

Christine E. Long  
Board Secretary and Registrar  
Ontario Energy Board  
Toronto, ON

Attn: Ms Long

Dear Madam:

EB-2020-0043 North Bay Hydro Distribution Limited (NBHDL)  
2021 Cost of Service Application

Please find attached my interrogatories.

A copy has been sent to the Applicant as well as the applicable parties.

Yours very truly,

D. D. Rennick  
392 Surrey Drive  
North Bay, Ontario  
(705) 845-7345

CC All parties

**D. D Rennick - Interrogatories**  
**2020 Cost of Service Rate Application**  
**North Bay Hydro Distribution Ltd. (NBHDL)**  
**EB-2020-0043**

**Exhibit 1 - Administration**

**1 – DDR – 1 – Page 13-7**

*Almost immediately after the leadership change, NBHDL participated in a competitive process for the acquisition of Espanola Regional Hydro (ERH)*

Please explain the reasoning behind pursuing this acquisition and adding more work load if as suggested the operation was already operating in an extremely lean fashion and also how this acquisition will make rates more affordable for current customers

**1 – DDR – 2 – Page 13-5**

*With the onset of social media integration into LDC operations, and increased importance placed on customer engagement, in late 2019 NBHDL created the role of Communications Officer.*

The position of communications officer was not included in the 2015 COS application. This is another example of actions taken by the Applicant which fall into the category of asking for forgiveness rather than asking for permission. This tactic impacts rates and the effectiveness of these costs of service applications.

The Applicant suggests that this position will increase its future success with meeting customer expectations and addressing their need and preferences.

The increased use of social media to replace contacts previously made by phone calls and correspondence is merely a change in the method of interaction by customers. This is supported by the fact that phone calls from customers which numbered 39,000 in 2015 dropped to 19,000 in 2019. These numbers would not appear to support additional resources in the form of a communications officer. It is also difficult to suppose that foregoing this “investment” would be a major setback to NBHDL’s future success with meeting customer expectations and addressing their needs and preferences.

Please provide a list detailing the specifics of customers’ expectations, needs and preferences that will be negatively impacted if this position were eliminated? Also, please the criteria for and method of enumerating the phone call statistic.

### **1 – DDR – 3 – Page 19-14**

*Two additional FTE's are being requested as part of this application to round out the team and to further ensure the achievement of results.*

What evidence exists that the “team” is not presently rounded out and what specific results will not be achieved if these two FTE's are not hired?

### **1 – DDR – 4 – Page 20-3 to 34-1**

*The management of risk is critical in delivering on our mission to distribute...*

The risks referred to in the Handbook for Utilities focuses on managing risks which will be detrimental to customer benefits such as the risk of interruption in the delivery of electricity. The Applicant appears to have interpreted this to mean risk that the regulated rate of return may be reduced by the OEB and a reduction in the rate requested rate increase.

The fact it is considered a risk if OEB mandated the consolidation of LDC's is noteworthy since the Applicant applied consolidate NBHDL with Espanola Hydro in the near future and guaranteed \$8 million dollars of customers' money to finalize the deal.

The information in these 13 pages does little to inform the subject of the rate increase requested. This application contains a number of statements in support of this rate increase which are merely self-serving and not evidentiary. They appear to be included for the sole purpose of replacing solid arguments for requested rate increase.

This is a comment by the intervenor- no response required.

### **1 – DDR – 5 – Page 34-12**

*NBHDL's operating program in 2021 will see an increase over previous years due to the following main drivers:*

*Increase in staff complement to address the issues created by a lean workforce; specifically, worker exhaustion, the lack of critical resourcing redundancies, the inability to complete additional work that drives efficiencies and productivity gains, the under-utilization of resource skills and the increase of risk*

No evidence has been presented the workforce is lean and a statement to this effect does not provide any evidence that the information is factual. In 2004 NBHDL was operated by 35 employees with an annual payroll and benefit cost of \$3,039,403. This application requests an employee contingent of 53 with a payroll of \$6,624,610 which represents an increase of 51% and 118% respectively. In other words the employee contingent is 151% higher than it was in 2004 and the payroll is 218% higher than in

2004. Meanwhile the connection base has only increased from slightly over 23,000 to slightly over 24,000.

Please supply a justification for this continual increase in the workforce and in particular the pay rates when the service provided and the number of connections has remained virtually unchanged?

