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Vice President, Reliability Standards and Chief Regulatory Officer

BY RESS, EMAIL AND COURIER

March 4, 2020

Ms. Christine E. Long
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Long,

EB-2017-0049 - Hydro One Networks' 2018-2022 Distribution Rate Application – Distribution Productivity Report

In its Decision and Order EB-2017-0049, dated March 7, 2019 in respect of Hydro One Networks' ("Hydro One") application for electricity distribution rates for 2018-2022, the Ontario Energy Board ("OEB") directed that Hydro One:

> "file a report, within twelve months of this Decision and Order, showing the status of the productivity initiatives listed in I-25-Staff-123, including actual savings, with a discussion of any deviation from plan. The report, is to be filed on a standalone basis and will not be adjudicated. Hydro One is expected to update the report to file with its next rebasing application."

Further to this direction, enclosed please find the requested productivity report.

This filing has been submitted electronically using the OEB's Regulatory Electronic Submission System and two (2) hard copies will be sent via courier.

Sincerely,

ORIGINAL SIGNED BY FRANK D'ANDREA

Frank D'Andrea

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an Application by Hydro One Networks Inc.'s 2018-2022 Distribution Custom IR Application and Evidence.

DISTRIBUTION PRODUCTIVITY REPORT

1 INTRODUCTION

On March 31, 2017, Hydro One Networks Inc. ("**Hydro One**") filed a Custom Incentive Rate application (EB-2017-0049) (the "**Application**") seeking approval of its distribution rates from January 1, 2018 to December 31, 2022. The Ontario Energy Board (the "**OEB**") released its decision on March 7, 2019 (the "**Decision**") approving Hydro One's Application. Among other things, the OEB directed Hydro One to file a report showing the status of the productivity initiatives listed under OEB staff IR 123 within 12 months of the Decision.[1]

2 PRODUCTIVITY STATUS REPORT

Hydro One is providing the following Productivity Status Report which reflects the productivity initiatives as outlined in response to OEB staff IR 123 as well as the actual savings achieved in 2018 and 2019. The actual savings for 2018 and 2019 include additional initiatives that have materialized since Hydro One filed the Application. The additional initiatives are related to the Customer Contact Centre, Corporate Costs, and Pad Mount Transformers. Moreover, the reporting of the Move to Mobile initiative has been disaggregated between field efficiencies and back office FTE savings.

Hydro One measures Productivity savings on an aggregated level with certain initiatives impacting the Distribution Business, the Transmission Business or both the Transmission and Distribution businesses (i.e. common initiatives). Consistent with the productivity savings which were forecasted for 2018 to 2022 and provided in response to OEB Staff IR 123, the table below is specific to initiatives which were identified as those that benefit the Distribution business. The actuals for 2018 and 2019 are directly aligned to the aggregated corporate results that Hydro One reports on its Corporate Scorecards.

[1] Decision, p. 57, which states that "Hydro One to file, within twelve months of this Decision and Order, a report showing the status of the productivity initiatives listed in I-25-Staff-123, including actual savings, with a discussion of any deviation from plan."

2018 RESULTS

In 2018, Hydro One achieved $74.5 million in productivity savings as compared to $69.9 million of productivity savings which were previously forecasted in the Application. The variances between actual productivity savings achieved and forecasted productivity savings are discussed in the following three categories: capital, OM&A and common costs.

Capital: In 2018, Hydro One achieved $33.5 million in capital related productivity savings as compared to the $36.4 million previously forecasted in the Application. The main drivers for the lower productivity savings achieved are as follows:

- Hydro One achieved lower than planned savings in the Move to Mobile initiative due to higher than planned unit costs relative to the baseline; and
- Procurement savings in Distribution were below plan largely due to lower external spend on IT projects relative to forecast, affecting savings from negotiated rate reductions which are volume driven.

The reductions in productivity savings were partially offset by increases in productivity savings achieved in the following areas:

- Hydro One worked to find incremental opportunities and accelerated the Fleet Rationalization initiative (Telematics); and
- Hydro One introduced a new productivity initiative for utilization of lower cost Pad-Mounted transformers under the Operations Category.

OM&A: In 2018, Hydro One achieved $34.9 million in OM&A related productivity savings as compared to the $29.4 million previously forecasted in the Application. The OM&A productivity savings initiatives were materially in line with forecasted levels. Higher achieved productivity savings were mostly due to the following initiatives:

- Accelerated savings in the Cable Locate Outsourcing initiative;
- Accelerated saving in the In-Sourcing of the IT contract initiative; and

- Savings realized due to Customer Call Centre Insourcing which is a new initiative.

Common: In 2018, Hydro One achieved $6 million in common related productivity savings as compared to the $4 million previously forecasted in the Application. The increase in productivity savings was due to accelerated savings opportunities achieved via Early Pay discounts under the Procurement category.

