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Ontario

ONTARIO ENERGY BOARD

FILE NO.:	**EB-2010-0131**	~~**UNREDACTED CONFIDENTIAL**~~

VOLUME:	**1**	
DATE:	**April 8, 2011**	
BEFORE:	**Marika Hare**	**Presiding Member**
	Cathy Spoel	**Member**
	Karen Taylor	**Member**

EB-2010-0131

THE ONTARIO ENERGY BOARD

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 Horizon Utilities Corporation for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2011.

Hearing held at 2300 Yonge Street,
25th Floor, Toronto, Ontario,
on Friday, April 8th, 2011,
commencing at 9:12 a.m.

VOLUME 2

BEFORE:

MARIKA HARE	Presiding Member
CATHY SPOEL	Member
KAREN TAYLOR	Member

A P P E A R A N C E S

MAUREEN HELT	Board Counsel
KEITH RITCHIE MARC ABRAMOVITZ VINCE COONEY	Board Staff
JAMES SIDLOFSKY BOB BETTS	Horizon Utilities
JAY SHEPHERD	School Energy Coalition (SEC)
DAVID CROCKER SHELLEY GRICE	Association of Major Power Consumers of Ontario (AMPCO)
MICHAEL BUONAGURO	Vulnerable Energy Consumers Coalition (VECC)
RANDY AIKEN DAVID MacINTOSH	Energy Probe Research Foundation
ROBERT WARREN JULIE GIRVAN	Consumers Coalition of Canada (CCC)

ALSO PRESENT:

BRUCE BACON	Horizon Utilities

<u>I N D E X   O F   P R O C E E D I N G S</u>

E X H I B I T S

U N D E R T A K I N G S

Friday, April 8, 2011

--- On commencing at 9:12 a.m.

MS. HARE: Please be seated.

Good morning. This is the second day of our hearing in the case of Horizon Utilities, requesting new rates for January 1st, 2011, EB-2010-0131.

Are there any preliminary matters?

PRELIMINARY MATTERS:

MR. SIDLOFSKY: Good morning, Madam Chair. I have two.

The first one, we provided hard copies of Exhibit K1.3, which was an updated version of Horizon's revenue requirement work form.

Unfortunately, in the hard copies - not in the electronic versions that were sent to parties, but in the hard copies - one page was missing. That was page 5. I understand that my friend Ms. Helt has provided copies to the Panel, but I just wanted to mention that we have also provided copies to the parties.

MS. HARE: Thank you.

MR. SIDLOFSKY: The second preliminary item has to do with one of the undertakings. Ms. Lerette yesterday responded, in part, to undertaking J1.6, and that had to do with whether any of the capital expenditures for vehicles in 2011 were related to hybrid vehicles.

Ms. Lerette's response was that there are three vehicles planned for 2011 with hybrid technology.

Ms. Taylor, you asked -- you added a question about that with respect to the premium on those vehicles, and Ms. Lerette has an answer on that for you.

MS. LERETTE: So three of the hybrid vehicles, which are the small passenger vehicles, are scheduled for 2011.

The premium for the hybrid vehicles ranges from $5,000 to $7,000, and we expect that this premium will be offset by fuel savings in the future.

We are also moving to hybrid vehicles really just to reduce emissions, because it is important for Horizon from a sustainability perspective.

I can also respond to the other undertaking on fleet, J1.5.

MS. HARE: Can I just clarify? Five to 7,000 per vehicle?

MS. LERETTE: Yes, correct.

MS. HARE: Thank you.

MR. SIDLOFSKY: Sorry, Madam Chair, if Ms. Lerette could go on and deal with J1.5, that would be great.

MS. HARE: Yes, that's fine.

MS. LERETTE: J1.5, you requested the budget for the rebuilds and refurbishments for 2011, and the budget is $130,000.

MR. SIDLOFSKY: Thank you, Ms. Lerette. Madam Chair, those are my preliminary items.

MS. HARE: Thank you. Are there any other preliminary matters, Ms. Helt?

MS. HELT: I do not believe so.

MS. HARE: Then we are ready to proceed with panel 2.

I believe there is one witness to be sworn in. Maybe before we do that, if I could just get a sense of the order.

Will there be confidential information being discussed so we have to go in camera? Who will have in camera cross-examination?

MR. WARREN: I have a very little, Madam Chair, perhaps five minutes or thereabouts.

MS. HARE: And do you have cross that will not be in camera?

MR. WARREN: I do, and it will be somewhat longer, although not a great deal longer.

MS. HARE: Thank you. And Mr. Shepherd?

MR. SHEPHERD: I have both, and it is about equal, 50-50.

MS. HARE: Okay, fine. Nobody else?

Okay, so we will proceed with the cross that can be on the public record, and I don't know if parties have discussed -- well, no, sorry. I am jumping ahead. Let's swear in the witness first.

MR. SIDLOFSKY: Thank you.

HORIZON UTILITIES - PANEL 2

John G. Basilio, Previously Sworn

Indy J. Butany-DeSouza, Previously Sworn

Kathy Lerette, Previously Sworn

Sarah Hughes, Previously Sworn

Eileen Campbell, Previously Sworn

Lise Galli, Sworn

MS. HARE: Mr. Sidlofsky, do you have...

MR. SIDLOFSKY: Madam Chair, really just introductions.

MS. HARE: Thank you.

EXAMINATION-IN-CHIEF BY MR. SIDLOFSKY:

MR. SIDLOFSKY: Some of the faces will look familiar to you, so I won't really take any time on that, but I will just note that this panel consists of Mr. Basilio, Ms. Butany-DeSouza, Ms. Lerette, Ms. Hughes, Ms. Campbell, and the new member of the panel is Lise Galli, G-A-L-L-I.

Just a couple of introductory questions for Ms. Galli.

Ms. Galli, you're the director of human resources and organizational development for Horizon Utilities; is that correct?

MS. GALLI: Correct.

MR. SIDLOFSKY: And you have been with the utility for how long?

MS. GALLI: Five years.

MR. SIDLOFSKY: And you hold a bachelor of commerce degree and an MBA; is that right?

MS. GALLI: That's correct.

MR. SIDLOFSKY: Could you briefly tell me your area of responsibility with respect to the application?

MS. GALLI: Human resources.

MR. SIDLOFSKY: Generally?

MS. GALLI: Generally.

MR. SIDLOFSKY: Thank you.

And I would also -- although they're well aware of it, but I would simply remind the panel that they're still under oath.

MS. HARE: Thank you.

MR. SIDLOFSKY: Thank you, Madam Chair. The panel is available for cross-examination.

MS. HARE: Thank you. So was there an order established, Ms. Helt?

MS. HELT: Yes, Madam Chair. I have spoken with the parties. Mr. Aiken will proceed first, to be followed by Mr. Buonaguro, and then perhaps Board Staff could go third, as we do not have any confidential questions or questions on confidential material, to be followed by Mr. Warren, and then Mr. Shepherd, if that is agreeable to all of the parties?

MS. HARE: Thank you. So, Mr. Aiken.

CROSS-EXAMINATION BY MR. AIKEN:

MR. AIKEN: Thank you, Madam Chair. Good morning, panel.

MS. LERETTE: Good morning.

MS. HUGHES: Good morning.

MR. AIKEN: I have two brief areas of questions on the OM&A. The first area is related to the management fee, and some of this will overlap with the revenue forecast, miscellaneous revenues.

So if you could turn to page 42 of the compendium - this is the Energy Probe compendium, Exhibit K1.4 - you will find there table 3-28 from your original evidence that deals with the management fee revenue that has been forecast for the test year, and it is in an amount of $772,376.00. It also shows a breakdown from the various affiliates.

So then if you would turn to pages 43 and 46 in the compendium, this is a response to Energy Probe Interrogatory No. 14 that deals with the costs associated with the services. In part (c) of the response, you have provided calculations of the management fee associated with each of the affiliates in pages 2 through 4 of that response.

When I compare these figures with those included in the management fee in miscellaneous revenues, I can match up most of the figures. As an example, you will see $600,490 in table 3-28 from Horizon Utilities' non-regulated billing services and on the cost side. That is on page 46 of the compendium in the first box at the top of the page. So that I understand.

There is one exception, however, and that is the revenues from St. Catharines Hydro Inc. In table 3-28, that amount is shown as $71,976, whereas on page 46 of the compendium, in the bottom box, the cost is shown as $84,155.

So my question is: Can you explain why the revenue figure is lower than the cost for this particular affiliate?

MS. HUGHES: Yes. I would just -- I would like to point out that we actually provided a revised table 3-28 and corrected the figure of 71,976 to be 84,115. That is a response to one of the interrogatories. You can also see that, I believe, in response to VECC question number -- VECC IR Question No. 26. We provided the full table.

MR. AIKEN: Okay, thank you.

So subject to check, is the total OM&A expenses, then, $784,515?

MS. HUGHES: Yes, it is.

MR. AIKEN: Okay. Now, my real issue with respect to the management costs is how they have been recorded. If you could turn back to the first page of the Energy Probe IR, which is page 43 of the compendium, in part (b) of the -- part (b) of a question asked if there was any depreciation or return on capital included in the management fee recovery.

The response refers to VECC 27. So just for the record, can you confirm that the VECC response indicates that there is no recovery of either depreciation or a return on capital associated with the assets used to provide the services for which the management fee is charged?

MS. HUGHES: That is correct.

MR. AIKEN: And I think somewhere in the interrogatories, you attempted to quantify it and it was a relatively small number.

MS. HUGHES: Yes, that's correct. We attempted to do that.

MR. AIKEN: Okay. Now, you have indicated -- included the $784,000 in costs as OM&A expenses; is that correct?

MS. HUGHES: Yes. The costs associated with each of these departments that makes up the expenditures that are also provided to the affiliates are incorporated in our OM&A expenditures, and then we have recorded the offsetting revenue in other revenue.

MR. AIKEN: Yes. By including these costs in OM&A, do you agree that your rate base has increased through the working capital allowance calculation?

MS. HUGHES: Yes. It would be included in OM&A for working capital purposes, yes.

MR. AIKEN: And do you agree that you have not recovered the cost of capital associated with this portion of rate base through the management fee?

MS. HUGHES: Yes, we would agree with that.

MR. AIKEN: You have indicated that you actually have included the management fee revenues in account -- I think it is in account 4390, miscellaneous revenues?

MS. HUGHES: Yes, I believe that's correct.

MR. AIKEN: And my question is this: Why would you not include this revenue in account 4375, revenue from non-utility operations, and then at the same time record the costs associated with providing these services in account 4380, expenses of non-utility operations?

[Witness panel confers]

MS. HUGHES: So historically we have recorded our expenses and the revenue on this basis.

We do understand that there are other LDCs –- and that we could, in fact, use these other accounts.

We don't have any issue if that is the way in which we should be doing it.

MR. AIKEN: So you're agreeing that if you included the costs as an offset to revenues, rather than in OM&A, the net result of that is that regulated rate base would be lower?

MS. HUGHES: Yes.

MR. AIKEN: Yes. Okay.

MS. HUGHES: We do understand that, yes.

MR. AIKEN: Okay. Thank you. I am now moving on to my second topic, and that is the topic of the tax calculations.

First of all, I want to thank you for providing the corrected evidence on Wednesday. I think conservatively, that has shortened my cross on taxes by at least 20 minutes, so I thank you for that. And I am sure the Board Members thank you for that, as well.

If we could start with the updated evidence filed on March 14th, so if you could turn to page 35 of the compendium, there you will find the revised version of table 4-37, the detailed tax calculations.

In the bottom half of that table, you've got the 2011 calculations. And the total income taxes there are shown to be $6,062,332.

So I want everybody to keep that number in mind.

Then if we can move to the final calculation of taxes, and this is found on the taxes/PILs sheet from the revenue requirement work form in Exhibit K1.3. This is the one-page addition.

On this schedule, we can see that the PILs tax allowance is now 5,921,337. So that is a reduction of approximately $141,000.

So that is another number I want you to keep in mind.

If now you could turn to page 6 of 7 of the April 6th revised response to VECC IR 37, which is Exhibit K1.2, and page 6 of 7 is the revised table that shows the change in the revenue deficiency.

On this page, you will see that item number 4 -- labelled "tax updates" -- shows an increase in taxes of $510,726.00, and item number 7 near the bottom shows a reduction of 526,899 -- or sorry, 829, in taxes for the inclusion of the apprenticeship credits. That was the correction that was filed.

So from is a net reduction there in taxes of $16,000, approximately.

So the first is: Can you reconcile the difference between the 16,000 reduction and the 140,000 reduction in the previous two schedules we were looking at?

MR. BASILIO: I believe I can. You will excuse me if I can't do it on the fly. Perhaps we could prepare an undertaking to perform that reconciliation.

MR. AIKEN: That would be fine.

MS. HELT: Mr. Basilio, the undertaking is sufficiently clear for you to be able to answer? Or would you like it restated?

MR. BASILIO: If we could just hear it -- can I try and play it back?

MR. AIKEN: Sure.

MR. BASILIO: I don't have -- excuse me for a second.

[Witness panel confers]

MR. BASILIO: To reconcile the... No. Sorry, one more second.

[Witness panel confers]

MR. BASILIO: To reconcile revised table 4-37 to the PILs amount, the total PILs for 2011, and revised table 4-37 to line number 9, "PILs tax allowance," in the revenue requirement work form, and to reconcile that to the two items, 4 and 7, on page 6 of 7 to the response to VECC 37? Was it 37? Yes, 37.

MR. AIKEN: That's good.

MR. BASILIO: Got it. Thank you.

MS. HELT: That will be Undertaking J2.1.

UNDERTAKING NO. J2.1: TO RECONCILE REVISED TABLE 4-37 TO TOTAL PILS AMOUNT FOR 2011 AND REVISED TABLE 4-37 TO LINE NUMBER 9, "PILS TAX ALLOWANCE," IN THE REVENUE REQUIREMENT WORK FORM, AND RECONCILE THAT TO ITEMS 4 AND 7 ON PAGE 6 OF 7 TO THE RESPONSE TO VECC NO. 37.

MR. AIKEN: Now, back on Exhibit K1.3, the 5,921,337, have you filed a corrected table 4-37 that shows a calculation of that number somewhere in the evidence?

MR. BASILIO: We have not.

MR. AIKEN: Would you undertake to file not only table 4-37 that shows the calculation of this final tax amount, but also any changes in tables 4-38, -39 and -40?

These tables relate to the tax adjustments to accounting income in the CCA. for 2010 and 2011. If there are any changes to that?

MR. BASILIO: Yes, we will.

MR. AIKEN: Thank you.

MR. BASILIO: We will take that as...

MS. HELT: That will be Undertaking J2.2.

UNDERTAKING NO. J2.2: FILE CORRECTED TABLE 4-37 SHOWING CALCULATION OF FINAL TAX AMOUNT, AND ANY CHANGES IN TABLES 4-38, 4-39 AND 4-40.

MR. AIKEN: If you could turn to page 37 of the compendium, this is an Energy Probe interrogatory that dealt with the small business deduction, which reduces provincial income taxes by $36,250.

The response to part (b) appears to indicate that Horizon agrees that this reduction in tax is appropriate; is that correct?

MR. BASILIO: Yes, we did.

MR. AIKEN: Has this reduction been reflected in the revenue requirement work form in Exhibit K1.3?

MR. BASILIO: No, it has not.

MR. AIKEN: Okay. But do you agree that it should be?

MR. BASILIO: I agree that it should be, and perhaps if I could clarify, then, with respect to those two last undertakings, we would prepare those reflecting that adjustment, as well.

MR. AIKEN: Yes. Okay. Thank you.

Thank you, panel. Those are my questions.

MS. HARE: Thank you. Mr. Buonaguro.

CROSS-EXAMINATION BY MR. BUONAGURO:

MR. BUONAGURO: Thank you. I am actually going to try to use the monitor.

MS. HARE: We're not surprised.

MR. BUONAGURO: It is my desperate attempt to stay as paperless as possible. I think you will need to, on the presentation system, hook into PC number 11.

MS. HARE: I think we need technical support here.

MR. BUONAGURO: I also have an exhibit, so I can come and grab the controller from you while I do that.

[Mr. Buonaguro passes out exhibit]

MS. HELT: Is that it? Everybody have it?

[Technical difficulty]

MR. BUONAGURO: I usually set this up during the break so it is much more magical, but...

[Laughter]

MR. BUONAGURO: Like watching behind the curtain.

MS. HELT: Perhaps while you are setting up, Mr. Buonaguro, we could have the table that you have just circulated, a hard copy, table 1, employee compensation, marked as Exhibit K2.1.

EXHIBIT NO. K2.1: TABLE 1, EMPLOYEE COMPENSATION.

MR. BUONAGURO: Thank you. Yes. So this is K1.1. There are actually two exhibits. I had originally contemplated them being separate exhibits, and you can see that I have put little pre-labels on them. I don't know if you want them separately or not, but the first page is an extract from Toronto Hydro's EB-2010-0142 proceeding, and the second one is an extract from Hydro Ottawa Limited, their application in EB-2010-0133.

MS. HELT: Why don't we mark them as two exhibits?

MR. BUONAGURO: Sure.

MS. HELT: So the exhibit from Hydro Ottawa EB-2010-0133, employee compensation breakdown, will be marked as Exhibit K2.2.

EXHIBIT NO. K2.2: EXTRACT FROM HYDRO OTTAWA PROCEEDINGS, EB-2010-0133, EMPLOYEE COMPENSATION BREAKDOWN.

MR. BUONAGURO: Thank you.

So I think I've got my presentation centre here set up. Good morning, panel.

MR. BASILIO: Good morning.

MR. BUONAGURO: I only have a couple of areas to cross on, and you will see I will -- I am going to pull up the exhibits that I am referring to here, so we're all looking at the exact same thing. But if you want to look at your original records, which I tend to find a lot of the utilities want to, feel free and I will give you time for that.

I am starting with VECC IR No. 19, part (a). In this particular IR, we were asking about the business development costs.

And, in particular, we were asking for the allocation of those costs for each year that the business development unit existed. And from the response, we can see - and I have highlighted on the screen - that the business development unit started in 2007.

MS. HUGHES: That is correct.

MR. BUONAGURO: And the forecast allocation of costs from that unit to the regulated utility is $344,000 for the test year?

MS. HUGHES: That's correct.

MR. BUONAGURO: Now, the Board disallowed costs of what was referred to as the mergers and acquisition unit in 2008, and my understanding is that is this business development unit. And, as a result of the decision, there were no costs allocated to the utility during 2008 and 2009?

MR. BASILIO: That's correct.

MR. BUONAGURO: Okay. And then in response -- I think that is summarized in response to VECC technical conference number 9(b), which I will pull up for you, where you state:

> "While the Business Development resource was not allocated to Horizon Utilities in 2009 and 2010 as a result of the Board’s decision in the 2008 EDR Cost-of-service Application ..., the role was generally designed to add to the strategic planning and corporate development capacity of Horizon Utilities. Since the 2008 EDR COS Application Decision, the organizational priorities of Horizon Utilities have changed with the recognition that meaningful merger and acquisition ... activity is unlikely without an

external catalyst such as a change in Board policy with respect to such or a more direct inducement by the provincial government. As a result, the Business Development Group has focused on the more general strategic planning and corporate development objectives of Horizon Utilities."

And for the reporter, that was on -- it ended on the second page. I have lost my control for that.

So my understanding is that after the costs of the unit were disallowed, Horizon refocuses its attention away from mergers and acquisition activity and towards "more general strategic planning and corporate development objectives". Is that a fair summary?

