The cost comparison, as described above, is not a serious effort to evaluate the cost-effectiveness of internal and external work for many reasons. The analysis is based only on construction projects so it is not relevant to the 40% of OM&A spending

[53] 2B-SEC-73
[54] J5.5
[55] 4A-SEC-76
[56] Decision on Confidentiality, December 14, 2018 & Oral Hearing Transcript 3, Pages 77-80
[57] Oral Hearing Transcript 3, Pages 77-80

undertaken by external contractors. Toronto Hydro has an immense amount of historic data but selectively used only a small percentage of in-house projects. Additionally, since it has been contracting services for many years it should have actual data to compare with actual in-house data but instead uses estimates of external costs.

56. The Board's decision continues:

> **At the very least, such disclosure would first necessitate a much more intensive scrutiny of the methodology behind the underlying calculations.**

57. The PWU submits that this custom IR proceeding was the appropriate venue to scrutinize the methodology behind the calculations underlying the cost comparison. The increasing use of external resources has not been justified and the absence of robust analysis in this proceeding effectively permits Toronto Hydro to continue down this path without demonstrating the prudence of its decisions.

58. It is clear that the Board does not find Toronto Hydro's cost comparison analysis to be meaningful. In fact, part of the Board's reasons for keeping the analysis confidential was that the analysis is not useful:[58]

> **However, the OEB is not satisfied that the evaluation and comparison of internal and external costs prepared by Toronto Hydro is sufficiently robust to engage the operative principles of openness and transparency and require its public disclosure.**
>
> ...
>
> **Given the differing data sources, actual and internally estimated, used to derive the final results of the comparison exercise, the OEB is not convinced that the public interest now requires an order for disclosure, given the possibility of harm.**

59. The PWU submits that the large and increasing magnitude of the use of external resources should be of concern to the Board. The ostensible justification for this magnitude is that the level of the use of external resources is cost effective. However, the Board is provided with essentially no transparency into these costs to be able to satisfy itself that the justification is valid.

60. The Board insists that utilities, including Toronto Hydro, undertake extensive benchmarking exercises regarding employee compensation and headcount, to determine

[58] ibid

whether these internal costs are competitive with peers and are otherwise justifiable. By contrast, the Board is provided with essentially no transparency into the cost effectiveness of contracted resources. These costs are not benchmarked against either: (a) the costs that other utilities incur where contracting for similar resources; or (b) the costs of performing the work using internal resources. This should be the cause of significant concern to the Board. As more and more of Toronto Hydro costs are contracted out, the Board has less and less visibility into them, and less and less assurance that it is being undertaken on a cost-effective basis.

61. In addition, Toronto Hydro has resisted flexible, cost-effective options for internal labour, such as the PWU Hiring Hall. PWU Hiring Hall workers are hired for specific work programs over defined periods and the employer has no ongoing obligations with respect to benefits or pensions. The PWU Hiring Hall has helped manage compensation costs for Ontario utilities such as Hydro One and OPG, and has been treated favourably by the Board. These options are not considered in Toronto Hydro's internal and external cost analysis.

62. Toronto Hydro's resistance to provide analysis of cost differentials on an aggregated basis due to commercial concerns raises questions with respect to the competitiveness of third parties. It should not be the case that aggregated data is commercially sensitive unless there are few commercial organizations. Additionally, the notion that information about Toronto Hydro's comparison analysis would necessarily result in increased bids, increased internal compensation costs, and higher costs for ratepayers is dubious and contrary to economic price theory. The Board correctly notes this in its decision.[59] If Toronto Hydro's cost analysis is valid it must be reflective of its actual costs.

63. Toronto Hydro confirmed in an undertaking that it does not benchmark third-party costs against third-party costs of other utilities.[60] It instead explains that the utility "benchmarks" third-party bids against other bids and existing contracts. The PWU submits that this is not a valid benchmarking analysis.

