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Ontario

ONTARIO ENERGY BOARD

FILE NO.: EB-2010-0131

~~UNREDACTED CONFIDENTIAL~~

VOLUME: 1

DATE: April 7, 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 Thursday, April 7th, 2011,
commencing at 9:38 a.m.

VOLUME 1

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

I N D E X O F P R O C E E D I N G S

<u>Description</u>	<u>Page No.</u>
--- On commencing at 9:38 a.m.	1
Appearances	1
Preliminary Matters	2
--- Recess taken at 10:09 a.m.	14
--- On resuming at 10:33 a.m.	14
Opening Statement by Mr. Sidlofsky	15
HORIZON UTILITIES - PANEL 1	22
J. Basilio, I. Butany-DeSouza, K. Lerette, S. Hughes, E. Campbell, N. Subbakrrishna; Sworn	
Examination by Mr. Sidlofsky	24
Cross-Examination by Mr. Aiken	32
Cross-Examination by Mr. Warren	56
Cross-Examination by Ms. Helt	62
--- Luncheon recess taken at 12:17 p.m.	75
--- On resuming at 1:40 p.m.	75
Cross-Examination by Mr. Shepherd	76
Questions by the Board	102
Continued Cross-Examination by Mr. Shepherd	113
Re-Examination by Mr. Sidlofsky	115
--- Recess taken at 2:50 p.m.	117
--- On resuming at 3:17 p.m.	117
--- In-camera session commenced at 3:17 p.m.	117
Further Cross-Examination by Mr. Shepherd	118
Further Questions by the Board	176
--- Public session resuming at 4:55 p.m.	180
Procedural Matters	180
--- Whereupon the hearing adjourned at 4:55 p.m.	180

E X H I B I T S

<u>Description</u>	<u>Page No.</u>
EXHIBIT NO. K1.1: LETTER FROM HORIZON UTILITIES FILED WITH THE BOARD DATED APRIL 6, 2011.	3
EXHIBIT NO. K1.2: LETTER FROM HORIZON, DATED APRIL 6TH, 2011, ADDRESSING AMPCO 4, VECC 37 AND VECC 44.	18
EXHIBIT NO. K1.3: REVENUE REQUIREMENT WORK FORM FOR THE RATE YEAR 2011, VERSION 2.11	18
EXHIBIT NO. K1.4: COMPENDIUM OF DOCUMENTS OF ENERGY PROBE RESEARCH FOUNDATION.	33
EXHIBIT NO. K1.5: BOARD STAFF COMPENDIUM OF DOCUMENTS.	62
EXHIBIT NO. K1.6: COMPARISON OF SOURCES OF REVENUE TABLE AND COMPARISON OF EXISTING CAPITAL PER CUSTOMER PREPARED BY SCHOOL ENERGY COALITION.	77

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

<u>Description</u>	<u>Page No.</u>
UNDERTAKING NO. J1.1: TO PROVIDE AN ESTIMATE OF LOST REVENUES FROM THE LARGE USE CLASS OVER THESE THREE YEARS AND THE RETURN ON DEEMED EQUITY, ASSUMING THAT HORIZON DID NOT LOSE THE REVENUE ASSOCIATED WITH THE LARGE USE CLASS.	36
UNDERTAKING NO. J1.2: TO RECALCULATE THE PERCENTAGES SHOWN IN TABLES 6 THROUGH 8 OF THE NAVIGANT REPORT REDUCING THE SERVICE LAG FROM 30.27 DAYS TO 26.70 DAYS, AND CONFIRM IMPACT ON RATE BASE.	46
UNDERTAKING NO. J1.3: TO RESPOND TO THREE-PART HYPOTHETICAL POSED BY MR. AIKEN.	56
UNDERTAKING NO. J1.4: TO PROVIDE ANSWER AS TO WHETHER IN-SERVICE DATES AND CONSEQUENT RATE BASE IMPLICATIONS NEED TO BE CHANGED FROM WHAT IS REFLECTED IN EXHIBIT 2, TAB 3, SCHEDULE 1 IN ANSWER TO CCC INTERROGATORY 26.	61
UNDERTAKING NO. J1.5: TO PROVIDE INFORMATION FOR THE BUDGET FOR REBUILDS OF EXISTING VEHICLES.	72
UNDERTAKING NO. J1.6: TO CONFIRM WHETHER ANY VEHICLE CAP-EX FOR 2011 IS RELATED TO HYBRID VEHICLE TECHNOLOGY.	73
UNDERTAKING NO. J1.7: TO PROVIDE MATERIAL TO SUPPORT CONTENTION THAT HORIZON'S CUSTOMERS HAVE AMONG THE LOWEST INCOME IN ONTARIO.	109
UNDERTAKING NO. J1.8: TO CONFIRM METHODOLOGY FOR THE \$855,000 ESTIMATE FOR FACILITIES UPGRADE AND EXPANSION, AND WHETHER IT INCLUDES REQUIREMENTS FOR STAFF IN THE UNREGULATED BUSINESS.	110
UNDERTAKING NO. J1.9: TO PROVIDE BUDGETED AMOUNT OF TOTAL SPENDING ON AGING WORK FORCE PROBLEM, 2008 THROUGH 2011.	132

1 Thursday, April 7, 2011

2 --- On commencing at 9:38 a.m.

3 MS. HARE: Please be seated.

4 Good morning. My name is Marika Hare. With me on the
5 Panel are Cathy Spoel and Karen Taylor.

6 We are convening today in the case of a cost of
7 service application filed by Horizon Utilities for new
8 rates commencing on January 1st, 2011. The Board has
9 assigned the application docket number EB-2010-0131.

10 May I have appearances, please?

11 **APPEARANCES:**

12 MR. SIDLOFSKY: James Sidlofsky, counsel for Horizon
13 Utilities.

14 MR. SHEPHERD: Jay Shepherd, counsel for the School
15 Energy Coalition.

16 MR. WARREN: Robert Warren for the Consumers Council
17 of Canada.

18 MR. CROCKER: David Crocker and Shelley Grice for
19 AMPCO.

20 MR. BUONAGURO: Good morning. Michael Buonaguro,
21 counsel for VECC.

22 MR. AIKEN: Good morning. Randy Aiken, consultant for
23 Energy Probe. With me is David MacIntosh.

24 MS. HELT: Good morning. Maureen Helt, counsel to the
25 Board. With me I have Keith Ritchie, case manager, Board
26 Staff, as well as Mark Abramovitz, also Board Staff.

27 MS. HARE: Thank you. Are there preliminary matters?

28 MS. HELT: Yes, Madam Chair, there is one preliminary

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1 matter.

2 **PRELIMINARY MATTERS:**

3 MS. HELT: Yesterday, counsel for Horizon filed a
4 letter with the Board dated April 6th, 2011 with respect to
5 the Board's decision on confidentiality, which was dated
6 March 30th, 2011.

7 I understand from the letter that Horizon does wish to
8 withdraw certain information that has been filed, and where
9 a request for confidentiality was made. And I believe
10 there are certain parties who would like to make
11 submissions with respect to the request for that
12 withdrawal.

13 MS. HARE: Okay. Mr. Sidlofsky.

14 MR. SIDLOFSKY: Thank you, Madam Chair. In my letter
15 of yesterday's date, we requested the withdrawal of two
16 documents. Both of them relate to School Energy Coalition
17 questions.

18 The first relates to School's question 3, and the item
19 that was provided in confidence there was the partnership
20 agreement for the Solar Sunbelt partnership.

21 And the second item relates to School's question 22,
22 and that is comparative information prepared during the
23 time of the discussions between Horizon Utilities and
24 Guelph Hydro with respect to a potential merger.

25 Perhaps I could deal with the second one first. In
26 our letter of yesterday's date --

27 MS. HELT: I'm sorry to interject, Mr. Sidlofsky. We
28 do have hard copies of the letter and they have been

1 provided to the parties and to the Panel members.

2 If you would like, we can mark the letter of April 6th
3 as an exhibit.

4 MS. HARE: Yes, please.

5 MS. HELT: So that will be Exhibit K1.1.

6 **EXHIBIT NO. K1.1: LETTER FROM HORIZON UTILITIES FILED**
7 **WITH THE BOARD DATED APRIL 6, 2011.**

8 MS. HELT: Sorry for the interruption, Mr. Sidlofsky.

9 MR. SIDLOFSKY: No, that's fine. Thank you, Ms. Helt.
10 In School's question 22, Schools had requested

11 whatever data is in Horizon's possession benchmarking the
12 age of Horizon's assets or any asset category to the ages
13 of similar assets in use by other LDCs. And in response to
14 that, Horizon provided a confidential response to School's
15 22, and that consisted of two pages of information prepared
16 by Kinectrics.

17 It was prepared several years ago. My understanding
18 is that it was back in 2007 that that would have been
19 prepared. It was prepared in the context of merger
20 discussions between Guelph Hydro and Horizon, and those
21 discussions ultimately didn't result in a merger.

22 However, in the Board's decision on confidentiality,
23 the Board determined that that information should be
24 public. However, the Board questioned its relevance.

25 And in light of the Board's decision, first of all, I
26 should confirm that we are requesting the withdrawal of
27 that information, but I think I should also explain briefly
28 why it is that we are requesting the withdrawal.

1 Horizon Utilities' staff have considered the
2 Kinectrics material and, in particular, considered it in
3 light of the asset management plan material that was filed
4 in the current application as part of the application. And
5 Horizon can confirm that the Kinectrics information is
6 effectively superseded by the asset management plan -- by
7 the asset management plan and the associated data.

8 Accordingly, it is Horizon's position that not only is
9 this older information no longer relevant, but it may in
10 fact be confusing when used in conjunction with the more
11 current asset management plan material.

12 So we are requesting its withdrawal. I am in the
13 Board's hands as to how you would like to proceed with
14 this. I am wondering if it might be appropriate to have
15 responding comments on that request before we get to the
16 next one.

17 MS. HARE: I think it would be easier if you addressed
18 the first request at the same time.

19 MR. SIDLOFSKY: Okay. I should mention on the second
20 one that Horizon staff, the panel -- the witness panel
21 isn't sworn in yet, but Horizon staff could speak to any
22 questions the Board might have about the relationship
23 between that Kinectrics material and the newer asset
24 management plan material, if the Board did have any
25 questions about that.

26 Moving back to the first item, this relates to Horizon
27 Utilities' confidential response to School Energy Coalition
28 Interrogatory No. 3.

1 In part, in that interrogatory, Schools had requested
2 a copy of the partnership agreement related to the Solar
3 Sunbelt renewable generation partnership in which Horizon
4 Utilities is involved.

5 Initially -- and I will step back to Horizon's letter
6 of January 28th giving the grounds for the request for
7 confidentiality. Horizon had indicated that by recent
8 amendments to the OEB Act, electricity distributors are
9 permitted to carry on competitive generation activities.

10 These activities are beyond the scope of the regulated
11 distribution activities carried on by those distributors.
12 Horizon Utilities will be carrying on this activity as a
13 partner in the Solar Sunbelt general partnership, and
14 accounting for Horizon Utilities' competitive generation
15 activities will be carried on in accordance with the
16 Board's guideline 2009-0300, regulatory and accounting
17 treatments for distributor-owned generation facilities.

18 As Horizon had noted in its response to Interrogatory
19 No. 3, ratepayer interests in the electricity distribution
20 activities are segregated from the competitive generation
21 activities of the distributor in accordance with the
22 Board's guideline.

23 That letter went on to comment on the need for
24 confidentiality in respect of the agreement, but Horizon
25 appreciates that the Board has already made its decision on
26 confidentiality.

27 However, the Board questioned the relevance of that
28 partnership agreement. As the Board observed -- and I

1 would take you back to your own decision on confidentiality
2 from the 30th. The Board observed that - and I will quote
3 here:

4 "The Board finds that what is relevant for the
5 Board in this proceeding is not the partnership
6 arrangement by which Horizon is indirectly
7 engaging in competitive activities as allowed by
8 legislation, but the implications of this with
9 respect to Horizon's regulated business and the
10 regulated rates on its distribution customers.
11 For example, participation in riskier competitive
12 activities can impact on the credit-worthiness of
13 the regulated utility or its parent and affect
14 the cost of capital. The Board will allow
15 exploration of Horizon's involvement in the Solar
16 Sunbelt partnership to be explored with respect
17 to the cost consequences on Horizon's revenue
18 requirement and on rates to its distribution
19 customers."

20 As a result, Horizon has now -- is requesting the
21 withdrawal of the partnership agreement.

22 As Horizon submitted in its response to the Board's
23 decision - that is our letter of yesterday's date - this
24 generation activity is authorized by legislation. The
25 manner in which the activity is carried on by the utility
26 is not specified by legislation, and Horizon Utilities
27 intends to comply with the Board's requirements for the
28 accounting treatment of the generation activity, including

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1 the segregation of that activity from Horizon Utilities'
2 regulated distribution activities.

3 I should also note that while it is not mentioned in
4 our letter, the partnership approach to ownership -- or to
5 ownership and operation of generation is specifically
6 contemplated by Staff in their July 7th, 2010 compliance
7 bulletin, in which they provide guidance in relation to a
8 number of issues associated with the application of section
9 71(3) of the Ontario Energy Board Act regarding the
10 ownership and operation of generation and energy storage
11 facilities by electricity distributors.

12 Horizon Utilities agrees with the Board that while
13 cost consequences in respect of its revenue requirement and
14 on distribution rates are relevant, the choice of the
15 arrangement by which Horizon is carrying on the permitted
16 renewable generation activity is not. The partnership
17 agreement is not necessary for the exploration of the
18 relevant issues in this proceeding.

19 Horizon did actually provide an explanation as to why
20 this approach was chosen in response to Board Staff
21 Interrogatory 2.

22 The key matter, though, and the key benefit to
23 customers of this structure is that customers will be
24 unaffected by the generation activity. Accordingly,
25 Horizon reiterates its request that that agreement be
26 withdrawn.

27 MS. HARE: Thank you.

28 Submissions by other parties? Mr. Shepherd?

1 MR. SHEPHERD: Madam Chair, we only got this letter at
2 6:00 o'clock yesterday, so forgive me if my submissions are
3 a bit disjointed.

4 We oppose the withdrawal of both of these documents.
5 Let me start with the Kinectrics study.

6 This is a table that compares expected asset lives
7 between Guelph and Horizon. And frankly, we were happy to
8 have it confidential, so -- and we would still be happy to
9 have it confidential, but the Board has already decided
10 that point.

11 This is information that is quite similar to
12 information that is included already in SEC Interrogatory
13 No. 26, which is a confidential response related to the
14 Hamilton-St. Catharines merger, which also has a Kinectrics
15 study dealing with the assets.

16 And in fact, one of the things we're going to do with
17 panel 1 is ask them to compare their current asset plan and
18 their spending plan with the asset plan and the spending
19 plan at the time of the merger, which has very different
20 numbers, and ask what the reasons for that are. And I am
21 not going to talk about the specifics of that, because this
22 is a confidential document, but that is the direction we
23 want to go in.

24 The Kinectrics table -- it is not actually the whole
25 study, it is just a table -- in SEC No. 3 is sort of the
26 halfway point between, and we don't actually need it. I
27 think it is probably more helpful to the utility than
28 unhelpful, but it does paint a better picture of what has

1 transpired than just going from the 2004 study to today.

2 But we're happy, frankly, if it is left out. We don't
3 care. We just don't think it is helpful to the Board to
4 leave it out, especially when we have more detailed
5 information from 2004 already on the record.

6 So that deals with that one.

7 The second one is the solar partnership agreement.
8 For this, I have to refer specifically in my submissions to
9 School Energy Coalition Technical Conference Response
10 No. 8, which is a confidential response.

11 So I am in the Board's hands as to how you would like
12 to deal with that. I don't see how I can make my
13 submissions without referring specifically to things in
14 that response that are inconsistent with things in the
15 agreement. And that response deals with risks.

16 MS. HARE: You're asking to go in camera?

17 MR. SHEPHERD: Well, I am in your hands.

18 MS. HARE: Well, to the extent possible, it would be
19 better to have it on the public record. So if you can make
20 your submission where we don't have to go in camera, that
21 would be preferred. But if that is not possible, then we
22 will go in camera.

23 MR. SHEPHERD: Well, I could refer to line numbers in
24 the interrogatory, or in the technical conference response
25 without quoting them, which presumably would not breach any
26 confidence, and then refer to the point in the agreement
27 where it is inconsistent.

28 But then the Board would have to actually be looking

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1 at them, and everybody would have been to be looking at
2 them to see them, because I wouldn't be putting them on the
3 record.

4 I am happy to do that, if you wish.

5 MS. HARE: Can you make your argument as to why this
6 document is important without looking at the merits of the
7 two documents?

8 MR. SHEPHERD: No. The Technical Conference Question
9 No. 8 deals with the risks to the regulatory business --
10 the regulated business of the solar venture. So this is
11 clearly within scope; the Board has already determined
12 that.

13 There are statements in that about what those risks
14 are, which are not consistent, in our view, with the
15 agreement, and so we need to be able to use the agreement
16 to cross-examine the witnesses and find out what is true,
17 because otherwise the only evidence you have appears to us
18 to be either not correct or not complete.

19 MS. HARE: Okay. So that's your submission.

20 MR. SHEPHERD: That's our submission.

21 MS. HARE: Okay. So do we actually need to look at it
22 now?

23 MR. SHEPHERD: You don't, unless my friend says no,
24 there is no inconsistency, in which case then we have to
25 look at what the inconsistencies are.

26 MS. HARE: Is that your submission?

27 MR. SHEPHERD: I am happy with that, yes.

28 MS. HARE: Are there other submissions?

1 MR. WARREN: Not from me. Thanks.

2 MS. HARE: No?

3 Okay. The Panel is going to take a 10-minute break --
4 sorry. Do you have any questions?

5 Sorry. Mr. Sidlofsky?

6 MR. SIDLOFSKY: Thank you, Madam Chair. If I could
7 just have a moment, I just need to speak with one of my
8 colleagues here.

9 MS. HARE: Sure.

10 MR. SIDLOFSKY: Thank you.

11 [Mr. Sidlofsky confers]

12 MR. SIDLOFSKY: Thank you, Madam Chair.

13 I don't think the point of these submissions is to get
14 into the merits of the material. I think the issue for the
15 Board here is: Is this relevant to what the Board is
16 actually here to deal with, which is the revenue
17 requirement and the proposed rates for Horizon Utilities?

18 So my first submission is that this material remains
19 irrelevant and should -- and our request for withdrawal
20 remains in place, as well.

21 However, while you are considering that, I do have a
22 concern and my concern is that in the case of both of these
23 pieces of material -- and this material hasn't been
24 disclosed in any way other than confidentially, because --
25 due to Horizon's confidentiality request -- but with
26 respect to both of these pieces of material, my friend
27 advises that he intends to examine or cross-examine on that
28 material in relation to other material that is on the

1 record.

2 However, the other material that is on the record has
3 actually been filed in confidence, and it has been accepted
4 as being confidential; that is the St. Catharines-Hamilton
5 Hydro merger material, which my friend advises has
6 Kinectrics material in it, and the technical conference
7 questions that my friend posed, which are also confidential
8 because they relate to material that the Board has accepted
9 as properly being filed in confidence.

10 So if the Board is going to conclude that this
11 material is relevant -- which we say it isn't -- then this
12 material, as well, I would suggest, needs to be -- needs to
13 remain confidential, and it needs to remain confidential
14 because if it isn't, there is a risk that material that is
15 already accepted as confidential will end up on the public
16 record, and that is not appropriate.

17 MS. HARE: Well, maybe I misunderstood it. I didn't
18 think there was any suggestion that it would not be
19 confidential. It is whether or not it is evidence in this
20 case.

21 MR. SIDLOFSKY: Well, sorry, Madam Chair, the Board
22 determined that it is to be placed on the public record.

23 MS. HARE: Right.

24 MR. SIDLOFSKY: So my read of the decision on
25 confidentiality -- I expect it would be my friend's as
26 well -- is that these two items are to be filed publicly,
27 unless they're withdrawn. So...

28 MS. HARE: So you are actually doing two things.

1 You're asking for it to be withdrawn, or in the event it is
2 not withdrawn, that the Board review its decision on
3 confidentiality?

4 MR. SIDLOFSKY: Exactly.

5 MS. HARE: Okay.

6 MR. SHEPHERD: Madam Chair, can I comment on that?

7 In cross-examining on these -- related to these two
8 documents, because the things I am comparing them to are
9 confidential, that would all have to be in camera anyway.
10 I have no use for these documents outside of that in camera
11 session. So I am not questioning the Board's decision on
12 confidentiality, but what I am saying is as a practical
13 matter, these documents will, in fact, only be considered -
14 - at least if it is up to me -- in an in camera session.

15 MR. SIDLOFSKY: And I think, Madam Chair, what that
16 suggests is that there is no harm in determining that these
17 documents are confidential. That is the only place they
18 will be dealt with.

19 MS. HARE: Any comments from Ms. Helt?

20 MS. HELT: I think what is being suggested by both Mr.
21 Shepherd and Mr. Sidlofsky is that should the Panel agree
22 that the information may be relevant, then it can be dealt
23 with in the in camera session, in any event, because Mr.
24 Shepherd has indicated that is where he intends to make
25 reference to these documents while referring to other
26 confidential documents. So it would just naturally fall
27 there.

28 So that may be an appropriate method of dealing with

1 this situation, unless the Board determines that the
2 documents, in fact, are not relevant.

3 MS. HARE: Thank you. We are going to take a ten-
4 minute break to consider these matters.

5 --- Recess taken at 10:09 a.m.

6 --- On resuming at 10:33 a.m.

7 MS. HARE: Please be seated.

8 The Board has considered the submissions regarding the
9 withdrawal of two pieces of evidence in this case.

10 With respect to the Kinectrics study, filed in
11 confidence in response to Schools Interrogatory No. 22, the
12 Board finds that it is not relevant to the case at hand,
13 and would only allow for selective benchmarking.

14 Further, Horizon has produced more current information
15 with respect to asset management.

16 The second piece of evidence, the solar partnership
17 agreement filed in confidence in response to Schools No. 3,
18 is relevant to this proceeding.

19 The Board is of the view that if utilities engage in
20 generation activities within the regulated entity, the
21 possible impact of those activities on regulated rates is
22 likely to be the subject of legitimate questions and should
23 generally be on the public record.

24 However, in this case, the Board has reconsidered its
25 previous decision on confidentiality based on the
26 submissions made by counsel to Schools, that the evidence
27 will only be used in the context of cross-examination on
28 other confidential information. The Board will, therefore,

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1 allow it to be filed in confidence.

2 Are there other preliminary matters?

3 MS. HELT: Madam Chair, I believe counsel for Horizon
4 would like to make some preliminary remarks, and
5 thereafter, perhaps we could take a few moments to mark
6 some material as exhibits before proceeding.

7 MS. HARE: Thank you.

8 Mr. Sidlofsky?

9 MR. SIDLOFSKY: Thank you, Madam Chair.

10 I had mentioned in my letter of April 5th that I
11 planned to make some brief opening comments. I expect I
12 will be 10 minutes, followed by a brief examination-in-
13 chief of panel 1, likely also 10 minutes.

14 Panels 2 and 3, or examination-in-chief of panels 2
15 and 3 will essentially be limited to introducing those
16 panel members and opening them up for cross-examination.

17 MS. HARE: Would you like to introduce your panel and
18 have them sworn in before you make your comments?

19 MR. SIDLOFSKY: I am happy to make the comments first,
20 and then introduce the panel.

21 MS. HARE: Thank you.

22 MR. SIDLOFSKY: Thank you.

23 **OPENING STATEMENT BY MR. SIDLOFSKY**

24 MR. SIDLOFSKY: Madam Chair, Horizon Utilities is the
25 electricity distributor for the cities of Hamilton and St.
26 Catharines, serving approximately 235,000 customers in
27 those municipalities.

28 Horizon filed its 2011 forward test year cost of

1 service distribution rate application with the Board on
2 August 26th, 2010.

3 In its application, Horizon sought approval to charge
4 rates effective January 1st, 2011 to recover a service
5 revenue requirement of \$108,707,939.