MR. BASILIO: Well, maybe I could just elaborate. The resource -- initially, the purpose of the resource was to enhance the strategic planning capacity of Horizon Utilities.

At the time we filed the application in 2007, the principal focus of that resource was on M&A activity. That was the strategy we were pursuing, and I recall in 2008 there was considerable discussion about the benefits to the utility of M&A in terms of savings efficiencies, those sort of things.

That's why it is a principal strategy of Horizon Utilities. There was also discussion of the Board's policy that -- which we supported, that merger benefits, to the extent generated, are for the account of the utility for a period up to five years. However, the risks related to the costs should be borne by the shareholder.

So there was discussion around the business development in that context. Its principal focus at the time was M&A, and are those costs in the context of the Board's guidelines -- I can't remember if it was a guideline or policy. Are they properly borne by the shareholder or the customer?

And the determination at that time was, for that department, so specifically focussed on that aspect of Horizon's strategy, should be borne by the shareholder was the outcome of the decision.

Since that time -- but that was not the only focus of that department.

Since that time, and I think as we have seen, M&A activity hasn't been terribly robust; in fact, quite the opposite in the sector. That is not for a lack of trying. As you know, we tried to merge with Guelph a couple of years ago, and that did not succeed.

But this group has been very involved in LDC strategy, in general, and supporting the executive team in that capacity. One of the reasons it was brought on is because, for any -- we were finding as an executive team that strategy, business strategy, operational strategy, was requiring more focus, and it was difficult for any one resource to devote the amount of time necessary to facilitate that process in the organization.

So that's one reason for the resource.

Since that time, M&A activity less focussed this resource as being more supportive of, generally speaking, strategic and other planning related to the LDC.

MR. BUONAGURO: Okay. So the costs of providing that additional support to the general strategic planning and corporate development objectives is $344,000?

MR. BASILIO: It is 80 percent of the wages, is what is being allocated.

The resource actually resides, from a payroll perspective, in Horizon Holdings Inc. It continues to have responsibility for the non-regulated affiliates of Horizon Utilities, but as provided in the evidence, and I think as supported by information we have provided on the prior years, its focus has largely been on the LDC, and we are proposing in 2011 that 80 percent of the wages of that group are properly allocated to the LDC.

MR. BUONAGURO: Okay. Now, I think the answer to this next question, I think, was part of your rather longer answer to the first question, but I will ask it again, just to isolate it.

Can you describe who and which business unit was carrying out the planning and development activities before this business development group started to support that function?

Presumably, it was being done before, and now you have added the business development group support to that. I just want to get a clear understanding of how it was being done before this business unit came into effect, and then presumably we shifted more focus onto this activity.

MR. BASILIO: Right. The executive team generally, with the support of consultants, was -- and depending on the year, strategic planning, the level can vary from year to year. But generally speaking, it was the existing management team had elements of it, and often supported by consulting resources.

MR. BUONAGURO: Okay. Thank you.

Now, at VECC IR No. 19(d), we asked about the -- we asked about the budget versus actual costs for the unit, and I will make this readable.

So for 2008, you see I have highlighted there, for the 2008 budget amount for this unit, it was a total of $854,000.

Do you see that? Under line number --

MR. BASILIO: Yes, I do.

MR. BUONAGURO: Thank you. And on the actual, it was 552,000.

Do you see that?

MR. BASILIO: Yes, I do.

MR. BUONAGURO: And then going over the page for 2009, a similar difference between budget and actual. So 2009 budget was 818,000 total, and the actual was 572,000; correct?

MR. BASILIO: That's correct.

MR. BUONAGURO: Now, you had mentioned about the costs being related to the salaries. Is the salaries for the three people -- I believe it is -- the total here of 572 for 2009 and 552 for 2008? Is that simply what that cost is?

MS. HUGHES: So you can see that on this schedule, we've separated the salaries and benefits in the first column, so 411,000 for the actuals. So that would be for the three people, yes.

MR. BUONAGURO: Okay. So then, for example, I've got 2009 on the screen. The difference between salaries and benefits 2009 and -- actual in 2009 budget would simply be variations in the projected benefits, presumably? Or in --

MS. HUGHES: The difference between the 446 and the 411, you mean --

MR. BUONAGURO: Right.

MS. HUGHES: -- in terms of salaries and benefits?

MR. BUONAGURO: Yes.

MS. HUGHES: Yes, I mean, it could be a factor, just in terms of benefits.

MR. BUONAGURO: Okay. Thank you.

And just to be clear, when we're talking about the people that are in the business development department, Exhibit 1, tab 2, schedule 2, appendix 1-9a -- which I will pull up –- and this is page 4 of the appendix.

It talks about there being a business development vice-president overseeing a financial advisor and a policy advisor?

MR. BASILIO: Yes. That's in our evidence, of course.

MR. BUONAGURO: Okay. Thank you.

Now, on a slightly different topic, I am going to ask you about executive salaries and expenses generally.

Now, starting with Exhibit 4, tab 2, schedule 1, page 2 -- which I will pull up -- this is table 4-1 of that exhibit.

The table actually starts on page 1 and spills over to page 2. I am particularly focussed on account 5605, which sets out the executive salaries and expenses.

And from this, I can tell that the 2008 OEB-approved amount was $1,784,407. Then the actual 2008 amount was $1,377,566.

Do you see that?

MR. BASILIO: Yes, we can.

MR. BUONAGURO: Okay. Now, for 2011 the proposal is an amount of $1,926,964, which would be an increase of approximately 39.9 percent over the actual 2008 amount?

Would you agree with that math, subject to check?

MR. BASILIO: Yes.

MR. BUONAGURO: And my understanding is that this is largely attributed to the addition of two new VPs, regulatory and finance, plus merit and inflationary increases for all other executives?

Is that a fair summary?

MS. GALLI: That is correct.

MR. BUONAGURO: Now, just to see that on the organizational chart -- which I will pull up -- this is Exhibit 1, tab 1, schedule 12, well -- this shows two new VPs, along with the business development VP, being added to your organizational chart?

MS. GALLI: That's correct.
MR. BUONAGURO: Okay. Now, I just wanted to look at the base component of the compensation and the incentive component of the executive compensation.
So I am turning to Exhibit 4, tab 2, schedule 10, page 11, table 4-25, which is compensation in general.
And you will see this as being, I think, a standard filing requirement; right?
I will focus on the parts I am actually going to look at in a second.
You will see the copy that I put on the screen is the redacted copy. I believe the column for the test year was redacted in several columns, because this was prepared at the time that a collective agreement was being negotiated?
MR. BASILIO: That's correct, and we're still in the midst of those negotiations.
MR. BUONAGURO: All right. I will tell you as a general rule, the stuff I put on the screen I pull off the RESS system, so if it is confidential, it is because you already posted it on the Internet.
So I think I am waiting for you to pull up your copy. Is that what I am waiting for?
MS. BUTANY-DESOUZA: We're done.
MR. BASILIO: We're good. We have it.
MR. BUONAGURO: Okay? Oh, you're good? Sorry, I thought I was waiting for you. Sorry.
Now, if we look under the row "Compensation average yearly base wages" it shows that for the "Executive" row

that between 2009 and 2010, the average base wage went from $180,450 in 2009 to $214,206 in 2010, which is about a 20 percent jump, subject to check, for the math?

If we can be a little more specific, it is almost exactly a $34,000 jump on average, and I think the percentage is in the order of 20 percent?

[Witness panel confers]

MR. BASILIO: Subject to check. Your -- I am sure your math is correct as to what the percentage increase is between those two numbers.

However, what also needs to be considered is, in the year, the timing of additions of hires, as well as the nature of the hires, to make a statement that wages increased -- total wages may have increased, subject to some of those changes, by 20 percent.

However, we added two executives, generally speaking. Like, it is no surprise of course, but executives should -- well, I am just going to say they should get paid more perhaps than other additions.

So that would have an increase on the weighting in the following year.

MR. BUONAGURO: Okay. That is the kind of discussion I think we're going to have in a second, so thank you for that.

MR. BASILIO: Yes.

MR. BUONAGURO: I note, though, before I forget that particular point, I am isolating my review to the executive category. So the fact that you are adding executives, in particular, shouldn't necessarily have a disproportionate effect on the average, because you're adding executives.

MR. BASILIO: If I could just clarify that point, the executive category, what that includes is not just the executive management team. I would like to clarify two things, actually.

Going back to the exhibit where we showed the organizational chart of the executive management team --

MR. BUONAGURO: Sure.

MR. BASILIO: Neil Freeman, the vice president of business development, is an employee of Horizon Holdings Inc. We should have provided a chart that did not include him here. He is not part -- he is part by way of an allocation of his expense, but he's not an employee of Horizon Utilities Corporation.

MR. BUONAGURO: Okay.

MR. BASILIO: Going back to the executive chart that you referred to with the averages, in the executive number at the top of that chart, number of employees, executive, the vice president of business development would not be included in that number, just for clarity.

MR. BUONAGURO: Okay.

MR. BASILIO: And, lastly, the executive line includes -- includes those employees that were in the chart previously referred to, plus the next level of management in the organization, which is our director level.

So it is not just executives. It is directors. And more commonly in the organization we refer to that as the senior leadership team of the organization.

So it is a blend of the CEO, the CFO, vice presidents, and then the next level of senior management in the organization, which is our director level.

MR. BUONAGURO: Okay. So I think based on your previous answer you're saying that within that -- within that span, hiring, you have added two new executives. I guess I don't know if you call that capital "E" executives versus small "E" executives, and if they had been directors, they could have appeared in this line, but they would be at the average or below the average. Anyway, the composition would have been a different effect.

MR. BASILIO: Correct.

MR. BUONAGURO: So thank you for that.

MS. HARE: Can I just jump in, because I want to make sure I understand this? I am not looking at the number of employees, and I see, for 2009, 17; 2010, 17, same number. And yet the salary, the average salary, is very different.

So I don't understand what you had just said.

MR. BASILIO: If I could just have a moment, because the timing of when those employees actually enter the organization in the year would have an impact on the weighting. It is a simple average. So if I could just confer with my colleagues?

MR. BUONAGURO: Before you go down that, this may be relevant to what you are about to discuss.

MS. HARE: Please do.

MR. BUONAGURO: Looking at the top of the table, the first column, it says number of employees, FTE, including part time. My understanding - and it may be wrong - is that this is an FTE chart, not a head count chart, and it projects the FTEs per year. Is that incorrect?

[Witness panel confers]

MR. BUONAGURO: I don't know if it is FTEs being referred to on the record -- but full-time equivalent.

MS. GALLI: At Horizon, we refer to FTEs and head count interchangeably, so we actually mean FTEs.

MR. BUONAGURO: Okay. You have no idea what kind of a headache that is going to give me, because for the utilities I will tell you that when they -- they don't use head count and FTEs interchangeably. They are, in fact, very distinct things, and we have run into a problem in other cases where we thought we were looking at FTEs and it turned out to be head count, and it has the similar effect that you're talking about.

If you are talking about head count, then really you are talking, I think, about a snapshot of a particular point in the year versus what the actual year would look like if everybody had been hired and what their actual compensation would be.

So it is very important, I think, to know what this table represents.

MR. BASILIO: Understood. If you can give us a moment for your question, as well, Ms. Hare?

[Witness panel confers]

MS. GALLI: Mr. Buonaguro, we responded to -- I believe we responded to this question in Energy Probe 47, and I just want to get your definitions correct, because I was using those two terms interchangeably.

In 2009, the figures reported are actuals. So although the head count in 2009 and 2010 has not changed, in fact, the 2009 figure or average would be driven down based on timing of hires.

So during that time, although we had 17 employees in that category, we had some turnover. So there would have been several months in between of hires, which would drive that average down.

2010 represents the budgeted figure, which assumes full head count -- well, I won't use that term -- full employee base for the full duration of the year. So that would be the difference in that situation.

MR. BUONAGURO: Okay. And you will see that I am not a wizard. I was going to go through this with that particular interrogatory, so I pulled up Energy Probe 47(a).

I was looking, in particular, at part (a), but I think this is important. I am pulling it up for a different reason, but I am going to go back to this table, then.

So then, for example, what you're telling me is that when I look at the historical year 2009, that's actual head count - I think that is what you're telling me - and that the bridge year 2010 was a forecast. So it would be an FTE, assuming full employment column. Is that what you're telling me?

MS. GALLI: 2010, yes, would be budgeted, assuming full employment.

MR. BUONAGURO: Okay. So the -- because when I look at a table like this, I assume all of the columns are done on the same basis and they're put next to each other so I can compare them. What you're telling me is I can't do the kind of meaningful comparison using this table, because if you were to redo 2009 based on what the FTE was, equivalent for 2010, I could compare them. But you haven't done that, is what you're telling me?

MS. GALLI: That's correct.

MR. BUONAGURO: Okay. Great. Well...

MR. BASILIO: Sorry, I just want to clarify. Madam Chair, did we address your question, as well, in that response?

MS. HARE: Yes. I think Ms. Galli's explanation is --

MR. BASILIO: Thank you.

MR. BUONAGURO: My understanding of that is that at some point in 2009, the head count would have been 15, and it became 17 by the end of the year, so that when you did it on an actual point in time, it became 17.

But you're saying that because that is head count versus FTE in 2010, when you look at it in this chart, it looks like there was no hires, but there was. It just didn't have the same impact on the total compensation in 2009. Am I correct?

MS. GALLI: That's correct.

MR. BUONAGURO: Thank you. All right. Now, I will go to -- so you're telling me that what appears, on the face of it, as a discrepancy –- sorry, I wouldn't say a discrepancy, but a large increase in the average yearly base wages for executive between 2009 and 2010 is largely due to the way -- what those two columns represent. In fact, they represent different ways of viewing those two years.

I will go to Energy Probe 47, where you were asked -- we asked an interrogatory at IR No. 35, VECC IR 35, about how do you explain the difference between the two columns, in terms of the average annual base salary.

We were referred to Energy Probe 47(a), which is why I had it prepared. And there were a number of things listed here, bullet points.

The part that we understood very clearly was employees in this category also received an average merit increase of 3 percent, equivalent to approximately $120,000.

Now, I think I more fully understand bullet point number 2. You're saying a large chunk of that would have been this difference in what the two columns represent.

Are those really the two drivers for the difference, are you telling me? Absent that particular difference in what the two columns represent, the difference would be about three percent?

MS. GALLI: That's correct.

MR. BUONAGURO: Okay. Thank you for that.

Now, I am turning to the issue of incentive pay, and for that, we asked about it in VECC Tech Conference

Question No. 10.

And at part (a) of the response, you put in a table here, which shows the total incentives paid for 2010. And what we see there is executives 92,000, management 203,000, and non-union 88.5 thousand.

Do you see that?

MS. GALLI: Yes.

MR. BUONAGURO: And then for 2011, the budget amounts are –- and this is over the -- over to page 4 of the technical conference question answer.

We see that for executive, it has gone to $279,000., $255,000 and $133.5 thousand?

Do you see that?

MS. GALLI: Yes, we do.

MR. BUONAGURO: Sorry, I have to do it that way, but that is how I get it on the record.

So the difference between the 2010 and 2011 figures, by our math, is approximately 383 -- sorry.

You are going from 383.5 thousand to 667.5 thousand, which is about a 74 percent increase?

Would you take that, subject to check?

MS. GALLI: Yes, we do.

MR. BUONAGURO: Now, can you -- you have put in the metrics here in this particular interrogatory response about how incentive pays are calculated.

Can you briefly describe what the drivers are that is causing that jump in the incentive payments?

MR. BASILIO: I would just like to point out that the total incentive paid for 2010 gross is the amount actually paid.

And the total incentive budgeted for 2011 is a budget, but it also assumes full headcount --

MR. BUONAGURO: Okay.

MR. BASILIO: -- in the year. So there are, again, some reconciling factors causing the difference.

MR. BUONAGURO: Okay.

MR. BASILIO: That explain a component of the difference.

MR. BUONAGURO: So the problem I had in the previous table was that 2009 were headcount numbers and 2010 was FTE numbers, and the problem I am going to have here is that the 2010 number is headcount numbers and the 2011 is a full FTE number? Is that what you are telling me?

MS. GALLI: Yes. That would be correct.

In addition to that, I just want to point something out, as well.

In terms of reporting the 2010 executive incentive, we have made a note in the response to that interrogatory, that at that time, the executive incentive was not available to be included in that figure. And therefore the 2010 is much lower than 2011, because it does not reflect the executive incentive.

MS. TAYLOR: Before you go on, perhaps Michael -- Mr. Buonaguro would get to that question, but if it wasn't in that number, where was it?

MR. BASILIO: At the time, incentives for the executive management team were still being contemplated by our board of directors, at the time of the -- the response was prepared, that those final determinations for the executive management team had not been -- had not been approved.

MR. BUONAGURO: Maybe I can follow up on that.

So when I put up the first table, which is the 2010 numbers here, on the page or on the computer screen, you have executive 92,000. What you're telling me is that is the -- I can't remember which one labelled it, but that is either the large-E or the small-E executive, which doesn't include the actual executives; that includes the other people in the executive class when you do your compensation table?

MR. BASILIO: That's correct. It would have been the director-level only, that next layer of small-E executive management is, I think, the analogy you used.

MR. BUONAGURO: Okay. So then it says here that the payouts are not calculated and approved until late March 2011. Presumably they have been done now?

MR. BASILIO: They have been.

MR. BUONAGURO: Okay. So we can, then, correct this table?

MR. BASILIO: Yes, we can.

MR. BUONAGURO: Okay. Is that something you can do now, or do you want to do that by way of undertaking?

MR. BASILIO: Undertaking, please.

MR. BUONAGURO: Okay.

MS. HELT: I take it, Mr. Basilio, that is sufficiently clear for you, what the undertaking is?

MR. BASILIO: It is the incentive -- to correct the table for the incentive payment for executive management, meaning the vice-presidents, the CFO and the CEO for 2010, to update the table for those amounts.

MS. HELT: That will be Undertaking J2.3.

UNDERTAKING NO. J2.3: TO PROVIDE UPDATE OF TABLE IN RESPONSE TO VECC TECHNICAL CONFERENCE QUESTION NO. 10(A) TO INCLUDE EXECUTIVE PAYOUTS THAT WERE ORIGINALLY EXCLUDED.

MR. BUONAGURO: I think for the sake of the reporter, I will add that what we're looking at is an update of the table to VECC Tech Conference No. 10, part (a), to include the executive payouts that were originally excluded.

That is for the reporter; that will help them describe the undertaking.

Thank you for that.

Now, so you can see I am getting caught up in some -- trying to compare year over year, and having found that these years are now not compared on the same basis, which means I can't actually compare them. It is not the first time that has happened to me, so you don't have to feel too special about it.

Going back to the "employee cost, total company" table, which is appendix 2k to Exhibit 4, tab 2, schedule 10, this caught us, in terms of the executive salaries in particular -- but presumably that is the same for all of the entire column. The entire column is based on headcount, not FTEs?

MS. GALLI: That is correct.

MR. BUONAGURO: Okay. Are you able to redo the 2009 column as an FTE amount so I can compare them?

And conversely, can you redo the 2010 as a headcount so I can correct 2009?

[Witness panel confers]

MR. BASILIO: I am hearing from my team that to redo the entire table is a great deal of work, given the magnitude of ins and outs, meaning determining the time at which employees have come on or exited the organization.

If there were one or two categories in particular you preferred to focus in on, that might be easier. Otherwise, it would be –- it is a great deal of time, in terms of extracting the information from our systems and reconciling it between payroll and accounting records and the exhibits.

It would be a great deal of time.

MR. BUONAGURO: Okay. Let me -- we will just discuss it for a second, so I understand the magnitude of it.