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[59] Oral Hearing Transcript 3, Page 79, lines 5-8
[60] J5.6

64. The undertaking provides annual contractor price escalations in comparison to Statistics Canada inflation indices to support the use of third-party contractors. Though the price trends are relevant, the magnitude of the expenditure is the relevant metric to assess relative price differences. Furthermore, the PWU notes that the average annual contractor unit price escalation[61] is greater than the average annual increase in compensation per PWU FTE in the 2015-2019 rate period.[62]

65. Moreover, the inadequate analysis Toronto Hydro provided does not appear to be a realistic assessment of the difference between external and internal work. For example, it does not appear to include any contractor risk. There are real costs that can arise when a contractor is unable to complete its work. The Copeland TS project has been significantly delayed and costs have increased, partially due to its contractor, Carillion Construction Inc., filing for creditor protection. This forced Toronto Hydro to engage another contractor to complete the required work.[63] The additional costs and project delay were entirely within the control of Toronto Hydro as it made the decision to contract this work.

66. Toronto Hydro's increased reliance on external contractors has taken on contractor performance risk. By passing additional costs caused by contractors to ratepayers, Toronto Hydro is fully passing the contractor risk to ratepayers. The risk that a third-party does not complete its work is a risk the utility must consider in cost comparison analyses.

67. Toronto Hydro attributes an increase of $2.5 million to the cost of the Copeland TS Expansion project to the cost of replacing Carilion Construction and delays experienced by Hydro One.[64] The PWU submits that the additional cost caused by replacing Carilion should be disallowed and permanently removed from rate base. The isolated cost impact of replacing Carilion has not been provided by the company. The PWU submits that a disallowance of at least $1.5 million is appropriate to recognize additional costs and project delays and to ensure ratepayers to not bear the costs incurred by management's decision to contract this work twice.

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[61] J5.6, page 2, Table 1
[62] U-SEC-102, Appendix A
[63] 2B-Staff-95, part b)
[64] Exhibit U, Tab 2, Schedule 2, page 21 of 26

68. Toronto Hydro is unable to demonstrate the cost-effectiveness of external contractors relative to internal labour to the Board because either management has decided not to provide its robust analysis to the Board, or it has no analysis to provide. The PWU submits that either case is unacceptable. The information with respect to internal and external costs provided by Toronto Hydro is simply inadequate to assess whether its costs are just and reasonable.

69. The PWU submits that Toronto Hydro should be directed to file robust analysis of internal and external cost comparisons in its next rate application. This analysis should evaluate what internal costs are avoided by contracting work relative to the external costs. Any overhead or common costs attributed only to internal labour should be included only if the cost would not have been incurred if the work was contracted. The analysis should consider actual historic costs, including any additional costs caused by poor contractor performance such as the cost to replace contractors, with either internal or external resources, or to correct unsatisfactory work. The PWU further submits that Toronto Hydro should be directed to file a benchmarking study of the cost-effectiveness of its contractors relative to the contractors of other utilities.

70. In addition, the PWU submits that planned spending on work programs undertaken by third-party service providers have not been adequately justified and therefore the proposed level of spending for both OM&A and capital expenditures cannot result in just and reasonable rates. The PWU proposes a disallowance of 5% to the portion of OM&A and capital expenditures undertaken by third parties.

71. The exact level of planned OM&A and capital spending on third parties throughout the test period has not been provided. Total OM&A and capital spending in the test year is $417.7 million[65] and Toronto Hydro has provided percentage shares of OM&A and capital spending undertaken by third parties. The share of capital expenditures undertaken by third parties is approximately 60%[66] and the share of OM&A undertaken by contractors is 38.7% in the test year.[67]

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[65] 4A-Staff-131, part b)
[66] 4A-AMPCO-93, Oral Hearing Transcript, Volume 5, page 64, lines 23-25
[67] 4A-SEC-76

72. The $417.7 million 2020 third-party spending total can be derived using the percentages above, together with the forecast amounts for OM&A spending and capital expenditures. Applying 59.85% to forecast 2020 capital expenditures of $518.4 million[68] (which is $310.3 million), and 38.7% to $277.5 million in planned 2020 OM&A[69] (which is $107.4 million), yields a total of $417.7 million for third-party service providers.