6 After revenue offsets of \$5,481,969, the base revenue
7 requirement was \$103,225,970.

8 As initially filed, the application indicated a
9 revenue deficiency of \$19,560,000.06.

10 Having last rebased in 2008, Horizon's next rebasing
11 application would typically have been filed this year for
12 rates effective in 2012. However, Horizon's evidence is it
13 has faced significant load volatility, particularly in
14 respect to its large-use customers class in recent years.

15 As the Board is well aware, in late 2008 Horizon
16 alerted the Board to the possibility that it would have to
17 make an application for Z-factor relief, due to a dramatic
18 loss of load from one of its large-use customers.

19 Although the Board denied Horizon's 2009 Z-factor
20 application, the Board determined last December as a
21 preliminary matter in the current proceeding that it would
22 allow this rebasing application to proceed this year.

23 A settlement conference was conducted in this
24 proceeding last month, but despite the efforts of the
25 parties, no settlement was achieved.

26 On March 14th, 2011 following the settlement
27 conference, Horizon filed an update to its evidence. That
28 update primarily addressed further erosion of its large-use

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1 customer load, and in particular, the announced shutdown of
2 GM's St. Catharines plant 1 and the ongoing lockout at US
3 Steel Canada Inc. The update also accounted for the
4 addition of a new large-use customer, Max Aicher North
5 America Inc., referred to as MANA in the updated
6 application.

7 The update revised Horizon's large-use load forecast,
8 and proposed a variance account that would allow for the
9 sharing of gains with Horizon's customers in the event that
10 the US Steel and GM plant 1 loads were higher than
11 anticipated in the updated load forecast.

12 The March 14th update revised Horizon's 2011 service
13 revenue requirement to \$108,723,500, the base revenue
14 requirement to \$103,241,531, and the revenue deficiency to
15 \$19,769,373. The rate base increased from the \$376,890,026
16 originally requested to \$377,127,788.

17 Following the update, the Board allowed an opportunity
18 for Staff and intervenors to submit interrogatories on that
19 updated evidence, and Horizon filed its responses on Friday
20 of last week, in compliance with the Board's deadline.

21 There is one item I would like to draw to the Board's
22 attention. In one of those interrogatories, VECC Question
23 37, Horizon was asked to provide a schedule setting out
24 corrections and/or updates to the application that have
25 been identified during the application process to date.
26 That schedule was provided in response to the
27 interrogatory, and it set out a small number of changes to
28 the application beyond the revision to the load forecast.

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1 Horizon has since determined that a correction was
2 needed to that table to incorporate credits available under
3 the Apprenticeship Job Creation Tax Credit program that had
4 been addressed in response to Energy Probe Technical
5 Conference Question 8.

6 A revised response and corrected table and revenue
7 requirement work form were filed yesterday.

8 And perhaps now would be a good time to mark those,
9 Ms. Helt.

10 MS. HELT: Certainly. The letter from Horizon, dated
11 April 6th, 2011, addressing AMPCO 4, VECC 37 and VECC 44,
12 be marked as Exhibit K1.2.

13 **EXHIBIT NO. K1.2: LETTER FROM HORIZON, DATED APRIL**
14 **6TH, 2011, ADDRESSING AMPCO 4, VECC 37 AND VECC 44.**

15 MS. HELT: A second document, revenue requirement work
16 form for the rate year 2011, version 2.11, be marked as
17 Exhibit K1.3.

18 **EXHIBIT NO. K1.3: REVENUE REQUIREMENT WORK FORM FOR**
19 **THE RATE YEAR 2011, VERSION 2.11**

20 MR. SIDLOFSKY: Thank you, Ms. Helt.

21 Horizon Utilities wishes to confirm that the resulting
22 revised figures are as follows.

23 The revenue deficiency set out in the application was
24 \$19,560,006. It is now \$19,684,267.

25 The service revenue requirement set out in the
26 application was \$108,707,939. It is now reduced to
27 \$108,196,928.

28 The base revenue requirement set out in the

1 application was \$103,225,970. It is now reduced to
2 \$102,714,959.

3 The rate base set out in the application was
4 \$376,890,026. It was reduced in last week's response to
5 \$376,336,209, and there has been no change to that value as
6 a result of yesterday's correction.

7 With respect to the balance of the relief requested by
8 Horizon, I would like to refer the Board to two items.

9 The first is the March 14th, 2011 revised version of
10 Exhibit 1, tab 1, schedule 4. That schedule sets out an
11 updated listing of the relief being requested in this
12 application.

13 The second item is Horizon's updated response to VECC
14 Interrogatory 37 on Horizon's March 14th evidence update.

15 I have three comments on those items, and hopefully
16 they will be of assistance to the Board.

17 First, as I've already discussed, the revenue
18 requirement and revenue deficiency figures have changed
19 since the March 14th update was prepared, and the correct
20 information is set out in yesterday's update to Horizon's
21 response to VECC Interrogatory 37(c). That would be --
22 that would now be Exhibit K1.2.

23 Second, the proposed rates shown in the updated
24 schedule 1-1-4 will change as a result of yesterday's
25 revisions to the revenue requirement -- or yesterday's
26 revision to the response to VECC Interrogatory 37.

27 A new schedule of rates and charges and a new set of
28 impact tables are being prepared by Horizon, and they will

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1 be distributed to the Board and parties as soon as
2 possible.

3 And, third, at page 2 of the updated schedule 1-1-4,
4 Horizon contemplated the possibility of two rate riders.
5 The first was to address costs related to the smart meter
6 entity's provincial meter data management and repository,
7 or MDM/R, and the second was to addressed recovery of
8 Horizon's share of the settlement in the class action on
9 late payment penalties.

10 In its response to VECC Interrogatory 37, variance
11 account -- excuse me, Horizon confirmed that it's not
12 seeking deferral and variance accounts in respect of those
13 items. That's because no application has yet been filed by
14 the IESO for MDM/R-related charges, and, secondly, because
15 the late payment penalty matter has been dealt with by the
16 Board on a discrete and generic basis.

17 So I am hoping that those comments will give the Board
18 a clear indication of what is now being requested by
19 Horizon in this application.

20 Sorry, did you have a question, Madam Chair?

21 MS. HARE: I just want to make sure I understood what
22 you said about late payment penalty. That has been dealt
23 with on a generic basis, but are you seeking to include
24 that portion as a rate rider in this case?

25 MR. SIDLOFSKY: My understanding is that Horizon has
26 withdrawn.

27 MS. BUTANY-DESOUZA: We have withdrawn the request
28 because of the filing of the rider in compliance with the

1 Board's decision on the LPP.

2 MS. HARE: But that will be reflected in what comes
3 out of this case, though, won't it?

4 MR. SIDLOFSKY: I'm sorry, just to be clear, the panel
5 hasn't been introduced yet, but Ms. Butany-DeSouza is the
6 vice president, regulatory and government affairs of
7 Horizon.

8 MS. HARE: Why don't we leave that question, then,
9 until after the panel is sworn and when it comes up in the
10 natural course?

11 MR. SIDLOFSKY: Certainly.

12 Just moving back to the conduct of the hearing itself,
13 Horizon submits that its evidence in this proceeding, as
14 revised through the interrogatories and updates, provides
15 support for the utility's application, including its
16 planned capital and OM&A expenditures for the 2011 test
17 year, its load forecast and its Green Energy Act plan.

18 To assist the Board and the parties, Horizon is
19 presenting three witness panels. The first will deal with
20 rate base and capital expenditures. This relates to
21 Exhibit 2 of the application, but this panel will also be
22 available to address administrative matters covered in
23 Exhibit 1.

24 And Mr. Basilio, Horizon's chief financial officer,
25 will be making some introductory comments with respect to
26 the application at that time.

27 I would ask the Board for a small indulgence in
28 examination-in-chief with that panel, as it will be a bit

1 longer, but I won't be leading evidence-in-chief with
2 respect to the second and third panels.

3 The second panel will deal with OM&A expenditures,
4 shared services costs, regulatory costs and PILs. This
5 relates to Exhibit 4 of the application.

6 This panel is also responsible for the Green Energy
7 Act plan that Horizon seeks the Board's approval of in this
8 application.

9 Finally, the third panel will deal with Exhibit 3 and
10 Exhibits 5 through 9 of the application, and these include
11 the load forecast, distribution revenue and other revenue,
12 cost of capital, calculation of revenue deficiency, cost
13 allocation, rate design and deferral and variance accounts.

14 The identities of the panel members have been provided
15 to the Board and intervenors in our correspondence of
16 Tuesday's date. And membership of the capital and OM&A
17 panels may appear large, but Horizon has attempted to
18 ensure that the Board and intervenors have access to key
19 staff members in each of those areas.

20 These witnesses have all been directly involved in the
21 preparation of the application, or portions of the
22 application, and for a number of them this hearing is their
23 first appearance before the Board as members of a witness
24 panel.

25 With those remarks, I will call on Horizon's first
26 panel. Thank you.

27 MS. HARE: Thank you.

28 **HORIZON UTILITIES - PANEL 1**

1 **John G. Basilio, Sworn**

2 **Indy J. Butany-DeSouza, Sworn**

3 **Kathy Lerette, Sworn**

4 **Sarah Hughes, Sworn**

5 **Eileen Campbell, Sworn**

6 **Nagendra Subbakrishna, Sworn**

7 MS. HARE: Mr. Sidlofsky, before you start, is it this
8 panel that would also answer any questions about the change
9 in year end from -- or the start of the year from May 1st
10 to January 1st?

11 MR. SIDLOFSKY: Mr. Basilio is able to answer
12 questions.

13 MS. HARE: If there are any questions about the
14 effective date and implementation date, it would also be
15 this panel, or would that just be handled in argument?

16 MR. SIDLOFSKY: I would have thought that that would
17 have been essentially a matter for argument, but certainly
18 Mr. Basilio, who will be on all three panels, is able to
19 address those questions.

20 MS. HARE: If I can just go back to this late payment
21 penalty, the question is, then: Have you already received
22 the rider in a Board order? Has it been implemented?

23 MS. BUTANY-DESOUZA: No, it has not. We filed our
24 submission with the Board on March -- I'm sorry, the date
25 escapes me. I believe it was -- the date escapes me. I
26 can look it up. But we haven't received it. It was for
27 May 1st. It was, however, for May 1st.

28 MS. HARE: Thank you.

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1 **EXAMINATION BY MR. SIDLOFSKY:**

2 MR. SIDLOFSKY: Thank you, Madam Chair. I am going to
3 start with Mr. Basilio. Sir, you are the senior vice
4 president and chief financial officer for Horizon
5 Utilities; correct?

6 MR. BASILIO: That's correct.

7 MR. SIDLOFSKY: I understand that you have been with
8 Horizon and its predecessor since 2000?

9 MR. BASILIO: That's correct.

10 MR. SIDLOFSKY: You are a chartered accountant and you
11 have been since 1992, and I understand you are a member of
12 the Ontario and Canadian Institutes of Chartered
13 Accountants?

14 MR. BASILIO: That's correct.

15 MR. SIDLOFSKY: And, Mr. Basilio, what is your
16 responsibility in this application?

17 MR. BASILIO: I have overall responsibility for the
18 application.

19 MR. SIDLOFSKY: Thank you. Ms. Butany-DeSouza, vice
20 president, regulatory affairs and government relations for
21 Horizon Utilities?

22 MS. BUTANY-DESOUZA: That's correct.

23 MR. SIDLOFSKY: You hold an MBA?

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

25 MR. SIDLOFSKY: And you've been with Horizon Utilities
26 since 2009; correct?

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

28 MR. SIDLOFSKY: And your responsibility in this

1 application?

2 MS. BUTANY-DESOUZA: Overseeing the overall
3 preparation of the application and the subsequent evidence
4 that's been filed.

5 MR. SIDLOFSKY: Okay. Ms. Lerette, I believe you are
6 the vice president operations for Horizon Utilities?

7 MS. LERETTE: Yes.

8 MR. SIDLOFSKY: And you served as director, design and
9 construction at Horizon before that; correct?

10 MS. LERETTE: Yes.

11 MR. SIDLOFSKY: You are a member of the Ontario
12 Association of Certified Engineering Technicians and
13 Technologists?

14 MS. LERETTE: That's correct.

15 MR. SIDLOFSKY: And your areas of responsibility in
16 this application?

17 MS. LERETTE: I have overall accountability for the
18 capital distribution budget and the asset management plan.

19 MR. SIDLOFSKY: Thank you. Ms. Hughes, vice president
20 of finance for Horizon Utilities; correct?

21 MS. HUGHES: That is correct.

22 MR. SIDLOFSKY: You are also a chartered accountant?

23 MS. HUGHES: That's correct.

24 MR. SIDLOFSKY: Earned that designation in 1990?

25 MS. HUGHES: Correct.

26 MR. SIDLOFSKY: I understand you are also a member of
27 the Canadian and Ontario Institutes of Chartered
28 Accountants?

1 MS. HUGHES: That's correct.

2 MR. SIDLOFSKY: Your area of responsibility in the
3 application?

4 MS. HUGHES: I was responsible for the business
5 planning and budgeting processes underlying the
6 application.

7 MR. SIDLOFSKY: Thank you. Ms. Campbell, vice-
8 president customer services, Horizon Utilities?

9 MS. CAMPBELL: That is correct.

10 MR. SIDLOFSKY: And you have been with Horizon
11 Utilities and its predecessors for how long now?

12 MS. CAMPBELL: Since 1980.

13 MR. SIDLOFSKY: And your area of responsibility in
14 this application?

15 MS. CAMPBELL: I have programs that affect both the
16 capital and the operating budgets.

17 MR. SIDLOFSKY: And finally, Nagendra Subbakrishna,
18 sir, you are associate director, energy for Navigant
19 consulting?

20 MR. SUBBAKRISHNA: That's correct.

21 MR. SIDLOFSKY: You hold a master's of science and
22 energy management and policy from the University of
23 Pennsylvania?

24 MR. SUBBAKRISHNA: That is correct.

25 MR. SIDLOFSKY: As well as a bachelor of science and
26 master of science degrees?

27 MR. SUBBAKRISHNA: Yes.

28 MR. SIDLOFSKY: Sir, I understand that you have a

1 significant amount of experience in lead/lag studies, is
2 that right?

3 MR. SUBBAKRISHNA: That is correct.

4 MR. SIDLOFSKY: My understanding from your CV is that
5 you have assisted over 15 utilities in the preparation of
6 those studies?

7 MR. SUBBAKRISHNA: That is correct.

8 MR. SIDLOFSKY: And what was your responsibility in
9 respect to the Horizon application?

10 MR. SUBBAKRISHNA: I am sponsoring the evidence
11 related to Horizon's lead/lag study.

12 MR. SIDLOFSKY: And did you prepare that study for
13 Horizon Utilities?

14 MR. SUBBAKRISHNA: That is correct.

15 MR. SIDLOFSKY: Okay. And was that based on data
16 provided by Horizon?

17 MR. SUBBAKRISHNA: That is correct.

18 MR. SIDLOFSKY: Thank you. A general question to the
19 panel: Was the evidence prepared by you or under your
20 supervision?

21 MS. CAMPBELL: Yes.

22 MS. BUTANY-DESOUZA: Yes.

23 MR. BASILIO: Yes.

24 MS. HUGHES: Yes.

25 MS. LERETTE: Yes.

26 MR. SIDLOFSKY: And Mr. Subbakrishna, I take it that
27 the evidence that would have been prepared by you would
28 have been limited to the lead/lag study; is that correct?

1 MR. SUBBAKRISHNA: That is correct.

2 MR. SIDLOFSKY: Perhaps the members of the panel --
3 with the exception of Mr. Subbakrishna, whose area is
4 limited -- do you adopt the evidence as your own in this
5 proceeding?

6 MS. HUGHES: Yes, we do.

7 MS. LERETTE: Yes.

8 MS. BUTANY-DESOUZA: Yes.

9 MS. CAMPBELL: Yes.

10 MR. BASILIO: Yes.

11 MR. SIDLOFSKY: Thank you. And then with respect to
12 you, Mr. Subbakrishna, I take it the evidence that you are
13 adopting is the lead/lag study that you prepared?

14 MR. SUBBAKRISHNA: That is correct.

15 MR. SIDLOFSKY: And as for the Horizon Utilities
16 members of the panel, do you adopt Horizon's responses to
17 Board Staff and intervenor interrogatories and technical
18 conference questions in this proceeding as your evidence,
19 as well?

20 MR. BASILIO: The responses were prepared by Horizon
21 Utilities staff, and we adopt the responses as our own.
22 But we wish to be clear that not all of the responses
23 reflect Horizon Utilities' requests in this application.

24 For example, we have been asked to perform
25 calculations based on scenarios provided by Staff and
26 intervenors, and those scenarios may have involved changes
27 in Horizon's proposed revenue requirement.

28 We have performed the calculations and responded to

1 the questions, but we do not necessarily agree that those
2 changes are appropriate, or that they should be adopted by
3 the Board.

4 Our application, including the March 14th update to
5 the load forecast and certain other changes discussed in
6 our revised response to VECC Interrogatory 37 filed
7 yesterday, represents our request to the Board.

8 MR. SIDLOFSKY: Thank you, Mr. Basilio.

9 Just to move along with you, I understand that you
10 would like to make a few comments about this application?

11 MR. BASILIO: Yes. Thank you.

12 Madam Chair and Board Members, I will try to keep my
13 comments brief and focussed on themes within our evidence.

14 Horizon Utilities is very much aware that this
15 application seeks a significant increase to its total
16 revenues. However, when compared to those approved in its
17 2008 rate application, you will see that they are not
18 unreasonable.

19 Our evidence will show that a very significant portion
20 of the revenue deficiency is for reasons outside of our
21 control, and does not relate to changes in rate base or
22 costs requested in this application.

23 Specifically, a very significant portion of this
24 increase relates to a material decline in load, principally
25 by larger commercial customers, and lower ancillary
26 regulated revenue, more commonly referred to as revenue
27 offsets.

28 While we are very concerned about the financial

1 impacts on our customers, we are convinced that these
2 increases are necessary to deliver our services at the
3 levels our customers deserve and expect.

4 We have been and will strive to continue to be one of
5 the lower-cost electricity distribution utilities in the
6 province in the delivery of these services to our
7 customers. We fully expect that the large revenue
8 deficiency contained in our application will be a focus in
9 this hearing. However, as outlined in our manager's
10 summary, much of the increase in costs relates to areas
11 that have been beyond our control.

12 Firstly, and for example, the material and persisting
13 shortfalls in revenue resulting from declines in large
14 customer load, combined with the uncontrollable shortfall
15 and revenue offsets, by themselves, account for almost a
16 quarter of the total revenue deficiency.

17 Stated another way, based on these two factors alone,
18 Horizon Utilities would have a total revenue deficiency of
19 about \$5.6 million, even if there were no changes to its
20 rate base from 2008, our last rebasing year.

21 Secondly, our evidence shows our urgent need for
22 increased renewal and maintenance of the electricity
23 distribution system, and related underlying enabling
24 systems and processes that are beyond their productive life
25 or no longer suitable for business processes that have
26 evolved or must evolve.

27 And thirdly, the application points to an urgent
28 requirement to continue renewing and increasing skilled

1 trades positions, to support our growing capital programs
2 aimed to mitigate increasing risks related to severe and
3 more frequent service interruption.

4 Our application provides evidence of capital
5 expenditures from 2008 to 2010 and then in the test year
6 that are well in excess of depreciation, driven largely by
7 distribution system renewal requirements.

8 These have driven depreciation increases approaching
9 \$5 million, compared to the 2008 approved amount.

10 We also generated measurable productivity improvements
11 in cost reduction since 2008 that have served to reduce the
12 revenue deficiency that would have otherwise been necessary
13 at this time.

14 However, much of our management of revenue shortfalls
15 has taken the form of deferrals of otherwise prudent
16 expenditures, in our view, a situation that is not
17 sustainable in supporting the level of service our
18 customers should expect.

19 The past three years have been very challenging for
20 Horizon Utilities as a result of materially lower than
21 anticipated revenue, contrasted against material growth in
22 renewal capital, skilled labour requirements, and general
23 wage and price inflation.

24 We believe that our requests in this application put
25 us on firmer ground to remedy these adverse conditions in
26 order to support a sustainable distribution system, and
27 also deliver cost improvements to our customers.

28 Thank you.

1 MR. SIDLOFSKY: Thank you, panel.

2 Madam Chair, the panel is now available for cross-
3 examination.

4 MS. HARE: Thank you.

5 Ms. Helt, is there an order that has been established?

6 MS. HELT: Yes. We have had an opportunity to discuss
7 the order. Mr. Aiken has indicated that he is prepared to
8 go first.

9 And may I suggest, Madam Chair, perhaps it would be
10 worthwhile to canvass whether or not there are questions
11 with respect to any confidential information for this
12 panel? I know Mr. Shepherd has indicated there will be.

13 If there is no one else, then perhaps Mr. Shepherd
14 should go last, and we can deal with the confidential
15 questions in camera towards the end of his cross-
16 examination.

17 MS. HARE: Is that the case, that nobody else has any
18 confidential information that is going to be asked? No?

19 Okay. We will proceed in that manner, then. Mr.
20 Aiken? I'm sorry. Mr. Buonaguro, did you have something?

21 MR. BUONAGURO: Sorry. I was just going to say
22 anything that I might have would be follow-up to anything
23 that Mr. Shepherd has. I have no questions for this panel,
24 except any clarifying questions I might have.

25 MS. HARE: Okay. That's fine. Thank you.

26 Mr. Aiken, then?

27 **CROSS-EXAMINATION BY MR. AIKEN:**

28 MR. AIKEN: Thank you, Madam Chair.

1 Good morning, panel. My name is Randy Aiken. I'm
2 consultant to Energy Probe.

3 First of all, I have a compendium of materials that I
4 will be referring to this morning. So, Ms. Helt, could we
5 have an exhibit number for that?

6 MS. HELT: Yes. We will have the compendium of
7 documents of Energy Probe Research Foundation marked as
8 Exhibit K1.4.

9 **EXHIBIT NO. K1.4: COMPENDIUM OF DOCUMENTS OF ENERGY**
10 **PROBE RESEARCH FOUNDATION.**

11 MS. HELT: I believe the Panel Members have a copy of
12 it. Yes?

13 MS. HARE: Yes, we do. Thanks.

14 MS. HELT: Thank you.

15 MR. AIKEN: Thank you.

16 My first question relates to an interrogatory response
17 provided in response to the preliminary issue, and this is
18 VECC IR No. 1(c), it is included in the compendium at pages
19 1 and 2.

20 On page 2, you will see the table there with a
21 calculation of the return on deemed equity.

22 My first question is: Can you provide an update to
23 the 2010 calculation there to reflect actual data?

24 MS. HUGHES: I believe in response to one of the
25 interrogatories, we provided the actual ROE for 2010 as
26 being 7.2 percent, 7.3 percent. I have to check. Subject
27 to check.

28 MR. AIKEN: Was that an actual, or a projection based

1 on September actuals?

2 MS. HUGHES: We actually provided an actual, based on
3 our preliminary audited financial statements, subject to
4 Board approval in February. I can find the reference if
5 you can just give me one minute.

6 MR. AIKEN: Okay, I'd appreciate that.

7 MS. HUGHES: I believe it was in response to technical
8 conference question from the School Energy Coalition, TC
9 No. 6.

10 MR. AIKEN: Thank you. And that number was 7.2?

11 MS. HUGHES: 7.3 percent.

12 MR. AIKEN: Three, okay. Thank you.

13 Am I correct that a significant reason for the return
14 on deemed equity being lower than the Board-approved rate
15 of 8.57 percent over the 2008 to 2009 period, from
16 Horizon's perspective, is the loss of revenues from large
17 commercial customers, and, in particular, the large use
18 class, when you compare that to the Board-approved forecast
19 for 2008?

20 MR. BASILIO: That's correct, that's a significant
21 component.

22 MR. AIKEN: Okay. Now, I am going to be moving to
23 some questions that deal with revenues. If you want me to
24 wait until panel 3, let me know, but this all comes back to
25 these numbers.

26 So if I could have you turn to page 28 of the
27 compendium, this is the revised table 3-1, summary of
28 operating revenue, from Exhibit 3.

1 In that schedule, you will note that the revenue from
2 the large use class is shown as 5.459 million in the 2008
3 Board-approved column, and 2.094 million in the 2008 actual
4 column.

5 So by my calculation, that's a reduction of nearly
6 3.4 million, or more than 60 percent, from the Board-
7 approved level. Do you accept those numbers, subject to
8 check?