In terms of redoing 2009 so that it matches 2010, presumably what we're looking at is what was budgeted for 2009 as a whole, like, what you wanted for 2009. And then what actually happened in that year is what you put down, but you are really just going back to what was budgeted, I think?

MS. HUGHES: Yes. We could do the 2009 budget on this basis.

MR. BUONAGURO: All right. Then what I am asking for - I think this is where you're talking about - 2010 it is more difficult, because you are then actually going into what actually happened in 2010?

MS. HUGHES: So we could leave the 2010 on a budgeted basis, as well, with the --

MR. BUONAGURO: I got 2010.

MS. HUGHES: Yes.

MR. BUONAGURO: You're telling me 2009 on the same --

MS. HUGHES: On the same basis as 2010.

MR. BUONAGURO: I am now asking the second question, which is also of interest, is: What actually happened in 2010 versus 2009, because then you are asking for an escalation from what actually happened in 2010 to 2011 as part of the application?

I am not asking for 2011, because it hasn't happened yet.

MS. HUGHES: So just to clarify, then, consistent with how we've done the 2009, you are asking could we do 2010 on the same basis?

MR. BUONAGURO: Right.

MS. HUGHES: That is one comparison which is sort of actuals.

MR. BUONAGURO: Right.

MS. HUGHES: Then the other would be the 2009 budget, in which case then you could compare to the 2010 budget?

MR. BUONAGURO: As it exists on this page already.

MS. HUGHES: As it exists, yes.

MR. BUONAGURO: Those are two things.

MS. HUGHES: I believe we could do that, yes.

MR. BUONAGURO: Thank you very much. That is with reference to Exhibit 4, tab 2, schedule 10, appendix 2K for the undertaking.

MS. HELT: Mr. Buonaguro, that will be undertaking J2.4.

UNDERTAKING NO. J2.4: TO RE-PRESENT THE 2009 COLUMN ON AN FTE BASIS AND THE 2010 COLUMN ON AN ACTUAL BASIS, WITH REFERENCE TO EXHIBIT 4, TAB 2, SCHEDULE 10, APPENDIX 2K; TO ENSURE THAT THE CALCULATION UNDER AVERAGE YEARLY BASE WAGES IS ONLY BASE WAGES (SEE PAGE 141 OF THIS TRANSCRIPT)

MR. BUONAGURO: Thank you. Now, you will have seen that I produced an exhibit, so we have Exhibits K2.1 and 2.2. And I will briefly explain why I produced these and what I wanted to discuss about them.

So the first one is K2.1, and it is Toronto Hydro's last filing in EB-2010-0142, and it's the equivalent table to your appendix 2K, which we have been talking about. I have also included Hydro Ottawa's EB-2010-0133 exhibit, again equivalent to your Exhibit -- appendix 2K. If you look at them briefly, you will see that they have identical columns, and such, would you agree, subject to check? I think this is a mandatory filing requirement. That's why it looks the same. That's all I'm saying.

MS. GALLI: Yes, we do.

MR. BUONAGURO: Thank you. I can pull it up. This is

I guess one of the benefits and one of the curses of being in all of these applications. I get to see these and see how different companies compare in terms of their filings.

The thing, to tell you the truth, that leapt out at me and what I wanted to talk to you about was the executive numbers.

And you will see I put up on the screen, for example, the Toronto Hydro, and if you look at their executive column -- or, sorry, their executive row in terms of the head count through 2008 to 2011, we have ten people in 2008 to a high of 12 in 2010, and then down to ten in 2011.

And, similarly, for Hydro Ottawa, executive, it is stable at six people in the executive row throughout the period that they're reporting on.

But when you look at Horizon, we have 15 in -- starting in 2007, and it ranges from 15 to the test year, 18 in 2011.

So on the face of it, what I am seeing is that as compared to Toronto Hydro, which has a total employee count for the test year of 1,944 with ten executives, it appears on the face of it that you have almost twice as many executives, even though there is only about a quarter of the total staff.

Similarly, for Hydro Ottawa, who has six executives for a total employee count of 592, you have triple the number of executives, at least on the face of it.

So I want to have a discussion of what is it about Horizon, on the face of it, that requires 18 executives versus ten versus six for utilities which I think both are larger than Horizon in various ways.

If it is not the case that I am reading this correctly, you can provide an explanation as to why I am not doing that. That is the discussion I want to have.

MS. GALLI: As Mr. Basilio explained, the executive employee category actually includes our director level employees, as well.

So, in fact, of the 18 executives noted for 2011, seven are in fact executive employees.

MR. BUONAGURO: So are you telling me that in order to properly compare the three tables, we would have to redo it so that the first row, where it says "executive" for Horizon, be reduced to seven?

MS. GALLI: Actually, in fact, I am not sure we could properly compare these tables, because I did a cursory review of Toronto's table, and it seems that we have reported differently in the management category, as well.

MR. BUONAGURO: How so?

MS. GALLI: Our management category includes any supervisory employee at Horizon.

MR. BUONAGURO: Whereas what is the difference for Toronto Hydro?

MS. GALLI: I can't say for certain, but it looks as if in Toronto's case there might be a difference in the way they have reported the management and non-union categories.

MR. BUONAGURO: Okay. I am actually focussed on the executive. So that is a problem --

MS. GALLI: In the executive, yes, definitely we have reported differently.

MR. BUONAGURO: Okay. So could you, then, break out in your appendix 2K -- take out the people that you are telling me shouldn't be there in order that I can properly compare it to Toronto Hydro, which will flow down?

So basically you are adding a subclass here, executive -- we can call it "real", and then executive -- I didn't mean it in any pejorative way. I have people laughing here.

But, I mean, executive, large "E" executive versus small "E" executive, I guess we can put it, and then put the small "E" executives, I guess you call them directors, below that, so the first executive column is actually comparable to Toronto Hydro and to Ottawa, and then that way I can get a real comparison of what is happening in those categories. Can I get that?

MR. BASILIO: You certainly can. If it is helpful, we do have some comparative information between Toronto and Horizon that we can offer now.

MR. BUONAGURO: Sure.

MR. BASILIO: So Toronto -- and this isn't going to fully satisfy your answer, but I think it is relevant and perhaps it will help.

Toronto Hydro just published its annual information form, which is available publicly on SEDAR, and it disclosed the compensation, salary, bonus and perquisites for the top five named executive officers, which aggregated for 2010 approximately $1.9 million. There were five named executive officers for an average of $373,785.00.

If we look at the entire executive -- big "E" executive team, so vice president, CFO, CEO for Horizon Utilities Corporation for 2010, and this would be base, bonus, and car allowance - that's the perquisite for the executive team - that aggregates for the entire team $1.627 million for an average of $232,533.00.

MR. BUONAGURO: Sorry, was that total compensation?

MR. BASILIO: Total compensation. Total compensation, comparative compensation: Base, bonus and comparable perquisites, so car, car allowance. Toronto, I don't know the full extent of their perquisites, but there are car leasing costs. They're basically disclosed in their annual information form.

MR. BUONAGURO: Just so I understand, I put in the Toronto Hydro evidence in their last case. This is from K -- Exhibit K2.1 now in this case. I can actually pull up the equivalent executive category, and for 2011 they have ten executives and they've got -- I have all of this information. I've got -- at least as it was filed in their case, and it is average annual base salary, average annual benefits, average annual -- so I have all of that information on the basis of the entire executive category.

What I am missing now, in this case, is the equivalent measure for Horizon, and I think you are -- I don't think you have actually undertaken to do it, but it sounded like you were about to undertake to do that.

MR. BASILIO: We will undertake. I guess the point I am trying to make is they have an executive team. In fact, if you look on their website, they have eleven executives, not ten, that seem to all be related to the utility.

I am saying for five of their executives, the payroll related to those five executives - not the full 11, but just the five - is significantly greater than the compensation for our entire executive team.

MR. BUONAGURO: So you're saying that -- when I look at the average -- because what I get from the filing is the average. You're just telling me that this is disproportionately weighted to four, and that they have, presumably, another five or six executives, which pull down the weighting on the average calculation?

But that is implicit in what you're telling me, based on the numbers?

MR. BASILIO: I don't have the full average.

MR. BUONAGURO: Right.

MR. BASILIO: I am not referring to the average for Toronto. I am saying from a budget perspective, the total cost of their executive team is far and away greater than that for the Horizon team, and in fact, for their top five it is significantly greater than the entire executive team of Horizon Utilities.

MR. BUONAGURO: So can I get the actual undertaking to break out the executive class into -- we'll just call it big-E and small-E?

MS. HUGHES: Yes, we can do that.

MR. BUONAGURO: Maybe you can do it -- under the small-E, you can put "[directors]"? I think is what you're referring to them as?

MS. HUGHES: Yes. We can do that.

MS. HELT: Mr. Buonaguro, just given the amount of discussion on that particular undertaking, if you wouldn't mind re-articulating it for the purpose of the record, please?

MR. BUONAGURO: Sure. With respect to Exhibit 4, tab 2, schedule 10, at page 11 of 25, appendix 2K, the undertaking is to break out the -- within the named executive category of costs -- what we're calling the big-E executives, which are what Horizon would call the true executives, versus what we're calling the small-E executives, which would -- it has sometimes been referred to as directors, as a sub-column or sub-row within the table, so that we get a better picture for comparison purposes to other utilities who are reporting in that way.

MR. BASILIO: Just for clarification, and while I was conferring with Ms. Galli, we're still not sure that that will provide a true basis of comparison. We have some doubt, and we can't verify whether Toronto include bonuses, for example, in this table.

We think that perhaps they didn't. We can't verify that.

MR. BUONAGURO: Sorry, just -- when you say "bonuses" do you mean incentive pay?

MR. BASILIO: Yes, I do.

MR. BUONAGURO: I think they have incentive pay on their table. You can look at their exhibit, and if you think there are any differences that you want to highlight in the undertaking response, that's fine.

MR. BASILIO: Okay. Thank you.

MR. BUONAGURO: I am just trying to get a picture --

MR. BASILIO: Of course. I know. And we want to provide you with that. We want to provide you with that picture, of course.

MR. BUONAGURO: Thank you.

MS. HELT: That will be Undertaking J2.5 --

MS. HARE: Is that not the same as 2.4?

MS. HELT: No. J2.4.

MS. HARE: Sorry, was J2.4 not to redo appendix 2K?

MR. BUONAGURO: I see your point. We already have an undertaking to redo 2K. Presumably, you can provide the two undertakings and do the breakout at the same time.

That is a good idea. Thank you.

Thank you. Those are my questions.

MS. HARE: Thank you. We will take our morning break now, and come back at 10:45.

--- Recess taken at 10:26 a.m.

--- On resuming at 10:49 a.m.

MS. HARE: Please be seated.

Ms. Helt, I believe you are next.

CROSS-EXAMINATION BY MS. HELT:

MS. HELT: Thank you, Madam Chair.

Good morning, members of the panel.

MS. BUTANY-DESOUZA: Good morning.
MS. HELT: I am going to start my questions following up from where Mr. Buonaguro left off.
Yesterday, Board staff filed a compendium of documents, Exhibit K1.5, and I will be making reference to those documents in my cross-examination. So if you pull it out, that will be helpful.
The first document I would ask to direct your attention to is at page 23 of the compendium. It is a response to Energy Probe Technical Conference Question No. 10, and you will note it deals with full-time equivalent employees, similar to what Mr. Buonaguro was asking about.
Do you have that before you?
If you look at the total numbers, which is the third line from the bottom, you will see that the total number of employees for 2010 budgeted was 401. The 2010 forecast is 384, and 2011 is 428. Do you see those numbers?
MS. BUTANY-DESOUZA: Yes.
MS. HELT: So that will -- if I am correct, between 2010 forecast and 2011, that is approximately a 10 percent increase. Would you agree with that?
MS. BUTANY-DESOUZA: Yes, subject to check.
MS. HELT: And that 10 percent, do you have a number or an estimate for the December 31st, 2010 FTEs that you can provide?
MS. GALLI: The final count as at December 31st, 2010 was 384.

MS. HELT: And these are full-time equivalent employees?
MS. GALLI: Yes, they are.
MS. HELT: So with the 10 percent increase, how do you account for that?
MR. BASILIO: It is a combination of positions we had expected or planned to hire in 2010, plus new additions for 2011.
MS. HELT: And can you just break that down for me? Do you know how many new additions there are for 2011?
MS. GALLI: The new additions for 2011 are 27.
MS. HELT: Thank you. That is what you had filed in your evidence?
MS. GALLI: Correct.
MS. HELT: If you turn now to compendium document 22 - page 22, what I am interested in with respect to this document is the bad debt expense.
Now, Mr. Buonaguro had this on his screen and was able to nicely zoom in on the various lines. Unfortunately, I only have the paper copy. But bad debt expense is about seven lines from the top. Have you located that?
MS. HUGHES: Yes, we have.
MS. HELT: And you will see that for 2008 OEB approved, it is approximately 1,050,000. 2008 actual was a little below that, 1,027,876; 2009 actual, approximately 1.3 million.
For the bridge year, 2010, we have 970,000, and in 2011 test year, 1,350,000.

Can you explain what the reason was for the higher bad debts in 2007 and 2009, and then again here in the test year?

MS. HUGHES: So in terms of our bad debts, in terms of the trending, we -- in 2007, I believe we had a couple of smaller commercial customer bad debts that we had to write off.

I think generally the economy, we have seen an increase in our bad debts, in general, in terms of both our residential and commercial customer base.

One of the things that I would actually like to point out is in the 2010, the bridge year, we filed of 970 was in fact our budget for 2010. And I can advise the Board that, in fact, for the year ended December 31st, 2010, our actual bad debts were approximately $1.4 million. So we have been experiencing a significant increase in our bad debt expenditures.

The 2011 test year, we used a three-year average of the actuals for 2008, 2009 and our 2010, and then we forecasted a slight increase on that basis.

Given what we've seen as changes coming through with respect to the -- what is it called -- sorry, the customer standardization policies and the impact that we believe that will have with respect to the amount of deposits that we can take, as well as the introduction of the arrears management program, we do anticipate that we will see -- you know, we may in fact see an increase in our bad debt expenditures.

MS. HELT: Can you clarify for me why there was such a difference, then, in the amount budgeted for the bridge year? You said it was 970,000, but in fact the actual is $1.4 million.

So that is a difference of about $430,000. What accounted for that?

MS. HUGHES: So a couple of things. One is we did see a significant take-up, in terms of 2010, in the number of customers actually adopting the arrears management program, and so we did, in fact, see an increase in that.

Our policies in terms of how we move towards writing off these receivables, we didn't have, you know, a guaranteed expectation of collection. So we did, in fact, increase our allowance for doubtful accounts at the year end. So that is a component, as well as just a general rise.

We obviously also have higher bills in 2010 than anticipated with the introduction of HST, and higher bills for the summer months, as well.

MS. HELT: So do you forecast or see this as a trend continuing in the future in terms of increasing bad debt expenses?

MR. BASILIO: I believe so. Again, the arrears -- the arrears management program reduces our ability to secure against a group of customers that, for economic reasons, it is difficult for them to pay. Previously we had a means of securing ourselves against a portion of those losses. We are losing that ability, as well as the ability to recover interest and other items.

So we see credit risk generally -- an uptick of credit risk due to changes in policy -- credit-related policies.

So we do expect an uptick on bad debt expense.

MS. HELT: In response to Board Staff IR 22, Horizon indicated it had not yet prepared its unaudited financial year end balance. So that is why, at that time, you didn't have a final total or actual amount for 2010.

You now do have the amount, and that is $1.4 million. Is that an audited amount?

MS. HUGHES: Yes, it is. I can get the exact figure, if you would like me to. I rounded it to 1.4.

MS. HELT: If you could give an undertaking to provide the exact amount for the audited bad debt expense for the year 2010?

MS. HUGHES: I will.

MS. HELT: That will be undertaking J2.7 -- no, 2.6. I'm sorry.

MS. BUTANY-DESOUZA: Sorry, isn't it 2.5?

MS. HELT: That's correct. So that will be J2.5. My mistake. Thank you.

UNDERTAKING NO. J2.5: TO PROVIDE EXACT FIGURE FOR AUDITED BAD DEBT EXPENSE FOR THE YEAR 2010.

MS. HELT: Mr. Basilio, I believe you touched on this with respect to credit risks, but what efforts or projects has Horizon undertaken in recent years or is proposing to take in 2011 to better identify and manage your credit risks?

MS. CAMPBELL: So in the past few years, in fact for a number of years now, Horizon has been working very closely with our social agencies, and we have been -- we have implemented the customer service standardization programs, as Mr. Basilio had said, the AMP program, and also the enhancements to the equal payment program are underway as well.

So we are seeing a larger number of our customers taking advantage of the equal payment plan, to allow them to make monthly payments against their account.

And we are actually reviewing, now, balances on a quarterly basis versus an annual basis, to see if the amounts that have been estimated are matching consumption patterns, so that there isn't a big rollover of dollars into the next year, which could be an affordability issue and could contribute into credit risk, as well, if that is the case.

So we have done some significant work around this area to make that plan run a lot smoother for customers, and also to minimize credit risk, as well.

What Mr. Basilio was talking about with the AMP program, we have had 1,300 customers plus take advantage of this program since October.

The one thing that is concerning us is we have seen 520 of these customers unfortunately not meet their obligations for payment. So we have now implemented programs, as well, for tracking of these, for automated notices so that we have early detection of these programs not being met. And we're closely monitoring the dollar values, which is up over $130,000 in deferred payments within this program, and we do review this on a quarterly basis with our credit risk committee, to see where we're struggling, as well, to mitigate some of this credit risk.

MS. HELT: In your view, does the implementation of the Ontario Clean Energy benefit impact on your bad debt expense?

MS. CAMPBELL: With the 10 percent credit on the bill, we're just seeing the -- now the first set of bills go out as far as customers receiving a full credit, because it was a prorated dollar value.

So I think what we've seen with the implementation of HST and the increased tax and now the 10 percent credit, it sort of balances itself out.

So I don't see it as a concern towards credit risk, but I also don't see it as a mitigation of credit risk.

MS. HELT: So you see it as being neutral?

MS. CAMPBELL: Correct.

MS. HELT: Then with the implementation of smart meters and time-of-use pricing, do you see that as having any impact on Horizon's bad debt expense?

MS. CAMPBELL: So over the past year, we've been monitoring the customers that we have been transferring over to TOU, and year-to-date now or for the last 12 months, the increase to customers' bills is fairly neutral. It's been around the -- just under a half a percent in the total year for the customers that are around 1,000 or so kilowatt-hours.

But where I see the time-of-use rates being factored, a credit risk, are some of our vulnerable and lower-usage customers.

So on average, Horizon's usage is about -- is 660, 660 kilowatt-hours. And those customers are seeing fluctuations and increases in their energy bill, on the energy side of their bill, of five to eight and some up to 15 percent, we have seen.

So it is definitely a concern, from an affordability issue, for some of the lower-use end customers.

The average customer, it is -- it wouldn't be a concern for credit risk.

MS. HELT: All right. Thank you. Next I just have a couple of questions with respect to HST. If you turn to Board staff's compendium, page 99, this is a -- Board staff Interrogatory No. 57.

In its response to this interrogatory, Horizon instructed its operating units to implement -- or to reflect the implementation of the HST on July 1st in 2010 in developing the 2011 budget.

As a result, Horizon also indicates it has not been able to quantify the savings reflected in the 2011 budget, as these were built into the budget deviation, from probably a bottom-up approach.

My question is, as a proxy, can you indicate what the balance of account 1592, PILs and tax variances, would be as of December 31st, 2010?