73. Therefore, the PWU recommends a disallowance of $15.51 million (5% of $277.5 million) in capital expenditures and a disallowance of $5.37 million (5% of $107.4 million) in OM&A spending in 2020. Capital expenditures proposed to be disallowed in 2021 to 2024 are provided in the following table. OM&A disallowance in 2020 will mechanistically carry forward through the remainder of the rate period.

($ Millions)		2020	2021	2022	2023	2024	Total
Capital[70]		518.4	581.8	587.1	565.7	574.4	2,827.4
Third-Party	59.85%	310.3	348.2	351.4	338.6	343.8	1,692.2
Disallowance	(5%)	(15.5)	(17.4)	(17.6)	(16.9)	(17.2)	(84.6)
OM&A[71]		277.5	280.8	284.2	287.6	291.1	1,421.2
Third-Party	38.7%	107.4	108.7	110.0	111.3	112.6	550.0
Disallowance	(5%)	(5.4)	(5.4)	(5.5)	(5.6)	(5.6)	(27.5)

5.0 Operations, Maintenance and Administration (OM&A) Costs, Depreciation Expenses and Payments in Lieu of Taxes (PILs) Amounts

5.1 Is the level of proposed 2020 OM&A expenditures appropriate and is the rationale for planning choices appropriate and adequately explained?

Compensation and Workforce

74. Subject to one exception noted below, Toronto Hydro's internal compensation costs and compensation cost trends are reasonable and are not the primary driver of revenue requirement growth through the test period. The trend in compensation per FTE

[68] Exhibit U, Tab 2, Schedule 2, Appendix B
[69] Exhibit U, Tab 6, Schedule 1, page 1 of 2
[70] Exhibit U, Tab 2, Schedule 2, Appendix B
[71] Assumed annual 1.2% CPCI adjustments. Exhibit U, Tab 6, Schedule 1, page 1 of 2

is forecast to be lower than the proposed growth of the revenue requirement through the test period.[72]

75. The trends of compensation per union-represented FTE, for both the PWU and Society, have historically been lower than the trend of overall compensation per employee. This trend is forecast to continue in the 2020-2024 test period. The average annual growth rate of compensation per customer is 2%.[73]

Average Annual Growth Rate (% YoY) - Total Compensation / FTE			
	2015-2019	**2020-2024**	**2015-2024**
Executive	4.02%	2.92%	3.61%
Managerial	3.98%	3.07%	3.64%
Non Management, Non-Union	1.95%	3.14%	2.80%
Society	1.31%	1.53%	1.65%
PWU	1.14%	2.66%	2.05%
Total	**1.81%**	**2.82%**	**2.51%**

Ref: U-SEC-102, Appendix A[74]

76. The reasonableness of Toronto Hydro's compensation per employee is supported by a compensation benchmarking study conducted by Mercer.[75] The results of Mercer's show that compensation of Toronto Hydro's employees is in line with its peers. Total remuneration, which includes salaries, pensions, benefits, and short-term and long-term incentives, for Toronto Hydro employees is in-line with the median total remuneration of the energy peer group. Total remuneration is within the competitive range for most positions benchmarked, including PWU-represented positions, and on an overall basis. Total remuneration is lower than the median within the general industry peer group.

77. Mercer's study also found that PWU and Society-represented employees receive a lower value of benefits and their employer pays lower pension contributions as a share of employee salaries than its energy peer group. For PWU-represented employees, the shares are below the 25th percentile of the energy peer group.

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[72] U-SEC-102, Appendix A & Exhibit 1B, Tab 4, Schedule 1, page 9 of 14

[73] 4A-PWU-16

[74] Rates are calculated with the same formula used by Toronto Hydro In J5.4
Growth Rate % = (End Year Balance – Beginning Year Balance) ^ [1 / (End Year – Beginning Year)] - 1

[75] Exhibit 4A, Tab 4, Schedule 5

78. The results of Mercer's study demonstrate an improvement in Toronto Hydro compensation relative to its peers compared to a 2014 study conducted by Willis Towers Watson. The number of positions outside of the competitiveness range, which is considered ±10% for individual positions, declined from the 2014 study to the 2017 study.[76]

Table 1: Number of Toronto Hydro Grades that are more than 10% above market median (P50)

Energy Peer Group		General Industry Peer Group	
2014	2017	2014	2017
8	3	13	1

79. By contrast, executive and managerial compensation has been increasing at an unreasonable and unsustainable rate. Over the 2014-2019 rate period compensation per executive and managerial FTE has increased by an average of 4% per year.[77] Over the same period, PWU and Society compensation per FTE were increasing by 1.1% and 1.3% per year, respectively.