**1 – DDR – 6 – Page 34-18**

*Early succession planning for the critical roles of Operations Manager and Operations Supervisor. NBHDL has included an additional position that will cover the retirements of both positions through the 5-year horizon of this application. This will help ensure the transfer of knowledge and ensure competency in the positions when the current employees retire taking over 60 years of knowledge and experience with them.*

What percentage of the current salaries and benefits of the current Operations Manager and Operations Supervisor are included in the current rate calculation? How long is the estimated time until these two employees retire?

**1 – DDR – 7 – Page 34-23**

*Increase in IT related costs to fulfill new IT mandate to maintain its systems with a determined effort: ensuring asset lifecycle is managed, availability is high, systems are secure from inside and outside threats, and services delivered on-time, on-budget, and on-quality*

Exhibit 4 - Page 7-14 quotes from the Communications Security Establishment and discusses the cyber threat that Russia- associated actors pose to the supply of electricity and the fact that Iranian hacking groups have targeted industrial control systems in various countries not including Canada.

I would be particularly interested in how the Applicant feels this information, which appears to be as bit of fear mongering, is applicable to a small LDC in a small city in Northern Ontario. In any event is NBHDL suggesting that a could spend enough money on security to thwart a determined group intent on disrupting operations here in North Bay?

Also in Exhibit 4 - Page 7- 6 the Ontario Cyber Security Framework provided the OEB with information about cyber security and privacy maturity which included a questionnaire designed to assess the level of security an LDC might reasonably be required to initiate.

I would be interested in the score of the Applicant obtained following the completion of that questionnaire.

**1 – DDR – 8 – Page 35-1**

*Increase in costs to update important policies and processes in HR, safety, and customer service that have fallen out of relevance or are extremely outdated. These are activities that require on-going attention.*

Unless it is suggested that employees who would be completing these updates are working at 100% capacity 100% of the time, this activity surely could be accomplished at when they are between other activities.

Please provide the amount this increase in costs and how they are being calculated.

**1 – DDR – 9 – Page 35-4**

*Increase to tree trimming costs to ensure the completion of a 5-year cycle in 5 years (Proposed modification of cycle length from 4 years to 5 years in 2021 to reduce annual increase).*

In Exhibit 4 Page 37-6 it is indicated that NBHDL is now in year 10 of what was initially intended to be a 4-year cycle in 2015. On Page 39-22 in Exhibit 4 it is indicated that in 2021 NBHDL will be in the eleventh year of what was originally intended to be a 4-year cycle.

This statement is unclear. Please explain what that statement means in terms of understanding the point being made.

**1 – DDR – 10 – Page 35-9**

*In addition, NBHDL must pay negotiated union wage increases and follow management compensation framework*

Since NBHDL is the negotiator involved in any union wage increases, it follows naturally that they must pay those negotiated pay raises. How does this statement provide evidence that these pay raises are necessary or warranted?

Rather than follow management compensation framework, how does that framework support management compensation levels based on the actual needs of the business?

**1 – DDR – 11 – Page 68-21**

*All compensation is included whether expensed or capitalized and for the 2021 Test Year this represents a \$1,103,704 or 20.6% over the six years since the 2015 Board approved.*

The increase in compensation of 20.6% follows a 19.6% increase from 2010 to 2015. The overall wage increase in the 11 years since 2010 is 44.6%. That represents a 4% increase during that period.

When one looks at management compensation only, the figures are more troubling. The overall management wage burden since 2010 has risen by 83.7% and the average wage per management employee has risen by 55.4%.

Wages now represent 75.5% of the total OM&A budget and this fact identifies the major cost driver in the delivery rates.

Neither the electricity delivery service required by customers nor the method of delivering that electricity has changed in 60 years. The company has a monopoly on the service. Obtaining customers is not a responsibility or concern of management. Prices are regulated and guaranteed by government authorities. In the case of NBHDL, the customer numbers have not changed in decades and not only that are probably for the most part the same customers.

Intervenor comment – no response required.

#### **1 – DDR – 12 – Page 77-22**

*Customer engagement opportunities often occur as a result of operations and an average of 10,000 customers walk in to the NBHDL office on an annual basis for service.*

This number has decreased from a reported 15 to 20 thousand in 2015. This decrease to ten thousand customers would still amount to an average of 20 customers per day based on 50 weeks and five days per week. How does NBHDL keep track of this statistic?

#### **1 – DDR – 13 – Page 100-26**

*Although it is NBHDL's assertion that all positions would benefit the company greatly, in the balancing act of affordability for the customer and forward movement of the company, the compromise down to only two new positions was made.*

It is obvious that requesting a hire of two people would keep rates lower than a hire of six people. This comparison fact does not support the request for two new hires.