9 MS. BUTANY-DESOUZA: Yes, subject to check.

10 MR. AIKEN: Okay. What I am having difficulty with is
11 how this significant reduction flows from the change in the
12 kilowatt billing determinants for this class. So if you
13 turn to page 29 of the compendium, which is table 3-24 of
14 Exhibit 3, the large use kilowatts decline from about
15 3.9 million, 2008 Board-approved, to 3.3 million, which is
16 a reduction of about 15 percent. And that is near the
17 bottom of table 3-24.

18 So I am not sure how this reduction in billing
19 determinants of 15 percent results in a 60 percent revenue
20 reduction.

21 MS. BUTANY-DESOUZA: Sorry, you had offered the option
22 of whether I wanted to wait until panel 3 to address this,
23 and, if you don't mind, I will take you up on that and hold
24 off until panel 3.

25 MR. AIKEN: Before I leave this topic, the response on
26 page 2 of the compendium that shows the deemed return on
27 equity, what I will be asking panel 3 is to provide an
28 estimate of the lost revenues from the large use class over

1 these three years. And then coming back to this
2 calculation, what I would like to see - and you can take
3 this as an undertaking now or maybe at panel 3 - is if you
4 could provide the return on deemed equity, assuming that
5 Horizon did not lose the revenue associated with the large
6 use class.

7 So I don't know if you would like to take that
8 undertaking now, or whether you want me to come back to
9 that as part of panel 3.

10 MS. HELT: Why don't we mark that as an undertaking at
11 this point in time? So undertaking J1.1.

12 **UNDERTAKING NO. J1.1: TO PROVIDE AN ESTIMATE OF LOST**
13 **REVENUES FROM THE LARGE USE CLASS OVER THESE THREE**
14 **YEARS AND THE RETURN ON DEEMED EQUITY, ASSUMING THAT**
15 **HORIZON DID NOT LOSE THE REVENUE ASSOCIATED WITH THE**
16 **LARGE USE CLASS.**

17 MR. SIDLOFSKY: Sorry to interrupt, Madam Chair, but
18 even though it is taken as an undertaking -- or it is being
19 recorded as an undertaking now, I expect that it will be
20 panel 3 that will deal with further questions on that.

21 MS. HARE: But I think Mr. Aiken is actually giving a
22 heads-up of what he is going to ask panel 3. So to the
23 extent it can actually be ready for panel 3, that would be
24 helpful, rather than waiting to take it as an undertaking
25 once panel 3 is up.

26 MR. SIDLOFSKY: That is understood. That's fine.

27 MS. HARE: Thank you.

28 MR. SIDLOFSKY: Thank you.

1 MR. AIKEN: Thank you.

2 MR. BASILIO: If I could just add something to that
3 point?

4 You are asking specifically to determine the impact on
5 ROE, isolating for the revenue only, the comment being,
6 from an operational perspective, had we had those revenues
7 in those three years, it is quite likely that our
8 investments and operating expenses would have changed, as
9 well.

10 MR. AIKEN: I am only asking for - and to be
11 specific - the after-tax revenue impact on the return on
12 deemed equity.

13 MR. BASILIO: Thank you.

14 MR. AIKEN: I am turning to a different issue now, and
15 this is Exhibit K1.2, which we received yesterday,
16 specifically, the response to VECC Interrogatory No. 37.

17 On page 6 of 7 of that response, I just want to
18 confirm that the revenue deficiency -- the final
19 calculation of the revenue deficiency is a 19,648,000 and
20 change. I think that is a number that was mentioned this
21 morning. Sorry, it is --

22 MS. BUTANY-DESOUZA: 19,684,267.

23 MR. AIKEN: Okay. Now, included on this table or in
24 this table is an adjustment labelled number 2, cost of
25 power update due to large user load forecast change.

26 There is a \$68,120 reduction in the revenue deficiency
27 and a \$780,379 reduction in rate base.

28 My understanding is that this refers to Energy Probe

1 revised evidence question 1, which I have included in the
2 compendium at pages 5 through 7.

3 And the response provided there, the calculation
4 provided on page 7 of the compendium, provides a different
5 methodology of calculating the cost of power.

6 I just wanted to confirm with you. There are two
7 adjustments that you have accepted. The first is that it
8 uses a 2010 split of RPP and non-RPP volumes versus what
9 was in your original evidence, and, secondly, it uses the
10 RPP and non-RPP prices that reflect the calendar year
11 prices, rather than simply the prices as presented in the
12 October Navigant report; is that correct?

13 MS. BUTANY-DESOUZA: Yes, that's correct on both your
14 points.

15 MR. AIKEN: Okay. The next issue, if you could turn
16 to pages 16 and 17 of the compendium, these are the fixed
17 asset continuity schedules for 2010 and 2011 as per the
18 original evidence, 2010 on page 16, 2011 on the following
19 page.

20 When I look at these numbers, under a magnifying
21 glass --

22 [Laughter]

23 MR. AIKEN: -- am I correct that the closing net book
24 value forecast for 2010 was about \$307.4 million?

25 MS. HUGHES: Sorry, could you just please clarify?
26 You are asking for the actuals for 2010?

27 MR. AIKEN: No.

28 MS. HUGHES: Which page are you referring to?

1 MR. AIKEN: I am referring to page 16, which was your
2 original evidence, so it would be the forecast for 2010.

3 MS. HUGHES: Correct, yes.

4 MR. AIKEN: That was, the forecast net book value at
5 the end of the year was 307.4 million?

6 MS. HUGHES: That is correct.

7 MR. AIKEN: Okay.

8 MS. HUGHES: That was our original evidence, yes.

9 MR. AIKEN: Yes. And at the end of 2010, based on
10 this forecast, the CWIP amount was about 6.3 million at the
11 end of the year?

12 MS. HUGHES: Correct. That was the forecast, yes.

13 MR. AIKEN: Okay. Now, if we look at the following
14 page, for 2011, I see the opening balance, that -- the
15 6.3 million. That is the same amount. And it remains in
16 CWIP at the end of 2011, as well.

17 Can you explain why this amount, or some portion of
18 this amount, would not be closed to rate base in 2011?

19 MS. HUGHES: So what I would offer is the way in which
20 our budgets have been prepared assumes a consistent level
21 of CWIP.

22 So in fact, the expectation is that CWIP at the end of
23 2010 would move into capital in 2011, and then that there
24 would be a corresponding CWIP balance at the end of 2011 at
25 similar levels.

26 MR. AIKEN: So it is really a simplifying assumption
27 that some or all of it would be close closed to rate base
28 and some of the 2011 capital expenditures will not be

1 closed to rate base, go into CWIP, and at the end of the
2 year you will have the same amount as beginning of the
3 year, essentially?

4 MS. HUGHES: Yes. That is the assumption.

5 MR. AIKEN: Okay. Now, I noted the ending net book
6 value for 2010 of 307.4 million.

7 If you turn to Energy Probe Technical Conference
8 Question No. 1 - and this is pages 13 to 15 of the
9 compendium - the third page of the response shows that
10 based on actual data, the net book value at the end of 2010
11 is about 304.9 million.

12 Have I got that number right?

13 MS. HUGHES: Yes, that is correct.

14 MR. AIKEN: Okay. Is Horizon proposing to reflect
15 this \$2.5 million reduction in the closing balance as part
16 of the 2011 rate-base calculation?

17 MS. HUGHES: No, we are not. What I would indicate is
18 that we, at the end of the year, had approximately
19 \$9 million in CWIP.

20 Our expectation is that that CWIP, that level of
21 \$9 million would not persist throughout 2011. There were a
22 number of larger projects towards the year-end that were
23 not closed out, and the expectation would be that the CWIP
24 would go back down to a level of \$6 million.

25 That's the assumption.

26 MR. AIKEN: So you are changing your methodology on
27 how you deal with the CWIP from your original evidence?

28 [Witness panel confers]

1 MS. HUGHES: So I guess what I would offer is that it
2 is not a change in assumption. I think it is -- or not a
3 change in methodology.

4 I think it is just a change in an assumption, in terms
5 of what we expected the CWIP level to be at the end of
6 2010. And it did, in fact, come in higher than that
7 assumption that we made at the time.

8 MR. AIKEN: So are you proposing to reflect that the
9 \$2.5 million reduction in opening rate base for 2011, along
10 with an increase of 2.5 million in amounts from CWIP closed
11 to rate base in 2011? And do you agree that would change
12 your 2011 rate base figure?

13 [Witness panel confers]

14 MS. HUGHES: We would offer that that is a fair -- a
15 fair approach to that, yes.

16 MR. AIKEN: Okay. Thank you.

17 I am turning now to the lead/lag study that is found
18 at Exhibit 2, tab 4, schedule 1, appendix 2-3.

19 I have included page 4 from the Navigant report at
20 page 18 of the compendium.

21 First of all, can you tell me, in general terms, what
22 the purpose of a lead/lag study is?

23 MR. SUBBAKRISHNA: In general terms, the purpose of a
24 lead/lag study is to determine the amount of time it takes
25 for a utility, in the sense that it's an electric
26 distribution company, to realize revenues from its
27 customers, compared with the amount of time it takes for
28 the same utility to pay its vendors.

1 And to the extent that there is a difference between
2 the two, that would generate a working capital requirement
3 which has to be funded by investors.

4 MR. AIKEN: Okay. So just to follow up on that, I
5 assume I am correct that there are two time periods that
6 are being analyzed in the lead/lag study, the first being
7 the expense lead, and the second being the revenue lag; is
8 that correct?

9 MR. SUBBAKRISHNA: Generally, I would accept that as
10 being correct, yes.

11 MR. AIKEN: Okay. And the expense lead measures the
12 time from when the company receives the service, to when it
13 pays for it; correct?

14 MR. SUBBAKRISHNA: Generally, that would be correct.

15 MR. AIKEN: Okay. And the revenue lag measures the
16 time from when the company provides service to a customer,
17 to when it receives payment for that service from the
18 customer?

19 MR. SUBBAKRISHNA: And as shown on page 18 of 46:

20 "And when payments for said services are
21 available to the company."

22 MR. AIKEN: Yes. Now, as shown on that table on page
23 18, there are four components to the revenue lag.

24 The service lag is calculated based on the midpoint of
25 the service period, and that's generally 15.21 days for
26 monthly billing and 30.42 days for bimonthly billing;
27 correct?

28 MR. SUBBAKRISHNA: That would be generally correct,

1 yes.

2 MR. AIKEN: Yes. Am I correct that the billing lag of
3 17.35 days is the same for all the rate classes?

4 MR. SUBBAKRISHNA: That is my understanding, based on
5 data provided by Horizon in this instance, yes. Correct.

6 MR. AIKEN: Okay. Am I also correct that the payment
7 processing lag of 1.21 days is also the same for all rate
8 classes?

9 MR. SUBBAKRISHNA: That is my understanding, again
10 based on Horizon-specific data.

11 MR. AIKEN: Okay. Now the collection lag, that shows
12 as 24.00 days. My understanding is that is a dollar-
13 weighted figure, and its calculation is shown on the
14 response to Energy Probe Technical Conference Question
15 No. 4(c), which is at page 23 of the compendium.

16 MR. SUBBAKRISHNA: It is -- that would be partially
17 correct. It is dollar-weighted -- it is dollar-weighted to
18 one degree, but not to another.

19 The other degree would be to actually do this analysis
20 by separating, say, residential customers from non-
21 residential customers, and then dollar-weight that also.

22 MR. AIKEN: I guess when I look at this table on page
23 23, my question is: Why are the weights used in this
24 calculation dollars, and not the number of outstanding
25 receivables?

26 MR. SUBBAKRISHNA: Because typically, from my
27 experience, receivables are typically recorded in dollars,
28 and not the number of customers that actually owe money to

1 the company.

2 MR. AIKEN: So you're saying that it is the dollars
3 that matter?

4 MR. SUBBAKRISHNA: When it comes to receivables, you
5 are correct.

6 MR. AIKEN: Okay. How were the average lag times for
7 each of the periods shown calculated?

8 For example, how did you arrive at 16 days for the
9 current receivables line?

10 MR. SUBBAKRISHNA: It is my understanding that
11 customers have 16 days to pay their bill.

12 So all balances that show up under the label "current"
13 are at least 16 days old.

14 MR. AIKEN: Okay. Then under the line "61 to 90
15 days," how is that 53-day figure calculated?

16 MR. SUBBAKRISHNA: If we follow the progression on the
17 table, from current to 30 days would be 30 minus 16, which
18 would be an extra 14. We take the midpoint of that 14, add
19 it to the 16 to get 23.

20 And then 31 to 60, we add another 30-day midpoint,
21 which would be another 15.

22 Then from 61 to 90, we add yet another 15, which would
23 bring it to 53.

24 MR. AIKEN: Okay. Thank you.

25 If you turn back to page 20 of the compendium, you
26 will see a table that shows the calculation of the service
27 lag, and the weighting factors here used are the number of
28 customers; is that correct?

1 MR. SUBBAKRISHNA: You are correct.

2 MR. AIKEN: Back in Energy Probe Technical Conference
3 Question No. 4, I had asked Horizon to calculate the
4 service lag using dollar weights rather than customer
5 weights. This is reflected on page 25 of the compendium.

6 The response shows that the average -- weighted
7 average would be 26.7 days as compared to the 30.27 days in
8 the Navigant report.

9 Am I correct that Horizon is using a 14 percent factor
10 overall to calculate the working capital allowance?

11 MR. SUBBAKRISHNA: I'm sorry, could you repeat your
12 question?

13 MR. AIKEN: Is Horizon using a 14 percent factor to
14 calculate the working capital allowance?

15 MR. SUBBAKRISHNA: That is correct.

16 MR. AIKEN: Now, how was that figure related to the
17 13.6 percent figure for 2009, 13.8 for 2010 and
18 14.2 percent for 2011 shown in tables 6 through 8 of the
19 Navigant report?

20 MR. SUBBAKRISHNA: While I would defer to the person
21 that actually ran the company's revenue requirement model,
22 it is my understanding, generally speaking, that the 14.2
23 was rounded down to 14.

24 MR. AIKEN: Is there someone from Horizon that would
25 confirm that?

26 MS. HUGHES: That is correct.

27 MR. AIKEN: Okay. Now, if the service lag was reduced
28 from 30.27 days to 26.7 days based on dollar weighting,

1 what would be the impacts on these percentages in tables 6
2 through 8 of the Navigant report?

3 MS. BUTANY-DESOUZA: We would need to take that as an
4 undertaking. We would need to do the calculation. We
5 don't have that readily available.

6 MS. HARE: Thank you. That will be undertaking
7 number?

8 MS. HELT: J1.2.

9 **UNDERTAKING NO. J1.2: TO RECALCULATE THE PERCENTAGES**
10 **SHOWN IN TABLES 6 THROUGH 8 OF THE NAVIGANT REPORT**
11 **REDUCING THE SERVICE LAG FROM 30.27 DAYS TO 26.70**
12 **DAYS, AND CONFIRM IMPACT ON RATE BASE.**

13 MS. BUTANY-DESOUZA: Can we confirm the specific
14 undertaking request?

15 MR. AIKEN: Yes, to recalculate the percentages shown
16 in tables 6 through 8 of the Navigant report reducing the
17 service lag from 30.27 days to 26.70 days.

18 And then I might like to add a second part maybe to
19 that undertaking, and that -- would you take it subject to
20 check that a one percentage point change in the working
21 capital rate - in other words, that 14 percent - has an
22 impact of about \$4.4 million on rate base? That could be
23 part of the same undertaking.

24 I would like to now turn back to the response provided
25 in Energy Probe Technical Conference Question No. 4 on
26 pages 23 and 24 of the compendium. In particular, I want
27 to focus on the rationale and the example provided in the
28 response as to why Horizon believes that customer weights

1 are more appropriate than dollar weights in the calculation
2 of the service lag.

3 I am going to start with the example provided
4 beginning on line 14 of page 23. I am just going to read
5 it into the record:

6 "Assume hypothetically that a utility such as
7 Horizon Utilities has two customers: Customer A
8 whose meter is read bi-monthly and Customer B
9 whose meter is read monthly. The mid-point of
10 the service period for the bi-monthly customer
11 would be days and that for the monthly customer
12 would be 15 days.

13 "All else being equal, a weighted average of the
14 time that service was received from the Company
15 by both customers and meters were read would be
16 22.5 days i.e., $(30+15)/2$. Horizon Utilities
17 submits that this result is appropriate given
18 that the weighted average service time is exactly
19 at the mid-point of the mid-point of both
20 customers."

21 Then it goes on to compare the dollar-weighted
22 figures, and I quote:

23 "Assume further that that the bi-monthly customer
24 (Customer A) has a bill of \$1,000 and the monthly
25 customer (Customer B) has a bill of \$9,000. Using
26 dollars to weight the period of service would
27 indicate that the average period of service for
28 both customers ... 16.5 days."

1 I will skip the calculations:

2 "Horizon Utilities submits that this result of
3 16.5 days is not appropriate given that it is not
4 representative of how service was provided to
5 both customers, particularly the bi-monthly
6 customer."

7 Now, that last line I just quoted intrigues me. It
8 says the 16-1/2 days is not representative of how service
9 was provided to both customers.

10 I thought that the revenue lag, of which the service
11 lag is a component, was supposed to measure the time
12 between the date the company provides service to the
13 customer and when the company receives its payment; is that
14 not correct?

15 MR. SUBBAKRISHNA: That is correct.

16 MR. AIKEN: Okay. So if we go back to this example
17 that is provided in the Navigant report, and make it
18 slightly more extreme by changing the bill of customer A,
19 which is bimonthly, from \$1,000 to \$100, would you take it
20 subject to check that the dollar-weighted lag is 15.2 days?

21 MR. SUBBAKRISHNA: Subject to check, I would.

22 MR. AIKEN: Okay. So subject to check, 15.2 days,
23 dollar-weighted lag, isn't this answer much more
24 representative of when the utility actually gets its money?

25 MS. BUTANY-DESOUZA: Sorry, if I can jump in for a
26 moment, Horizon would like to point out, though, that in
27 responding to this interrogatory and in offering this
28 example, it is simply that. It is the response to the

1 interrogatory and the provision of an example.

2 It doesn't necessarily attest to the fact -- more
3 specifically, it does not attest to the fact that we
4 support this approach. And I think that my colleague from
5 Navigant would offer that this isn't the approach that
6 Horizon or Navigant, on behalf of Horizon, has been taking
7 and would support with respect to the lead/lag time.

8 MR. SUBBAKRISHNA: And I would agree with that.

9 MR. AIKEN: Okay. I am thoroughly confused now.

10 The lag days for the service lag you have used are
11 customer weighted. I am speaking to Horizon specifically.
12 You are using the customer weighted service lag in the
13 revenue lag; is that not correct?

14 MR. SUBBAKRISHNA: We use customer weighting in order
15 to determine the time period between which a customer's
16 billing cycle begins and the time the meter is read.

17 It is our belief that at that point in time, the issue
18 of money hasn't arisen yet. The meter needs to be read.
19 The bill needs to be generated. It needs to be sent to the
20 customer.

21 There is a waiting period for the customer to pay.
22 The payment needs to be processed, needs to be deposited
23 into a bank, and then the funds are available to the
24 customer.

25 Revenue weighting even before the meter is read we
26 consider inappropriate, because at that point in time we
27 don't even know how many kilowatt hours the customer has
28 consumed.

1 MR. AIKEN: And we will get to that in more detail,
2 but I have been taken aback by the Horizon response that
3 you don't necessarily agree with the Navigant report, but
4 you appear to be--

5 MS. BUTANY-DESOUZA: No.

6 MR. SUBBAKRISHNA: Let me clarify on that.

7 The language that you have recited, sir, was in
8 response to an interrogatory that we crafted now.

9 The approach -- the example that we're using here is
10 simply to demonstrate one of the reasons why we don't
11 believe that revenue weighting is appropriate for
12 determining the amount of time it takes for a customer
13 simply to receive service.

14 That was the only purpose of this example.

15 MR. AIKEN: Okay. Could I have you turn to the
16 Navigant report itself? And, I apologize, I don't have
17 this in the compendium.

18 So this is Exhibit 2, tab 4, schedule 1, appendix 2-3.

19 MR. SUBBAKRISHNA: Please bear with me momentarily.

20 We are getting a copy of the report.

21 Sorry, sir, go ahead.

22 MR. AIKEN: Okay. Now, on page 1 of that report, at
23 the beginning of the last full paragraph before the heading
24 "Key Concepts", and it states here that:

25 "Leads and lags are both measured in days and are
26 generally dollar-weighted."

27 MR. SUBBAKRISHNA: Generally dollar-weighted, yes.

28 MR. AIKEN: So you're saying specifically the service

1 lag should not be dollar-weighted?

2 MR. SUBBAKRISHNA: Because the collections lag is.

3 MR. AIKEN: On page 2 of the Navigant report, under
4 the heading "Dollar-Weighting" --

5 MS. HARE: Mr. Aiken, could you just wait a sec? We
6 are having trouble finding it.

7 MR. AIKEN: Yes.

8 MS. HARE: Could you give us the page number again,
9 please?

10 MR. AIKEN: I am now on page 2, and near the bottom,
11 there is a heading "Dollar-Weighting" and it says that:

12 "Both lags and leads should be dollar-weighted to
13 more accurately reflect the flow of dollars."

14 So my understanding is that this does not apply to the
15 service lag.

16 MR. SUBBAKRISHNA: When -- the reference to "both lags
17 and leads should be dollar-weighted," I agree that both
18 lags and leads should be dollar-weighted.

19 But what I am trying to say is that the revenue lag is
20 more than simply the service lag; it also includes a
21 collections lag that is dollar-weighted.

22 MR. AIKEN: So you have a revenue lag that is composed
23 of lags that have different weights? Some are dollar-
24 weighted, some are customer-weighted?

25 MR. SUBBAKRISHNA: Depending on the nature of the
26 event that creates that lag, yes.

27 MR. AIKEN: Now, the example provided under that
28 "Dollar-Weighting" heading, I think is quite interesting,

1 and I believe that it illustrates a key point.

2 The example provided is an expense lead example, but I
3 believe it is relevant to the revenue lag, as well. So I
4 wanted to read it into the record.

5 It says:

6 "To use an example, let's suppose that a
7 particular transaction has a cash flow outflow
8 lead time of 100 days, and its dollar value was
9 \$100. Let's suppose further that another
10 transaction has a cash outflow lead time of 30
11 days with a dollar value of \$1 million. A simple
12 unweighted average of the two transactions would
13 give us a cash outflow lead time of 65 days. On
14 the other hand, dollar-weighting the two
15 transactions gives a cash outflow lead time that
16 would be closer to 30 days, an answer which is
17 more representative of how the dollars actually
18 flowed in this example."

19 So I take it that you agree that the answer provided
20 in this example is more representative of how the dollars
21 actually flow out from the utility in this case?

22 MR. SUBBAKRISHNA: Expense leads, you are correct.

23 MR. AIKEN: Okay. I want to reread this example, and
24 I am going to change two words as I go through it: To use
25 an example, let's suppose that a particular transaction has
26 a cash inflow lag time of 100 days, and its dollar value
27 was \$100. Let's suppose further that another transaction
28 has a cash inflow lag time of 30 days with a dollar value

1 of \$1 million. A simple unweighted average of the two
2 transactions would give us a cash outflow lag time of 65
3 days.

4 On the other hand, dollar-weighting the two
5 transactions gives a cash inflow lag time that would be
6 closer to 30 days, an answer which is more representative
7 of how the dollars actually flowed in this example.

8 Do you still agree that this answer is more
9 representative of how the dollars actually flowed in this
10 example to the utility?

11 MR. SUBBAKRISHNA: You know, I would have a lot of
12 footnotes and qualifiers to your rewording of this
13 paragraph, sir.

14 First of all, if we changed cash outflow to inflow on
15 the lead time of 100 days, we would need to know what the
16 service lag number of days were, within those 100 days. We
17 would need to know what the billing lag was. We would need
18 to know what the collections lag was. We would need to
19 know how granular that collections lag calculation was. We
20 would need to know what the payment processing lag was,
21 which, in sum, would have given us that 100 days.

22 We would also need to know whether or not the
23 collections component within that 100 days was in itself
24 partially dollar-weighted or not.