MS. HUGHES: I just wanted to clarify. That is the account where we were required to record the savings from HST for the year-end purposes?

MS. HELT: Yes.

MS. HUGHES: Yes. So I can tell you we made an entry for 200,000 at the end of December 31.

MS. HELT: And what about –- okay. That's fine.

Has Horizon done any study to estimate what capital and operating costs would be subject to PST?

The point of that is to try and determine what savings there may be.

MS. HUGHES: so we haven't done a specific study, but in terms of being able to track the expenditures from July to December, we did itemize those items, whereby we would have savings on the capital side.

You know, we did identify computer hardware, for example, where they would have been subject to PST in the past and now subject to HST, in which case we would get the full input tax credit

So we did, in fact, go through some of those line items to identify, but we didn't do a study, per se.

MS. HELT: And was there any reason for not doing a study?

[Witness panel confers]

MS. HUGHES: I guess we did it on a transactional basis so that we can ensure that we were following the proper tracking mechanism.

In terms of the study, you know, in terms of direction as sort of we're building the bottom-up budget for 2011, we -- I guess we didn't specifically identify those items, where they might have changed.

MS. HELT: Thank you.

Next I would like to move on to some questions with respect to your Green Energy plan. I will be referring to the compendium, page 27. This is Question 31, a Board Staff interrogatory with respect to Horizon's basic Green Energy Act plan.

I would just like to confirm. Horizon did file a basic Green Energy Act plan; is that correct?

MS. LERETTE: Yes, that's correct.

MS. HELT: And in that plan, Horizon included in its operating expenditures in 2011 an amount of 530,000; is that correct?

MS. LERETTE: That's correct.

MS. HELT: Just for the purposes of clarification, is Horizon seeking a finding of prudence with respect to the 2011-2013 Green Energy plan costs?

MS. LERETTE: Yes, we are.

MS. HELT: Is Horizon seeking a finding of prudence of expenditures with respect to any subsequent years of the plan at this time?

MS. LERETTE: I believe in one of the IR responses, we noted that we were looking for a prudency review for all five years in the GEA plan.

MS. HELT: On page 28 of the compendium, in the answer or the response to Board Staff Interrogatory 31(c), it states, and it is quoted:

"Horizon has submitted a basic Green Energy Act plan that includes capital and seeking operating expenditures for the period of 2011 through 2015. Horizon Utilities is seeking approval for 2011 through 2013 expenditures."

So is your answer to the previous question with respect to a finding of prudence, that Horizon is seeking a finding of prudence for the plan costs for the years 2011 through to 2015?

[Witness panel confers]

MS. LERETTE: So just to clarify my previous answer, we are looking for approval of costs and prudency for 2011 through 2013. Costs after 2013 would be re-filed with our next cost-of-service application.

MS. HELT: Thank you. So your next cost-of-service would be in 2015, so what would happen, then, for the year 2014?

[Witness panel confers]

MS. BUTANY-DESOUZA: Maybe I will give it a try. We did file the response to the interrogatory, as you have noted, and in that response it does say to 2013.

Frankly, at this time, as we have just said, we anticipate that our next cost-of-service will be filed for 2015 rates. Therefore, we would be seeking prudency for up till and including 2014, so there isn't a year missing, and that a subsequent GEA plan as necessary, should that be necessary, would be filed with the next cost-of-service application.

MS. HELT: Thank you. That makes sense.

MS. BUTANY-DESOUZA: I hope that is clear.

MS. HELT: Yes.

MS. BUTANY-DESOUZA: Thank you.

MS. HELT: I would like to now move on to questions with respect to Green Energy Act direct benefits, and I will be referring to the compendium starting at page 32 and going on to page 41.

At page 32 of the compendium is a response to Board Staff Interrogatory Question 36, which refers to the "Report of the Board: Framework for Determining the Direct Benefits Accruing to Customers of a Distributor under Ontario Regulation 330/09."

Do you have that in front of you?

MS. LERETTE: Yes, I have the IR response in front of me.

MS. HELT: Thank you. And I am just going to read the first paragraph of that response, where:

> "Horizon states at page 32 of its GEA plan that, 'The tables [outlining costs] indicate a zero provincial recovery because at this point in time the calculation for direct benefits for Horizon is not defined.' Staff concludes from the tables provided that Horizon is requesting that provincial ratepayers contribute 0% of the cost of renewable enabling investments, and 0% of the cost of expansion investments."

Then also in the report of the Board on pages 38 and 39 -- and I apologize, 38 is actually, you will note, page 15 of the report and 38 is actually page 16. So I will be referring to page -- the bottom of page -- compendium page 39. The last sentence reads:

> "As such, the Board is of the view that the percentages that are ultimately approved for Hydro One Distribution in relation to Expansion and REI investment should provide a reasonable estimate for other distributors until more distributors complete detailed benefit assessments and a rolling weighted average can be used, particularly given the limited amount of eligible investments expected in Basic GEA Plans."

Do you see that? I'm sorry, it is a little confusing, since the compendium pages are in reverse order.

MS. LERETTE: Yes. Yes, we have it.

MS. HELT: Were you aware of this report of the Board, or are you aware of it?

MS. BUTANY-DESOUZA: Yes, we were aware of the report of the Board. It did come out prior to our filing the application.

We weren't aware of the -- we weren't aware of the specific application to our circumstances, but subsequently - and I note that it is in the compendium, I am sure you are coming to it - we did do the calculations in response to an interrogatory.

MS. HELT: Correct.

MS. BUTANY-DESOUZA: Yes.

MS. HELT: So you are, then, aware of the default direct benefit percentages to be initially used by distributors are those in the Hydro One decision; namely, the 17 percent for expansion investments and 6 percent for REI; is that correct?

MS. LERETTE: Yes, we are, and we have used those percentages on the tables in response to IR 36 to recalculate those amounts.

MS. HELT: So would Horizon then have any objection or difficulty in implementing and tracking the direct benefits, if the Board were to set percentages other than zero for provincial recovery of amounts related to its GEA plan?

MS. LERETTE: No, we would not. Under the current calculations, the direct benefit -- provincial benefit numbers are quite small, so we wouldn't have any opposition to that.

In 2011, we have calculated a zero benefit, and in 2012 $135,000.

MS. HELT: All right, thank you.

Next, if we can go to page 43 of the compendium, I am just going to ask a few questions on the report -- or, no, it is the decision with reasons with respect to Renewable Generation Connection Rate Protection Compensation Amount of the Board, EB-2010-0191.

This basically sets out the amount that is to be collected by the IESO, and then paid out to Hydro One. Are you familiar with this decision?

MS. BUTANY-DESOUZA: I would offer that we have limited familiarity.

MS. HELT: All right. If we look at page 1, which is compendium page 45, there is a paragraph that sets out how to determine the 2010 RGCRP compensation amount.

I will just read it into the record:

> "In accordance with Ontario Regulation 330/09 the RGCRP amount to be collected by the Independent Electricity System Operator ('IESO') from all electricity market participants on the IESO-controlled grid, as determined in accordance with the market rules so that the total amount of RGCRP compensation to be collected is equal to the total amount of rate protection to be provided."

So this decision basically sets out a mechanism for recovery of GEA plan costs collected from provincial ratepayers via payments collected from and paid out by the IESO to eligible distributors.

Are you aware of that general principle?

MS. BUTANY-DESOUZA: Yes.

MS. HELT: All right. Then can Horizon see that the provisional amounts -- provincial amounts in respect of its GEA plan are collected from the IESO at regular intervals in Hydro One's case?

MS. BUTANY-DESOUZA: Sorry, yes.

MS. HELT: All right. That's fine, then.

We will move on to page 40 of the compendium, which is page 3 of the report of the Board in EB-2009-0349, and at the top of the page it just deals with Regulation 330/09.

Do you have that?

MS. BUTANY-DESOUZA: Yes.

MS. HELT: All right. The first bullet deals with eligible investment costs. It notes that initial eligible investment costs:

> "...are not limited to only the initial capital investment costs, but also includes the *up-front* OM&A costs necessary for the purpose of 'enabling the connection of a qualifying generation facility'. However, given that section 79.1 focuses solely on the initial investment, *ongoing* OM&A costs that are incurred by the distributor after the investment has been made will not be eligible for provincial recovery."

Was Horizon aware of the distinction between the upfront and ongoing OM&A costs when it prepared its GEA plan?

[Witness panel confers]

MS. BUTANY-DESOUZA: No, we didn't -- when we prepared our GEA plan, we didn't include this.

MS. HELT: The distinction between upfront and ongoing costs?

MS. BUTANY-DESOUZA: That's correct.

MS. HELT: Okay. I am just going to move to another question first, and I may come back to this.

If we go to compendium page 62, this is Board Staff Interrogatory Question 38.

In this question, Board Staff asks, for clarification purposes, whether or not certain labour expenses expected in 2010 –- '11 and 2012 are a reflection that Horizon intends to hire the employees or not.

My question to you is: In your responses, the consultative costs appear to be upfront costs. However, I'm not sure whether the full-time equivalent engineer appears to be charged with the ongoing activities. It certainly looks like that to me.

Can you just clarify that for me?

[Witness panel confers]

MS. LERETTE: The headcount in response to Question 38, the Board Staff interrogatory, is for the upfront and the ongoing work.

MS. HELT: All right. So the full-time engineer would be charged with ongoing activities?

MS. LERETTE: Yes.

MS. HELT: And then Board staff Interrogatory Question 39, which is at page 63 of the compendium, it is a similar sort of question with respect to -- Horizon indicates that the costs of two dedicated full-time equivalents and consultant support are included for smart grid investigations.

Would you agree with the characterization that these two dedicated full-time equivalents are doing ongoing work, as opposed to upfront work?

MS. LERETTE: Again, these FTEs would do upfront work and ongoing work.

MS. HELT: All right. Thank you.

Next, a couple of questions with respect to deferral accounts and tracking of revenues and costs.

If we look at the compendium, page 64, this is an excerpt from part of the filing requirements on distribution system plans, EB-2009-0397.

And the Board in this, in their filing requirements, indicates on the first paragraph of page 64 of the compendium:

> "The Board will assess the prudence of the activities and costs to the extent permitted by the level of detail provided. The GEA plan should contain sufficient evidence to allow the Board to conduct this examination."

And at page 65, the Board sets out certain capital OM&A deferral accounts for RGC, renewable generation connection, or smart grid development.

And there is a reference at the bottom of the page to account 1532, renewable generation connection OM&A deferral account.

My question is: Just generally speaking, how does Horizon intend to track its revenue and costs incurred with respect to its GEA plan?

[Witness panel confers]

MS. HUGHES: So for reporting purposes, we would expect that we would track these expenditures from an OM&A perspective through operations and maintenance accounts. But then our practice would be to move them to the deferral account.

So internally, we would track them within the deferral account.

MS. HELT: But there is nothing included in the evidence where these amounts would be tracked; is that correct?

MS. BUTANY-DESOUZA: Yes.

MS. HUGHES: I believe that's correct.

MS. HELT: All right. If I could just have a moment, please.

Just one question, one further question, which related to my initial line of questioning that I failed to ask at the time with respect to employees.

I'm sorry, I don't have a reference in the compendium, but can Horizon just indicate to me the number of non-unionized management employees it has? I am not sure if it was included in the table that was being referred to by Mr. Buonaguro, or not.

If it is, that's fine, but if you can just indicate that for me?

MS. GALLI: Just to clarify, when you say management, do you mean supervisory?

MS. HELT: Yes.

MS. GALLI: Okay. So in terms of supervisory management --

MS. HELT: Non-unionized.

MS. GALLI: -- non-unionized, would be 59.

MS. HELT: Is that somewhere in the evidence?

MS. GALLI: Yes. It is included in appendix 2K.

MS. HELT: Appendix 2K. Oh, I see, all right.

MS. BUTANY-DESOUZA: Exhibit 4, tab 2, schedule 10.

MS. HELT: I see it. Okay, thank you very much. Those are my questions.

MS. HARE: Thank you. Mr. Warren.

Mr. Warren, how long do you expect to be?

MR. WARREN: Half an hour, perhaps.

MS. HARE: We will have to break at five to 12:00, as Ms. Spoel has another meeting at noon, but we can pick it up after lunch, if you are not finished.

CROSS-EXAMINATION BY MR. WARREN:

MR. WARREN: Thank you. Mr. Basilio, I would like to start, as a prelude to some of my questions, on your decisions about hiring with a little bit of ground that was covered yesterday afternoon. I want to make sure, in fairness to you, that I have understood it correctly.

In connection with the decision to merge with St. Catharines and create Horizon, as I understood the exchange yesterday, you retained Kinectrics to do an asset evaluation; is that correct?

MR. BASILIO: That's correct.

MR. WARREN: And in response to questions that were asked by my friend, Mr. Shepherd, you said that this was part of the due diligence in connection with that merger;

is that correct?

MR. BASILIO: That's correct.

MR. WARREN: And in addition to that, you said that you recognized Kinectrics as experts in that field; is that correct?

MR. BASILIO: That's correct. That was the basis on which we engaged them.

MR. WARREN: And on the basis of that --

MS. HARE: Ms. Taylor is wondering whether or not you are examining on confidential information?

MR. WARREN: I don't believe I am. I don't intend to rely on any numbers, Ms. Taylor.

MS. TAYLOR: I was trying to think when this was going into camera or out of camera yesterday afternoon when this was discussed. I want to be careful.

MS. HARE: I think if you are not using numbers, it's fine.

MR. WARREN: I have no reference to numbers at all in the course of this exchange.

MS. HARE: Are you okay with that, Mr. Sidlofsky?

MR. SIDLOFSKY: Sorry. I think I am. We may have to see how things go as Mr. Warren progresses.

MS. HARE: Thank you.

MR. SIDLOFSKY: But, sorry, I should note that the material prepared by Kinectrics has been taken off of the record, because the Board determined it was irrelevant. That was -- oh, I'm sorry.

MS. HARE: There are two pieces, so it was the --

MR. SIDLOFSKY: I'm sorry, that's right. Mr. Warren is referring to the St. Catharines material.

MS. HARE: Right.

MR. SIDLOFSKY: I apologize.

MR. WARREN: Would I be correct, Mr. Basilio, in understanding that in retaining Kinectrics to perform the asset evaluation as part of the due diligence, it was necessary, in order to satisfy your board, the Hamilton board, and indeed this regulator, that the decision to merge was a prudent one? Is that fair for me to conclude that?

MR. BASILIO: Certainly for our board of directors, and I can't speak on the basis on which the board would have evaluated, but we would have provided all of the materials as part of the MADDs application, or they would have been available. That would have been -- it would have been something available to the board for its determination.

MR. WARREN: Is it also reasonable for me to conclude that had Kinectrics concluded that the assets were in poor condition, that that would have been a factor in a decision by your board, and perhaps by this Board, in determining whether (a) the price was correct, and (b) it was a prudent transaction? Is that not fair?

MR. BASILIO: What Kinectrics -- this is my view of what Kinectrics' contribution was to the determination of price --

MR. WARREN: If you could just answer my question, Mr.

Basilio? If you could just answer my question first, and then you can put whatever gloss you want on it. I want an answer to my question. I will repeat it if you need it.

My question was: If the assets had not been as they were reported by Kinectrics, then that might have been a factor in influencing (a) your board, and (a) perhaps this Board, in determining (a) whether the merger price was correct, and (b) whether the transaction was prudent? Yes or no?

MR. BASILIO: It might have been correct, but in this case, as I discussed yesterday, the outcome of that report, in retrospect, would not have been a determinative factor of the relative contribution.

I think it is important for the Board to know that the purpose of the report, it's a condition of asset assessment in the context of determining the appropriate relative contribution of each utility to the merged entity.

Despite the fact that our view is that, looking back, the outcome of that report is not correct, the relative state of the distribution utilities at the time supports the outcome of that transaction, and our board of directors and our respective shareholders in the transaction would support that notion.

MS. HARE: Mr. Basilio, with respect, I don't think you answered the question.

MR. BASILIO: It might. It might have at the time.

MR. WARREN: Now, Mr. Basilio, in response yesterday to -- first Ms. Lerette, and, Ms. Lerette, you will correct me if I've got -- if I have applied an incorrect gloss to your testimony. You indicated that the Kinectrics report had some deficiencies.

And then at page 177 of yesterday's transcript, Mr. Basilio offered, in response to a question from Panel Member Ms. Taylor, the following. It appears at page 177. He volunteered, and I quote:

> "If I might on the first part, I would use a bit stronger language than Kathy -- Ms. Lerette used earlier. This report is simply wrong."

Do you remember saying that?

MR. SIDLOFSKY: I'm sorry, if I could stop my friend there, I believe that is in the in camera portion of the transcript. I am concerned that even if no numbers are being given by my friend, I have some concerns about this leaking into the public portion of the hearing at this point.

MS. HARE: Mr. Warren?

MR. WARREN: I understand that there may be some structural question about what is in camera and what is not, but the issue -- I can't imagine there is anything remotely confidential about this exchange, Madam Chair, but I am in your hands whether structurally you would prefer that this exchange be done in the in camera portion of it.

MS. HARE: Along the lines of how you are proceeding, I don't see that it is a problem. It would not be redacted from the transcripts, in any event. We are not talking about numbers.

MR. SIDLOFSKY: That's fine, Madam Chair, except the -- that material was provided in confidence, the entire -- that due diligence material as a whole was provided in confidence in this proceeding.

I am concerned that no claim to confidentiality has been either challenged or waived at this point, and I am concerned that if Mr. Warren is going to be asking more questions about the Kinectrics report, then that should be done in camera.

MR. WARREN: I am not asking questions about the Kinectrics report. I am asking questions about this witness's attitude to the Kinectrics report, which is a different matter, and I am actually finished with the questions about the Kinectrics report itself.

I am not sure I asked any, but I am certainly finished now with the Kinectrics report.

MS. HARE: Mr. Shepherd, did you want to add? No. Okay.

MR. WARREN: I should proceed, Madam Chair?

MS. HARE: Yes, please.

MR. WARREN: Can you tell me, Mr. Basilio, when it is that you first reached the conclusion that the Kinectrics report, in connection with the merger, was, to use your term "simply wrong"? When did you come to that conclusion?

MR. BASILIO: Personally I came to that conclusion through the work that was commenced as part of the Guelph Hydro transaction, and, again, we performed similar due diligence. We were performing that, and at the time - I believe Ms. Lerette made this point - we had much better information.

An issue with the original Kinectrics report -- and again, I don't want to attribute the report being wrong necessarily to the Kinectrics methodology. There were information deficiencies underlying that report.

The information was much better, was evolving, as part of the Guelph work. And what we were seeing is that Horizon was having -- had far greater asset renewal requirements than was originally contemplated in the Hamilton-St. Catharines merger.

So at the time, personally -- others may have had it earlier. I'm not directly involved in the development of asset plans or strategies. I am an accountant. The engineers are doing this work on a continuous basis.

But I would say that was the first point for me, where it became apparent that our renewal requirements were far greater than what was originally contemplated.

However, the organization may have had an awareness, prior to --

MR. WARREN: Can you remind me, sir, when it is that Guelph -- consideration of the Guelph merger was? Was it two years ago?

I just don't remember the chronology.

MR. BASILIO: The work... 2007, that work was being performed, I believe -- and subject to check -- I believe in the fourth quarter of 2007.

MR. WARREN: Am I right, then, to conclude that some time in 2007, you became aware that one of the premises upon which the merger had taken place was simply wrong?

Is that a fair conclusion on my part?