Please explain what forward movement will benefit from these hires and how these hires are necessary for the delivery of electricity to the a customer base that is unchanged.

#### **1 – DDR – 14 – Page 119-2**

*The NBHDL management team is incentivized based on four metrics, three of which are financially based. They are as follows:*

- EBITDA
- ROE
- NBV

The management team sets the budget and then is incentivised when results show an improvement over budget. This arrangement seems to be open to exploitation. In addition, the metrics are all connected to one another and an improvement in one automatically means and improvement in the others

It appears that these incentives are an artificial way to increase compensation over base rates.

Intervenor comment – no response is required.

### **1 – DDR – 15 – Page 122-9**

*NBHDL confirms that there are no incentives that formed part of the acquisition and amalgamation that represent costs that are included or are being proposed to be included in NBHDL's rate base and/or revenue requirement.*

This statement is misleading. What the Applicant meant to say is that no costs are included in *this year's* rate base and/or revenue requirement. All revenue comes from rates and any revenue is supplied by the owners/customers of NBHDL

Please provide the total costs to date relating to the acquisition of ERHDC.

### **Exhibit 2 – Rate Base**

#### **2 – DDR – 16 – Page 179 – Facilities**

*The facilities expenditures entail general maintenance as well as a new yard fabric structure. It also includes a Building Master Plan. The purpose of this plan is to identify NBHDL's current and long-term facility infrastructure needs.*

It appears as if NBHDL is presenting the replacement of the building as a fait accompli and intends to move ahead with the project without any outside input. Included in the reasons for replacement is the Covid19 situation which arguably a temporary condition. Improving efficiency suggests either lowering costs or doing more with the same resources not increasing space for more resources. North Bay has an abundance of empty space which would suffice if indeed there is a real need for a change in the facilities

Please provide the cost of the November 28, 2019 Induspec Building Condition Assessment report.

## **Exhibit 4 – Operating Expenses**

### **4 – DDR – 17 – Page 4-20**

*Approximately 60% of the requested increase in this application is related NBHDL's focus on properly staffing the utility in a manner that enables the company to meet the increasing needs and expectations of all its stakeholders: customers, the shareholder, and the regulator.*

Customers and shareholders are the same people not different groups. Their numbers have not changed in the last decade. Please outline the increasing needs and their respective estimated costs as well as the increasing expectations and their estimated costs.

### **4 – DDR – 18 – Page 13-24**

*The amount of change occurring within the business and the sector means that ongoing operational business and strategic planning is required. NBHDL is continuously adapting its business and strategic direction to better reflect increased customer expectations. Also from EB-2014-0099: NBHDL also believes that the amount of change occurring within the business and the sector means that ongoing business and strategic planning is required.*

The theme of change as a cost driver has been suggested in previous NBHDL applications. Please detail the changes are occurring in delivering of electricity that constitutes a cost driver? Also, address the same question regarding how changes in customers' central expectations have increased costs.

### **4 – DDR - 19 - Page 16-23**

*As a result of this change, the management team reviewed the costs of internal resources against outsourcing this activity and determined that there were other areas of the business that required resourcing. The use of a contractor in 2021 is an incremental cost to the business as compared to 2015 with a 3rd party contractor managing the locate volumes at a lower cost while enabling NBHDL to better utilize internal resources.*

Continuously Improving Efficiency and Productivity is stated core value of NBHDL but the result of changes such as the above simply increase overall costs through the use of a 3<sup>rd</sup> party contractor while not lowering the overall payroll costs (internal resources).

Intervenor comment - No response required.



#### **4 – DDR - 20 - Page 17-1**

*The goal of wood pole testing program is to diagnose the current health of wood poles in NBH's distribution stem by collecting information not available through visual inspections such as internal pole decay*

Please compare the cost efficiency of spending on this type of test as opposed to simply replacing poles when they are obviously in a weakened condition.

Please indicate the date and cost of the last report done by a third party on the condition of wood poles.

#### **4 – DDR - 21 - Page 25-30**

*Throughout 2020 and 2021, a more formalized customer engagement plan has been developed including a budget developed to address annual on-going activities and to provide the ability for the Communications Officer to address outcomes of meaningful engagements to ensure NBHDL is able to respond to evolving needs and preferences.*

Please detail the needs and preferences that are evolving and explain what the “annual on-going activities” are exactly and what the benefit will follow from the CO addressing outcomes of meaningful engagements.