2019 RESULTS

In 2019, Hydro One achieved $97.0 million in productivity savings as compared to $72.0 million of productivity savings which were previously forecasted in the Application. The variances between actual productivity savings achieved and forecasted productivity savings are discussed in the following three categories: capital, OM&A and common costs.

Capital: In 2019, Hydro One achieved $34.9 million in capital related productivity savings as compared to the $34.2 million previously forecasted in the Application. The main drivers for the higher productivity savings achieved are as follows:

- Continued acceleration of Fleet Rationalization savings initiative (Telematics);
- Incremental Procurement savings; and
- Incremental savings in the utilization of lower cost Pad-Mounted transformers which falls under the Operations Category.

These additional savings were partially offset by decreases in productivity savings mostly in the Move to Mobile initiative due to higher unit costs.

OM&A: In 2019, Hydro One achieved $39.1 million in OM&A related productivity savings as compared to the $33.7 million previously forecasted in the Application. Higher achieved productivity savings were mostly due to the following initiatives:

- Productivity savings realized due to Customer Call Centre Insourcing which is a new initiative; and
- Accelerated savings in the Cable Locate Outsourcing initiative.

These increases in productivity savings were partially offset by decreases in productivity savings realized in the following areas:

- Lower Move to Mobile initiative savings due to higher unit cost; and
- Lower ISD savings related to the Application maintenance contract reductions.

Common: In 2019, Hydro One achieved $23.0 million in common related productivity savings as compared to the $4.2 million previously forecasted in the Application. The increase in productivity savings was due to Hydro One's Corporate Costing initiative which significantly reduced vacancies and limited contract spending to critical functions. This was discussed in detail within the EB-2019-0082 Transmission 2020-2022 Custom IR application.

Below is an updated chart as it appeared in OEB staff IR 123, reflecting the forecasted and actual numbers for 2018 and 2019.