25 We would need to apply the same philosophy to the 30-
26 day example.

27 So it is -- I have to apologize, but -- and perhaps I
28 am not answering your question -- but I really have to

1 apologize, but I don't think that a simple changing of
2 words is adequate -- is adequate in terms of defining
3 dollar-weighting when it comes to cash inflows.

4 This example was merely intended -- this example was
5 intended and I believe more representative when it comes to
6 the process of cash outflows from the utility.

7 MR. AIKEN: Okay. Let me give you another example,
8 then, that hopefully will be simpler to follow, and it is
9 on the revenue lag and the service lag.

10 So assume you have two groups of customers. Group A
11 is bimonthly --

12 MR. SIDLOFSKY: Sorry, Madam Chair, can I just jump
13 in? I'm sorry, I've lost count of how many interrogatories
14 Horizon has had to answer in this proceeding, and it is
15 unfortunate that we're getting questions that really -- and
16 particularly given the response and the need for additional
17 information in order to even come up with an answer to the
18 preceding question, I am concerned that it's -- it's
19 unfortunate that questions like this are coming up now,
20 given the volume of interrogatories we have already had.

21 MS. HARE: It may be unfortunate. On the other hand,
22 I think this is all very relevant and of interest to the
23 Board.

24 MR. SIDLOFSKY: I am not suggesting it is not, Madam
25 Chair. It just may be that instant answers on these
26 questions may not be available.

27 MS. HARE: Well, then they can be given in an
28 undertaking.

1 MR. AIKEN: And I can assure the Board this is my last
2 example I want to lead anybody through.

3 And if the company wants to respond to this by which
4 way of undertaking, I would be happy with that.

5 So this is the example I am proposing. There are two
6 groups of customers, group A and group B. Group A is read
7 bimonthly, and there is one customer in group A. Group B
8 have their meters read monthly and are billed monthly, and
9 there are nine customers in that group.

10 So the first part of the question is: Do you agree
11 that based on the Horizon/Navigant customer weighting, the
12 service lag would be 16-1/2 days? So that is the first
13 part of the undertaking.

14 Then the second part is if you assume that the revenue
15 from customer A is \$5,000, and the total revenue from the
16 nine customers in group B is also \$5,000 -- so the total
17 revenue is \$10,000 -- would you agree that the service lag
18 based on the dollar-weighting methodology would be 22-and-
19 a-half days, being the midpoint of the 15 and the 30?

20 And then the -- I guess the third part of the question
21 is: Since the utility is getting half its money after 15
22 days -- and we can add in the collection lag and the
23 processing lag and all of the other lags. Assume they're
24 the same as what is in the Navigant report. But for
25 simplifying purposes, since the utility is getting half its
26 money after 15 days and the other half after 30 days, does
27 it not make more sense that, on average, it is getting all
28 of its money at the midpoint of these two periods?

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1 So that would be my undertaking.

2 MS. HARE: Ms. Helt, the undertaking number?

3 MS. HELT: Yes. I am not sure if Mr. Sidlofsky wanted
4 to challenge that.

5 MR. SIDLOFSKY: Sorry, Madam Chair. Maybe we should
6 see if the witness can answer the question first, or deal
7 with it as an undertaking.

8 MS. HARE: Ever? Or can do the math quickly?

9 [Laughter]

10 MR. SUBBAKRISHNA: That will be math on the fly.

11 MS. HARE: Mm-hmm.

12 MR. SUBBAKRISHNA: I have to apologize. I mean,
13 perhaps it makes more sense for us to respond to that in
14 the form of an undertaking. And I think it will also help
15 inform the Board in a more complete way, because there is
16 simply more than one moving part in the response.

17 MS. HARE: I think that would be better.

18 MS. HELT: So the three parts, then, to the question
19 posed by Mr. Aiken will be Undertaking J1.3.

20 **UNDERTAKING NO. J1.3: TO RESPOND TO THREE-PART**
21 **HYPOTHETICAL POSED BY MR. AIKEN.**

22 MR. AIKEN: Thank you, panel. Those are my questions.

23 MS. HARE: Thank you. Mr. Warren, are you up next?

24 **CROSS-EXAMINATION BY MR. WARREN:**

25 MR. WARREN: I have only one series of questions and
26 it is to you, Mr. Basilio. And the convenient point of
27 reference is actually Mr. Aiken's booklet of materials, and
28 that is Exhibit -- it was tendered this morning. I would

1 like you to turn to page 28 of 46, please.

2 MS. HELT: Just for reference, that is Exhibit K1.4.

3 MR. WARREN: Thank you very much.

4 Do you have that, Mr. Basilio?

5 MR. BASILIO: I have it in front of me, yes.

6 MR. WARREN: Mr. Basilio, my understanding is that the
7 request that Horizon be allowed to come in early rather
8 than complete its IRM regime was premised, in substantial
9 part, on a decline in revenue, particularly large customer
10 load. Am I correct about that?

11 MR. BASILIO: That was a premise. Another very
12 significant premise, though, was being confronted by
13 growing renewal requirements and a need to get on with
14 deferrals. So the combination of those things and some
15 others were creating the circumstances that caused us to
16 advance our application.

17 MR. WARREN: I take it the answer to my question was,
18 yes, it was one of the premises; is that right?

19 MR. BASILIO: It was one, yes.

20 MR. WARREN: As I understood your introductory remarks
21 this morning, one of the three factors that underlies this
22 application for an increase in rates is a decline in large
23 customer load and revenue offsets; is that correct?

24 MR. BASILIO: That's correct.

25 MR. WARREN: Now, given those two responses, if we
26 could just take a look at page 28 of 46 on Mr. Aiken's
27 booklet of exhibits, the variation in the large customer --
28 large user load was at - I am going to round this up - 5-

1 1/2 million in 2008 approved. The actuals in 2008 were
2 roughly 2 million, and the forecast for 2011 is
3 7.7 million. Is that correct?

4 MR. BASILIO: That's correct.

5 MR. WARREN: And would I be right -- I don't have Mr.
6 Aiken's sophisticated grasp of mathematics, so I will just
7 do the plain adding and subtracting to it. It would appear
8 to be a material increase, almost a three-fold increase, in
9 revenue from large users from 2008 actuals to 2011
10 forecast. Have I got those numbers right, Mr. Basilio?

11 MR. BASILIO: Could you just give me a moment to
12 confer with...

13 MR. WARREN: Sorry, Mr. Basilio, I don't know why you
14 need to confer. It is on the page.

15 MR. BASILIO: It is a larger number. The reasons
16 underlying the number are the subject of the application.

17 MR. WARREN: Have I got the numbers right, Mr.
18 Basilio?

19 MR. BASILIO: The numbers are correct as they're
20 presented on the page, yes.

21 MR. WARREN: Now, can I take a look at the operating
22 revenue figures, which are three lines from the bottom?

23 They were at -- 2007 actuals were 84 million. Have I
24 got that right?

25 MR. BASILIO: Yes.

26 MR. WARREN: And there are some variations, say,
27 5 percent or less, up and down over the succeeding years,
28 and the forecast 2011 revenue is \$103 million.

1 Have I got that right?

2 MR. BASILIO: That's correct.

3 MR. WARREN: Okay. In fairness to you, Mr. Basilio,
4 your opening remarks today that one of the premises of this
5 application was a decline in large customer load.

6 First of all, that appears not to be the case. Have I
7 got that right, based on these numbers?

8 MR. BASILIO: I don't believe so. I don't believe so.
9 If you could give me a second here? Thank you.

10 [Mr. Basilio consults with other witnesses]

11 MR. BASILIO: Some of this discussion on revenue I
12 think would be better placed with panel 3, but let me
13 answer like this for now. The 2011 forecast, of course, is
14 based on a 2011 load forecast, and I don't know that that
15 is directly comparable back to the situation in 2008.

16 We came forward with the application because, as we
17 projected out revenues based on the existing load forecast,
18 they would have continued to contribute a significant
19 shortfall relative to what we were expecting out of our
20 2008 rate application.

21 Additionally, in our Z-factor application and in our
22 submissions on the preliminary issue, we advanced that the
23 load shortfalls were broader in scope than just the large
24 user, but the larger user classes, so the GS greater than
25 50 customers.

26 And if you combine those two, you can see that the
27 shortfalls are obviously greater than if you are just
28 looking at the large user class.

1 MR. WARREN: Sorry to be silly, to be stupid about
2 this, Mr. Basilio. I am suffering from cognitive
3 impairment, I guess. But when somebody tells me in their
4 opening remarks that their application is premised on a
5 decline in the revenue and the forecast increase in revenue
6 from 2010 forecast to 2011 forecast is an increase of
7 \$20 million, what am I missing, Mr. Basilio? That seems to
8 be an increase and not a decrease. What am I missing?

9 MR. BASILIO: The increase is that the costs
10 underlying the 2011 forecast are much higher than those
11 costs underlying the 2010 forecast, and, as well, there
12 have been changes in cost allocation between those
13 underlying the 2010 forecast and the '11 forecast.

14 MR. WARREN: All right. I will pursue this further
15 with the third panel. Just one final question on this. In
16 a response that you made to a CCC interrogatory, it was
17 delivered on January 24th. It was Exhibit 2, tab 3,
18 schedule 1. I apologize, panel, for not having this in
19 front of you.

20 It is a table for in-service dates for major capital
21 expenditure projects for 2010-2011.

22 You may want to take this just by way of an
23 undertaking to make it easier. Can you tell me, panel, if
24 that needs to be updated in terms of in-service dates? Ms
25 Hughes earlier observed that there had been a change in in-
26 service dates, a recent change in in-service dates.

27 Could you, by way of undertaking, please indicate
28 whether or not the in-service dates and the consequent rate

1 base implications need to be changed from what is reflected
2 in Exhibit 2, tab 3, schedule 1, in answer 26 to the CCC
3 interrogatory?

4 [Ms. Hughes consults with witness panel]

5 MS. HARE: Are you able to answer this now or in a few
6 minutes, or would you like to take an undertaking?

7 MR. BASILIO: Do we want an undertaking or can we
8 answer?

9 [Witness panel confers]

10 MS. LERETTE: We expect that the work planned in the
11 2011 budget will be completed in 2011.

12 MR. WARREN: So do I take it that there are no changes
13 to the information contained in that interrogatory
14 response, because I had understood Ms. Hughes to say
15 earlier that there had been change -- changes in the in-
16 service dates for some of the 2010 projects?

17 You can take this by way of undertaking if it is
18 easier, panel.

19 MR. BASILIO: You are correct. Ms. Hughes did make
20 that assertion earlier. We will take it by way of an
21 undertaking.

22 MR. WARREN: Thank you very much.

23 MS. HELT: That will be undertaking J1.4.

24 **UNDERTAKING NO. J1.4: TO PROVIDE ANSWER AS TO WHETHER**
25 **IN-SERVICE DATES AND CONSEQUENT RATE BASE IMPLICATIONS**
26 **NEED TO BE CHANGED FROM WHAT IS REFLECTED IN EXHIBIT**
27 **2, TAB 3, SCHEDULE 1 IN ANSWER TO CCC INTERROGATORY**
28 **26.**

1 MR. WARREN: Those are my questions for this panel.
2 Thank you very much.

3 MS. HARE: Thank you. Mr. Crocker, do you have
4 questions for this panel?

5 MR. CROCKER: I am going to save mine for panel 3.

6 MS. HARE: Okay, good. So is that everybody?

7 MS. HELT: Board Staff, we can go before Mr. Shepherd.
8 We have about 20 minutes, and then maybe the panel would
9 consider breaking. I understand Mr. Shepherd has
10 approximately two hours.

11 MS. HARE: We need to take a stop at 12:15.

12 MS. HELT: I will be probably finished by then.

13 MS. HARE: Good. Thank you.

14 MS. HELT: First of all, what I would like to do is
15 mark the Board Staff compendium of documents as Exhibit
16 K1.5.

17 **EXHIBIT NO. K1.5: BOARD STAFF COMPENDIUM OF**
18 **DOCUMENTS.**

19 MS. HELT: I believe the Panel has a copy of it on
20 their dais in front of them. Is that correct?

21 MS. HARE: Yes, we do.

22 **CROSS-EXAMINATION BY MS. HELT:**

23 MS. HELT: Thank you. Good morning, panel. My name
24 is Maureen Helt. I am counsel with the Board. I have some
25 questions for you with respect to rate base, and I will be
26 referring to Board Staff's compendium of documents.

27 The first questions relate to outage detection through
28 AMI collectors, and I will be referencing the table on page

1 3 of Board Staff's compendium.

2 Horizon, in this document, notes that it will be
3 installing a battery backup system for AMI collectors, to
4 assist in its SCADA detection and management, at a cost of
5 300,000 for 2011. And you can see that on the bottom of
6 page 3 of the compendium and at table 2-4-3.

7 I understand the AMI system has been deployed as part
8 of the installation of smart meter technology; is that
9 understanding correct?

10 MS. CAMPBELL: Yes, that is correct.

11 MS. HELT: And the AMI collectors are the devices for
12 collection of time-of-use data remotely from all smart
13 meters; is that correct?

14 MS. CAMPBELL: Yes, that is correct.

15 MS. HELT: So when did Horizon first install its AMI
16 collectors?

17 MS. CAMPBELL: Our first pilot with collectors was in
18 2005, and I could -- subject to check, I could get you the
19 exact time frame when that took place.

20 MS. HELT: All right. Thank you.

21 So why did Horizon not install the backup system for
22 SCADA capabilities when it first installed the AMI system?
23 And my point being: Wouldn't it have been easier and less
24 expensive to do it at the same time?

25 MS. CAMPBELL: When we first started with the AMI and
26 the pilot with the installation of the collectors and the
27 meters, part of the pilot was learning about the system and
28 understanding how the technology worked and the advantages

1 that we could leverage from the technology, as well.

2 So some of those learnings and some of that experience
3 was not understood back at the beginning of the pilots in
4 2005 or -- and '06, and has been part of an ongoing
5 investigation of how we can leverage the data and also the
6 information coming from the collectors.

7 MS. HELT: Thank you. The last question I have on AMI
8 collectors is: Can you confirm that the costs for the
9 battery backup are separate from the costs that you have
10 recorded in account 1555 for your smart meter capital?

11 MS. CAMPBELL: Just one moment, please.

12 [Witness panel confers]

13 MS. CAMPBELL: That is correct. The cost of the
14 battery backup for this component of the project is not
15 included in the smart meter adder.

16 MS. HELT: Okay. Thank you.

17 Next, I have some questions with respect to your
18 building facilities renovations, and specifically, the
19 Board Staff compendium pages 5 and 6.

20 It notes on page 5 -- or Horizon notes that its
21 building facilities renovations total cost is approximately
22 855,000.

23 Horizon also indicates that it's experiencing
24 overcrowding at its John Street location and its Nebo
25 facilities, and has increased its headcount since 2008 and
26 has forecasted further increases for 2011.

27 My understanding from the evidence filed is that the
28 actual full-time employees is relatively stable, and that's

1 as indicated in your response to Energy Probe Technical
2 Conference Question No. 26.

3 In light of the fact that Horizon has not filled
4 vacancies and will probably be unlikely to fill all of
5 those forecasted for 2011, and in light of forecasted
6 decreased demand and revenues, can you just explain what
7 the need is for the prioritization of the John Street
8 renovation at a cost of 855,000 for this project in 2011?

9 MS. LERETTE: So just to be clear, the \$855,000 shown
10 is not specifically for John Street, but it is an
11 allocation of costs for all our locations, based on the
12 outcome of our space study.

13 MS. HELT: All right. How much of the 855,000 would
14 be allocated for John Street?

15 MS. LERETTE: Well, we don't know at this time, until
16 the space study is released. That will tell us exactly
17 which facilities we will be spending the money on.

18 MS. HELT: And when is it expected that that study
19 will be released?

20 MS. LERETTE: The space study is currently under
21 review by the CEO, and it should be released in the next
22 two months.

23 MS. HELT: Would you undertake to provide a copy of
24 that space study when it becomes available?

25 MS. LERETTE: Yes, we could.

26 MS. HELT: That will then be Undertaking J1.5.

27 MS. HARE: Ms. Helt, maybe I misunderstood. I thought
28 I heard the witness say it wouldn't be available for two

1 months.

2 MR. BASILIO: It's -- okay. Who is doing what here?
3 There we go.

4 It is with the CEO. I think it is still in an
5 iterative process, and it could be a while, a couple of
6 months. I really don't have a fixed date.

7 We expect it, I would say, soon. I am not sure that
8 that would be in the scope of the timing of this
9 proceeding, though.

10 I don't know that I could commit to that.

11 MS. HELT: Then perhaps we can qualify that to provide
12 it if it does become available. If it perchance becomes
13 available in the next couple of weeks, then you will
14 provide a copy of it, and I can deal with Mr. Sidlofsky
15 with respect to that.

16 MR. BASILIO: Of course. We would agree to that.

17 MR. SIDLOFSKY: I'm sorry, Madam Chair. I am just a
18 little concerned about how far out Horizon is going to be
19 expected to supplement material in the proceeding.

20 MS. HARE: Yes. Maybe we will consider that over the
21 break.

22 MR. SIDLOFSKY: Thank you.

23 MS. HELT: All right, then. Thank you.

24 If we can move on, then, to enterprise data warehouse
25 and operational data store matters, that is found on page 7
26 and 8 of Board Staff's compendium.

27 Specifically with this, I am going to be referencing
28 Horizon's 2008 cost-of-service case, where Horizon had a

1 significant capital expenditure for its enterprise resource
2 planning system. And that is -- an excerpt from that
3 decision is found in the compendium at pages 9 to 12.

4 There is no need to turn to it. However, I would just
5 like to state from that:

6 "The enterprise resource planning was a major
7 capital expenditure of 8.8 million from 2007 to
8 2013. With respect to the EDWODS project that
9 Horizon has before the Board in this current
10 application, it documents a project commencing in
11 January 2011 and scheduled to go in-service in
12 December of 2011, with a cost of approximately
13 1.35 million."

14 You would agree with that?

15 MS. LERETTE: Yes, we would.

16 MS. HELT: And that is broken down into hardware at a
17 cost of 350,000 and software of 990,000?

18 MS. LERETTE: That's correct.

19 MS. HELT: Can you explain how this project fits in
20 with the ERP project? And specifically, is it an
21 enhancement or is it a replacement? Does it provide
22 additional functionality?

23 What is the relationship between the two?

24 MS. LERETTE: The data warehouse is a separate system
25 from our ERP system.

26 The data warehouse would receive information from our
27 ERP system, but it is a separate, standalone system.

28 MS. HELT: So it doesn't have any overlapping

1 functionality with respect to the EW -- EDW system?

2 MS. LERETTE: No. It really just takes data from
3 multiple sources, including our ERP system, and
4 consolidates them in one location so we can manage the
5 data.

6 MS. HELT: And what is the need, then, for the
7 prioritization of this project for 2011?

8 MS. LERETTE: Well, we have -- we have significant
9 amounts of data from our AMI system which, without a data
10 warehouse, we really can only utilize that information for
11 billing purposes.

12 And the data warehouse is really operationally to
13 manage the data from IFS, the work management data, SCADA,
14 the AMI, and some information from GIS.

15 It helps us in asset management planning and
16 distribution planning. We combine this information, and it
17 provides us one location where we can go get the data, and
18 it is much more manageable than going to eight different
19 locations to find the data.

20 MS. HELT: And are you still on target for in service
21 in December 2011?

22 MS. LERETTE: Yes, we are.

23 MS. HELT: And are there expected cost savings that
24 you will recover with this project going in service?

25 [Witness panel confers]

26 MR. BASILIO: Sorry, just a second, please.

27 [Witness panel confers]

28 MR. BASILIO: It is very difficult to estimate a

1 savings, in terms of efficiency, as a result of the
2 deployment of the system at this time.

3 What we have currently are some very significant
4 systems, CIS, ERP, SCADA, that are generating very rich
5 data and in fact greater volumes of data, particularly CIS
6 with time-of-use billing, that we would like to take
7 advantage of and consolidate for the purpose of better
8 distribution system planning and that is much richer data
9 than we have access to today.

10 So that is one component, better distribution system
11 planning.

12 The other component is that with the volume of data
13 that we have now between those systems, our current -- we
14 are starting to suffer performance issues from the current
15 processes we have for managing and storing that data. So
16 there are really two facets driving. But to try and - what
17 we do know is we will have much better data to perform
18 distribution system planning going forward, but it is very
19 difficult to determine, in a simple ROI method, how -- you
20 know, it is difficult to estimate cost savings at this
21 time.

22 But we would expect -- this is an important investment
23 for us, to try and drive IRM or to try and drive
24 productivity going forward. So we do expect -- we do
25 expect to deliver more effective distribution system and to
26 better manage this data, and, I guess, just to recap, to
27 avoid the sort of performance issues that we're starting to
28 see, given the volume of data coming out of these systems

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1 and particularly the customer information system.

2 MS. HELT: Thank you. On page 13 of the Board Staff's
3 compendium, there is information from Horizon with respect
4 to its enterprise fleet communications project, and there
5 is a total cost of \$900,000.

6 There is no indicated start or in-service date.

7 MS. LERETTE: The in-service date is scheduled for, I
8 believe, October of 2011. The actual equipment is being
9 procured as we speak, but it will be in service -- I
10 believe it is October.

11 MS. HELT: When you say the actual equipment, can you
12 explain what the hardware is, the functionality and, again,
13 what you expect the benefits to be from this project?

14 MS. LERETTE: So our existing radio system is an end-
15 of-life asset, and we have been deferring the replacement
16 of this radio system for many years, probably more than
17 five years.

18 It is really about an end-of-life asset. But we have
19 two separate radio systems, one that works in St.
20 Catharines and one in Hamilton, and we're finding it very
21 difficult to procure replacement parts for these radios and
22 the radio system. This includes the radios in all of the
23 vehicles, so this is -- the hardware part is the radios in
24 all of the vehicles.

25 But -- so we're having failures of the radios, finding
26 it harder to procure parts. When we do get new parts,
27 sometimes they're not compatible with our old radio system.
28 So we are at the point now where we have to replace the

1 whole system.

2 MS. HELT: That includes all of the -- all of these
3 radios in all of the vehicles, not just some of the
4 vehicles?

5 MS. LERETTE: Yes. So it includes the radio in
6 vehicles, as well as the radios in the control room, who
7 dispatch information to the vehicles.

8 MS. HELT: And would it include mobile work order
9 systems for field staff, that sort of thing, as well?

10 MS. LERETTE: No. That is separate equipment. This
11 is strictly two-way radio communication.

12 MS. HELT: Okay, thank you. Just a few more
13 questions. Page 14 and 15 of Board Staff's compendium
14 relate to vehicle and related equipment replacement and
15 modification projects.

16 I note that Horizon is proposing \$1.445 million for
17 vehicle replacements in 2011. Some of that is for larger
18 vehicles, and then there are smaller vehicles and rebuilds.

19 The estimated costs for the smaller vehicles and
20 rebuilds is about \$650,000 -- or for the smaller vehicles
21 is about \$650,000.

22 What would be the estimate for the rebuilds?

23 MS. LERETTE: I don't have that information right in
24 front of me right now.

25 MS. HELT: So would you just undertake to provide me
26 with the information for the budget for the rebuilds of
27 existing vehicles, for engines, for transmissions, that
28 sort of thing?

1 MS. LERETTE: Yes.

2 MS. HELT: That will be undertaking J -- maybe at this
3 time, panel, I can request that undertaking J1.5 be
4 withdrawn -- or, yes, be withdrawn, given that the study
5 will not be available for two months.

6 And at this time we will mark the request for the
7 estimate of the rebuilds as J1.5.

8 **UNDERTAKING NO. J1.5: TO PROVIDE INFORMATION FOR THE**
9 **BUDGET FOR REBUILDS OF EXISTING VEHICLES.**

10 MS. HARE: That is acceptable.

11 MS. HELT: Thank you. Can Horizon provide some
12 further explanation of the nature and functionality of the
13 nine smaller vehicles which you are requesting?

14 If I look at the math, and if it is approximately \$650
15 for those nine vehicles and rebuilds, that would put each
16 vehicle at a cost of perhaps \$70,000. So what would that
17 \$70,000 provide for?