#### **4 – DDR - 22 - Page 27- Locates-6**

*NBHDL had two internal resources (Customer Service Representatives) performing locates as described above. As a result of internal movement, the Operations department was reduced by a resource for this task, with powerline maintainers back-filling the role to cover absences and assist with heavy volume workloads. NBHDL began contracting 50% of this activity out with the intention of outsourcing 100% of the work in the 2021 Test Year at a forecasted cost of \$172,430, the two positions have been re-directed to a Substation Learner Electrician and a Storekeeper Assistant.*

This extra expense of \$172,430 per year for a service that was previously being done internally is an example of charging ratepayers more for the same services.

The application contains 41 mentions of the word “efficiency” in Exhibit 1 alone. It is mentioned as part of one of NBHDL’s core values which will drive cost savings and help keep rates low. It is described as a goal along with an increase in productivity. It is used in conjunction with a number of activities such as investing in updating policies and procedures, investing in proper data mining and data access. It is mentioned as the goal of a pursuit. It is mentioned as a goal of the capital program. It is suggested the collaboration with stakeholders is necessary to achieve efficiency. It is mentioned as a plan for coming years to update and add policies that drive efficiency. There is some mention of how efficient NBHDL is compared to other LDC’s. What is missing is an example of examples of some action taken by NBHDL that actually reduced costs through the use of fewer resources or avoided extra costs to produced required results.

It appears that the word is being used as a catchall to support the need for rate increases while no evidence is presented that any efficiency is occurring. Please comment on this assumption if possible.

#### **4 – DDR - 23 - Page 30-18**

*The Vegetation Management program is the largest OM&A cost that NBHDL incurs outside of labour. The importance of this program to safety and reliability cannot be understated. NBHDL is proposing to spend \$773,437 in the 2021 Test Year, which is an additional \$260,033 over the board approved levels in the 2015 COS.*

***EB-2009-0270 Page 458 of the Application*** NBHDL's distribution area is divided into four cycles for the purposes of tree trimming (Cycles 1 through 4) with each cycle on a four year rotation. Each cycle is further divided into 4 subsections; A through D. Tree trimming costs were higher in 2007 due to the beginning of a new cycle with a denser tree population in a rural area of the City. This cycle is the most expensive with sections A and B being held off until 2009. Eagle Tree Service 2006 contract \$266,853.

According to my calculations tree trimming expenses increase approx by \$60,000 from 2005 to 2010 test year and by \$346,655 from 2010 and 2015 test year and a further \$260,033 from 2015 to 2021 and a total ask of \$773,437 per year (plus IRM increases) for the next five years. That would indicate that the tree trimming budget went from \$106,749 in 2005 to a requested \$773,437 in 2021 or an increase of 625% or 39% per year.

Please describe the ownership and legal structure of the vegetation management contracting company describe as 17 Trees. Also, please comment on the option of using Hydro One's in-house forestry service as a more efficient solution to this issue.

#### **4 – DDR - 24 – Page 41**

*NBHDL's employee complement, compensation and benefits are set out in Table 4-13 Board Appendix K below. Table 4-13, Board Appendix 2-K does not include NBHDL's Board of Directors, temporary 14 employees, or students.*

2010 COS Application – Page 480

*The Executive compliment in the 2006 EDR was made up of five paid Board of Directors members that were in place in 2004. In 2006 the board was restructured to a voluntary board and therefore the positions have been removed from the employee compliment schedule.*

*The NBHDL Board and the NBHDL shareholder identifies and selects new members of the NBHDL Board by advertising vacancies in the local newspaper and interviewing appropriate candidates for nomination. All NBHDL Board members act on a voluntary basis without remuneration.*

When did the reimbursement of directors begin, who authorize or approve this change and what is the total of directors' remuneration?

A former member of city council was recently added to the Board of Directors. Please indicate the date(s) and names of the publication(s) that contained the advertisement for the position and the number of candidates that applied and were interviewed.