80. High growth in executive and managerial compensation has put upward pressure on Toronto Hydro's compensation costs despite management's decision to contract increasing levels of work. Between 2015 and 2020 total PWU compensation declined by $4.4 million while executive and managerial compensation increased by $4.9 million.[78] Toronto Hydro's executives and managers are absorbing all cost savings achieved from declining PWU FTEs.

81. Any comparison of internal and external cost must account for overhead as a component of internal costs. Rapidly increasing executive and managerial compensation is therefore contributing to higher assessed internal costs. However, the evidence reveals that these overhead costs are not avoided when work is contracted out. The total number

[76] 4A-AMPCO-106, part f)
[77] J5.4, Appendix A. See also compensation rate table on previous page.
[78] U-SEC-102, Appendix A

of executives and managers has in fact increased by 11.5% (from 61 in 2015 to 68 in 2019) as Toronto Hydro contracted out more and more work.[79]

82. The PWU submits that executive and managerial compensation increases should be limited to the average compensation increase for non-executive and managerial employees. Total compensation per FTE for Toronto Hydro's workforce increased by an average of 2.5% per year from 2015 to 2024.[80] This figure, excluding executive and management, is 2.4%. Had executive and managerial compensation per FTE increased by 2.4% since 2015, compensation would be considerably lower.

83. The following table shows: compensation per FTE, compensation per FTE if compensation increases were limited to 2.4%, the number of FTEs, total compensation if compensation per FTE growth was limited to 2.4%, actual total compensation, and the difference between what is requested in this application and compensation if executive and management compensation growth was limited to the average increase of other employees.[81]

		2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Bridge	2020 Test
Comp / FTE	Executive	$514,213	$493,995	$476,708	$583,712	$601,906	$630,787
	Managerial	$232,379	$239,809	$251,393	$255,329	$271,677	$284,147
Comp/FTE @ 2.40%	Executive	$514,213	$526,554	$539,191	$552,131	$565,383	$578,952
	Managerial	$232,379	$237,956	$243,667	$249,515	$255,503	$261,635
FTEs	Executive	6	6	7	5	5	5
	Managerial	55	63	63	67	63	62
Total Comp @ 2.40%	Executive	$3,085,275	$3,159,322	$3,774,336	$2,760,657	$2,826,913	$2,894,759
	Managerial	$12,780,825	$14,991,211	$15,351,000	$16,717,482	$16,096,690	$16,221,375
Actual Total Comp	Executive	$3,085,275	$2,963,967	$3,336,959	$2,918,562	$3,009,528	$3,153,935
	Managerial	$12,780,825	$15,107,977	$15,837,777	$17,107,012	$17,115,660	$17,617,093
Difference	Executive	$0	$195,355	$437,377	($157,905)	($182,615)	($259,176)
	Managerial	$0	($116,766)	($486,777)	($389,530)	($1,018,970)	($1,395,718)
Total		$0	$78,588	($49,400)	($547,434)	($1,201,585)	($1,654,894)

84. The high degree of executive and managerial compensation growth above compensation growth for other employees results in over $1.6 million of additional

[79] ibid
[80] U-SEC-102, Appendix A
[81] ibid

compensation costs to be recovered each year of the rate period. The PWU submits that it is unreasonable to collect from ratepayers executive and managerial compensation increases that are materially higher than inflation and the rate of compensation growth paid to other employees. For these reasons, the PWU submits that a disallowance of $1.6 million per year for excessive executive and managerial compensation is appropriate.