MR. BASILIO: With respect to the renewal requirements of the combined service territories of Hamilton and St. Catharines, yes. That was my -- that was my evolving view at the time, that that report was not -- the original Kinectrics report. I just want to make sure we're talking about the right report.

That the 2004 report, the outputs of that report, in my view, were not holding true to what was projected at the time that report was prepared some three, three and a half, four years earlier.

MR. WARREN: In the three years since that time, have you notified your board that one of the premises underlying the original merger was simply wrong?

MR. BASILIO: The board -- what would have been presented to the board was not something that specific. What would have been presented to the board, through that period, would have been: Here are our revised renewal requirements. And they received a fair bit of detailed information on that subject.

The board would have been aware that this is -- this is a change in view. That is the information and discussion with -- that I recall with the board.

Again, it is some time ago, but certainly the board would have been fully aware that our view on renewal is changing.

MR. WARREN: Have you, at any time, in any of the filings you made with the Board, this Board, since 2007, to and including this application, have you notified this Board directly that one of the premises underlying the merger was, quote, "simply wrong"? Have you done that?

MR. BASILIO: No, I did not, because I did not think it relevant to the contribution analysis that was performed, and the ultimate outcome of that transaction.

MR. WARREN: Now, in this particular application, you are asking the Board to, among other things, approve capital expenditures on the premise that your assets are older than you thought, and in greater need of repair than you thought; is that correct?

MR. BASILIO: That's correct.

MR. WARREN: Okay. And when you are offering that premise to the Board, you still didn't tell them that one of the premises underlying the merger, that they approved, was simply wrong? You didn't do that, did you?

MR. BASILIO: No, I did not.

In fairness, I am unsure of an obligation to do so.

We did advise the Board of our growing renewal requirements. I think the earliest might have been the Z-factor application?

MS. BUTANY-DESOUZA: It was the Z-factor.

MR. BASILIO: Z-factor application, 2000 and -- we filed that application --

MS. BUTANY-DESOUZA: It was filed in September of 2009.

MR. BASILIO: September 2009.

MR. WARREN: And as I understand what you are asking us -- not us, but the Board to accept now is that there was a flawed premise underlying the merger that they approved, but that the Board should place -- sorry, from a recognized independent expert, but that the Board should believe your own condition assessment in support of your request for the capital expenditures; is that what you are asking this Panel to accept?

MR. BASILIO: I am asking this Panel to accept that, but again, in the context that we have much better and more detailed information to support that request.

There is a lot of information provided in evidence, and we have had -- we have better systems and processes.

Far more work has been done this time around.

MR. WARREN: Now, as I understand it, Mr. Basilio, sticking with -- staying with the premise that the asset condition requires the expenditures that you are proposing, let's turn to the number of additional employees that you are proposing.

Now, if you could turn up the Exhibit 4 -- Exhibit 4, tab 2, schedule A (sic), this is one of a number of exhibits which deal with the headcount, if I can call it that.

MR. BASILIO: Sorry, Mr. Warren, could you repeat the exhibit?

MR. WARREN: Exhibit 4, tab 2, schedule 8. This is actually under the heading "OM&A cost per customer and per

FTE."

But it has some numbers which generally inform this line of cross-examination.

MS. HELT: I note Mr. Buonaguro has been so kind to put it on the screen for everyone. Thank you, Mr. Buonaguro.

MR. WARREN: I am not sure Mr. Buonaguro is just a lawyer. He may be a character from Harry Potter, as well.

[Laughter]

MR. WARREN: Thank you, Mr. Buonaguro.

Now, when I look at this chart, I see, first, that the number of customers that you have from actual 2007 to test year 2011 is essentially the same; correct?

MR. BASILIO: That's correct.

MR. WARREN: And what you are proposing to have the Board accept is that you require an additional 60 employees to serve the same number of customers; have I got those numbers right?

MR. BASILIO: Correct. An additional 60 since 2008.

MR. WARREN: So we have 60 additional employees to serve the same number of customers.

And as I understand it, if -- just take this subject to check -- in the appendix 2K that was up on the screen before -- and this is not confidential information -- of the 60, there are some three in the executive class, 17 in the management class and 21 in the non-union class.

Will you take that, subject to check?

MR. BASILIO: Yes.

MR. WARREN: Okay. So two-thirds of the people, the additional 60, may I suggest with respect, have nothing to do with asset renewal and fixing aging assets?

Is that not -- is that an unfair conclusion on my part?

MR. BASILIO: I believe it may be, to some extent. And I would -- I will offer a comment, and then ask Ms. Lerette to elaborate.

Certainly of those non-union positions, a great number of them are involved in the planning, design -- planning and design of the capital programs that we're asking to undertake.

MR. WARREN: Now, as I understand the information that's been filed in this case, that of the 60 additional employees, some 13 are in information systems and technology; have I got that number right?

MR. BASILIO: That's correct. Subject to check, but I believe that is correct.

MR. WARREN: And is that -- do you need 13 extra people to fix aging assets in that category?

MR. BASILIO: I need them for the purposes that are outlined in the evidence, which I am pleased to review.

MR. WARREN: Now, I am stuck and I need your help on this, Mr. Basilio, because it strikes me as, may I say with respect, counterintuitive that you've got the same number of customers and you need 60 more employees to serve the same number of customers.

Did you give some consideration, in light of the obvious downward pressure on your revenue, to not hire as many people, Mr. Basilio?

MR. BASILIO: Of course, but I think it is important to note that in 2008 our actual number reflects a great number of open positions that we were holding open in the hope of merging with Guelph.

As we prepared -- I think this requires some elaboration, because it helps explain the variance between 2008 and 20 -- and our request in 2011.

I am hoping one of my counterparts can help me with the number of open positions that we held, but there were a great many. The Guelph merger business case obviously provided for some synergies, both -- and one of the -- I mean, it is no secret. Part of the principal savings in a merger is the, for lack of a better word, elimination of redundant positions.

And in order -- as we were seeing attrition through that transaction, we decided not to fill those open positions, so that those employees in both organizations would have the greatest chance of filling those positions. There were a great many of them in 2008, and into 2009, I believe, the transaction -- that concluded in 2009? And into 2009.

So between 2008 and 2009, we were holding many open positions that we required, but in contemplation of the Guelph transaction.

Beyond that, we have, again, in my remarks yesterday, belt tightening. Belt tightening, from my perspective, has been the story of Horizon over the past three years in relation to its revenue challenges, its inflation challenges and pressure on capital expenditure.

And it is not -- as we've said before, it is not a position we view as sustainable, and we need to address these positions, some of which support growth in capital projects, some of which address other deficiencies or requirements in the organization.

As I also said yesterday, I can tell you that this budget underwent several iterations, and it started out at a much higher level. Customers were considered in the budget that underlies this application.

MR. WARREN: Am I to understand it the answer you have given me is that the ratepayers in Horizon's service territory will be paying an increase in rates attributable, in part, to an increase in the number of employees as a result of a failed merger proposal?

MR. BASILIO: No, not at all. Not at all. These were positions that were required to sustain the existing Horizon Utilities Corporation, but were held open -- held open under a great deal of stress to the rest of the organization, in trying to support those open positions while doing their own day-to-day jobs.

MR. WARREN: I thought your answer to my earlier question was that you'd held some of the positions open in the prospect of the efficiencies that would derive from the Guelph merger. Did I miss that?

MR. BASILIO: That's right. Sorry if I have misinterpreted your question.

The merger failed. The merger, had it happened, would have delivered a great deal of synergies. In the absence of that merger, each utility continues to require what it had prior to the transaction.

MR. WARREN: So I am correct that the addition -- that the ratepayers are paying a burden, in the form of additional employees, because of a failed merger. Is that not fair on my part?

MR. BASILIO: No, I don't believe that is a fair characterization.

MR. WARREN: Can we go back to Exhibit 4, tab 2, schedule 8, which was the OM&A per customer?

I asked you some questions about the number of FTEs, the 60 that are being added. On that same chart, let's look at the third category, which is OM&A per customer.

It has gone from roughly $160 per customer in 2007 to $202 forecast for 2011. Have I got those numbers right?

MR. BASILIO: Yes.

MR. WARREN: So at the Dick and Jane level of mathematics at which I am comfortable, it is about $44 per customer increase from 2007 to 2011; correct?

MR. BASILIO: That's correct.

MR. WARREN: And so we have $44 more per customer and the same number of customers, static? Have I got those numbers right?

MR. BASILIO: Those two comments are correct.

MR. WARREN: Okay. Now, can you tell me, sir, whether or not you think it reasonable for the ratepayers in the service territory of Horizon to be paying $44 more per customer, when there are the same number of customers?

MR. BASILIO: I think I have answered that question previously. Yes, we have considered the impact on our customer in the context of utility requirements. The answer is "yes".

If the answer was not "yes", we would have not brought this application forward.

MR. WARREN: I have just a couple of detailed questions for you, panel. First of all --

MS. HARE: Mr. Warren, I hate to cut you off, but Ms. Spoel has to go to another meeting.

MR. WARREN: Fine.

MS. HARE: So maybe actually you will take advantage of the break and come back with some more questions.

MR. WARREN: Or fewer.

MS. HARE: Or fewer. I was hoping you would say that.

We will return at 1:15.

--- Luncheon recess taken at 11:55 a.m.

--- On resuming at 1:20 p.m.

MS. HARE: Before we start, I just wanted to mention there were a fair number of undertakings given this morning that may cause parties to want to ask additional questions, once we see the undertaking response.

So to the extent possible, if those could be filed as soon as possible and preferably no later than Monday morning, so that then we leave time at the end of the examination of panel 3 to see if there are any follow-up questions to those undertakings. Thank you.

Mr. Warren, sorry that I had to cut you off with just a few minutes to go. So please proceed.

MR. WARREN: Not at all.

Panel, I have just a very few questions left.

Before the break, we were talking about the increment of 60 employees since 2008.

Can you tell me -- and this may well be in the evidence, and I apologize if I have missed it -- what is the net impact on the 2011 deficiency of the employee additions?

[Witness panel confers]

MR. BASILIO: In the manager's summary, we report that the approximate value of the 60 headcount additions since the -- since 2008 are approximately $5.5 million in aggregate, of which $2.8 million is allocated to OM&A, and with the remainder allocated to capital.

I don't have -- I suppose we could compute the amount, the impact on the deficiency. It would be 2.8 plus an amortization of the remaining 2.7, plus, say, cost of capital, I suppose.

So I'm guessing probably in the ballpark of 3.1, $3.2 million, if we assume are assets are amortized over, on average, an 18 –- well, these would be employees dedicated largely to capital projects, so over 25 years.

I am guessing three to 3.2 million, somewhere in there.

MR. WARREN: Thank you, Mr. Basilio. That is sufficient for my purposes.

I have a question on regulatory costs, and in that connection, panel, it would -- could you turn up a response to an interrogatory from my client? It is Interrogatory Response 20, delivered on the 24th of January.

I apologize, panel. I do not have an exhibit number for it, for which I apologize.

What it consists of, panel, is a breakdown over the period of three years of the components of the regulatory budget.

Do you have it, panel?

MS. BUTANY-DESOUZA: Yes. Thank you.

MR. WARREN: And my questions are directed to understanding what is in the various categories. Let's look at the 2008 budget for a moment.

The salaries are for the in-house staff at Horizon, the regulatory staff; is that correct?

MS. BUTANY-DESOUZA: Yes, that's correct.

MR. WARREN: The legal fees, are those external legal fees?

MS. BUTANY-DESOUZA: Yes.

MR. WARREN: And then you've got a category of "regulatory costs" which appears to be a standalone figure of, for that year, a million and change.

What does the standalone category "regulatory costs" refer to?

[Witness panel confers]

MS. BUTANY-DESOUZA: The standalone regulatory costs that you have just referenced are related to the OEB fees that we pay on an annual basis, as well as costs related to the 2008 EDR cost-of-service application.

MR. WARREN: And those 2008 EDR costs would be in what category? Would they be different from legal fees, for example, or would they include something for legal fees?

[Witness panel confers]

MS. BUTANY-DESOUZA: Yes, it would have included -- the standalone regulatory costs that you have just referenced would have included legal costs for the application.

MR. WARREN: So that when we look at the budget for legal fees in 2008, it would be $99,900, plus some component of the regulatory costs; is that correct?

MS. BUTANY-DESOUZA: Yes, that is correct.

MR. WARREN: And just out of curiosity, why would you distinguish? Why would you not have all of the legal costs in one category, identified as such?

MS. BUTANY-DESOUZA: Because we have legal costs related to other items, other than, necessarily, the matters related to the Board, which are lumped in the regulatory costs as well as the legal costs related to the application that was in that year.

MR. WARREN: So would the component of the legal fees in the "regulatory" category -- those would be only related to the EDR application?

MS. BUTANY-DESOUZA: Yes.

MR. WARREN: All right. Could I ask you, then, to turn to 2009, which is the next page?

And in 2009, you have a separate category for something called "contract labour."

Can you tell me what that is?

MS. BUTANY-DESOUZA: We had engaged -- we had engaged a consultant in one of the roles that is now occupied by a full-time person, and that would have been the related contract labour.

MR. WARREN: And what role was that?

MS. BUTANY-DESOUZA: The manager of regulatory compliance. The role is now occupied by Mr. Brooker. And -- so Mr. Brooker's role is manager, regulatory compliance, and chief privacy officer.

MR. WARREN: The legal fees component of that -- that would be on the same page -- that is unrelated to any -- you didn't have an EDR application that year, as I recollect.

MS. BUTANY-DESOUZA: No. We had a Z-factor application, an LRAM application, and a smart meter adder application.

MR. WARREN: And would -- the legal fee component, would they have covered those, or are they to be found in the regulatory costs?

MS. BUTANY-DESOUZA: No. They're in the legal fees component.

MR. WARREN: Okay. And is there a legal fees component of regulatory costs?

MS. BUTANY-DESOUZA: Subject to check, my recollection is no.

MR. WARREN: Finally, on the 2010 budget, the salary component has increased materially by roughly $170,000?

MS. BUTANY-DESOUZA: Yes.

MR. WARREN: Sorry, and the reason for that is?

MS. BUTANY-DESOUZA: If we cast back to 2009 -- which is when I joined Horizon -- at that time, I -- we had two rates analysts. One was a contract person and a director and a manager -- director of regulatory and a manager.

And over the course of 2009, we had a director leave and a manager leave, and so in 2010, we -- well, late 2009, we gained Mr. Brook, which I have just referenced, and then also three more rates analysts, and manager of -- gosh, what is Lynn's title? Manager of rates.

MR. WARREN: So we --

MS. BUTANY-DESOUZA: One was a replacement to the manager that we lost, and three analysts joined our complement.

MR. WARREN: So we have three additional salaries.

MS. BUTANY-DESOUZA: And this is fully annualized.

MR. WARREN: These are three additional salaries that account for the $175,000; is that right?

MS. BUTANY-DESOUZA: As well as my full salary in there, as well, because I joined at mid point of -- just after mid point 2009, and so this -- the variance that you have noted reflects the difference in my half salary in 2009 versus full salary in 2010.

MR. WARREN: Then I see, when we move to 2011 in the category of salaries and services, it's gone up by 250,000 or thereabouts. Again, am I reading the numbers right? From 2010 to 2011 salaries go from 683 to 924?

MS. BUTANY-DESOUZA: I'm following you, yes.

MR. WARREN: And the reason for that material increase would be what?

MS. BUTANY-DESOUZA: Just one second.

[Witness panel confers]

MS. BUTANY-DESOUZA: It can't be that complicated, panel. It is your exhibit. You have the numbers in there. It has to be easier than this. I apologize.

MS. BUTANY-DESOUZA: Perhaps I should apologize. I am not meaning to make it more difficult.

In 2011 we're proposing two additional head count for regulatory, and so the number reflected here is -- are inclusive of those additions, as well as increases in salaries, 2010 over 2011, for existing staff.

MR. WARREN: Sorry, you are adding yet another two people to the regulatory affairs department at Horizon, is that right, in 2011?

MS. BUTANY-DESOUZA: Yes, that is correct.

MR. WARREN: In what category will they be?

MS. BUTANY-DESOUZA: Manager of applications, and a rates analyst.

MR. WARREN: Manager of applications, but you are going into an IRM period. You don't need anybody to deal with applications for a while, or are you planning something different, folks?

MS. BUTANY-DESOUZA: To be fair, a cost-of-service application isn't the only application that a regulatory team manages. And so we anticipate that we do have the potential for other applications that the Board will -- that we'll bring forward before the Board.

MR. WARREN: Mr. Shepherd is taking a careful note of that.

MS. BUTANY-DESOUZA: I imagine that he is.

MR. BASILIO: Further on that point, the cost-of-service application from start to finish is well over a year.

MR. WARREN: But if I've got the numbers right, panel, if I look from 2009 to 2011, we have costs increasing in salaries alone in the regulatory department by some $400,000, and we have five new people in that department. Have I just got those numbers correctly?

MR. BASILIO: That's correct.

MS. BUTANY-DESOUZA: That's about right.

MR. WARREN: Five new people, an additional $400,000 in salaries, and this when you don't have any additional customers. Have I got that correctly?

[Witness panel confers]

MS. BUTANY-DESOUZA: Yes, you do have that correct. However, from 2009 through to the current day, the level of activity that Horizon's regulatory team has been participating in and absorbing, as well as supporting through the other business units in the organization, has been significant and has increased from 2009 to 2011.

MR. WARREN: Help me out on this, briefly, panel. Between 2009 and 2011, you had an application to this Board to - I will use a colloquial term - come in early, and then you have this application. What else is there, panel, that I am missing?

MS. BUTANY-DESOUZA: In 2009 we had an IRM application; we had an LRAM/SSM application; we had a smart meter funding adder application.

And at the end of 2009, we had the beginning of the Z-factor application. Also at the end of 2009 we had the beginning of the preparation of this application.

In 2010, we closed out the Z-factor application. We had an IRM -- no, we had this application and we had a smart meter funding adder application.

In 2011, we've begun the smart meter funding adder application. We are continuing to defend this application. We've put forward a CDM strategy that was the closeout of 2009. We also included in the CDM strategy the potential for Horizon to bring forward a CDM tier 2 application.

We have an upcoming IRM application for the 2011 rate year. We also have the potential for an LRAM/SSM application in the 2011 rate year, and out of the smart meter funding adder decision, the potential to bring forward the smart meter rate basing application.

MR. WARREN: Now, you are proposing, as I understand it, to amortize the legal and consulting costs, for which the total is -- have I got the total, 724,000, for this application?

MS. BUTANY-DESOUZA: For the application, I believe that we had included $960,000.

MR. WARREN: And you are proposing to amortize that over two years, is that correct, or three?

MS. BUTANY-DESOUZA: No. We are proposing -- we answered this in our interrogatory responses. And we're proposing to amortize it over four years. Most recently, in the revised evidence, and then the -- I am going to use the word "revised" more than once, for which I apologize, but then the revised response to VECC 37(e), which was filed earlier this week, we indicated that one of the changes to the response to 37(e) is the amortization of the regulatory costs.

And we noted, in that response, that the amortization period is four years.

MR. WARREN: Thank you. I wonder if I could impose on Mr. Buonaguro to work his magic and turn up an exhibit that was up before. It is Exhibit 4, tab 2, schedule 1, page 2.

That's it. I have just a couple of questions on this schedule. If you could look in, under administrative and general expenses, at the category -- it is 5620, office supplies and expenses.

If I read this correctly, in 2007 there was a total of 375,000 spent, and the proposal for this year is $2.6 million. Have I got those numbers right?

MS. HUGHES: The numbers are correct, yes.

MR. WARREN: I don't mean to be facetious, but it seems like an awful lot of extra pencils.