	Category in Rate Filing	Initiative Summary	Measurement and Expected Benefit	2018 As Filed	2018 Actuals	2019 As Filed	2019 Actuals	2020 As Filed	2021 As Filed	2022 As Filed
Capital	Move to Mobile	Field Force	Measures Labour Hours per Unit - Historical Baseline vs Actual *Plan allocation to expected unit cost savings in New Connections, Joint Use line Relocations, Pole Replacement, Field Meter Service, Component Replacement*	$ 10.3	$ 2.7	$ 10.5	$ (4.2)	$ 10.7	$ 10.7	$ 10.7
		FTE Reduction (Back Office)	Back Office FTE Reductions from field automation - Historical FTE vs Actual. Target dollars historically alloced under Field Force. Disaggregated for Actuals	$ -	$ 1.3	$ -	$ 0.7	$ -	$ -	$ -
	Procurement	Procurement	Lower Cost per Unit - Historical Baseline vs Actual *Savings are estimated at a category level based on historical spend, expected and achieved negotiated savings, and updated per business plan assumptions (Capital program spend)*	$ 12.7	$ 7.2	$ 13.2	$ 17.7	$ 17.0	$ 16.7	$ 18.6
	Information Technology	ISD Savings	Infrastructure Rationalization/Contract Reductions *Expected capital allocation of negotiated reductions*	$ -	$ -	$ 0.3	$ -	$ 0.3	$ 0.3	$ 0.3
	Operations	Stations Efficiencies	Cost Reduction based on Historical spend *Expected Capital allocation based on historical spend for OT reductions and Stations efficiencies*	$ 0.0	$ -	$ 0.0	$ -	$ 0.01	$ 0.01	$ 0.01
		Padmount Transformers	Cost Reduction - Actual Cost of Padmount transformer vs Average historical actual cost of alternative	$ -	$ 2.0	$ -	$ 1.5	$ -	$ -	$ -
	Telematics	Telematics	Fleet Rationalization - Unit Based Capital Plan Reduction *Estimated by utilizing Telematics data on fleet utilization and then measures the expected unit based reduction in the capital plan*	$ 13.4	$ 20.3	$ 10.1	$ 19.3	$ 9.8	$ 9.6	$ 9.3
OM&A	Customer	eBilling	Lower Cost per Customer *Expected customers enrolled in eBilling x Unit Savings*	$ 1.8	$ 1.8	$ 2.6	$ 3.5	$ 3.2	$ 4.1	$ 4.8
		Call center insourcing	Lower Cost for Call Centre - Prior Cost (as filed) when Outsourced vs Current Actual Cost	$ -	$ 2.2	$ -	$ 9.1	$ -	$ -	$ -
	Information Technology	ISD Savings	Infrastructure Rationalization/Contract Reductions *Expected savings from server/database decommissioning and negotiated infrastructure and application maintenance contract reductions*	$ 7.4	$ 9.1	$ 8.3	$ 5.4	$ 11.5	$ 11.5	$ 11.5
		Contract Rates - Minor Enhancement	(Old Rate - New Rate) * Expected ME Hours *Negotiated savings x Expected need for minor enhancement hours in business plan*	$ 0.9	$ 1.5	$ 1.0	$ 0.7	$ 0.9	$ 0.9	$ 0.9
		Telecom Services Contracts	Lower Cost per Contract *Reflects negotiated reduction in contract price*	$ 0.6	$ 0.6	$ 0.7	$ 0.6	$ 0.7	$ 0.7	$ 0.7
	Move to Mobile	FTE Reduction (Back Office)	FTE Reduction *Reflects expected reduction in 29 back office support staff by 2020*	$ 2.7	$ 0.5	$ 2.8	$ 0.3	$ 2.9	$ 2.9	$ 2.9
		Field Force	Measures Back Office FTE Reductions - Target dollars historically alloced under Field Force. Disaggregated for Actuals	$ -	$ 1.3	$ -	$ (1.9)	$ -	$ -	$ -
	Operations	Cable Locate Outsourcing	(Historical Cost - New Cost) * # of Units *Reflects negotiated savings for planned units being outsourced*	$ 7.6	$ 11.4	$ 7.8	$ 14.6	$ 7.9	$ 8.1	$ 8.2
		Fault Indicator Deployment	Lower Labour Hours per Unit *Estimate based on expected time savings for responding to a line fault. Tracked using historical data compared to actual response time*	$ 0.8	$ -	$ 0.8	$ -	$ 0.8	$ 0.8	$ 0.8
		Forestry Initiatives	Lower Cost per KM *Estimated based on reductions in cost due to staff policy for inclement weather and expected overall unit volume reduction in trouble calls*	$ 2.8	$ 1.5	$ 4.1	$ 2.2	$ 5.9	$ 6.9	$ 7.9
		Stations Efficiencies	Cost Reduction based on Historical spend *Expected OM&A allocation based on historical spend for OT reductions and Stations efficiencies*	$ 0.3	$ 0.4	$ 0.4	$ 0.1	$ 0.4	$ 0.4	$ 0.4
		Engineering Work Team Migration	FTE Reduction *A reduction in support staff that was utilizing the legacy software*	$ 1.3	$ 1.3	$ 1.3	$ 1.3	$ 1.3	$ 1.3	$ 1.3
		Flexible Bill Window	Lower Cost per Unit for Meter Reads *Expected savings from a unit reduction in demand for manual meter reads and lower unit cost due to gained scheduling efficiencies*	$ 1.5	$ 1.5	$ 1.5	$ 1.6	$ 1.5	$ 1.5	$ 1.5
	Procurement	Procurement	IT Software Cost Reduction & RFP Rationalization *Reflects expected and negotiated savings*	$ 0.9	$ 1.7	$ 1.7	$ 1.5	$ 2.6	$ 2.6	$ 2.6
	Telematics	Telematics	Lower Liters of Fuel per KM *Reflects results of pilot program with expected reduction in Liters of fuel per KM driven*	$ 0.8	$ 0.1	$ 0.8	$ 0.1	$ 1.4	$ 1.3	$ 2.2
CCC	Administrative	Corporate Common Head Count Reductions	Spend Reduction *Identified headcount, consulting and Administrative reductions in Corporate Common. 2018 Plan vs Actual*	$ 1.7	$ 1.3	$ 1.9	$ 19.2	$ 1.9	$ 1.9	$ 1.9
	Procurement	Procurement	Lower Cost *Realized reduction in contracted spend in Corporate Common*	$ 2.3	$ 4.8	$ 2.3	$ 3.9	$ 2.3	$ 2.3	$ 2.3

Total		2018 As Filed	2018 Actuals	2019 As Filed	2019 Actuals	2020 As Filed	2021 As Filed	2022 As Filed
Total	Capital	**$ 36.4**	**$ 33.5**	**$ 34.2**	**$ 34.9**	$ 37.8	$ 37.3	$ 39.0
	OM&A	**$ 29.4**	**$ 34.9**	**$ 33.7**	**$ 39.1**	$ 40.9	$ 42.9	$ 45.5
	Corporate Common	**$ 4.0**	**$ 6.0**	**$ 4.2**	**$ 23.0**	$ 4.2	$ 4.2	$ 4.2
	Total	**$ 69.9**	**$ 74.5**	**$ 72.0**	**$ 97.0**	$ 82.9	$ 84.4	$ 88.7

In summary, Hydro One achieved an additional $4.5 million in productivity savings in 2018 and an additional $25.0 million in productivity savings in 2019 relative to the forecast filed in the Application. Hydro One is committed to adhering to the robust governance process which has been established for defining and monitoring savings across the organization. Hydro One will continue to identify and develop new savings

opportunities in both the Distribution and Transmission business for the benefit of ratepayers and stakeholders in 2020 and beyond. Ratepayers have directly benefited from the incremental OM&A savings as the associated cost reductions have contributed towards Hydro One's Earnings Sharing Mechanism, resulting in a refund to customers.