18 MS. LERETTE: I think there is an undertaking here. I
19 will look that up.

20 [Witness panel confers]

21 MS. LERETTE: So the vehicles that you are asking
22 about with an average cost of the \$70,000 you quoted, are a
23 mixture of -- not the very large line trucks, but a
24 combination of support vehicles, like -- when I say support
25 vehicles, I mean, like could be a dump truck, could be a
26 larger cube van for the underground groups, and there will
27 be some small vehicles in that, as well, like passenger
28 pick-ups and minivans.

1 MS. HELT: Okay. If you turn to compendium page 7-16,
2 it is just the cover page of the construction and
3 maintenance services business plan for the fiscal year
4 2007.

5 Then at the top of page -- compendium page 18 in the
6 first full paragraph that starts with "Improvement in fleet
7 vehicles", Horizon discusses the utilization of hybrid
8 technology.

9 Can you just tell me whether or not any of the vehicle
10 cap-ex for 2011 is related to hybrid vehicle technology?

11 [Witness panel confers]

12 MS. LERETTE: Could I take an undertaking to provide
13 that information for you?

14 MS. HELT: Yes. That will be undertaking J1.6.

15 **UNDERTAKING NO. J1.6: TO CONFIRM WHETHER ANY VEHICLE**
16 **CAP-EX FOR 2011 IS RELATED TO HYBRID VEHICLE**
17 **TECHNOLOGY.**

18 MS. HELT: And I have just two further questions, and
19 it is with respect to the lead/lag study.

20 Mr. Aiken has already asked certain questions with
21 respect to this, so I won't go over those. But on page 4
22 of the lead/lag study -- which is also found in our
23 compendium at page C-20 -- Horizon defines the service lag,
24 and it talks about for most smaller customers, they are on
25 a bimonthly billing, and larger customers are on monthly
26 billing.

27 In the analysis for small customers, was the analysis
28 based on manual meter reads, or on remote reads using smart

1 meters and the AMI communications infrastructure?

2 MR. SUBBAKRISHNA: Per se, that factor was not taken
3 into consideration, ma'am, because all we were doing was
4 measuring the time period between when service began and
5 when service ended.

6 The meter read is assumed to be included within the
7 billing lag, which is the second line in table 1.

8 MS. HELT: All right. So there was no distinction,
9 then, made for manual versus remote reads?

10 MR. SUBBAKRISHNA: No, there was no distinction,
11 because it was our understanding that regardless of whether
12 it is a manual or remote read, we still have to wait for
13 billing and pricing information from the IESO before a bill
14 can actually leave to the customer.

15 MS. HELT: So with remote reads on consumption data
16 using smart meters and AMI, would that reduce the service
17 lag, relative to manual meter reading?

18 MR. SUBBAKRISHNA: It would have the potential to
19 reduce the billing lag, I mean, the way we define it; not,
20 per se, the service lag.

21 Because the service lag is simply measuring the amount
22 of time you are receiving service. That is even before
23 your meter is read.

24 MS. HELT: And then with the move to smart meters,
25 time-of-use and remote reads, would monthly billing be a
26 possibility for all or some low-consumption customers? And
27 would that result in reduced costs?

28 MR. SUBBAKRISHNA: I have to apologize, ma'am. That

1 is beyond my area of expertise.

2 I have to defer to some other member of the panel on
3 that.

4 MS. CAMPBELL: We have reviewed the potential of
5 monthly billing, and with the AMI reads particularly.

6 We could implement monthly billing for customers, and
7 particularly vulnerable customers in need.

8 To implement monthly billing for our whole customer
9 base would be an increase in operating costs.

10 You are asking if there would be a decrease in costs?

11 MS. HELT: If it would result in decreased costs, so
12 yes, if there would be a decrease.

13 MS. CAMPBELL: The investigations that we have done
14 and the information that we have studied so far do not show
15 there would be a decrease in costs, going to monthly
16 billing.

17 MS. HELT: All right, then. I have no further
18 questions.

19 MS. HARE: Thank you. We will take our lunch break
20 now, then, and return at 1:30.

21 --- Luncheon recess taken at 12:17 p.m.

22 --- On resuming at 1:40 p.m.

23 MS. HARE: Please be seated.

24 So in terms of process, what we would like to do, Mr.
25 Shepherd, we are assuming you have some questions that are
26 non-confidential, so if we could deal with those questions
27 first.

28 Then I think Mr. Buonaguro reserved the right to ask

1 any follow-up questions, so if you do have any that are
2 non-confidential, we will do that next.

3 Then we will go into the confidential cross-
4 examination.

5 MR. SHEPHERD: Okay.

6 MS. HARE: Okay? Sorry, the whispering here is the
7 Panel will also have some questions, whether we do them
8 before the confidential portion or not -- I think we will.

9 Yes, okay. Now we have a plan.

10 MS. HELT: Madam Chair, one other additional matter
11 that just came up. I understand it is quite warm on the
12 other side of the room, especially for the witnesses, so we
13 have lowered the blinds.

14 MS. HARE: I will tell you it's warm here, too.

15 [Laughter]

16 MS. HELT: Perhaps the Panel would consider indicating
17 to the parties that is all right if they want to remove
18 their suit jackets.

19 MS. HARE: Absolutely.

20 MS. HELT: Thank you.

21 [Laughter]

22 MS. HARE: So with that, Mr. Shepherd.

23 **CROSS-EXAMINATION BY MR. SHEPHERD:**

24 MR. SHEPHERD: I feel so much better. You are still
25 wearing your jacket.

26 Witnesses, my name is Jay Shepherd. I am counsel for
27 the School Energy Coalition. I think I know most of you.

28 Madam Chair, I did not prepare a compendium of

1 documents for this cross, even though it is a relatively
2 lengthy one, because so many of them are confidential and I
3 am, frankly, petrified of copying confidential documents,
4 so I just decided not to.

5 But I will give you the references, and mainly I will
6 be referring to the package of confidential technical
7 conference responses to SEC questions, which is dated
8 February 24th.

9 MS. HARE: I'm sorry, you are talking about your
10 second phase?

11 MR. SHEPHERD: In the second phase, that's right. The
12 first phase I have almost no documents.

13 I also have a document which I will provide to you
14 momentarily, which is some data from the 2009 electricity
15 distributors' yearbook, but I understand it is just being
16 copied, and so -- no. It is ready now.

17 I wonder if I could ask that this be marked as an
18 exhibit. It was provided to my friends yesterday.

19 MS. HELT: Yes. We can mark this as an exhibit, K1.6,
20 a comparison of sources of revenue table prepared by School
21 Energy Coalition.

22 **EXHIBIT NO. K1.6: COMPARISON OF SOURCES OF REVENUE**
23 **TABLE AND COMPARISON OF EXISTING CAPITAL PER CUSTOMER**
24 **PREPARED BY SCHOOL ENERGY COALITION.**

25 MR. SHEPHERD: I should advise it is also has a
26 comparison of existing capital per customer.

27 I have provided my -- all of the parties with the
28 spreadsheet behind this, because it's the full yearbook

1 data, but I haven't filed it, because I didn't think it was
2 necessary.

3 I will get to that in a second.

4 First, I wonder if I can just follow up on something
5 you said, Mr. Basilio, at the technical conference. You
6 have had some discussion about this, as well, today. This
7 is on page 6 of the transcript. You talked about the
8 challenges -- do you have that, the technical conference
9 transcript?

10 MR. BASILIO: If we could just have a moment to...

11 MR. SHEPHERD: Okay. It is page 6 of the technical
12 conference transcript.

13 MR. BASILIO: I have it in front of me.

14 MR. SHEPHERD: Thank you. Mr. Basilio, you will
15 recall you had an opening statement at the technical
16 conference; right?

17 MR. BASILIO: Yes.

18 MR. SHEPHERD: This is part of that. If you look at
19 line 18 to 20, you are talking about the challenges that
20 Horizon faces, and one of them is, you say, quote:

21 "...considerable revenue and concentration risk
22 related to its larger commercial customer
23 classes."

24 And I think you said today that's large use and GS
25 over 50; right?

26 MR. BASILIO: That's right. More so in the larger
27 user, but that's right.

28 MR. SHEPHERD: And so we want to do a comparison to

1 see whether you are really as much at risk as others.

2 So we went to the 2009 electricity distributors
3 handbook, and this Exhibit K1.6 does a comparison of five
4 large utilities.

5 We were surprised to find that the percentage of your
6 revenue that comes from the larger commercial customer
7 classes is smaller than any of your peers.

8 Can you help me with that?

9 MR. BASILIO: Our comments on concentration risk were
10 more so larger user. And, please -- other members,
11 please...

12 MS. BUTANY-DESOUZA: Perhaps I can add to that. The
13 comparison that you provide puts together the general
14 service greater than 50, as well as the large use class.
15 As Mr. Basilio just pointed out, the comments in his
16 opening remarks were related, in large part, to the large
17 use customer class, but that the concentration risk that we
18 were referring to not only is the revenue from that class
19 of customer, but also the lack of diversity in and amongst
20 that customer class.

21 So I can't speak to the composition of the other -- of
22 the customers in these other LDCs' service territories, but
23 for our large use customers, we tend to have -- there's --
24 steel is a big component of the composition or the business
25 of the large use customers in Hamilton and through to St.
26 Catharines, our service territory. The concentration risk
27 arises from that.

28 MR. SHEPHERD: But you have steel mills in St.

1 Catharines?

2 MS. BUTANY-DESOUZA: Sorry, I was just referring to
3 our service territory, in general, but in Hamilton.

4 MR. SHEPHERD: Actually, your biggest customer in St.
5 Catharines is the auto industry; right?

6 MR. BASILIO: That's correct.

7 MR. SHEPHERD: You talk about -- on the same page, you
8 talk about the fact that your large users, you have 12
9 large use customers. It is more than any other LDC except
10 two; right?

11 MR. BASILIO: That's correct.

12 MR. SHEPHERD: Those two would be Hydro One Networks,
13 who have 373 large use customers, and Toronto Hydro, who
14 have 47; right?

15 MR. BASILIO: That's correct.

16 MS. BUTANY-DESOUZA: Subject to check.

17 MR. BASILIO: Subject to check. I believe we provided
18 that information in our manager's summary, but I think that
19 is correct.

20 MR. SHEPHERD: It is also true, isn't it, that, for
21 example, Ottawa has 11 large users and Enersource and EnWin
22 each have ten; right?

23 MS. BUTANY-DESOUZA: As per the 2009 yearbook, yes.

24 MR. SHEPHERD: So you are not the only one that have
25 this risk?

26 MS. BUTANY-DESOUZA: Well, we have a high level of
27 concentration related to -- if you say the 80/20 rule, one
28 or two large use customers contribute to a great amount of

1 revenue in that class.

2 MR. BASILIO: That's correct.

3 MR. SHEPHERD: It is true, isn't it, that your
4 dependence on the residential class is significantly higher
5 than your peers? You actually have a bigger percentage of
6 your revenues from residential than any of the other peers
7 that you would normally compare yourself to; right?

8 MR. BASILIO: That's correct, per the information
9 provided in the yearbook.

10 MR. SHEPHERD: Those are the ones you would normally
11 compare yourself to; right? PowerStream, Ottawa,
12 Enersource?

13 MR. BASILIO: They would be included in our regular
14 peer group; that's correct.

15 MR. SHEPHERD: And the residential group is generally
16 much more stable than the large user class; right?

17 MR. BASILIO: Other than -- other than with respect to
18 Hamilton and St. Catharines on an income scale, they're two
19 of the lowest income areas in the province.

20 So what I would suggest is we have relatively high
21 credit losses in those classes. We have more challenged
22 customers, I would say.

23 MR. SHEPHERD: That doesn't influence your volumes,
24 does it?

25 MR. BASILIO: No, it doesn't influence our volumes;
26 that's correct. It does influence our revenues.

27 MR. SHEPHERD: You're in a similar position with
28 respect to your large users as EnWin, who have a large

1 concentration in the auto industry?

2 MR. BASILIO: That's correct.

3 MR. SHEPHERD: In fact, they have a much lower
4 percentage of their revenues from residential than you do;
5 right?

6 It is not on the list. I am just asking whether you
7 know --

8 MR. BASILIO: Subject to check.

9 MR. SHEPHERD: Will you accept that, subject to check?

10 So I went to page 29 of the Energy Probe compendium.
11 I wonder if you could bring that out.

12 This is K1.4. Do you have that?

13 MS. BUTANY-DESOUZA: Yes.

14 MR. BASILIO: Yes, we do.

15 MR. SHEPHERD: So I am just looking at the impacts
16 here, and you do have some substantial drops from your
17 Board-approved in 2008 to your current forecast for 2011.

18 It looks like general service over 50 and large-user
19 are each about half of your drop; right? Roughly?

20 MR. BASILIO: Yes.

21 MR. SHEPHERD: So it is not in all large-user class;
22 right? You also have a GS over 50 impact?

23 MR. BASILIO: That's correct. It is a larger user.

24 MR. SHEPHERD: And that is not a concentration risk;
25 right? Those aren't steel mills?

26 MR. BASILIO: Not relative to the peer group you
27 provided.

28 MR. SHEPHERD: Well, I guess what I am saying is that

1 in your GS over 50, you don't have two or three customers
2 that are all of that drop?

3 MR. BASILIO: No. That's correct.

4 MR. SHEPHERD: And would you accept, subject to check,
5 that your billing determinant in kilowatts has dropped from
6 2008 Board-approved by 15 percent? Roughly?

7 MR. BASILIO: In total, you're looking?

8 MR. SHEPHERD: No. I am talking about the two classes
9 we're talking about, GS over 50 and large-use, which are
10 the bulk of it, dropped by 15 percent; right? Or will you
11 accept that, subject --

12 MR. BASILIO: Subject to check.

13 MR. SHEPHERD: Sure. Good. And so, now, those
14 billing determinants, those are only part of the revenues
15 from those classes; right? Because you also have fixed
16 charges in those classes that are dependent on number of
17 customers?

18 MR. BASILIO: Correct.

19 MR. SHEPHERD: And so your number of customers hasn't
20 gone down in those classes; right?

21 MR. BASILIO: That's correct.

22 MR. SHEPHERD: So --

23 MR. BASILIO: Subject to check, on the GS greater
24 than 50 -- no, that's right. They're consistent, yes.

25 MR. SHEPHERD: So in 2008, 23 percent of your revenues
26 came from those two classes; right? The two that had the
27 big drop, 23 percent came from those classes; right?

28 MR. BASILIO: Subject to check.

1 MR. SHEPHERD: Okay.

2 MR. BASILIO: Yes.

3 MR. SHEPHERD: And about half of that would have been
4 volumetric, give or take? Am I in the ballpark?

5 [Witness panel confers]

6 MR. BASILIO: Give us a moment.

7 MR. SHEPHERD: Sure.

8 [Witness panel confers]

9 MS. BUTANY-DESOUZA: Yes. About a 50-50 split.

10 MR. SHEPHERD: Okay. So here's what I'm trying to get
11 at. So if those classes dropped 15 percent on the
12 volumetric side but not on the numbers of customer sides,
13 and they're 23 percent of your 2008 revenues, my math says
14 that you lost about two percent of your revenues.

15 Am I in the right ballpark there?

16 MR. BASILIO: It might be higher than that. I guess
17 what -- where I would want to elaborate is that is not an
18 insignificant number, in terms of materiality.

19 Two percent of our revenue is about \$1.8 million. We
20 have experienced load shortfalls overall of more than that,
21 in -- over that three-year period.

22 And in fact, if we look at our load forecast for 2011
23 versus 2008, at 2010 rates, we would be showing a shortfall
24 of about \$4.3 million.

25 MR. SHEPHERD: Well, we just did the math on that.

26 MR. BASILIO: If what we're trying to get to is a
27 determination of the impact on revenue of where we see
28 loads going in our forecast versus what was approved in

1 2008, it is about \$4.3 million at 2010 rates.

2 MR. SHEPHERD: Well, I've heard numbers of 4.2, 5.6,
3 seven million, all sort of numbers that are based on the
4 load, and I'm trying to understand the math. 2008 is
5 \$82 million; roughly two percent of that, you have lost in
6 volumetric billing determinants from the place where you
7 say the problem is, and that doesn't -- any way you look at
8 it -- that doesn't get up to four or five or seven million
9 dollars.

10 MR. BASILIO: Sorry. The -- I would want to clarify,
11 because I think an earlier question alluded to this.

12 The \$5.6 million number referred it in my opening
13 remarks was a combination of shortfall between 2008
14 approved loads in aggregate, and 2011 loads forecast at
15 2010 rates, plus the shortfall we're projecting in revenue
16 offsets relative to the 2008 approved.

17 So there are two items at play in the \$5.6 million
18 number referred to earlier.

19 But if we simply take 2008 approved loads and 2011
20 load forecast at 2010 rates, the shortfall is \$4.3 million.

21 MR. SHEPHERD: Well, that is interesting, because I am
22 looking -- if you can move to page 28 of the Energy Probe
23 compendium, you will see your Board-approved GS over 50 and
24 large-user total \$20.1 million in 2008. The Board-
25 approved, that is what was built into rates; right?
26 20.1 million?

27 MR. BASILIO: Yes. Oh, sorry. That's correct.

28 MR. SHEPHERD: And your 2010 is 18.8 million, 2010

1 actual?

2 MR. BASILIO: Correct.

3 MR. SHEPHERD: So that's a \$1.3 million loss in
4 revenue?

5 MR. BASILIO: 2010 forecast, sorry.

6 MR. SHEPHERD: Yes, well... Sorry, this is the --
7 this is what you filed March 14th. So I am assuming that
8 is accurate, isn't it? It is 2010, and you filed it March
9 14th?

10 MR. BASILIO: Let me just confirm whether we updated
11 actuals in this exhibit.

12 [Witness panel confers]

13 MR. BASILIO: If we move back -- I would like to take
14 you back to 2009 actuals for a moment, if I might, which
15 would aggregate 18.1 million, versus the -- versus the
16 \$20 million. Again, that is a \$1.9 million shortfall in
17 2009, relative to 2008 approved, within those two classes
18 alone.

19 In 2010, we had a warmer than normal summer, which
20 doesn't affect the larger-user classes so much, but overall
21 that did have a helpful impact on loads. And as we know,
22 for a period of time in 2010, one of our -- and it is a
23 forecast amount, but in 2010 one of our larger-user
24 customers, the subject customer of our 2009 Z-factor
25 application, their loads were up for a period of time
26 earlier in the year, relative to what we were forecasting
27 earlier in the year.

28 MR. SHEPHERD: Bottom line is still that you got a

1 \$1.3 million reduction from 2008 Board-approved, to 2010
2 for --

3 MR. BASILIO: Between those two years, but again, if I
4 take you back to -- I think this makes my point.

5 If I take you back to 2008 actual, it is
6 13.87 million. Is that... again, subject to --

7 MR. SHEPHERD: Well, that was going to be my next
8 question.

9 MR. BASILIO: And 2009 actual, we have 18.1 million.
10 I think what we're seeing here is the volatility in those
11 classes.

12 MR. SHEPHERD: Well, I think what we're seeing is you
13 did pretty well in 2008 in terms of profit. We're going to
14 get to that in a second. On -- under 14 million of
15 revenues from those two classes.

16 In 2010, your last year of actual, you are
17 \$4.8 million more. So I am not sure I understand where
18 this big problem with load is.

19 I agree your load isn't growing. I get that. But it
20 doesn't seem, to me, that you are under a big pressure from
21 load dropping through the floor.

22 MR. BASILIO: If I might respond. I think our issues
23 are two-fold. One, we do have a concentration risk,
24 particularly in our large user class. And Board Members
25 and members of the intervenors and Staff may remember that
26 that point was brought -- it was an exclamation point when
27 Stelco went insolvent in 2004 and we were left with a
28 \$9 million unpaid bill, which at that time represented

1 approximately one year's worth of net income.

2 We were able to recover it after the fact, but it
3 highlighted a point that we do have a number -- a large
4 amount of large users that experience a fair bit of
5 cyclicalities, both in load and in terms of their
6 profitability, that have had an impact on the utility, that
7 do provide a trend here of impact on the utility through
8 those three years.

9 And that's a very difficult thing to manage to that
10 sort of volatility in two, three, 11, 15 customers. That
11 is our point here in the application. Sure, we can look at
12 2010 and we see that, again, forecast - and I think we're
13 pretty close in actuals on forecast, this would have been a
14 third quarter forecast worst case - that they come back.
15 They've come back a little bit.

16 But, again, in 2011 we've provided evidence. The
17 subject customer of our Z-factor application, their loads
18 are down. They have been down significantly in the fourth
19 quarter, again, you know compared to earlier, and we're
20 projecting that to persist. That's the subject of the
21 evidence.

22 GM has announced a shutdown of its plant number 1.
23 That is -- that has a significant impact on throughput in
24 our system and our revenues, and it is -- from our
25 perspective, it is a very significant issue.

26 It might be 2, 3, 4 percent of revenues overall, but
27 when you look at that sort of volatility and the cumulative
28 impact it has through an IRM period, it is material.

1 MR. SHEPHERD: Well, I guess what I'm trying to
2 understand is you got an impact of a couple of million
3 dollars from the large users and you're asking for a
4 \$20 million rate increase. Those don't sound like one is
5 connected to the other, do they?

6 MR. BASILIO: What is -- the load volume volatility
7 across this period has led to a cumulative revenue
8 shortfall, and we have provided a fair bit of evidence on
9 this, partly in the preliminary issue, and it might be
10 worth referring back to some of that at the appropriate
11 point, where it has become a very material issue, where it
12 has caused us to defer certain expenditures we think are
13 prudent and in the interests of our customers, and it is a
14 situation we don't feel can persist.

15 In one year out of an IRM period, I mean, I understand
16 that, but this is a persisting issue for us. It can have a
17 very material impact. It has had a very material impact,
18 this concentration, not just in the last IRM period, but I
19 just referred to the Stelco insolvency. That was a real
20 event, a real material event.

21 And, in our view, that is -- that's an important issue
22 that we need to address in this application to put us on
23 stable footing through an IRM period.

24 MR. SHEPHERD: When was this Stelco loss?

25 MR. BASILIO: I believe it was 2004.

26 MR. SHEPHERD: And so how is that relevant to 2011?

27 MR. BASILIO: It is relevant because that entity
28 continues in US Steel. It continues to be a very material

1 component of our load in the large user class, and as much
2 as -- as much as Stelco was having financial difficulty in
3 2004, we're seeing US Steel with the same issues as they --
4 those operations continue on in US Steel and many of the
5 same issues are there.

6 MR. SHEPHERD: Okay. I think we can agree that, at
7 the very least, you don't have any revenue growth. You
8 have a problem that -- you don't have the sort of revenue
9 growth that some of the other LDCs can build on; right?

10 MR. BASILIO: Correct.

11 MR. SHEPHERD: Okay. Let's just -- we will disagree
12 on what the impact is, but let's just accept that you don't
13 have revenue growth, because what I really want to get at
14 is -- because I wasn't asking about load forecasting so
15 much as I want to ask about planning and budgeting.

16 You said it is very difficult to manage when you have
17 this sort of problem, and so we looked at other utilities,
18 the most obvious one being EnWin, because they have a
19 similar problem, as you said; right?

20 MR. BASILIO: I can't speak to EnWin's situation or
21 how they manage their business, per se.

22 MR. SHEPHERD: Well, we looked at the 2009 yearbook,
23 again, a wonderful piece of information.

24 What we saw was, in 2009, faced with the economic
25 downturn, EnWin cut their OM&A by 9 percent and you kept
26 yours static.

27 So I would have thought - and maybe it is just me -
28 that if you are faced with an economic downturn, the first

1 thing you are going to do is try to cut costs; isn't that
2 right?

3 MR. BASILIO: Well, from my perspective, in part, but
4 you have to balance that against risks related to the
5 operation of your business.

6 We cut back and we did defer expenditures, largely
7 expenditures related to process improvement initiatives.
8 We focussed very much on continued investment and
9 distribution utility infrastructure, and the evidence will
10 speak to that.

11 We had to continue with growth in project capital.
12 And I believe our asset management strategy provides a lot
13 of detail and analysis on the necessity to renew
14 infrastructure in Hamilton. In order to support that
15 growth, we had to continue investing in a renewal of our
16 skilled trades work force.

17 But what I would say is, despite inflation, if we look
18 at 2009 and 2010, we would see OM&A at similar levels to
19 2008. That's despite inflation. And the evidence will
20 demonstrate that that includes some level of productivity
21 improvement through that period.