85. The PWU also submits that Toronto Hydro's workforce strategy is insufficient to meet the complement it projects through the rate period. Total complement is projected to increase to 1,544 in 2021 and remain consistent through the rate period.[82] However, forecast retirements greatly exceed the number of new FTEs planned in the workforce strategy.

86. Toronto Hydro projects a total of 338 retirements from 2020 to 2024[83] based on its revised retirement projection methodology.[84] It expects to hire 85 positions from the external market[85] and 191 apprentices[86] during the 2020-2024 period, of which only 80%[87], or 153 apprentices, are expected to be retained. This is a total increase of 238 FTEs. Toronto Hydro confirmed that its only staffing strategies that increase its FTE count is hiring from the external market and hiring new graduates to its apprenticeship program.[88]

87. Despite its stated plan to increase FTEs in the test period, Toronto Hydro plans to hire only 238 FTEs to replace 338 vacancies arising from forecast retirements. This reflects a decline of 100 FTEs by the end of the test period. The PWU is concerned that Toronto Hydro's staffing strategy is not sufficient to meet the internal labour workforce required to accomplish its capital plan.

88. The PWU is concerned as the number of actual PWU FTEs in the 2015-2019 rate period has been significantly below Toronto Hydro's projections.[89]

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[82] U-SEC-102, Appendix A
[83] Exhibit 4A, Tab 4, Schedule 3, Page 20
[84] 1B-CCC-13
[85] 4A-PWU-14, part e)
[86] 4A-PWU-14, part b)
[87] 4A-PWU-14, part c)
[88] 4A-PWU-14, part d)
[89] JTC 3.16

Table 1: 2015-2018 Forecast versus Actual PWU FTEs

	2015	2016	2017	2018
Forecast FTEs[1]	925	972	967	957
Actual FTEs[2]	874	831	794	724

89. Toronto Hydro states the vacancies are attributable to harmonizing the overhead and underground trade roles into the Power Line Technician role and its efforts to manage cost pressures.

90. Toronto Hydro's reduction in PWU compensation did not result in lower costs as it materially increased its reliance on external contractors, which has not been sufficiently justified, and non-management, non-union workers. Through the 2015-2019 rate period PWU compensation declined by 1.7% while compensation paid to non-management, non-union workers increased by 7.3%.[90] Total compensation per non-management, non-union FTE was similar to compensation per PWU FTE at the start of the last rate period but has been increasing at a higher rate and will be 10% higher through the 2020-2024 rate period.

91. In an exchange with the PWU, Toronto Hydro stated that it planned to reduce PWU vacancies that were lost as a result of 2015-2019 cost pressures:[91]

> **MR. STEPHENSON: Okay. So what is your anticipation with respect to the time frame for 2020 and following? Is it your anticipation that the rates that you have applied for in this case will permit the utility to staff-up these 175 positions, that you will now have an envelope which permits you to do that?**
>
> **MS. POWELL: That is our plan, is that we do plan to hire within our key core trades so that we do have the internal resources. So it is a balance between internal and external resources and executing the work.**

92. As the evidence shows and Ms. Powell later confirmed, that is not in fact Toronto Hydro's plan. Toronto Hydro continues to rely on more expensive non-management, non-union labour and external contractors. The PWU submits that Toronto Hydro has not

[90] U-SEC-102, Appendix A

[91] Oral Hearing Transcript, Volume 5, page 58
The 175 figure is an approximation of 2018 PWU vacancies, less 50 CPLT hires.

sufficiently justified the prudence of changing the composition of its workforce and should not continue current complement and external contracting trends without demonstrating the prudence of these changes to the Board.

93. Furthermore, the PWU is not confident that Toronto Hydro intends to implement the workforce plan it has submitted to the Board. Actual complement was materially different from what was presented to the Board in the 2015-2019 rate period and its staffing strategies are clearly insufficient to reach its stated plan for the 2020-2024 rate period. The PWU submits that Toronto Hydro should justify to the Board any deviations from its workforce plan, including what factors caused changes to complement and why those factors were not considered at the time it filed its application. The Board must be confident that a utility's plans are consistent with the plan it presents to the OEB and to the public.

All of which is respectfully submitted.