MS. HUGHES: So as we've filed particularly in the evidence, we did provide an OM&A variance analysis year over year.

And one of the things that I should bring to your attention is, back in 2008, we undertook a significant ERP implementation. Part of that implementation resulted in us remapping some of the categories in terms of where some of our operating expenditures were directed.

And, in particular, with respect to office supplies and equipment, what I can advise is that, in fact, what is going in this category currently, and since the latter part of 2008, is all of our costs with respect to the IT department.

So, in fact, all of those costs are being directed to this particular category.

MR. WARREN: And may I presume they're coming out of some other category so that it is a wash?

MS. HUGHES: So I would say that there is not a -- a direct wash. We've also provided, in evidence, a number of drivers that are increasing the information technology costs. So there have been increases in IT costs.

MR. WARREN: Are these just hardware and software costs, or are they salaries, as well?

MS. HUGHES: So these would be salaries of the entire IT group. It would include licence fees with respect to one -- certainly our ERP system, as well as any other licensing and maintenance costs associated with the equipment.

MR. WARREN: 5630, two lines further down, outside services employed, you are proposing to spend roughly $3 million in 2011.

What does that cover?

MS. HUGHES: So part of the costs in 2011 reflect some of the initiatives that we have identified in the evidence around enterprise -- sorry, planning and scheduling.

The –- sorry, I've just -- I have a list. My apologies. It is escaping me for the moment.

So the anticipated –-

MS. HARE: Microphone, please.

MS. HUGHES: Sorry.

For those particular projects would involve outside consultants. I am just trying to finds the list of initiatives that would be directed there.

So planning, the planning and scheduling initiative is one of those items. The enterprise risk management framework is another one.

[Witness panel confers]

MS. HUGHES: Sorry. My apologies. I am just looking for –-

MR. WARREN: Please don't. I want to ask the question.

MS. HUGHES: I know.

MR. WARREN: Are they all IT-related, generically?

MS. HUGHES: For the most part, yes. I would say yes.

MR. WARREN: Okay. So --

MS. HUGHES: Yes. I would say yes.

MR. WARREN: So we have an increment from 2010 of 2011 of roughly a million dollars, by and large IT-related.

Can you remind me, panel, have I got the number right that you are proposing to add, in addition to that, 13 new people in the IT department?

It is my recollection of the note I made of the number of the people in that category.

MR. BASILIO: I believe your comment was in reference to 2008, additions since 2008.

MR. WARREN: Fair point, but you've added --

MR. BASILIO: So they're not additions to our relative –- our complement today, but since 2008.

MR. WARREN: Okay. You have added 13 people since 2008, and you are still proposing to spend an additional $1 million on outside consulting in the IT field?

MR. BASILIO: Sorry, if we could --

MR. WARREN: Have I got that right?

MS. HUGHES: So perhaps I could review the increase in the IT department, in terms of the 13 headcount.

Since -- so we have added 13 headcount, including the 2011, whereby we are proposing an increase of four in 2011.

So in fact, we've added nine since 2008, primarily in the area of -- we've added -- with the implementation of our ERP, we did see an incremental headcount of three, related to the operation of that ERP. It is a significant investment, and obviously requires ongoing staff to support that ERP.

We also added two headcount related to providing in-house PC support. Previously, that role was outsourced to FibreWired, back. And we did, as part of our OM&A driver table, reflect the fact that we actually did see savings of approximately $250,000 by bringing in an out -- and bringing in the services for PC support that we would have previously outsourced. We did reflect that in the driver table.

In addition, in 2010, we have added three new headcount related to our cyber-security. And that is really around the security over all of our information technologies, and we did provide some evidence with respect to the initiative around cyber-security, which we can elaborate, if required.

And then in 2011, we are proposing four additional headcount; three in the engineering applications area that relates back, in part, to our enterprise data warehouse initiative, as well as an additional IFS subject matter expert. And IFS is our ERP solution. We, you know, do have ongoing needs with respect to our ERP system.

MR. WARREN: And we still need –- you still needed a million dollars in outside consultants? That is what your evidence is?

MS. HUGHES: So the -- yes. I would say yes. The million dollars relates to very specific initiatives that are, you know, incremental in terms of driving our ERP.

Planning and scheduling, for example, was a significant driver, in terms of an initiative that we've been deferring.

And so that is an initiative that, you know, we do require to spend some money on now.

MR. WARREN: Mr. Basilio, how much, if any, of your time is spent on the solar project?

MR. BASILIO: I would say less than 10 percent, less than five percent of my time on a weekly basis.

MR. WARREN: And if I were to add any other non-regulated entities' activities, what would the total be, of your week's time?

MR. BASILIO: It's not very much at all, really.

With respect to solar, we have a separate management team.

The other non-regulated activities are a meter services business, of which I have no management involvement, other than reviewing results from time to time, and a water heater rental business, which we're proposing to sell this year. It's really a benign business, about 2,700 heaters, largely an amortizing portfolio, really.

I don't spend much, if any, time, other than reviewing financial statements and results and offering commentary, as necessary. But those businesses really operate without my direct involvement.

MR. WARREN: So is it the case, then -- would I be fair in saying that between five and 10 percent of your time each week is spent on the non-regulated activities?

MR. BASILIO: No, I would say it is really –- it's tough to estimate. I would say less than five. Sometimes none.

MR. WARREN: May I ask the same question of each of the panel members in turn, just to give me a rough estimate of what percentage of their time on a weekly basis is spent on the non-regulated activities?

MS. LERETTE: I don't spend any time.

MS. HUGHES: So I would be probably between one and two percent of my time, based on the financial accounting.

MR. WARREN: Thank you.

MS. SPOEL: Ms. Hughes, can I -- sorry to interject.

But one percent, if you work -- let's say you worked 50 hours a week. One percent is half an hour.

You really only spend half –- I mean, when people talk -- it sounds like –- and I know it is probably a small amount of time, but one percent is a very -- that means really you are doing nothing, because half an hour a week or 20 minutes a week is not something you can even –- you couldn't even open the documents and find them on your desk and put them away again afterwards in 20 minutes, I would think?

MR. WARREN: I take it, Ms. Spoel, you have never kept dockets.

[Laughter]

MS. SPOEL: I have, and thankfully I don't have to anymore.

[Laughter]

MR. BASILIO: I'm sorry, was that --

MS. SPOEL: That's why I can ask.

MR. BASILIO: Did I say one percent?

MS. SPOEL: No, Ms. Hughes said one percent. You said five percent.

But the same comment in a way. I mean, five percent is not –- is a very -- that is one-twentieth.

That is like -- that's literally an hour or two a week, an hour, two hours a week, which isn't very much. Which is a very small amount of time to do you know -- I just wonder whether you are being sort of reasonably accurate in your estimation of how much time a small thing might actually take up.

Well, I ask the question of Ms. Hughes, actually, because she said one percent, and I thought that was just really getting a bit unrealistic.

MS. HUGHES: I guess perhaps when I am trying to give an estimate, I am mindful that this is specifically -- you asked about, I guess, my time.

And so I obviously have a team underneath, who is doing the majority of the preparation of the financial statements and the transactional activities.

So my time really is spent, on a monthly basis, you know, a review of the financial statements that have been prepared, certainly from my experience.

MR. WARREN: So there is a group of people under you who would be spending more time, I take it, than one percent on the non-regulated businesses?

MS. HUGHES: Yes. I mean, yes, it is possible, in terms of each of the businesses.

However, the service level agreements that we have with our affiliates, from the accounting and finance area, is they actually, the affiliates, particularly Hamilton Utilities and HCE, have their own finance staff.

We are actually providing the transactional piece. So where it makes sense to leverage the transactions, we are actually doing the transactions.

So, for example, an accounts payable clerk, we would have a full-time accounts payable clerk. In terms of the number of invoices, the percentage of the number of invoices for the non-regulated as compared to the LDC is very small. And so that is the basis on which I would make the --

MR. WARREN: And the other panel members?

MS. BUTANY-DESOUZA: None of my time is spent on the non-regulated.

MS. CAMPBELL: I would estimate probably around 5 percent of my time is spent on non-regulated activities, particularly around the water billing for the City of Hamilton.

MS. GALLI: I would suggest the same, less than 5 percent.

MR. WARREN: Those are my questions. Thank you very much.

MS. HARE: Thank you. Mr. Shepherd.

MR. WARREN: I have a couple of questions in camera.

MS. HARE: Yes, I understand.

CROSS-EXAMINATION BY MR. SHEPHERD:

MR. SHEPHERD: Thank you, Madam Chair.

I just wanted to do a couple of follow-up things, and I promised myself I wouldn't ask any questions about regulatory costs, but Mr. Warren has forced me to change that.

Am I right that -- am I right that in 2008, your total salary and bonus cost was about $533,000? And I am looking now at the same reference that he had before --

MS. BUTANY-DESOUZA: I'm not at it yet.

MR. SHEPHERD: -- for regulatory. You are proposing in this application --

MR. SIDLOFSKY: Sorry, Madam Chair, if Mr. Shepherd could just let Mr. Butany find that? She is just looking for the reference right now.

MR. SHEPHERD: Same reference you were looking at before.

MS. BUTANY-DESOUZA: I just don't remember what the reference was.

MR. SHEPHERD: Sorry, it was CCC No. 20.

MS. BUTANY-DESOUZA: I'm sorry, go ahead.

MR. SHEPHERD: So in 2008, it was 533,000 salary and bonus. And if I am correct, in 2011 you are proposing 1.8 million; right? Those are comparable numbers; right? We're comparing apples to apples.

MS. BUTANY-DESOUZA: Yes.

MR. SHEPHERD: So that is almost doubled. And the reason for that is you have added a full-time vice president in the department; right?

MS. BUTANY-DESOUZA: Yes.

MR. SHEPHERD: And you have added four analysts?

MS. BUTANY-DESOUZA: Three.

MR. SHEPHERD: I thought you said you added three in 2010 and you're adding --

MS. BUTANY-DESOUZA: I'm sorry, we added three in 2010.

MR. SHEPHERD: Then you are adding another one in 2011?

MS. BUTANY-DESOUZA: My proposal in this application is an addition of one rates analyst, yes.

MR. SHEPHERD: So that is four.

MS. BUTANY-DESOUZA: We would be at four in total, yes.

MR. SHEPHERD: Four more. You had some already; right?

MS. BUTANY-DESOUZA: Sorry, in 2008?

MR. SHEPHERD: Yes.

MS. BUTANY-DESOUZA: Yes.

MR. SHEPHERD: Okay. Then the other part of this that I just wanted to make sure I understand is if you look -- go back to 2008, you see legal fees and consulting total $289,000 in 2008. Then I go to 2011 and I see legal fees and consulting is $774,000.

Is that rate case related, or is that something else?

[Witness panel confers]

MR. SHEPHERD: I am not looking for the little pieces. I am just sort of -- what are the big drivers of that?

MS. BUTANY-DESOUZA: No, I understand. Do you mind repeating the question, though?

MR. SHEPHERD: Sure. 2008 legal fees and consulting, $289,000; 99.9 plus 189,000. 2011, same two categories, 460 plus 314; $774,000.

That is about, what, triple or something like that, almost?

MS. BUTANY-DESOUZA: So to be clear, the increase that you see splits the legal and consulting costs, in particular, related to the cost-of-service application, over 2010 and 2011 for budget purposes. So it is included in both.

MR. SHEPHERD: So you had -- so you have legal and consulting in 2010 of $631,000, and you have legal and consulting in 2011 of $774,000.

So I get about 1,410,000 or so in legal and consulting over those two years. That's the rate case?

MS. BUTANY-DESOUZA: The legal and consulting that you see in 2011, like I said, reflects the cost-of-service application. That is included for budget purposes in 2010 and 2011. Included in 2011 are related legal and consulting costs for other applications, many of which I mentioned in response to Mr. Warren's earlier question.

MR. SHEPHERD: Your CDM application?

MS. BUTANY-DESOUZA: I mentioned, I think, five other applications so --

MR. SHEPHERD: Five other applications this year?
MS. BUTANY-DESOUZA: Pardon me.
MR. SHEPHERD: Five other applications this year?
MS. BUTANY-DESOUZA: The potential for -- we have at least before this Board the IRM application, the CDM tier 2 application, an LRAM/SSM application potentially included in the IRM application, and a smart meter rate basing application.
MR. SHEPHERD: And you are going to use outside lawyers and consultants for those? I looked back at your applications. It looks to me like, generally speaking, you don't use outside counsel or consultants for most of these small applications. You have a fairly substantial regulatory staff, and so you do them internally, don't you?
MS. BUTANY-DESOUZA: It depends on -- we do have a strong regulatory team. However, for the purpose of some applications, particularly the CDM tier 2 application and an LRAM/SSM application, we have used previously Seeline for -- Seeline is a group of consultants for those applications.
So by way of example, we do use outside support when necessary.
MR. SHEPHERD: Okay, thank you.
Mr. Basilio, you were being asked earlier today about executive compensation. I think it was Mr. Buonaguro. One of the things you said is that you just read Toronto's 2010 disclosure for their five named executives, $1.9 million, average of $375,000 each. Do you recall that?

MR. BASILIO: Yes, I do.

MR. SHEPHERD: All right. So I wonder if you could undertake to give us similar disclosure for your top five executives, exactly like that.

MR. BASILIO: Certainly.

MR. SHEPHERD: Okay, thank you.

MS. HELT: So it is similar disclosure. Mr. Shepherd, can you just reiterate --

MR. SHEPHERD: Yes. There is a mandated disclosure required under the Securities Act for reporting issuers; right?

MR. BASILIO: The annual information form, yes.

MR. SHEPHERD: That's right. So I am asking if they will provide the same thing, exactly that way, for Horizon, so we will have an apples-to-apples comparison.

MS. HELT: Thank you, Mr. Shepherd. That will be undertaking J2.6.

UNDERTAKING NO. J2.6: TO PROVIDE SALARY DISCLOSURE FOR HORIZON TOP FIVE EXECUTIVES.

MR. SHEPHERD: Thank you.

Now, I wonder if you could turn to this -- what I thought was a very useful exhibit, 4, tab 1, schedule 1.

It is actually included at pages 21 and 22 of the Staff compendium, which is where I am looking from, but I know Mr. Buonaguro cannot help himself. He will have to put it up on the screen, and on the screen it will be more readable.

I just have a few questions about this. Do you have that?

MR. BASILIO: Sorry, would you please read us the reference again?

MR. SHEPHERD: Sorry. Exhibit 4, tab 2, schedule 1. This is the OM&A costs by uniform system of accounts.

MR. BASILIO: Thank you.

MR. SHEPHERD: So I am on page 1, actually, first.

So let me understand something. You remapped your accounts in 2008; right?

MS. HUGHES: In September of 2008.

MR. SHEPHERD: So does that mean that all of your 2007 and 2008 Board-approved data is simply not comparable to 2011?

MS. HUGHES: Generally speaking, it's not all comparable. Yes, that's a fair statement.

MR. SHEPHERD: So we can't look at trends in any category? This information is not going to allow us to look at trends in any categories?

MS. HUGHES: So what we offered, as part of the OM&A variance analysis within the application, was where we could provide a grouping that might assist with a year-over-year comparison, we did, in fact, try to do that.

And I will give an example. One of the areas, obviously, is with respect to labour, because we did, in our mapping in previous years, for example, our supervisors and managers in our sort of outside operations group would have previously been mapped into the G&A category.

And so as part of our mapping, we mapped them into the

O or the M, based on the work where they were located.

MR. SHEPHERD: Sorry, let me just stop you, because I was okay for about two-thirds of the way and then you lost me. They were in where?

MS. HUGHES: So they were part -- they would have been part of G&A in 50...

MR. SHEPHERD: 5610?

MS. HUGHES: 5610.

MR. SHEPHERD: And you moved them to 5005?

MS. HUGHES: They could be in 5005, or they could also be in 5105. And so we -- I am trying to -- if I could perhaps...

MR. SHEPHERD: Well, 5105 went down, so I assume there is nothing material in 5105. But there is a big jump in 5005, $3 million.

MS. HUGHES: There is. I am trying to find within the application where we did -- I was using that as an example. We can come back to that.

But generally speaking, we did have a remapping. We have tried to, throughout the evidence, collect those and tried to provide a trending analysis and explain the variances.

And the example that I gave Mr. Warren earlier with respect to IT was one of those items that we did, in fact, document in our evidence.

MR. SHEPHERD: So for example, we will see, if we look add 2008 Board-approved and 2008 actual, there is some huge differences between them.

Those differences are as a result of reallocations; generally speaking, those are not a result of spending differently than you told the Board?

MS. HUGHES: Well, what I would offer is there obviously could be a difference in how we expended the money between the Board-approved and the actuals. That would be one component.

The other component would be that we would have four months of 2008 done on a new mapping basis, versus how the 2008 EDR was approved.

So I think where we certainly tried in our evidence to provide year-over-year, we did have to do it at a much higher level, in looking at our O, like, our operations category, our distribution categories, our G&A categories in total.

MR. SHEPHERD: All right. That certainly simplifies a lot of my questions, because I can't ask them.

Well, let me ask you this, then. Let me start with 5005, account 5005, the first one on the first page of this exhibit.

Your Board-approved was $768. So you basically had one hour a year of supervision in this category, and in your remapping, you then determined that was too low; right?

MS. HUGHES: That's correct.

MR. SHEPHERD: Do I take it that an appropriate base to look at is 2009, the $2 million?

That is all under the new mapping; right?

MS. HUGHES: Yes. I would say yes.

MR. SHEPHERD: Okay. So you have then increased operation and supervision from 2009 to 2011 by, it looks like, about 60 percent.

Why is that?

MS. HUGHES: So I do know that we've increased our headcount in the operators, and I know that that is accounting for a change, as well as --

MR. SHEPHERD: Sorry, let me stop you to make sure I understand you.

MS. HUGHES: Sorry.

MR. SHEPHERD: I wasn't asking about the operators; I was asking about -- this is operations supervision and engineering, so this is not the actual operators; right? This is the supervisors?

MS. HUGHES: Sorry, yes. But I believe there is one.

MS. LERETTE: There is one manager.

MS. HUGHES: One manager, one operator manager.

I also believe the grid supervisor is in here, as well.

MS. LERETTE: For 2011.

MS. HUGHES: For 2011. So I know that that -- I know that there is at least two headcount there.

MR. SHEPHERD: Those two people aren't, together, making $1.1 million?

MS. HUGHES: No. They're not.

MR. SHEPHERD: They wish, maybe, but they're not.

MS. HUGHES: I am sort of trying to think back, in terms of that specific category.

MR. SHEPHERD: Okay. Well, let me ask you about another one, then. I have a little bit of a sense of that one.

Let me go down to 5020, which is operation labour, overhead distribution lines and feeders.

So after all of your remapping, your 2009 actual is $2 million, but you are proposing to spend only 700,000 in the test year.

Why is that? Is that not as important this year? Or what -- changed priorities?

I am just trying to understand.

[Witness panel confers]

MS. HUGHES: In terms of -- I guess what I could offer in terms of the preparation of our budgets and how these numbers roll up, it very much relates to the activities that have been planned underneath at the detailed level.

So we do do our budgets based on an activity base. And I believe that the categories will change based on that.

I am not particularly able to answer that particular category in terms of what is driving it, but...

MR. SHEPHERD: All right. Well, who's -- somebody on this panel is responsible for operations, aren't they? Who was it?

MS. LERETTE: I am.

MR. SHEPHERD: So this is -- this is your people; right?

MS. LERETTE: If you could just give me one second. I just want to look up something.