22 MR. SHEPHERD: I understand that your OM&A in 2007 was
23 \$37 million; is that right?

24 MR. BASILIO: That sounds -- subject to check, that
25 sounds correct, yes.

26 MR. SHEPHERD: Okay. And the OM&A budget you are
27 proposing in this application is 29.2 percent higher than
28 that; is that fair?

1 MR. BASILIO: The OM&A budget is \$48 million in this
2 application. The approved 2008 --

3 MR. SHEPHERD: I am asking about 2007 actual.

4 MR. BASILIO: Right. But -- well, compared to 2007,
5 but if I could extend on that, our costs were reviewed in
6 2008. Our 2008 budget was \$39.9 million, I believe. I am
7 not suggesting this isn't an insignificant increase. In my
8 opening remarks -- it is significant. It is about
9 20 percent compared to our 2008 approved and 29 compared to
10 2007.

11 MR. SHEPHERD: You are going in a direction I am not
12 going.

13 2007, 37 million. You are proposing four years later
14 \$48 million. Tell me whether that is a 29 percent
15 increase. Yes or no?

16 MS. HARE: Mr. Shepherd, I know that Mr. Basilio is on
17 the next panel, but is this not a panel 2 issue?

18 MR. SHEPHERD: This is about how they're planning. I
19 want to compare it to their load and how you plan for
20 dropping load. This is all about the management of the
21 utility, not their OM&A. I don't care about OM&A right
22 now.

23 MS. HARE: Okay.

24 MR. BASILIO: Sorry, the question?

25 MR. SHEPHERD: Thirty-seven to 48 is 29 percent, yes?

26 MR. BASILIO: That would be -- subject to check, I
27 believe that's correct. I believe I confirmed that the
28 2007 is 37. -- 37 even, I think we have in our evidence,

1 and in the test year it is 47.5.

2 MR. SHEPHERD: Wonderful. It is also true, isn't it,
3 that your 2007 actual revenues are about 6.23 percent
4 higher than your forecast for 2011? Is that about right?
5 Your drop in revenue -- before you get a rate increase is
6 about 6 percent?

7 MR. BASILIO: Do we have it? Oh, it is right in front
8 of me.

9 MR. SHEPHERD: I am using 2007 actuals, because I know
10 2008 was a strange year.

11 MR. BASILIO: Total operating revenue in 2007 was
12 91.4, and rate revenue was 84.2 million.

13 MR. SHEPHERD: And you are proposing before you
14 increase rates it is going to drop by about 6 percent;
15 right?

16 MR. BASILIO: Not compared to -- sorry, if you could
17 just clarify your question?

18 MR. SHEPHERD: 2007 actual.

19 MR. BASILIO: 2007 actual, yes.

20 MR. SHEPHERD: Are we in the right range? It is a
21 drop of about 6 percent?

22 MR. BASILIO: If you could just clarify your last
23 question, I just...

24 MR. SHEPHERD: Am I right in estimating that from 2007
25 actual revenues to 2011 forecast revenues at existing
26 rates, we're talking about a drop of about 6 percent? Is
27 that about right?

28 If it is wrong, tell me it is a different number.

1 [Witness panel confers]

2 MR. BASILIO: Sorry, the 2011 in the chart on page 28
3 of 46 of -- it's Energy Probe's compendium. 2011 is at
4 2011 rates, not --

5 MR. SHEPHERD: I know. I'm talking about at 2010 --
6 at existing rates. Take a look at the revenue requirement
7 work form.

8 MR. BASILIO: Well...

9 MR. SHEPHERD: Okay. Let me ask this. The number
10 doesn't matter.

11 Revenues are lower in 2011 at existing rates than in
12 2007 actual; is that fair?

13 MS. BUTANY-DESOUZA: Yes, that's fair.

14 MR. SHEPHERD: Good. What I don't understand, then,
15 is if revenues are lower, why would you ask this Board to
16 increase your OM&A by 29 percent? I don't understand why,
17 in those four years, with revenues dropping, you haven't
18 been cutting your costs to match your revenues, spending
19 what you can afford.

20 That is what I am trying to understand. That is what
21 this is all about.

22 MR. BASILIO: We have been cutting costs in real
23 terms. Costs between 2008 and 2010 have remained at
24 approximately the same levels.

25 If you consider inflation, in real terms, costs have
26 declined, and I would use 3 percent as probably an
27 appropriate benchmark for inflation experienced by the
28 utility but, you know, compounded, it is over 9 percent.

1 So costs have dropped in real terms.

2 But the simple fact is the level of activity that the
3 utility needs to undertake to sustain itself -- which is
4 the subject of the evidence -- is increasing and must
5 increase.

6 MR. SHEPHERD: Why?

7 MR. BASILIO: And that's the nature of the cost
8 increase.

9 MR. SHEPHERD: Why is the level of activity
10 increasing? If your revenues are going down, if your
11 throughput is going down, why would your level of activity
12 go up?

13 MR. BASILIO: Because we need to renew the
14 infrastructure, and in order to renew the infrastructure,
15 we require more people to do that. Capital requirements
16 are growing, relative to historical levels.

17 MR. SHEPHERD: Didn't you need to do that in 2007 too?

18 MR. BASILIO: We embarked on that commencing in 2007,
19 but as the evidence will provide -- and perhaps it is a
20 good segue to have Ms. Lerette speak on the needs of the
21 distribution system.

22 MR. SHEPHERD: Well, let me come to that as a --

23 MR. BASILIO: -- that it is a rising requirement,
24 through to 2016-17, from historical levels of -- and in
25 2007, levels of capital were -- levels of distribution
26 capital, 2007 actual, were \$19.3 million.

27 In -- growing 2009, they were 31.4. 2010, 30. And
28 we're forecasting 34 in 2011, and it will continue to grow.

1 And we are projecting, by the time we get to 2016-17,
2 reinvestment in distribution system capital will peak at
3 around \$45 million.

4 That requires more headcount. Maintenance is growing,
5 as well. Because the distribution system is getting older,
6 more maintenance is required.

7 So costs are going up. The level of activity required
8 to support the distribution system is going up, and that
9 necessitates more cost.

10 MR. SHEPHERD: That sounds like you're talking about
11 your capital plan, not your operating expenses.

12 MR. BASILIO: Both. Maintenance, as well.

13 MR. SHEPHERD: Well, if you are replacing things, then
14 you don't have to fix them as much; isn't that true?

15 MR. BASILIO: You won't going forward. But in the
16 meantime, while we are trying to catch up, we will
17 experience -- and I think the evidence points to this, as
18 well, that we are experiencing more frequent and severe
19 outages, that our performance statistics are on a decline.
20 Still manageable, and relatively speaking, not bad, but
21 they're on a decline.

22 And that is requiring more maintenance.

23 MR. SHEPHERD: Mr. Basilio, in 2009 -- I am going to
24 just throw out these numbers and you can check them if you
25 wish, but we will put them in our final argument, as well.

26 In 2009, your OM&A was 45 percent of your distribution
27 revenues, which is almost bang-on the provincial average
28 for all utilities.

1 You are proposing for 2011 58 percent, OM&A as
2 58 percent of distribution revenues.

3 That seems like a big change. We looked for another
4 utility anywhere close to that; none of the big utilities
5 are close to that. There is a bunch of small ones that
6 are, but there are no big utilities that are anywhere near
7 that.

8 Why would you need to spend such a big percentage of
9 your distribution revenues on OM&A?

10 MR. BASILIO: I think we -- I would ask that we can
11 leave that discussion until we get to OM&A.

12 MR. SHEPHERD: All right.

13 MR. BASILIO: That's panel 2.

14 MR. SHEPHERD: It is true, isn't it, that you don't
15 have any current expectation of significantly higher
16 customer volumes or demand volumes or -- customer numbers
17 or demand volumes, do you? Not in the foreseeable future?

18 MR. BASILIO: Demand volumes would be as reflected in
19 our load forecast.

20 Customer growth, relatively small, relatively benign,
21 customer numbers --

22 MR. SHEPHERD: Yes. You're a fairly --

23 MR. BASILIO: It's the nature of our service
24 territory.

25 MR. SHEPHERD: That's right. It is fairly stable;
26 it's not going to grow a lot?

27 MR. BASILIO: Yes, it is. That's correct. It is
28 not - we don't expect it to grow a lot.

1 MR. SHEPHERD: So then the only way you can get higher
2 costs, higher budget, is increases in rates; right?

3 MR. BASILIO: That's correct.

4 MR. SHEPHERD: And doesn't that mean that you, as a
5 stable utility, should plan differently? Doesn't that mean
6 that?

7 MR. BASILIO: We plan with full consideration of the
8 impacts on our customers and the requirements of the
9 system.

10 We're planning our dollars very prudently. What is
11 required to manage the system? What is required to invest
12 in -- and in activities that will deliver cost-
13 effectiveness going forward?

14 Those are things that we haven't been able to do over
15 the past three years. Again, because of the constraints on
16 revenue, we haven't been able to invest as we would have
17 liked in process-improvement initiatives, those sorts --
18 and in those things that would deliver a higher level of
19 service to our customers.

20 We have been very -- related to process, we focussed
21 very much on the nuts and bolts of the distribution
22 utility. That is what we have been doing for the last
23 three years, renewing -- renewing the distribution utility,
24 growth in our project capital, and focussing on
25 maintenance.

26 And I think that is what the evidence will show
27 historically, that we've deferred expenditures,
28 expenditures other utilities are undertaking, and systems,

1 processes, those sort of things, because they have the
2 means to do that. We haven't had the means to do that in
3 the last three years.

4 MR. SHEPHERD: In the competitive marketplace, a
5 company in the competitive marketplace, if it finds that
6 its revenues are not going up, it either has to cut back on
7 costs or make less money; right?

8 MR. BASILIO: Or increase its revenues.

9 MR. SHEPHERD: Well, if revenues aren't going up, you
10 only have the other -- the two other options; right?

11 MR. BASILIO: Well, you have other options. There are
12 other options.

13 For example, in the competitive marketplace, those
14 players have much more freedom to choose the policies they
15 operate under, and those sorts of things.

16 I mean, it is not an apples-to-apples comparison to
17 compare us to, you know, the private marketplace at large,
18 and make direct comparisons.

19 We deliver a public good, under a highly regulated
20 regime. We -- there are many differences that drive how we
21 operate differently from the private sector at large.

22 MR. SHEPHERD: You are not saying that in a
23 competitive marketplace, companies can just jack up their
24 prices because they need more money?

25 MR. BASILIO: No. I'm saying that they --

26 MR. SHEPHERD: That's not what happens; right?

27 MR. BASILIO: No, that is not what happens.

28 However, in the competitive marketplace, quite often

1 they're not delivering a public good. We are delivering a
2 public good, not unlike water or wastewater, or police
3 services or those sort of things.

4 Electricity must be delivered. The system must be
5 maintained.

6 MR. SHEPHERD: So the pressure on you to cut your
7 costs to be more productive should be less than a
8 competitive company?

9 MR. BASILIO: I am not suggesting that, not at all.

10 And in fact, the pressures have been huge, and I think
11 we have responded to those pressures by deferring costs.

12 Our returns are certainly nowhere near the regulated
13 return over the past three years.

14 I think we have been responding.

15 MR. SHEPHERD: We are going to come back to that.

16 So what I am concerned with is there is more pressures
17 coming; right? This is not stopping this year?

18 You are not getting all of the money you need forever
19 this year. You are going to need more; right?

20 MR. BASILIO: That's correct, not unlike some --
21 again, to draw comparisons between some of our peers that
22 service older territories and low growth areas, we are
23 coming under pressure to renew the system.

24 MR. SHEPHERD: See, this seems like a model of
25 regulation, rate regulation, in which you have sort of
26 1 percent, 1 percent, 1 percent, 22 percent, 1 percent,
27 1 percent, 1 percent, and then 2015 you're going to ask us
28 for another 22 percent; right?

1 MR. BASILIO: Well, I certainly -- that's not our
2 expectation. Again, where I think we are is that we've
3 deferred a number of expenditures over the past three
4 years.

5 We're behind where we expected to be. Looking back to
6 2008, had we achieved those things in our application that
7 we had expected, we would be further along than we are
8 presently.

9 So I think the difference for us is we've experienced
10 some significant shortfalls relative to expectation over
11 the last three years.

12 This application, among a number of things, I am
13 hoping puts us on a firmer -- on firmer ground so that we
14 don't have to come back in three or four years' time and
15 ask for this sort of increase.

16 We are concerned about our customers. We think our
17 rates remain -- will remain relatively competitive compared
18 to our peers, compared to Toronto Hydro's, compared to some
19 of those that you list in this peer group here, that our
20 rates will remain competitive and that we will continue to
21 seek to manage costs prudently.

22 I think we have demonstrated we are a relatively low
23 cost provider historically, and I think the outcome will
24 be, after this application, that we will continue to be a
25 relatively low cost provider.

26 MR. SHEPHERD: Madam Chair, that is the end of my
27 questions on the public information. I do have a number on
28 the confidential business plans and other things.

1 So as you indicated, if other people have questions on
2 the public information, this may be the appropriate time.

3 MS. HARE: Thank you. Mr. Buonaguro, do you have
4 anything?

5 MR. BUONAGURO: No, thank you.

6 MS. HARE: The panel does have some questions. Ms.
7 Taylor.

8 **QUESTIONS BY THE BOARD:**

9 MS. TAYLOR: Thank you. I am just going to go back to
10 my notes here.

11 I would like to take you back to the data warehousing
12 conversation. I think several times you referred to the
13 richness of the data that is now being produced by a
14 variety of your systems.

15 The question that sprung to my mind was data mining --
16 let me just ask the question this way, then. What portion
17 of the capital cost associated with that program could or
18 should be borne by your non-regulated businesses,
19 particularly that investment facilitates data mining for
20 non-regulated purposes? And if that is in fact the case,
21 then can you describe the affiliate relationship that you
22 will structure with your non-regulated entities to deal
23 with either the capital cost sharing and/or the OM&A cost
24 sharing that should result?

25 So data mining, as it was referred to by the panel,
26 talked about the richness of the data in a variety of
27 purposes. Is that solely utility use or some of the other
28 non-regulated businesses that we saw referred to in your

1 business plans?

2 MR. BASILIO: What is... Thank you. As you can see,
3 I have a very good support group. Solely for the
4 distribution utility is what is contemplated by this
5 investment.

6 MS. TAYLOR: So none of the media reading functions or
7 any of the other non-regulated businesses that were
8 delineated in your business planning documents will make
9 use of this data mining activity or capability?

10 MR. BASILIO: That is not contemplated at this time,
11 no.

12 MS. TAYLOR: Okay. The other question I had related
13 to the undertaking that you agreed to provide based on
14 Staff's questioning.

15 It relates to the Undertaking J1.6. You have agreed
16 to provide it and have not yet done so. But it relates to
17 the number and/or presence of hybrid vehicles in your
18 capital budget for 2011.

19 My question would be if you could also stipulate or
20 break out in that undertaking what the premium for those
21 vehicles would be versus the conventional vehicle, please?
22 You don't need to answer it now. You can provide it in the
23 undertaking, if in fact there are hybrid or pure electric
24 vehicles that you plan to buy as a matter of your capital
25 program in 2011.

26 MS. LERETTE: We actually do have an answer to the
27 undertaking from this morning.

28 MS. TAYLOR: Okay.

1 MS. LERETTE: In the planned purchases for 2011, three
2 of the vehicles are going to be hybrid vehicles.

3 MS. TAYLOR: So if you could perhaps then amend the
4 undertaking to provide us with the premium associated with
5 those vehicles, please?

6 Then just lastly, I have two more questions relating
7 to Mr. Shepherd's questions, and, I apologize, I am not
8 quite sure how to ask this in a nice way, so I am just to
9 ask it.

10 It occurred to me what he was trying to get at was
11 that, since 2004, with the bankruptcy and subsequent sale
12 of Stelco, the changes in load that I found quite
13 interesting on page 29 of the compendium provided by
14 Pollution Probe, that there is a reduction in the billing
15 metrics per kilowatt-hour across all of the years in that
16 table.

17 So the question that arose in Mr. Shepherd's
18 examination of you is: What is different in 2011 that
19 allows you to believe it is the correct or the best year to
20 catch up, given that there doesn't seem to be any
21 resounding change in the load profile or the economic
22 circumstances in your service area?

23 Maybe if you could just answer: What has changed that
24 means that this is the year to catch up on a variety of
25 different things, including capital and some of the
26 deferred OM&A?

27 Then the second part to the question, the use of the
28 word "deferral" or "postponement" suggests that many of the

1 factors that we're seeing in these numbers are in fact
2 temporary, when in fact what I think Mr. Shepherd is
3 suggesting is that they're structural and that he is
4 looking for a more definitive response to your planning and
5 expenditure and OM&A levels to respond to what I would
6 describe as a more enduring structural issue within your
7 service area.

8 So maybe if you could answer those two questions for
9 me?

10 MR. BASILIO: Well, I think what we have now is a
11 structural deficit as a result of the impact of the last
12 three years. So this is -- and what we would propose is
13 that this is a structure to take us forward.

14 So there is a level of permanency to it, or we would
15 be proposing that it is largely a permanent change in our
16 cost structure as it relates to OM&A, subject to IRM, and
17 as it relates to capital, subject to the capital forecast
18 and information that we have provided in our application,
19 such that our renewal requirements will continue to
20 increase.

21 We would expect depreciation, just in and of itself,
22 to outstrip inflation into the future for a number of
23 years. The gap between depreciation and cap-ex is quite
24 wide, and we'll expect that to persist through to 2016-17,
25 somewhere around there, at which time we expect cap-ex to
26 level off at that level.

27 Again, all of that is in today's dollars, but in
28 today's dollars, we would expect cap-ex to level off, what

1 we call project capital or system capital, about
2 \$45 million.

3 And in terms of being the year to catch up, I don't
4 know that I would call it a catch-up year. It is just
5 investment that we haven't been able to make in a cost
6 structure we think is required to sustain the utility.

7 Where we don't want to find ourselves, I guess, is in
8 this same position, again, asking our customers for rate
9 increases of this magnitude.

10 I am not sure that that has answered the first part of
11 your question.

12 MS. TAYLOR: No. I think the issue is, if you've
13 got -- I don't want to go too far with this -- you have a
14 capacity within your service area -- you mentioned yourself
15 that the lowest -- second or lowest income levels in the
16 province, and certain other physical constraints that limit
17 the customers' ability to pay. And yet I guess Mr.
18 Shepherd is asking, and I wasn't sure if I heard an answer
19 to, is: What steps are you taking to adjust your
20 structural costs to reflect the capabilities of your
21 customer base to pay?

22 If it is different than it was in 2004 and it is more
23 structural, it will endure it. There has to be a response.
24 I think that is what Mr. Shepherd was getting at, and I
25 wasn't entirely sure I heard an answer.

26 MR. BASILIO: Right. If I could just confer for a
27 minute with my...

28 [Witness panel confers]

1 MS. BUTANY-DESOUZA: Maybe I can try and answer the
2 question. I think that, as Mr. Basilio highlighted, it's
3 not that we're necessarily seeking -- that this is the time
4 for a big change. And we are seeing -- you are right, that
5 we have offered that in our service territory, we do have
6 some of the lower -- lowest customer classes,
7 comparatively, to many of our peers.

8 That being said, in this application, we have used --
9 and I know that on panel 3 we will visit with these two
10 topics, in any event -- but part of what we've used to
11 address and not, trying not to overly burden the
12 residential customer class, for instance, is trying to
13 address cost allocation.

14 Historically in our service territory, the residential
15 customer classes have been over-subsidizing and so cross-
16 subsidizing the other rate classes.

17 So we have been moving -- and we have made a proposal
18 in this application, as well -- to move the residential
19 class closer to unity.

20 As well, we have taken an approach in this application
21 on rate design. And so by -- for the one customer class in
22 which we have addressed rate design, and in particular the
23 large-user class moving the fixed charge up to 49 percent,
24 it seeks to provide revenue surety, or more of a fixed
25 revenue from that class of customer, so that when we're
26 seeking these rates at this point, trying to stave off
27 between that which we're seeking from residential customers
28 or the lower-consumption customers in contrast.

1 So you have asked what we're doing structurally or
2 from a planning standpoint, and I think those are at least
3 two items within this application to temper what we're
4 seeing, not only in terms of our own need as a utility, in
5 order to service our customers in light of an aging work
6 force and distribution assets that are well beyond their
7 service life and need to be replaced, but also juxtaposed
8 against an increase.

9 MS. TAYLOR: Thank you.

10 MS. HARE: I have just a few questions of
11 clarification. I guess the first is, Mr. Basilio, your
12 statement about having the lowest-income customers in the
13 province. Is there something that you could file with the
14 Board to support that statement?

15 MR. BASILIO: I thought I said "lower" but if I said
16 "lowest" I would like to correct. I don't know that we are
17 the lowest. I believe we are well among the lower.

18 MS. HARE: Mm-hmm. So do you have anything that you
19 could file with the Board to demonstrate that?

20 MS. BUTANY-DESOUZA: We can take it as an undertaking,
21 but I can also offer as part of that undertaking that we'll
22 provide a reference in a Coalition of Large Distributors
23 submission on EB-2007-0722, where we had made a reference
24 in terms of -- in some LDCs -- in and amongst the Coalition
25 of Large Distributors, that in some areas, in some service
26 territories, almost 30 percent might be subject to the
27 arrears management -- the changes in the arrears management
28 system that were contemplated in that Board initiative.

1 MS. HARE: But is it only amongst the other -- the six
2 that are the CLD that you have information on?

3 MS. BUTANY-DESOUZA: Well, the offering of the example
4 was because it was Horizon-specific.

5 And so we will take it as an undertaking, and...

6 MS. HARE: Okay. But if you had something that
7 included -- that encompassed more than just the six CLD,
8 that would be better. But take that as an undertaking.

9 MS. BUTANY-DESOUZA: Take that as an undertaking?
10 Sure.

11 MS. HELT: That will be -- I'm sorry, Undertaking
12 J1.7.

13 **UNDERTAKING NO. J1.7: TO PROVIDE MATERIAL TO SUPPORT**
14 **CONTENTION THAT HORIZON'S CUSTOMERS HAVE AMONG THE**
15 **LOWEST INCOME IN ONTARIO.**

16 MS. HARE: The next is just, Mr. Basilio, I remember
17 the Stelco insolvency, but I don't really remember it well.

18 The \$9 million, did that include commodity?

19 MR. BASILIO: To be more specific -- and it is a
20 number I will never forget -- of the \$9 million it lost,
21 78,000 represented our distributor charge.

22 MS. HARE: So the rest of it was commodity?

23 MR. BASILIO: Commodity and non-distribution, so some
24 of the transmission and other elements of the bill that
25 aren't our own.

26 MS. HARE: And are you still providing -- well, do you
27 provide all of those large customers with the commodity?

28 MR. BASILIO: Not all of them. The direct connects

1 are US Steel, GM -- or, sorry, not direct connects,
2 connects to ours. They're taking power through our system.
3 US Steel, GM... I will try and get the totality for you.

4 [Witness panel confers]

5 MR. BASILIO: Of the 12 large users that we have, only
6 three are wholesale market participants.

7 MS. HARE: Okay. Thank you. Ms. Lerette, with
8 respect to the facilities upgrade and expansion, you
9 indicated the space study is not completed. How, then, did
10 you come up with an estimate of 855,000?

11 [Witness panel confers]

12 MR. BASILIO: I believe -- it might be good to take as
13 an undertaking, the methodology, because the -- the lady
14 responsible for that study and those estimates isn't here.

15 What I believe is that in the work that's been done
16 thus far on that facility study, we've been provided with
17 scenarios and estimates that, depending on which way we go,
18 the requirements would be about \$800,000.

19 MS. HARE: Okay. Then the second part of that
20 undertaking would be: Could you let us know whether the
21 space requirements include requirements for people that are
22 in the unregulated business?

23 MR. BASILIO: Yes.

24 MS. HELT: Undertaking J1.8.

25 **UNDERTAKING NO. J1.8: TO CONFIRM METHODOLOGY FOR THE**
26 **\$855,000 ESTIMATE FOR FACILITIES UPGRADE AND**
27 **EXPANSION, AND WHETHER IT INCLUDES REQUIREMENTS FOR**
28 **STAFF IN THE UNREGULATED BUSINESS.**

1 MS. HARE: And my last question is for Mr.
2 Subbakrishna, so you don't think we have forgot about you.

3 [Laughter]

4 MS. HARE: Naturally, you got the data from Horizon,
5 but can you tell me what input Horizon personnel had into
6 the methodology, or the report itself?