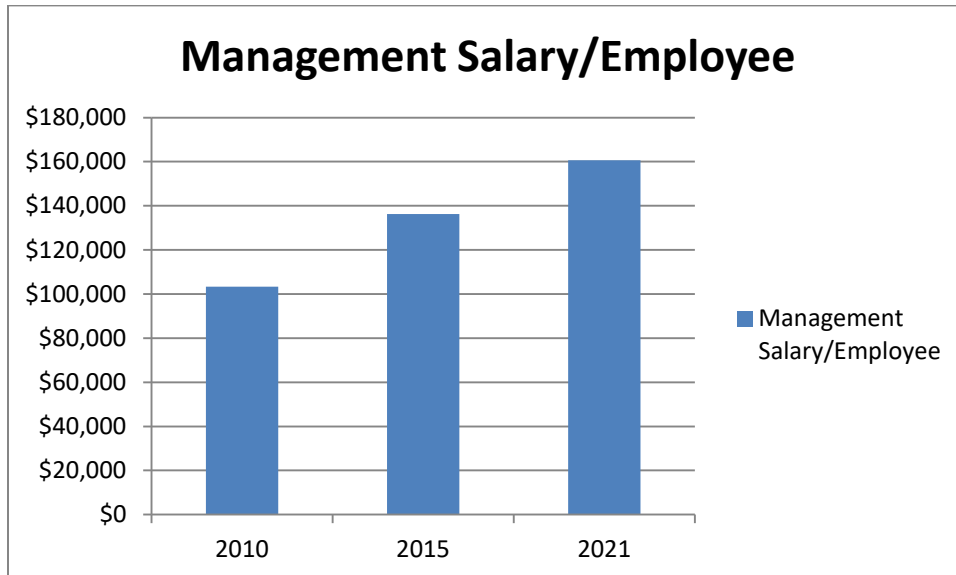
#### **4 – DDR - 25 – Page 49-2**

*Through the 2017-2019 period, NBHDL experienced 82% turnover in management positions, mostly due to retirements. Since the new management team was put in place, the focus has been on recruiting staff, training and development, building a cohesive and highly functional team, gaining experience and confidence with equipment and routines, and working productively and safely.*



The graph indicates the level of increases in management salaries since 2015. After a reduction in 2019 during the 82% turnover period salaries returned to 2018 levels in 2020 and took a significant jump in 2021. Based on the fact that the customer base has not changed in decades and the power being delivered has actually decrease, how an

increase in the management overhead of this magnitude be supported? The increases are 53% since 2015 and over 83% from 2010 levels.



The graph indicates level of increase in management salaries per employee since 2010. In percentage terms the average salary per management employee has increased by almost 18% since 2015 and over 55% since 2010.

Please explain the increase in the average in 2021 keeping in mind that the management team is recently hired and in absolute terms for the period 2010 – 2015 based on what level of management expertise is required to operate a system that delivers electricity to connections that have remained unchanged in the past decade.

#### **4 – DDR - 26 – Page 79-4 - Table 4-40**

Please confirm that regulatory costs have increased to \$438,000 per year and include \$158,710 for this application.

Please explain the need to employ high priced legal assistance to submit a cost of service application considering all the information is present at NBHDL, the live excel sheets are supplied by OEB and the specific requirements of the application are spelled out in the Handbook for Utilities.

#### **4 – DDR - 27 – Page 80-2**

*Contributions NBHDL makes in the community and for various charities, apart from the LEAP program summarized above are excluded from the revenue requirement calculation...*

Keeping in mind that these contributions are taxpayers' funds, please explain who promotes and authorizes these contributions and how they assist in the delivery of electricity to customers.

#### **4 – DDR - 28 – Page 101-3**

*NBHDL notes that it pays dividends each year to its shareholders; however, since the shareholder is a municipality and not subject to income taxes, the dividends are treated as non-taxable and do not affect the PILs return.*

Please explain how the tax status of a recipient of a dividend would affect the PIL's return.

#### **4 – DDR - 29 – Page 107-14**

*The total amount requested for recovery is \$246,420, including carrying charges of \$3,427.*

Please confirm that the carrying charges included in LRAMVA recovery are also included in Revenue Requirement calculation. If they are not, please explain the reason for their omission.

#### **6 – DDR – 30 - Page 9-10 - Table 6-6**

The table shows that OM&A expenses are budgeted to increase from \$6.4 million in 2015 to \$8.6 million in 2021. This is an increase of 34% in 6 years or 5.7% per year

Irrespective of information contained in the 1565 pages of exhibits and 18 live excel files in this application, what rational justification could support this level of increase considering that the product has not improved, the customer base has not increased and the service is unchanged?

#### **8 – DDR – 31 - Page 58 – Bill impacts – Customer class**

NBHDL is comparing the requested monthly service charge which includes a \$1.31 fixed rate rider credit to the current monthly service charge that has no rate rider credit included. A proper calculation of the impact would exclude the rate rider credit from the equation. This would set the bill impact for residential bills at 17.8% over a one year period.

What rational justification could support this year over year level of increase considering that the product has not improved, the customer base has not increased and the service is unchanged?