MR. SHEPHERD: Would you like to do this by way of undertaking? Would that be easier?

MS. HUGHES: Yes. Perhaps if I could ask that we could do that.

MS. HELT: Mr. Shepherd, just for the record, could you articulate your undertaking, please?

MR. SHEPHERD: Yes. I would like an explanation of the variance in account 5020 from 2009 to 2011.

MS. HELT: That will be Undertaking J2.7.

UNDERTAKING NO. J2.7: TO EXPLAIN VARIANCE IN ACCOUNT 5020 FROM 2009 TO 2011.

MR. SHEPHERD: The next area I would like to ask you a question about is 5065, which is meter expense.

Now, this is not an accounting change; right? This is because smart meters were not in, and now they're going to be in; right?

MS. HUGHES: So the way in which smart meters are included in this exhibit would be the operations account. The operations around smart meters would, in fact, be in the meter -- "OEB" category.

The corresponding contra-account, actually, interestingly enough falls under G&A. So if you go to account 5695, the OM&A contra-account, that is the area in which the smart meter-related expenditures actually come out of OM&A.

So they're in meter expenses, and then contra-out under 5695.

MR. SHEPHERD: So the net would be your meter expense for non-smart meters?

MS. HUGHES: That is correct.

MR. SHEPHERD: And were there any remapping changes in this account?

MS. HUGHES: My recollection –- sorry, you go ahead.

[Witness panel confers]

MS. HUGHES: So before the mapping, the meter supervisors and the meter -- I think it was meter manager, were previously mapped into G&A, and they are now mapped into the meter expense.

MR. SHEPHERD: Oh, so this is another supervisory cost that has been moved out of G&A and into operations?

MS. HUGHES: That is correct. We felt these were better placed, better information in terms of the OEB mappings.

MR. SHEPHERD: So your original number is for 2008 -- sorry, for 2008 Board-approved, rather, is a net of 1,831,000. You have now -- you are asking for just over 3 million.

So that change from your 2008 Board approved to today is because you moved supervisors over, because I would have thought meter expense is something that is relatively the same every year. In fact, it should be going down because of smart meters; right?

[Witness panel confers]

MS. HUGHES: I'm sorry, I may have misspoke. I believe it was all of the meter staff have now been reallocated to the meter expense line, but I would have to check that, subject to check, whereas -- yes.

MR. SHEPHERD: As of when? As of which year?

MS. HUGHES: The end of 2008.

MR. SHEPHERD: As of the end of 2008 --

MS. HUGHES: Correct.

MR. SHEPHERD: -- meter staff are now in this line 5065?

MS. HUGHES: Yes.

MR. SHEPHERD: Okay, thank you.

Then one of the things you have here is miscellaneous distribution expense. There are several miscellaneous categories, but this one is of particular interest, because it increased from 2008 to 2011 by double in actual terms.

Is this because of an accounting change, or is this because you just spent more money in this area? First of all, what is miscellaneous distribution expense?

MS. HUGHES: Sorry, could you give me the OEB number that you are looking at? My apologies.

MR. SHEPHERD: Yes, 5085.

[Witness panel confers]

MS. HUGHES: I'm sorry, I'm having difficulty in recollecting what is in that particular category, but I am happy to provide information on that.

MR. SHEPHERD: Okay. Well, let me come back to it, because there is some more miscellaneous. Maybe we will deal with them altogether.

The next section, the 5100 accounts, are all maintenance accounts; right?

MS. HUGHES: That's correct.

MR. SHEPHERD: And what was really striking is, in 2008, you discovered that your system was in much worse shape than you thought it was, but your maintenance costs go way down from 2008 to 2009. I don't get that. Why would you drop your maintenance costs once you discovered that the system is in worse shape than you thought?

MS. HUGHES: If you look at account 5135, one of the areas you will see that there has been a significant drop is with respect to the tree trimming, the right-of-way. It says right-of-way, but that is in fact where our tree trimming costs are.

So in 2008, our approved tree trimming was $2.8 million, and in 2009, it is $1.1 million. And I know that Ms. Lerette can speak to the drop in the tree trimming.

MR. SHEPHERD: Okay.

MS. LERETTE: So, yes, we have seen a drop in the tree trimming costs since 2008, and it is based on a few things.

We've moved to a full three-year trim cycle now, and now we are on our second way through the three-year cycle.

Our procurement process --

MR. SHEPHERD: Sorry, let me just stop you for a second. So because you are on the second cycle -- and it is a shorter cycle than your previous; right?

MS. LERETTE: Well, in 2008, when our costs were

$2.4 million, we were moving from a cycle that was anywhere from ten years down to three years in the suburbs. We had an issue in the core City of Hamilton. Where the city was doing our tree, it trimming was way behind and we were in catch-up mode.

So that 2.4 million was really to look after the backlog, which did continue a little bit into 2009, but that 2.4 was getting to a three-year cycle and cleaning up the backlog of trees that hadn't been trimmed in a significant amount of time.

MR. SHEPHERD: And now when it is in better shape, the three-year cycle costs you less, because there is basically less trimming to do?

MS. LERETTE: That's right.

MR. SHEPHERD: Okay, go on.

MS. LERETTE: In addition to the three-year cycle, which reduces your costs, we also updated our procurement process and we are adding new approved contractors to the list, and this increased competition has driven the cost down a little bit, too.

MR. SHEPHERD: Okay, wonderful. Now, what about the other $1.1 million in reduction in maintenance costs from 2008 to 2009? What I am looking for is I would have thought you have an extra $1.3 million from tree trimming.

Given the state of your system, you should have been spending it on more maintenance, and I don't understand why not only did you not spend that, but you took out another 1.1 million.

MS. LERETTE: So as your assets age, increased maintenance becomes sometimes not the right thing to do. The right thing to do when assets reach the end of their age is replace the assets.

So our capital costs are going up. We do have an increase in maintenance in aged assets that we know are not going to be replaced imminently.

And I think overall, our maintenance costs have gone up, with the exception of tree trimming, which has gone down.

So we're not reducing maintenance costs. Our costs have increased in some areas of maintenance, but they are offset significantly by the reduction in tree trimming costs.

MR. SHEPHERD: Well, what it looks like is, if you compare 2008 actual to 2011 actual, they're basically the same except for the tree trimming difference; right?

MS. LERETTE: Yes.

MR. SHEPHERD: But in 2009, when you were trying to keep costs down, because otherwise you would make less money, the place you decided to keep costs down was maintenance, which seems like the last place you should do it. Get rid of a vice president if you need to, but don't get rid of your maintainers.

Sorry, you are all vice presidents, I know. Don't take it personally. I am trying to understand how you set that priority; that's all.

[Witness panel confers]

MS. HUGHES: One of the explanations that I would offer in terms of the maintenance, in discussions with Ms. Lerette, you know, the programs and the maintenance programs and the activities that we are doing have not changed significantly.

What I could offer is that, in fact, the costs that go into these categories are fully burdened costs of our people. And there are areas that we have deferred, in terms of training dollars and those sort of discretionary costs, that we could defer related to those.

So if is quite possible that, you know, that is a part of the costs that we're not seeing specifically in these accounts.

MR. SHEPHERD: Thank you. I just have one other question on this exhibit, and it is on the next page. It is page 2 of Exhibit 4, tab 2, schedule 1, same table. This is account 5340, miscellaneous customer accounts expenses.

Can you just tell me what that is? It seems like all of your customer accounts are in that - expenses are in that category.

MS. HUGHES: Yes, that is our -- the expenses related to our customer services department.

MR. SHEPHERD: So that is interesting, because in all your operational stuff, you break it out in some detail. You did a remapping in 2008.

Is this just a function of how the USA works?

MS. HUGHES: I would say yes, in terms of this is the category that we felt was -- it was appropriate and consistent, and so that that is where we've included it, yes.

MR. SHEPHERD: Okay. Thank you.

Madam Chair, that is all of the questions that I have on the non-confidential material.

MS. HARE: Good. Thank you.

Does the Panel have any questions?

The Panel has no questions, so anything for redirect, Mr. Sidlofsky?

MR. SIDLOFSKY: No. Thank you, Madam Chair.

MS. HARE: Okay. We are going to take a break before we go into the in-camera session.

We will come back at 20 to 3:00.

--- Recess taken at 2:20 p.m.

--- On resuming at 2:45 p.m.

MS. HARE: Please be seated.

We are now going to start the in camera session. I would just like to remind everybody that the only people that are allowed in the room are those that have signed the confidentiality declaration.

MS. HELT: Madam Chair, just to interrupt, Mr. Sidlofsky indicated that a member of the witness panel is able to answer one of the undertakings given earlier.

MS. HARE: Very good. Thank you.

MR. SIDLOFSKY: Thank you. Actually, sorry, it is not an undertaking, Madam Chair. It was a question that Mr. Warren had asked of Ms. Hughes, and I understand that -- well, at the time, Ms. Hughes wasn't able to provide an answer, but there was no undertaking given. But she does have an answer to the question now.

MS. HARE: Thank you, yes.

MS. HUGHES: Thank you. So this was a question regarding what was in the outside services account.

So I just wanted to make reference to a response to the Energy Probe Interrogatory No. 25. We've provided a table which outlines the main drivers of that account in terms of the increases.

So I can go through the list, or just provide the reference at this point.

MR. WARREN: Reference is fine with me.

MS. HARE: Thank you. Are there any other preliminary matters? Okay. So we will go in camera now.

--- In camera session commencing at 2:46 p.m.

MS. HARE: We will just wait a minute for Mr. Ritchie to confirm we are off. Mics on, okay.

MS. HARE: Mr. Warren, I understand you will go first?

MR. WARREN: Thank you.

CONTINUED CROSS-EXAMINATION BY MR. WARREN:

[redacted]

[redacted]

And the final document I am going to be referring to is not a confidential document, but it is for comparison purposes. It is Exhibit 4, tab 2, schedule 8, page 1 of 1. It is the one I referred to earlier. It is entitled, "OM&A Costs Per Customer".

MS. HELT: Perhaps if Mr. Buonaguro is still here, he could put that on the screen for us.

[Laughter]

MS. HELT: Thank you.

MR. WARREN: Thank you, Mr. Potter.

Does the witness panel have the three documents?

MS. BUTANY-DESOUZA: Yes.

MR. BASILIO: We do.

MR. WARREN: And there is no magic to this, panel. I just want to understand three sets of numbers.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

MR. WARREN: Okay. Now, the third document I want to take you to, in is an OM&A cost per customer only.

What is the cost per customer overall that is before the Board in this case?

MR. BASILIO: For which year?

MR. WARREN: For 2011.

MR. BASILIO: It is 202.29 in the document.

MR. WARREN: Okay. [redacted]

[redacted]

I wonder, Panel -- I apologize, with no disrespect to Mr. Shepherd, but I am told by my office that there is something giving rise to smoke back there, so I wonder if I might be excused, and I will return for the third panel?

MS. HARE: Yes, thank you.

[Mr. Warren withdraws]

MS. HARE: Mr. Shepherd?

MR. SHEPHERD: I will, of course, take that personally, but...

CROSS-EXAMINATION BY MR. SHEPHERD:

MR. SHEPHERD: Thank you, Madam Chair.

[redacted]

[redacted]

[redacted]

Does that have anything to do with the failure to convince the Board on the Z-factor application?

MR. BASILIO: I... Well, I think it's more, again, just managing to what our means were in that period.

Had we been successful in the Z-factor application, I think as we provided in evidence, that would have provided opportunity to address some of the deferrals that were discussed in evidence during that application.

So costs would likely have been higher had the Z-factor application been approved, but if I might just -- I just want to -- the difficulty is, of course, your ability to react once an application is approved, and, addressing shortfall, you've basically got to move the machine very quickly if you achieve additional funding to address shortfalls and deficiencies and those sort of things. That does take a little bit of time.

So I think, generally speaking, had the Z-factor application been approved - I can't remember exactly when we got that decision - it would have likely resulted in additional expenditure, OM&A expenditure.

[redacted]

[redacted]

Again, in any given year, I think we would do our best to manage the utility, but over the course of a number of years -- and this was the point of advancing our application. It is becoming more and more uncomfortable.

So as we move through 2011 and 2012, under these circumstances, it is certainly becoming very uncomfortable. Our only opportunity to address that level of comfort is to address revenue, which is -- of which this process is very important to, obviously.

MR. SHEPHERD: Because your billing determinants aren't going up, the only way to increase your revenue is to get higher rates; right?

MR. BASILIO: Exactly.

[redacted]

[redacted]

[redacted]

MR. BASILIO: I am -- sorry. Of course in 2011 what we're asking for, from a cost per customer perspective, it is in Exhibit 4, tab 2, schedule 8, page 1. It is the 202.29 as it relates to this application; excludes smart meters and MDM/R.

The bridge year was a forecast at a time of 170. The delta is $30. I just want to make sure we're working with the correct statistics.

[redacted]

MR. BASILIO: Yes, we did. We're very much aware -- I mentioned this in my opening statements. I think I stated explicitly that we are very concerned about the impact to our customers, but believe that this is in the best interests of delivering, on a sustainable basis, the -- on their expectations.

I would also say that this is a sharp increase, and it certainly doesn't diminish my comment on concern.

But in a nutshell, we've been operating at somewhat of a deficit, in terms of our capacity to deliver our service to customers, and I believe our rates and our costs per customer leave us in a very competitive position in this sector. And we have been very competitive on a cost per customer basis historically.

MR. SHEPHERD: Is that in the evidence somewhere?

MR. BASILIO: I believe it is in the OEB yearbook, which you provided, I believe.

MR. SHEPHERD: I am asking about the evidence in this proceeding.

MR. BASILIO: I thought -- sorry, if I am giving testimony, that is additional -- oh. Well, yes, we did provide evidence. [redacted]

[redacted]
and of course this is historical information, but I think it is indicative of our past performance, and that from 2006 to 2008, Horizon Utilities is shown as $160 per customer on average. The 10 largest LDC average is $191.

I am trying to do the math, but that's almost 20 percent higher than the Horizon average.

Golden Horseshoe LDC average is $216. That is $56 higher, approximately 33 percent higher.

And the Ontario LDC average is $243.00 per customer, or approximately 50 percent higher than Horizon Utilities.

So that's in evidence. That is indicative of our past performance, I would offer. And it is conjecture of course but I don't think for the most part that other LDCs will be reducing their costs dramatically through their next couple of rounds of cost-of-service applications.

So I would suggest it is my view that we'll remain in a very competitive position relative to other LDCs with the requests in this application.

MR. SHEPHERD: Well, so if I can paraphrase what you're saying, compared to the 10 largest LDCs, your normal comparables, you were $30 per customer lower.

And in this application, you are catching up and you are going to be on that average; is that right?

MR. BASILIO: No. That is not what you're hearing at all. This is an average from 2008.

Even if we can -- I think -- I mean, I have done this myself, but if we apply to the Ontario LDC average a rate of, I don't know, let's say three percent a year -- I don't know exactly how much on average LDC costs and applications have gone up -- and moved the 160 to 202, if we move the 160 to 202, sure, we will catch up to the 10 largest LDCs back in 2008, but I am sure this is a much higher statistic in 2011.

MR. SHEPHERD: Sorry, I --

MR. BASILIO: That is conjecture, of course.

MR. SHEPHERD: I didn't make my question clear.

In that period, your comparable number to the 10 largest LDCs was $31 lower; right?

MR. BASILIO: That's correct.

MR. SHEPHERD: You are asking to make up that difference today, $31; right? Roughly?

MR. BASILIO: Well, the difference -- really $42, if we look at the 2011 test year.

MR. SHEPHERD: I am asking apples-to-apples.

You were cheaper; now you are not going to be; right?

MR. BASILIO: No, I believe we will continue to be cheaper.

MR. SHEPHERD: Okay. I want to turn to some questions about employee costs, and the first thing I want to do is I want to see if I can perhaps correct something that you have on the record, that is actually probably to your advantage to correct, so I am going to see if we can do that.

Can you first take a look at VECC Exhibit K2.1? This is the Toronto 2K filing.

MR. BASILIO: That was the -- sorry, that was the table that Mr. Buonaguro provided --

MR. SHEPHERD: Yes.

MR. BASILIO: -- this morning?

MR. SHEPHERD: And it is on the screen. Magically it is here.

MR. BASILIO: I have -- we have that, of course.

MR. SHEPHERD: So take a look at line 36 -- no, line 33 is the easiest one. Okay?

Line 33 is their "Executive compensation, average yearly base wages."

Do you see that?

MR. BASILIO: I do.

MR. SHEPHERD: Okay. That line is line 15 divided by line 2.

Do you see that?

MR. BASILIO: Yes.

MR. SHEPHERD: Okay. Now, let's go to your 2K and go to the same line, "Executive average yearly base wages." And actually, the one on the screen is the non-confidential one. So let's look at 2010.

That is 214,206; right?

MR. BASILIO: Correct.

MR. SHEPHERD: And if you divide 3,118,631 by 17, you don't get that, do you?

MR. BASILIO: No, you don't.

MR. SHEPHERD: Okay. So the reason I am raising this is because you've agreed to do an undertaking to provide some numbers, which we are then going to be comparing.

And I think that you have overstated your average yearly base wages numbers in this entire chart.

MS. HARE: Mr. Shepherd, I think Ms. Galli wants to answer.

MS. GALLI: Yes.

Yes, in fact we have. What we have done in terms of calculating that figure is included the "total benefits" line --

MR. SHEPHERD: No, I understand that.

MS. GALLI: -- to calculate the average.

MR. SHEPHERD: You have divided what would be, in the Toronto one, line 27 by line 2, instead of line 20 -- 15 by line 2.

So they're not comparable numbers. The correct way to do it, actually, is the way Toronto has done it.

And so I am asking you, in your undertaking response, can you also make that correction, so that we will have apples-to-apples comparison?

MS. HUGHES: Yes, we can.

MR. SHEPHERD: Thank you. It helps you.

MS. HELT: Sorry, Mr. Shepherd, just to be clear, that was the undertaking with respect to J2.4 that dealt with the table 2K?

MR. SHEPHERD: We'll have to ask Mr. Buonaguro what number it was.

MR. BUONAGURO: I think that is right. Thanks.

MS. HELT: And Horizon understands the nature of this specific aspect of that undertaking? Or it would help -- would it help to clarify?

MS. BUTANY-DESOUZA: Can we repeat it?

MS. HELT: Mr. Shepherd?

MR. SHEPHERD: Sure. In Undertaking 2.4, can you ensure that the calculation under average yearly base wages is only base wages, and is not all -- total compensation?

MS. BUTANY-DESOUZA: Yes. Got it.

MR. SHEPHERD: While you are at it, if you could add to that the original appendix 2K corrected, that would be good too. Just so we don't have this incorrect one lying around.

You have -- your table 4-25 is incorrect.

So since you are going to correct it anyway, if you can correct it on the original, that would be good too.

MS. HUGHES: Okay.

MS. HARE: Ms. Galli, is that clear?

MS. GALLI: Yes, that's fine. Thank you.

MR. SHEPHERD: Now, I am looking at your appendix -- sorry, your table 4-25. I am looking at the unredacted version of that, so it has the 2011 numbers in it. Do you have that?

MS. HELT: Mr. Shepherd, perhaps you could just indicate what exhibit number that is, page number?

MR. SHEPHERD: Exhibit 4, tab 2, schedule 10, page 11, unredacted.

MR. BUONAGURO: I think this is exactly what is on the screen, except no blackout.

MR. SHEPHERD: That's right.

MR. BASILIO: We have it, yes.

MR. SHEPHERD: Do you have that? The Panel Members' copies should be marked, I think.