7 MR. SUBBAKRISHNA: Well, I mean, typically, the way we
8 do one of these studies is that, you know, it is kind of
9 like an iterative process; in other words, we collect raw
10 data from them, you know, we analyze it.

11 We try to fit the data, I mean, into a house, and then
12 we show the house back to Horizon and say: Well, what do
13 you think? Does this make sense, given the way you
14 operate, given the -- I mean, given the business roles that
15 you have in place, given the way your various divisions
16 mesh with one another? Does this house make sense?

17 And the report is nothing but the embodiment of the
18 house, and the data are the bricks, that are used to build
19 the house.

20 So in that respect, it is collaborative. But in terms
21 of how the bricks are put together - in other words, the
22 methodology - there are certain elements of the
23 methodology, I believe, that have been accepted -- that
24 have been accepted by the Board in the applications of
25 other LDCs.

26 For example, the determination of service lag, this
27 whole issue of waiting for 12 business days for, a bill
28 from the IESO, it is not something new.

1 So I mean, to the extent that it has been accepted,
2 I -- we -- utilize a similar methodology in constructing
3 the house.

4 So I don't know if that fully answers your question.

5 MS. HARE: I was actually more interested in knowing
6 how much input Horizon had into your study.

7 MR. SUBBAKRISHNA: Other than the provision of data
8 and validating the results, per se, I think Horizon's input
9 was limited to that.

10 MS. HARE: Thank you. Mr. Sidlofsky, do you have any
11 re-direct?

12 MR. SHEPHERD: Madam Chair, before Mr. Sidlofsky asks
13 additional questions, I do have a couple more questions
14 that are not in camera arising out of what has just
15 transpired. You may wish to have me go ahead with those
16 now as opposed to waiting until after our break.

17 MS. HARE: I think our concern, Mr. Shepherd, is that
18 you have asked your questions, and to allow you a second
19 chance to ask questions, then, you know, possibly Mr.
20 Warren has more questions, Mr. Crocker has more questions.

21 MR. SHEPHERD: Well, I am in the middle of my cross-
22 examination, though, Madam Chair, and these are things that
23 I was going to ask in the confidential section. So I still
24 can, but --

25 MS. HARE: Now you have realized they're not
26 confidential?

27 MR. SHEPHERD: There is an opportunity, because of the
28 questions the Board asked, for me to ask them now on the

1 public record, but I am happy to wait, if you would prefer.

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

3 MR. SIDLOFSKY: Sounds like one way or another they're
4 going to be asked so...

5 [Laughter]

6 MS. HARE: Okay.

7 **CONTINUED CROSS-EXAMINATION BY MR. SHEPHERD:**

8 MR. SHEPHERD: The reason I wanted to ask this is
9 because I asked you earlier, Mr. Basilio, whether we're
10 going to see a big rate increase the next time you come in
11 for rebasing.

12 And I got the sense that what you were saying to Ms.
13 Taylor is, in terms of capital spending, capital spending
14 is still going to go up and that will drive a rate increase
15 next time around, so on the next rebasing, we are going to
16 see a lump for that.

17 But I got the sense that what you were saying is we're
18 not going to see a big increase in OM&A at that time; is
19 that fair? This is why I wanted it on the public record.

20 MR. BASILIO: Other than two issues, I would hope that
21 we would isolate the rate -- the potential for large or
22 larger rate increases to two issues. One would be --
23 because we would be coming back -- the next IRM period --
24 this IRM period would end. We would be back for 2015.

25 2015, we would still not be at the end of the growth
26 in our capital requirements or this trend of growth in our
27 capital requirements to a sustainable level of \$45 million.
28 So we would expect depreciation to continue to grow

1 significantly. The other piece --

2 MS. LERETTE: 2015 is the flattening.

3 MR. BASILIO: 2015 is the flattening?

4 MS. LERETTE: Yes, yes.

5 MR. BASILIO: But there is growth still. Depreciation
6 could continue to grow significantly between now and 2015.
7 So that could be a component that, again, is large.

8 Underlying that might be -- again, might be a
9 component to completing renewal in skilled trades, because
10 capital is growing. The number of employees supporting
11 that capital growth will grow.

12 But I am just going to look at my peers here, and I
13 think other than that, or, you know, policy changes, I
14 suppose that might drive costs, things like smart meters
15 and -- I would hope that that is the limit of elements of
16 our cost structure that are causing significant rate
17 increases.

18 MR. SHEPHERD: So am I right that your answer, then,
19 is that, We might see an increase in OM&A at that time, but
20 it won't be anything near as big as the one this time?

21 MR. BASILIO: It would be more limited in scope.

22 MR. SHEPHERD: Maybe I am just suspicious, but is it
23 likely to be significantly lower in dollars?

24 MR. BASILIO: I believe so.

25 MR. SHEPHERD: Good. And just as an aside, you said
26 your next rebasing is 2015. Isn't your next scheduled
27 rebasing 2016? You are a year early this year, right, but
28 isn't the next rebasing 2016?

1 MR. BASILIO: I think -- well, we're going on -- I
2 mean, that sounds like something that may be the subject of
3 argument, but we are going on the basis that if we rebase
4 in 2011, it is a four-year IRM period. The next rates are
5 effective 2015.

6 MR. SHEPHERD: So your planning is based on that?

7 MR. BASILIO: That's correct.

8 MR. SHEPHERD: Okay. Thank you, Madam Chair.

9 All of the rest of my questions are in camera.

10 MS. HARE: Okay, thank you. Mr. Sidlofsky.

11 **RE-EXAMINATION BY MR. SIDLOFSKY:**

12 MR. SIDLOFSKY: Thank you. I have one question that
13 may spread into two or three, but that should be all.

14 Mr. Basilio, I am going to take you back to your
15 cross-examination by Mr. Warren this morning. And, in
16 particular, I would like to take you back to the table at
17 page 26 of the Energy Probe compendium. It is the revised
18 table 3, summary of operating revenue.

19 I'm sorry, page 28. Sorry.

20 MR. BASILIO: I have it.

21 MR. SIDLOFSKY: That was the revised table 3-1,
22 summary of operating revenue.

23 Mr. Warren asked you to take a look at the large user
24 net operating revenue for both 2010 and 2011. I think when
25 Mr. Warren was taking you through those numbers, he was
26 asking you to confirm essentially that it is a \$20 million
27 difference.

28 But do you have any comments -- you may have already

1 clarified a bit of this in questions from my friend, Mr.
2 Shepherd, but do you have any comments on whether those
3 numbers are compatible -- or, excuse me, comparable?

4 MR. BASILIO: Well, firstly, I think I confirmed. I
5 would confirm that the difference is about 20 million. It
6 is more like 19.4, I think.

7 But, no, they're not comparable. They're not
8 comparable insofar as the 2011 forecast reflects, one, the
9 revenue deficiency and other changes that drive a change in
10 revenue that have been requested in the application.

11 Two, the load forecast underlying the 2011 column is
12 that requested in our application, and the 2010 column, the
13 load forecast is obviously that which was approved in our
14 2008 application.

15 And between the classes above the \$103 million, there
16 are changes related to cost allocation.

17 And 2011 is again -- and perhaps this is somewhat
18 obvious. It is at the 2011 rates requested in this
19 application. So they're not directly comparable, and I
20 think I clarified -- I think I clarified other elements.
21 There might have been other elements that I think I
22 clarified earlier.

23 MR. SIDLOFSKY: Okay, thank you. I think I may have
24 misspoken. If I referred to the large user net operating
25 revenue, that was actually the total net operating revenue.
26 I apologize. That was the \$20 million difference; correct?

27 MR. BASILIO: It was the net operating revenue that
28 you referred to, yes.

1 MR. SIDLOFSKY: Thank you. If I could just have a
2 moment, Madam Chair? Thank you, Madam Chair. Those are my
3 questions for now.

4 MS. HARE: Thank you. We will take our afternoon
5 break now before we start the in camera session, and I
6 remind people that haven't signed the confidentiality
7 agreement that you will have to leave and not be present
8 for the in camera session.

9 So we will come back at 3:10. Mr. Sidlofsky, you look
10 like you are going to say something.

11 MR. SIDLOFSKY: Yes. Just before we rise, I don't
12 know if my friend has any questions for Mr. Subbakrishna in
13 the in camera session or not, but --

14 MR. SHEPHERD: I do not.

15 MR. SIDLOFSKY: If no one else does, he would love to
16 be able to catch a flight shortly.

17 MS. HARE: That would be fine. Thank you very much
18 for attending. It was helpful.

19 MR. SUBBAKRISHNA: Thank you.

20 MS. HARE: So we will return at 3:10.

21 --- Recess taken at 2:50 p.m.

22 --- On resuming at 3:17 p.m.

23 --- In-camera session commenced at 3:17 p.m.

24 MS. HARE: Please be seated. We have to turn the
25 microphones on.

26 MR. SHEPHERD: Given what happened in the technical
27 conference, is it worthwhile to check?

28 MS. HARE: I know. We should just check.

1 MS. HELT: I understand that Patrick did actually
2 unhinge the connection for the on-air component.

3 MS. HARE: But we just pressed it, and it said "on
4 air."

5 MS. HELT: No, that may say "on air" but it does not
6 mean it is broadcasting it.

7 However, we are just double-checking.

8 MS. HARE: Okay.

9 MS. HELT: Confirmed that we are not on-air.

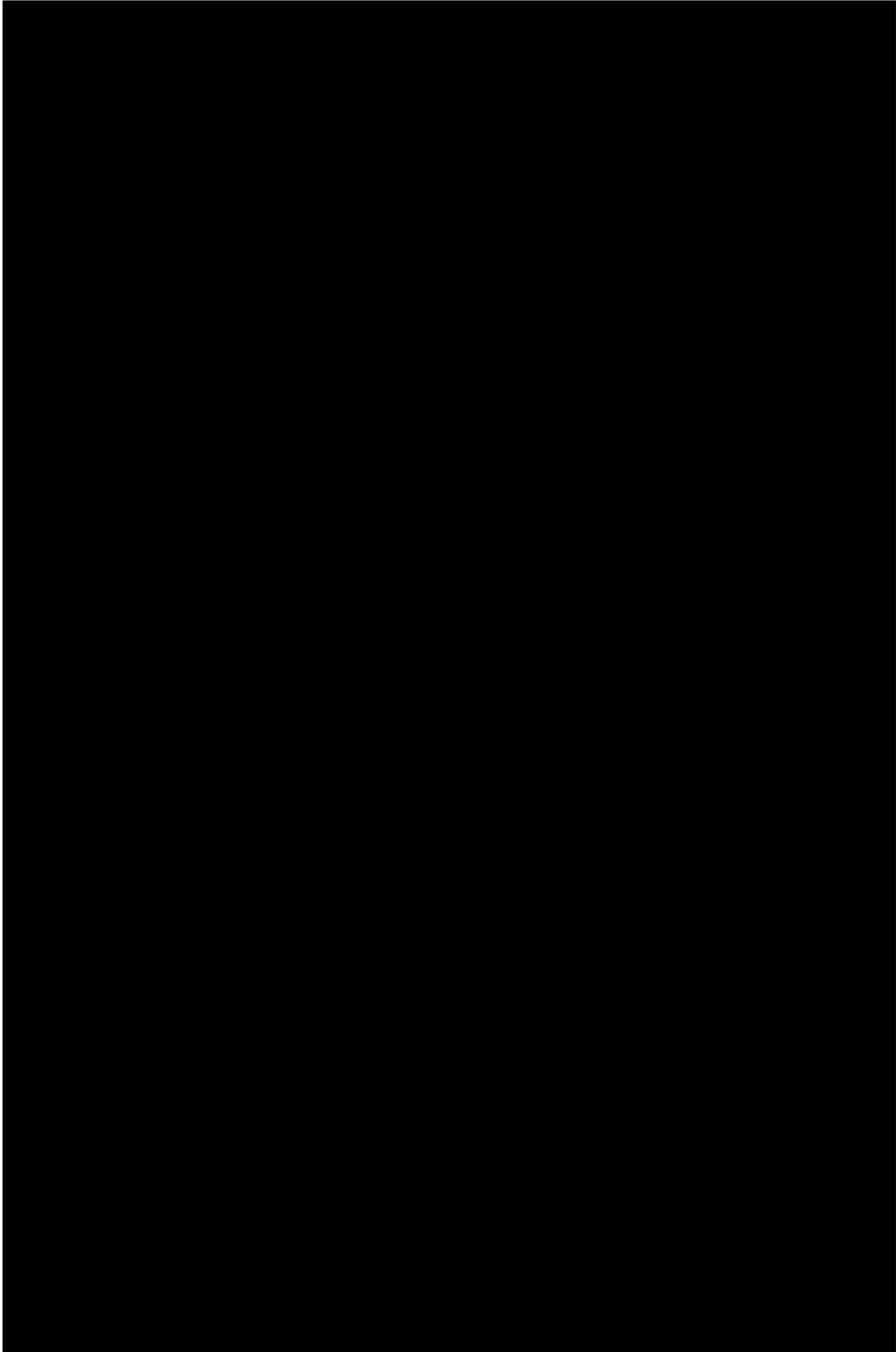
10 MS. HARE: Okay. Please proceed.

11 **FURTHER CROSS-EXAMINATION BY MR. SHEPHERD:**

12 MR. SHEPHERD: Thank you, Madam Chair.

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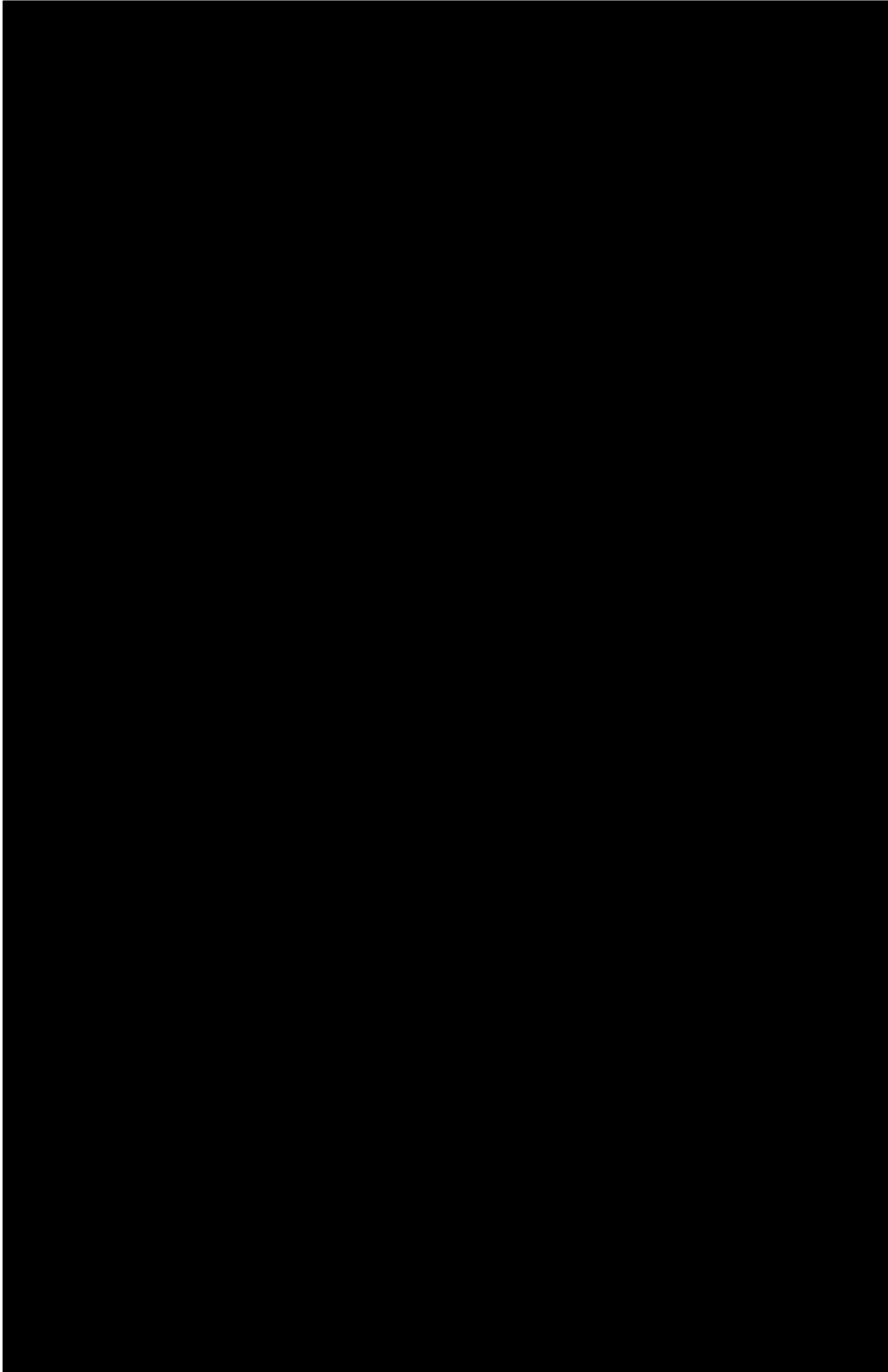


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24 So you can see in the application we have requested a
25 total service revenue requirement of, I think,
26 108.3 million. This is asking for [REDACTED]

27 I think the 108.3 now reflects the currently revised
28 ROE, the revised cost-of-capital parameters.

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1 MS. BUTANY-DESOUZA: Yes.

2 MR. BASILIO: This exhibit, at the time, included an
3 ROE of 9.85, so it was the old cost-of-capital parameters,
4 but substantively, this is the basis for the application.

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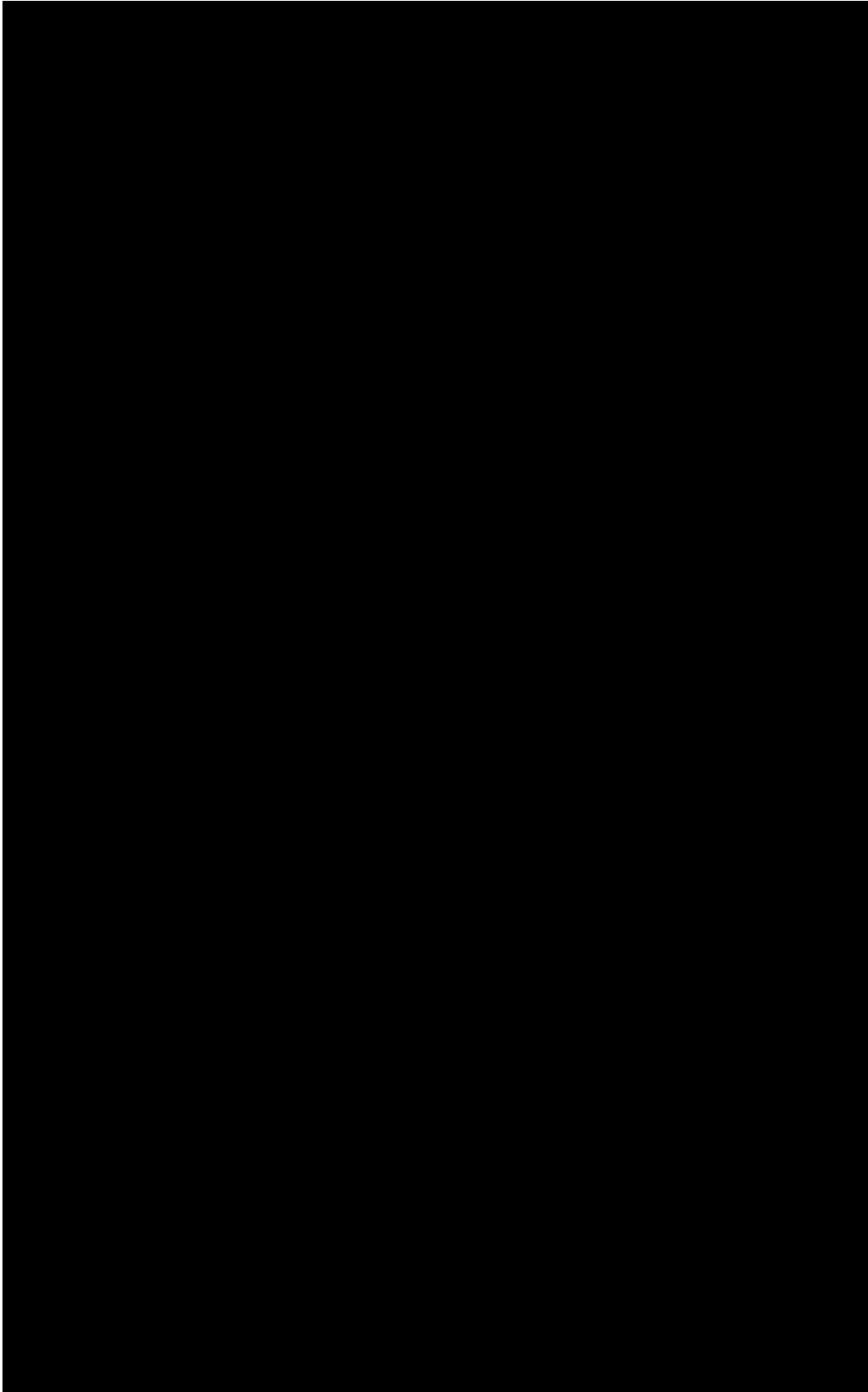
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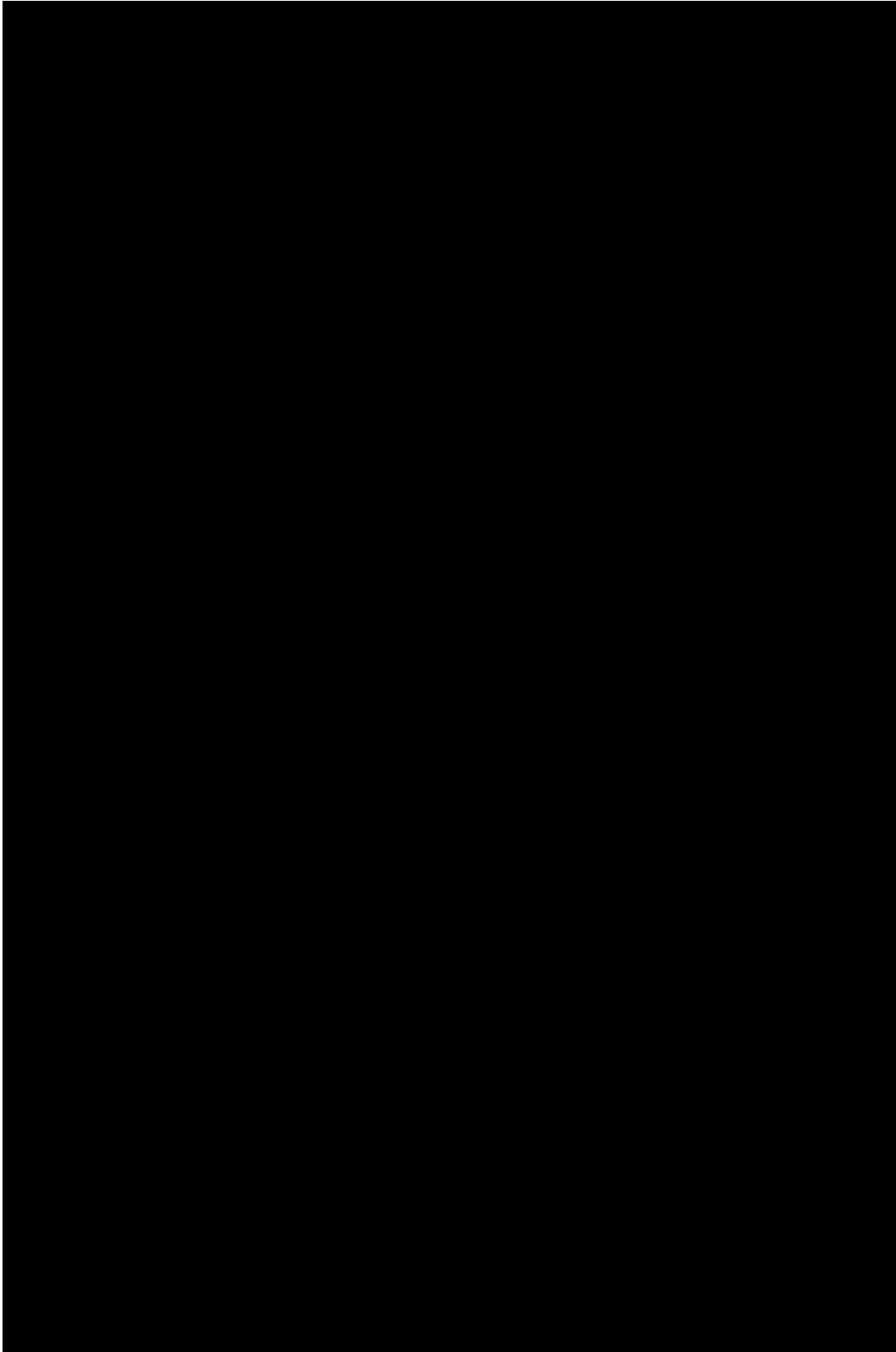