MS. HELT: Yes. We did mark the Panel Members' copies, if you can find it.

MS. HARE: Is it in this binder?

MS. HELT: It is in the -- is it a technical conference? It's not a technical conference question. So then it is in the confidential interrogatory response -- volume 2 of 2, sorry.

MR. BUONAGURO: I put it on the screen, but I kept all of the redacted stuff out of my computer copy. Sorry.

MR. SHEPHERD: So I just want to ask you a couple of brief questions about this. I am right, am I not, that since your last rebasing year, 2008, you are proposing your compensation increase by about 35 percent, total compensation bill?

MR. BASILIO: Yes, that is pretty close. That is pretty close, subject to check, but that's correct.

MR. SHEPHERD: And that's not -- that's not a business-as-usual sort of increase, it seems to me, because the compensation charged to OM&A is going up 27 percent, right, but the compensation charged to capital is going up 57 percent?

MR. BASILIO: That's correct.
MR. SHEPHERD: And this is because of your expanded capital program?
[Witness panel confers]
MR. BASILIO: Sorry, I just wanted to confer on the -- could you repeat your question, please?
MR. SHEPHERD: So the difference between the increase in compensation charged to OM&A and the increase in compensation capitalized is because of your increased capital program; right? What I am trying to get at is it is not because of your remapping or any other accounting changes?
MR. BASILIO: That's correct.
MS. HUGHES: That's correct.
MR. SHEPHERD: So the 2008 numbers, the 2011 numbers, they're apples-to-apples numbers; right?
MS. HUGHES: Yes.
MR. SHEPHERD: Okay, good.
MS. HUGHES: Yes.
MR. SHEPHERD: So the reason I wondered about that is you had a discussion earlier about the capital program, and, you know, the increases in your capital program for stuff on the ground were nothing like this $4.6 million increase. Your increases in capital programs for stuff on the ground were pretty much business as usual.
But you do have some substantial increases in capital programs for IT projects and things like that; right?
MR. BASILIO: We do have increases related to IT, but

we have provided is we in aggregate -- our distribution capital expenditures are going up in aggregate and on a net basis at approximately $2 to $3 million a year.

But as we've shown in the evidence, when you dissect that between what we're actually spending that distribution system capital on, renewal is taking a big jump.

We do have IT expenses, again, IT expenses that aren't for the sake of IT. They're IT expenses for the sake of supporting distribution system planning -- other things, of course, but supporting distribution system planning. And I think we gave some testimony on that with respect to the enterprise data warehouse earlier.

So we delineate between distribution capital and other capital, but much of IT expenditure, in fact, supports distribution system capital planning, tracking, and of course customer service.

MR. SHEPHERD: I understand that, and this is not the time to be discussing that, anyway.

What I am really trying to get at here is: Is any significant component of this increase in capitalized compensation an increase in the number of people working on those non-distribution, non-system projects, like the IT projects and the mobile computing and all of those sorts of things?

MS. HUGHES: So what I would say is that we actually don't capitalize labour with respect to IT, generally speaking, on these projects.

MR. SHEPHERD: So this whole $4.7 million increase is on the ground?

MS. HUGHES: Yes.

MR. SHEPHERD: Okay. Well, that's interesting, because then I wonder if you could go to the next page in this -- well, it's actually not the next page, I guess.

It is page 14 of the same document, also the unredacted version. So it is three pages along in Exhibit 4, tab 2, schedule 10. So we were looking at page 11, and now we are looking at page 14.

Do you have that? And you can actually look at the unredacted one, if you want, because I don't care about the salaries. I am only concerned with the list. So you have it on the screen?

MS. HUGHES: Yes.

MR. SHEPHERD: Okay. I looked -- there's 58 positions listed here; right? I counted.

MS. HUGHES: Yes.

MR. SHEPHERD: Would you take that subject to check?

MS. HUGHES: Yes.

MR. SHEPHERD: Okay. And I looked at this list -- do you know what the concept of a tool-in-hand job is?

MS. HUGHES: No. No.

MR. SHEPHERD: A tool in hand is a person in a utility who actually goes out and does things, goes out and repairs a line or works on a substation. It is your trades, okay? Do you understand the concept?

MS. HUGHES: Mm-hm, yes.

MR. BASILIO: We are more familiar with the term "trades", yes.

MR. SHEPHERD: Okay. I heard "tool in hand" from somebody a lot older than you are, Mr. Basilio.

MR. BASILIO: I will take that as a compliment.

MR. SHEPHERD: And I looked on this list for tool-in-hand type jobs, trades, and I found 12 of the 58. The first one I can find is the last one listed in 2010, line maintainer, cable splicer, not yet hired, and then I found, in the last four listed at the bottom, three of those appear to be -- that is, line maintainer, line maintainer, substation apprentice all appear to be trades-type jobs.

Is that right? Those are the trades we have on this list?

MS. HUGHES: So those would be the new -- yes, those would have been new hires for trades, yes.

MR. SHEPHERD: Okay. So what I don't understand is -- let's start with you have a system that is not in good shape, and yet all of the people you are hiring in that period are people who can't fix anything.

Why would you be hiring those people, instead of hiring the people that can fix the system that is broken?

[Witness panel confers]

MS. HUGHES: Sorry. I just wanted to collect the information.

In terms of the new hires, you know, we've clearly indicated that in 2011, I believe, 13 of the total new hires of 27 are, in fact, skilled trades, and not just in terms of the construction, but there are other positions on this list that are really required to operate the entire distribution system.

You know, we do have planners, grid operators. I mean, so those are, you know, required to operate the distribution plant.

I wanted to draw some attention to --

MR. SHEPHERD: Let me just -- let me just stop you there. I want you to continue, but I just want to understand.

You said 13?

MS. HUGHES: I believe we have identified 13, 13 trade new hires in 2011.

MR. SHEPHERD: Okay. But that would include people like network operators that -- this is not out -- people out in the field?

MS. HUGHES: That's correct. It doesn't include the operators, yes.

MR. SHEPHERD: Go on. Sorry to interrupt you.

MS. HUGHES: In response to CCC Interrogatory No. 32, we did, in fact, provide a table where we provided the continuity of our full-time by department.

And in 2008, on this table, we had 132 employees in the construction and maintenance department.

And I think this will help tie in the change in the amount of capitalized labour that you can see, is in 2008 we had a number of vacancies in the trades, and I think Ms. Galli would be able to provide some information on that.

So when you are looking at the compensation for 2008 and looking at the amount capitalized, and then comparing it to 2011, we, in fact, had 132 in the construction and maintenance, growing to 147 in 2011, based on the business plan.

So we, in fact, have grown that by 15 employees.

MR. SHEPHERD: Sorry, I didn't want to interrupt you again, but I didn't hear the reference.

MS. HUGHES: Sorry.

MR. SHEPHERD: I thought you said 32.

MS. HUGHES: It is Consumers Council.

MR. SHEPHERD: Yeah?

MS. HUGHES: IR No. 32.

MR. SHEPHERD: So I am looking at 32.

MS. HUGHES: It is a January 24th IR.

MR. SHEPHERD: Okay. And 32 is FTEs per customer.

Oh, no, this is VECC. Sorry. My apologies. That's why I couldn't find it.

MR. BUONAGURO: I am trying to find it, but for some reason the electronic copy bookmarked CCC 32, actually, as VECC 32.

MR. SHEPHERD: Oh, that's right.

MR. BUONAGURO: It is a labelling problem in the computer. I didn't do it.

MR. SHEPHERD: Yeah, that's right. They're all CCC except for that one.

MR. BUONAGURO: Yes.

MR. SHEPHERD: All right.

Just give me a second to see if I can find it. It is not where it should be.

I am going to have to give up. I'm not going to find it.

MR. BASILIO: We would be pleased to provide you with a copy.

MR. SHEPHERD: I will look at it later. Thanks.

MR. BASILIO: Okay.

MR. SHEPHERD: Sorry. All right. Actually, could you give me a copy to look at? Thank you.

[Ms. Butany-DeSouza passes document to Mr. Shepherd]

MR. SHEPHERD: The file document does not have it where it should be. Thanks very much.

So you are referring to which line, "construction and maintenance"?

MS. HUGHES: Yes.

MR. SHEPHERD: And you're saying that in construction and maintenance, you are going from 132 to 147.

MS. HUGHES: That's correct.

MR. SHEPHERD: And that includes the supervisors; right?

MS. HUGHES: Yes, it would.

MR. SHEPHERD: All right. So when we said that your 58 hires included 12 that were tool-in-hand, you're saying no, that's wrong; it is 15?

MS. GALLI: If I could also add, in table 4-26, in Exhibit 4, tab 2, schedule 10?

MR. SHEPHERD: Sure.

MS. GALLI: The last line of 2010, where we have "line maintainer cable splicer"?

MR. SHEPHERD: Yes.

MS. GALLI: Unfortunately, it is redacted, so you can't see the total amount. But that actually should read "seven positions."

MR. SHEPHERD: "Seven positions"?

MS. GALLI: Yes.

MR. SHEPHERD: Well, see, that is interesting that you should say that, because then what we have on this list is more positions in total than on your 2K.

In fact, in Staff Interrogatory No. 30, which is also a confidential document, you got another five.

So are these numbers on your 2K, the additions, not right?

MR. BASILIO: I think we're having trouble following your math, which I am sure is correct. We are just having trouble following it.

MR. SHEPHERD: If you add up all of the positions on table 4-26, you get 58. You just added another six; that is 64, but I thought we already established you are only adding 60 people.

And then you have -- on Staff 30, you have another five; is that wrong?

MS. GALLI: In table 4-26?

MR. SHEPHERD: Yes.

MS. GALLI: We have a total of 61 positions.

MR. SHEPHERD: Okay. Well, I counted it and I got 60 -- I got 58, plus you just added six more. All right --

MS. GALLI: I have...

MR. SHEPHERD: Let's not fuss around about that.

Of those tool-in-hand positions, how many of them have been hired so far? Let's go down the list, and tell me how many have you hired so far.

So as of August 26th, you said that none of the line maintainers and cable splicers from 2010, which were listed as January of 2010, that those weren't yet hired; right?

MS. GALLI: Correct.

MR. SHEPHERD: Presumably, some of them have been hired now; how many?

MS. GALLI: They have all been hired.

MR. SHEPHERD: Okay. All.

Then you have -- on the fourth-last line, you have line maintainer apprentice, four positions, listed as January 2011.

Have any of those been hired yet?

MS. GALLI: No, they have not.

MR. SHEPHERD: And of course, the ones -- the additional one for September would not have been hired yet; right?

MS. GALLI: No, we have not.

MR. SHEPHERD: And what about the substation apprentices, those three? Have any of those been hired yet?

MS. GALLI: No, they have not.

MR. SHEPHERD: So in this period where you are adding 60 people, you have added seven tool-in-hand positions? Am

I right?

[Witness panel confers]

MS. GALLI: Could you repeat the question, Mr. Shepherd, so I answer correctly?

MR. SHEPHERD: Yes. In that period where you say you're going to add 60 people, so far you've added seven tool-in-hand positions; is that right?

MS. GALLI: The table would represent new additional prehire types of positions, but we have, in fact, in 2008, 2009, 2010 and 2011 also hired apprentices in each of those years. They aren't reflected in this table, because these represent new, but, in fact, because there have been vacancies in line maintainers, we have hired apprentices to replace them.

MR. SHEPHERD: Oh, okay. Well, that actually is a wonderful segue into my next area of questions, my last area of questions, which is if you could turn to Energy Probe Interrogatory No. 26, also a confidential document?

Keep the exhibit table 4-25 out, because we need to do some comparisons.

So do you have that table?

MS. GALLI: Yes, we do.

MR. SHEPHERD: Okay. So this is an update of the 2K to record 2010 actuals; right?

MS. GALLI: We've provided a Q3 forecast for 2010.

MR. SHEPHERD: But we just heard earlier that the Q3 forecast actually turns out to be accurate, because your actual as of the end of the year was 384; right?

MS. GALLI: Yes, that's correct.

MR. SHEPHERD: Okay. So am I right in understanding, then, that for 2010, although you planned to have 401 FTEs, you ended up at 384 FTEs, 17 less; right?

MS. GALLI: That's correct.

MR. SHEPHERD: And that's because your 2K - that is, table 4-25, which we were looking at earlier - includes vacant positions; right?

MS. GALLI: Yes, for 2010 we've provided a budget figure, and that would include vacancies.

MR. SHEPHERD: Okay. So let's go back to the table 4-25 for a second.

So 2010, those numbers are wrong. The correct number would be 17 lower, right, 384?

MS. GALLI: That's correct.

MR. SHEPHERD: Okay. So for 2009, does that also include vacant positions?

MS. GALLI: 2009 is an actual.

MR. SHEPHERD: All right. And for 2008, does that include vacant positions?

MS. GALLI: 2008 is also an actual.

MR. SHEPHERD: Okay. So let's come back to what you just told us, then. We're talking about these 60 positions or 61 or 64, or however many there are in this next page, table 4-26, and you said, Oh, no, no, no, there's some more people we hired because of vacant positions; right? But this is all the additions you have.

So if the vacancies weren't included in 2008 and 2009, where did you put those people? Where are they on this thing? It doesn't add up. We have the whole 60, and there aren't any tool-in-hand jobs until the end of 2010, none of them.

MS. GALLI: So the 60 would represent new positions added to the organization over that period. When I say we've hired, that is because positions existing in those previous counts would have been vacated, and we have filled to replace current existing positions.

MR. SHEPHERD: Okay. The 368 in 2008, does that include any vacancies?

MS. GALLI: No, it does not.

MR. SHEPHERD: Okay. So then as some of those people left that you had in 2008, some of those people left and you replaced them; right?

MS. GALLI: That's correct.

MR. SHEPHERD: Ah, okay. So that is different than, for example, from 2010 to 2011 where you are actually adding 44 people; right?

MS. GALLI: We are adding, in 2010, 15 and in 2011, 27.

MR. SHEPHERD: Well, actually, it looks like in 2010 you lost two people, net.

MS. GALLI: Oh, sorry, you are looking at actuals?

MR. SHEPHERD: Yes.

MS. GALLI: Yes, that is correct.

MR. SHEPHERD: Then you are adding -- in 2011, you are adding 44; right?

MS. HUGHES: So if I could just step back for a minute, we have proposed the hiring of 26 new positions in 2011.

In 2010, we had planned to hire 15 employees. We hired those 15. I believe one of our responses to the interrogatories provided, for those positions that were budgeted in 2010 as new hires, they have in fact now all been filled except for one, which is a manager of treasury position in my area that I currently have on contract and don't have a full time.

Where we have a difference between the 2010 budget of the 401 employees versus the 384 at year end are normal vacancies, just vacancies throughout the organization, where people have just left the position, but that -- so, you know, we are showing that as actual.

But, in fact, the complement, approved complement, that we have in our organization is 401 employees.

MR. SHEPHERD: Understood. But I guess from the ratepayers' point of view, you are not assuming that you are going to have 15 or 20 vacancies, the same percentage of vacancies in the test year, are you?

MR. BASILIO: No. The test year assumes a full establishment of strength in the organization.

MR. SHEPHERD: Exactly. So whereas for 2010 you actually paid 17 FTEs less than what you said in your 2K, but for 2011 you are asking for a budget for 44 more people, right, than you actually paid in 2010?

MS. HUGHES: Well, that would assume that you didn't have 17 throughout the 2010, but I would say that those positions would have come in and out through 2010.

MR. SHEPHERD: It is FTEs, isn't it?

MS. HUGHES: It is FTEs, yes.

MR. SHEPHERD: That means that each one of those 17 is a full-time equivalent; right?

MS. HUGHES: Yes.

MR. SHEPHERD: No? So these are not FTEs?

MS. HUGHES: Oh, sorry.

MS. GALLI: I'm sorry. The 384 would have been the year end number. It represents the year end number of employees.

And for the purposes of this, at any point in time during the year, we may have had a different complement.

MR. SHEPHERD: So none of these figures are FTEs? You had this discussion earlier, and I thought you were saying, yes, they do equate to FTEs.

MR. BASILIO: Just for clarification, do you mean a weighted average number of employees for the year?

MR. SHEPHERD: FTE -- well, you are a trained person, Mr. Basilio. You know that an FTE is the equivalent of one person for one year; right?

MR. BASILIO: Yes.

MR. SHEPHERD: So 401 people should be 401 people for a full year; right?

MR. BASILIO: That's correct, but in reporting an actual result -- again, I am a little confused by the line of questioning.

MR. SHEPHERD: Well, I guess here is my problem.
Your previous -- all of your results include students; right?
MS. GALLI: Students are not included in the table.
MR. SHEPHERD: Why not?
MS. GALLI: Appendix 2K?
MR. SHEPHERD: Yes. Why not?
[Witness panel confers]
MR. SHEPHERD: I seem to recall all of your departmental business plans there were, I don't know, 20, 30 students in total, maybe more. They're not in here anywhere?
[Witness panel confers]
MS. HUGHES: So we have prepared this table on the basis that these are full-time positions, and so we have not included students on that basis.
MR. SHEPHERD: So your compensation costs are actually higher than this?
MS. HUGHES: Yes, they would be higher by the compensation paid to the students, yes.
MR. SHEPHERD: This is, like, 7 or $800,000 a year, something like that? Am I in the right range?
MS. HUGHES: No. No, I believe the 2011 budget for students is less than $300,000.
MR. SHEPHERD: Fine.
Thanks very much. I have no further questions.
MS. HARE: Thank you.
Do any other parties have any questions? Mr. Crocker?

Mr. Aiken? Mr. Buonaguro? Mr. MacIntosh? No?

The Panel has no questions.

Mr. Sidlofsky, any redirect?

MR. SIDLOFSKY: No. Thank you, Madam Chair.

MS. HARE: Thank you. We will go back on air, then.

--- Resuming public session at 3:54 p.m.

PROCEDURAL MATTERS:

MS. HARE: Given that it is almost 4:00 o'clock, I think that we will not start panel 3 today, but if we could start Monday at 9:00 o'clock, that would be helpful, so that we can make up some time.

Is that all right with everybody?

MR. SIDLOFSKY: That would be fine. Do we have a sense at this point of how long panel -- the cross-examination might take on panel 3?

MS. HELT: I have had a chance to speak with some of the intervenors.

I believe Mr. Aiken may have half an hour, 40 minutes. Mr. Buonaguro, perhaps an hour. Mr. Crocker, I believe, indicated he would be an hour or so. Board Staff will likely be half an hour. And then Mr. Warren indicated he wouldn't be very long, 15 minutes.

MS. GIRVAN: Ten.

MS. HELT: Ten, 15 minutes. Then there is Mr. Shepherd, who will let us know himself.

MR. SHEPHERD: Thirty minutes, I think.

MS. HARE: So is it possible we will be done on Monday?

MS. HELT: Oh, I think we will be done on Monday. We were hoping, in talks at the break, that we would be done by lunch on Monday, had we started today with panel 3.

So that won't happen.

The only one -- one potential preliminary issue, or not preliminary issue but issue, is I am not sure if Mr. Aiken is available on Monday morning. Is he here?

MS. HARE: Yes, he is here.

MR. AIKEN: Yes. I can be available Monday morning.

MS. HARE: Okay. I do want to leave some time, in the event there are any questions about the undertaking responses.

The panel is excused. Thank you very much for your assistance. I see that some of the panel members are back, but Ms. Lerette and Ms. Campbell, you are done. Thank you very much.

MS. BUTANY-DESOUZA: Ms. Campbell might be back.

MR. BASILIO: Thank you very much.

--- Whereupon the hearing adjourned at 3:58 p.m.