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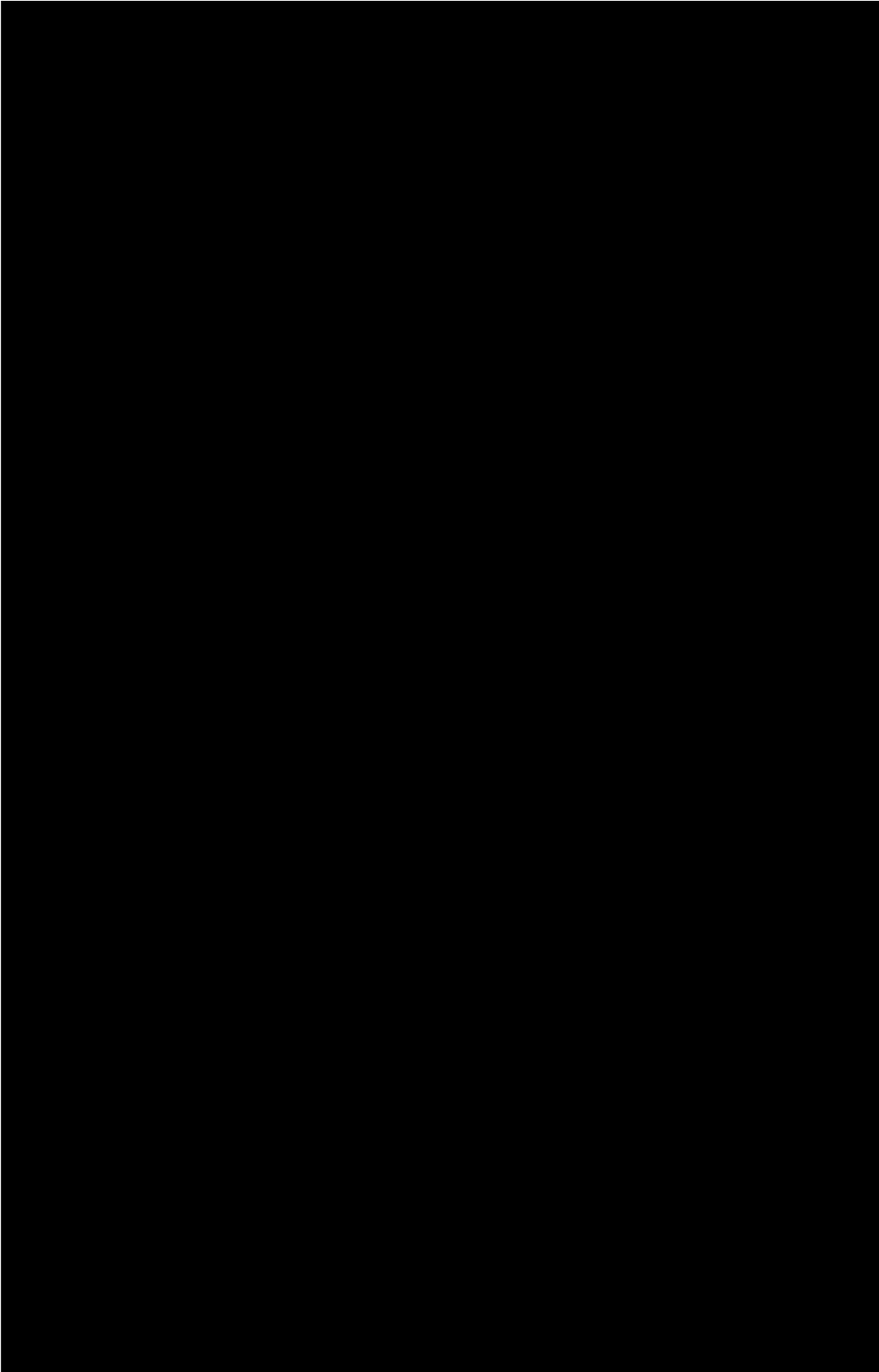
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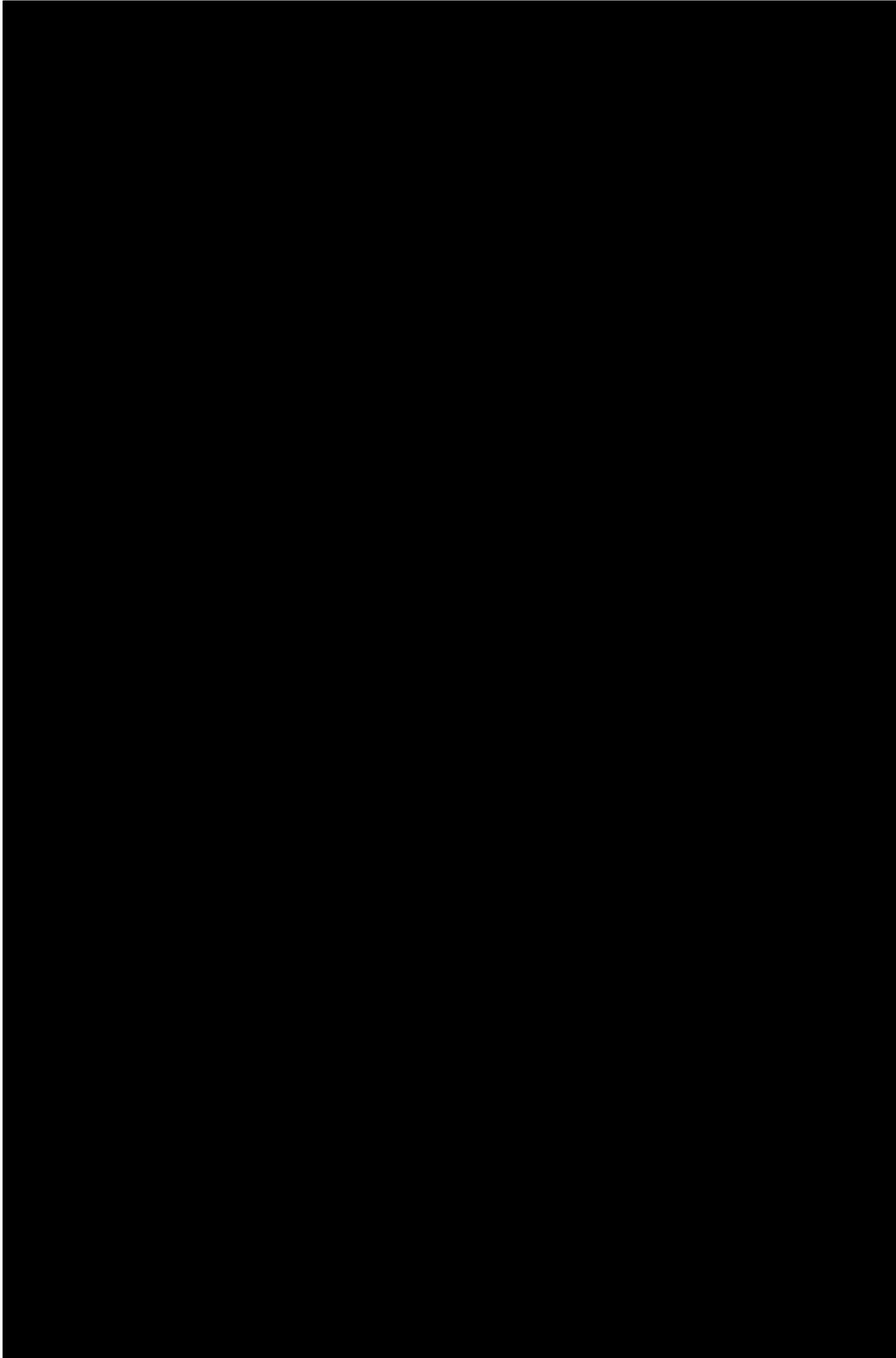


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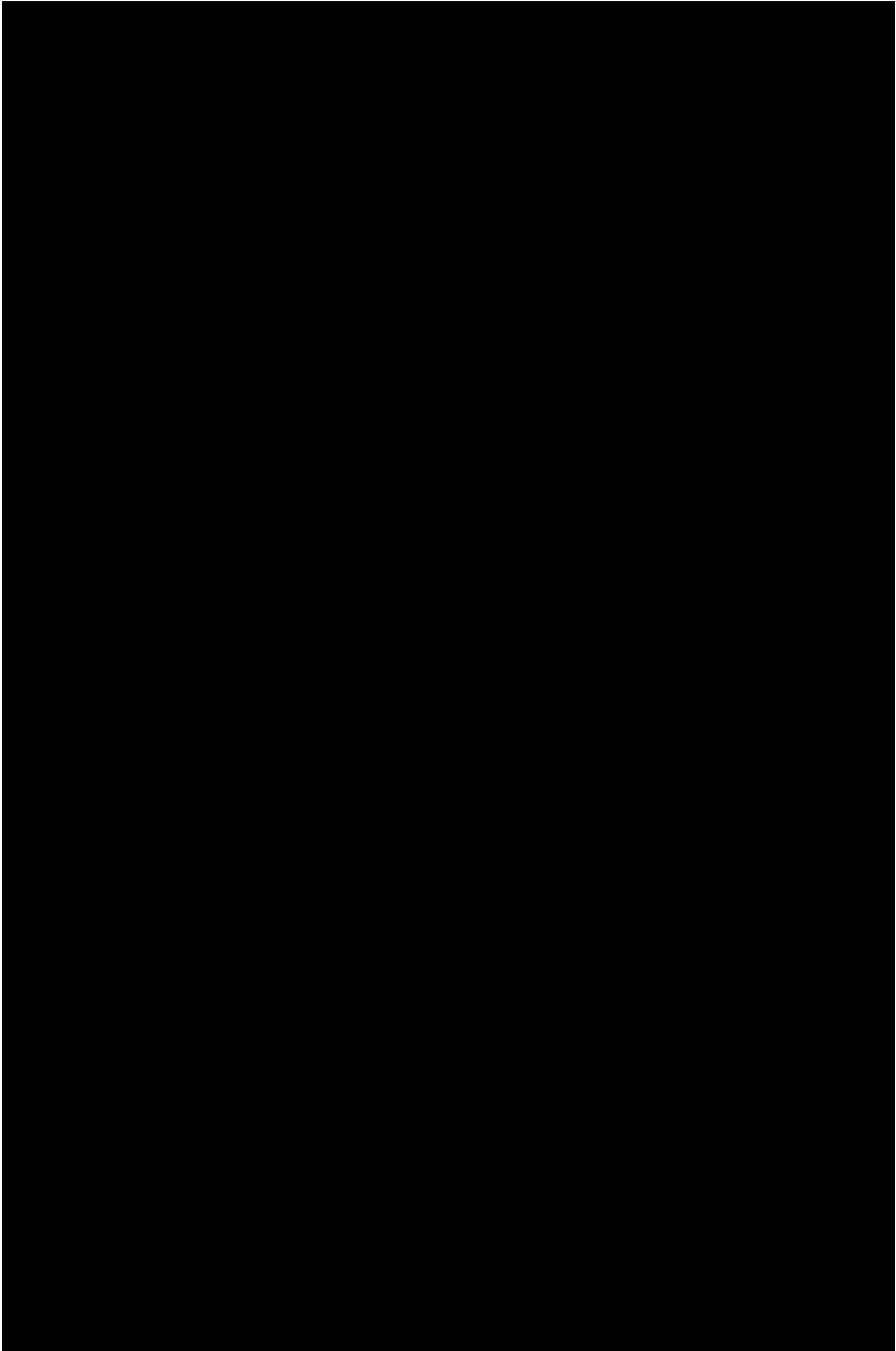
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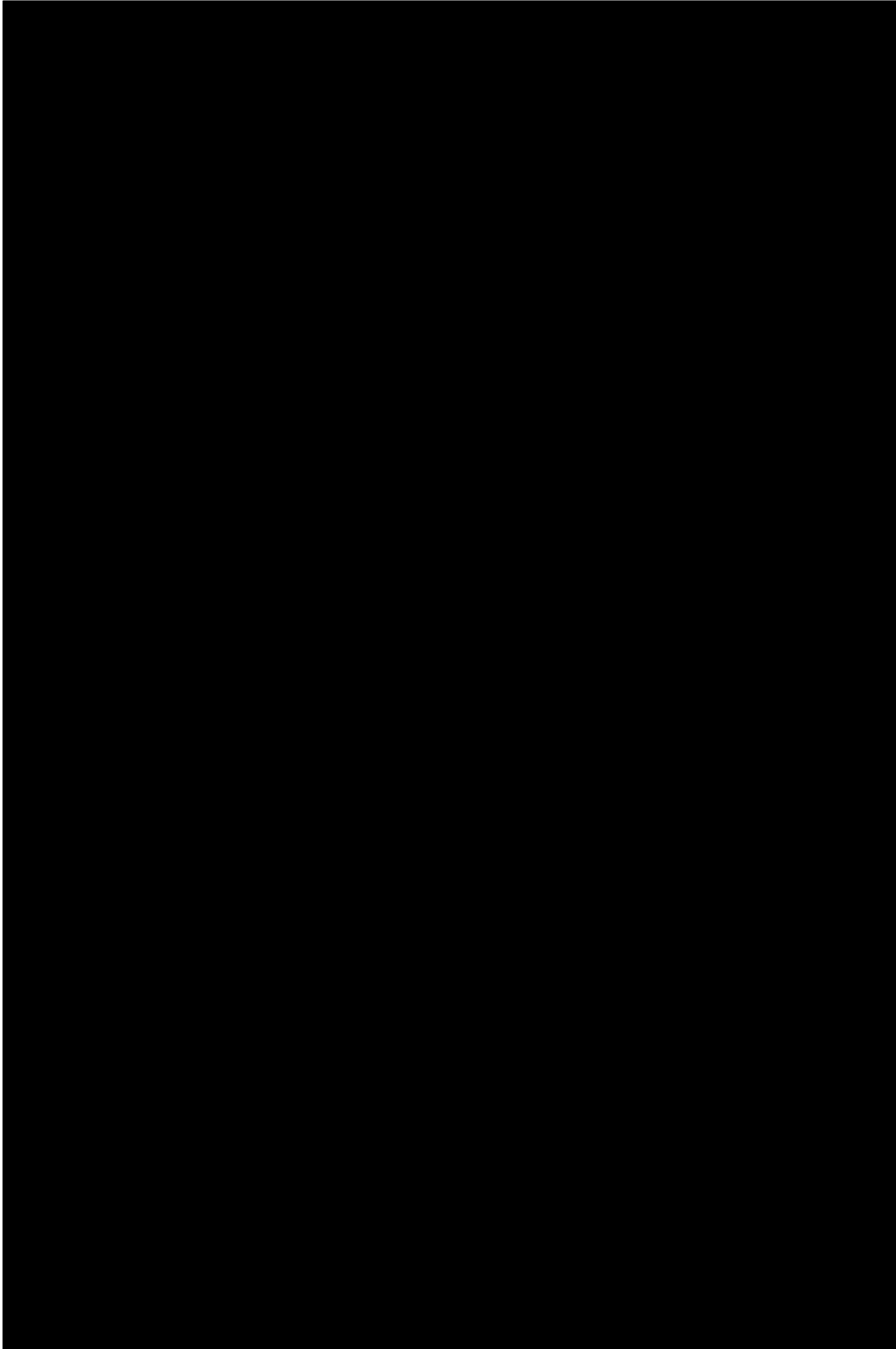
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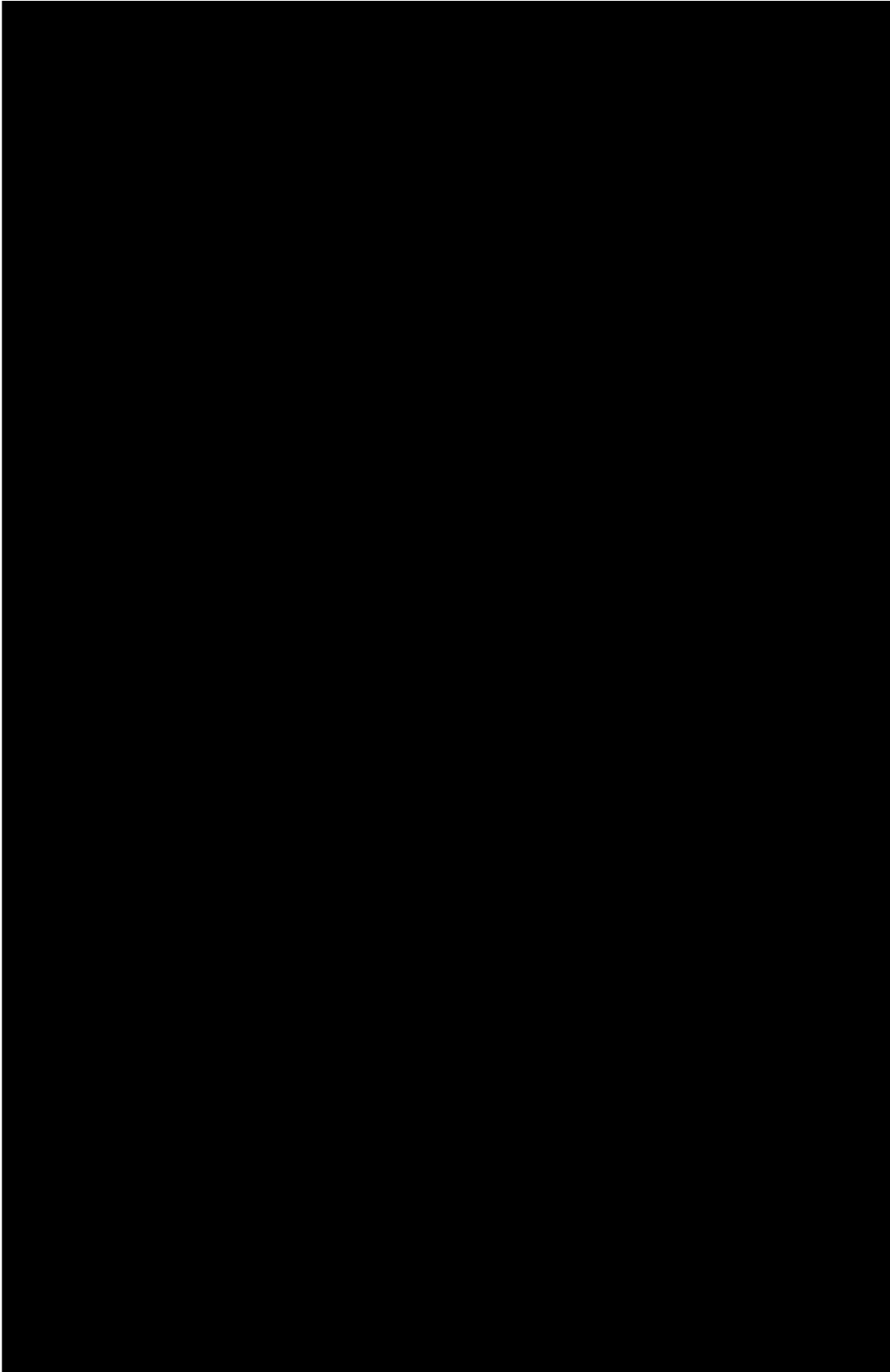


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8 MR. SHEPHERD: All right. The reason I ask this is
9 because it looks like, faced with flat revenues, you were
10 able to control your costs at flat costs, [REDACTED]
11 [REDACTED], for three years; right?

12 MR. BASILIO: We were able to manage our costs, but it
13 is not a state under which we would purport is sustainable
14 for the utility in the long term. But we certainly did
15 manage our costs trying to balance operational and
16 financial concerns.

17 MR. SHEPHERD: Well, see, the thing I didn't
18 understand here is you've talked in this current
19 application about your aging work force; right?

20 MR. BASILIO: Oh, yes. Sorry.

21 MR. SHEPHERD: It is hard to tell, because you have
22 such a young witness panel, but, generally speaking, you
23 have -- the people in the field are coming close to
24 retirement; right?

25 MR. BASILIO: That's correct. And I believe -- we can
26 elaborate. There is -- we can elaborate on that, but
27 that's correct.

28 MR. SHEPHERD: A high level right now.

1 MR. BASILIO: Yes.

2 MR. SHEPHERD: The problem I have is it was aging last
3 year and the year before, too; right?

4 MR. BASILIO: Yes. Every year we age.

5 [Laughter]

6 MR. SHEPHERD: But the problem existed already in the
7 last three years; right? It is not a new problem?

8 MR. BASILIO: No, it is not.

9 MR. SHEPHERD: But you weren't spending money on it in
10 those years, were you?

11 MR. BASILIO: We were spending money, but at a pace
12 that reflected the revenue that was coming in.

13 MR. SHEPHERD: And the reason for that is because it
14 wasn't as urgent as it is now?

15 MR. BASILIO: Well, it is becoming more urgent, in
16 fact, because we have to -- we have to step up our capital
17 programs, but it's definitely an urgent issue.

18 MR. SHEPHERD: And was it an urgent issue last year
19 and the year before?

20 MR. BASILIO: Absolutely. And, again, we have
21 continued to invest. As I remarked earlier, despite the
22 revenue shortfalls, we have continued to focus on the nuts
23 and bolts of our business, and that is renewing the
24 infrastructure and providing the support to renew the
25 infrastructure, but as I think -- I mean, there is a lot of
26 evidence on this subject, between our Z-factor, the
27 preliminary issue and here.

28 We've been managing pace somewhat in some of those

1 investments.

2 MR. SHEPHERD: You are very good at staying on
3 message, Mr. Basilio, but I was actually asking about aging
4 work force, not infrastructure renewal. The aging work
5 force was a problem in the last three years? Yes?

6 MR. BASILIO: Yes.

7 MR. SHEPHERD: Okay. You didn't spend as much money
8 in those years as you are proposing to spend on it this
9 year; right?

10 MR. BASILIO: A moment, please.

11 [Witness panel confers]

12 MR. BASILIO: If you give me a second, I think it is
13 important to work with real numbers and dollars. We are
14 just going to take a moment to --

15 MR. SHEPHERD: I am happy if you are willing to give
16 an undertaking to give us your total spending on the aging
17 work force problem, 2008 through 2011. That would be very
18 useful information.

19 [Witness panel confers]

20 MR. BASILIO: If we could take a moment, because I
21 believe we provided that information in evidence.

22 MR. SHEPHERD: Wonderful.

23 [Witness panel confers]

24 MR. BASILIO: We will take an undertaking.

25 MS. HELT: That will be Undertaking J1.9.

26 **UNDERTAKING NO. J1.9: TO PROVIDE BUDGETED AMOUNT OF**
27 **TOTAL SPENDING ON AGING WORK FORCE PROBLEM, 2008**
28 **THROUGH 2011.**

1 MR. BASILIO: But -- oh, sorry, excuse me. We have,
2 in fact, provided that information with reference to the
3 apprenticeship tax credits.

4 I think -- we will take the -- we will provide the
5 undertaking, but I guess the point I am making is we have
6 invested in our skilled trades over the past three years.

7 MR. SHEPHERD: I am not actually asking for an FTE
8 breakdown or anything like that. I mean, we will get to
9 that, but I am asking for your overall amount included in
10 your budget each year to deal with the aging work force
11 problem.

12 If you can give us that, that would be very useful.
13 That is what the undertaking was intended to ask.

14 MR. BASILIO: Sorry, I thought the undertaking was the
15 amount we had invested in 2008, 2009 -- sorry, if I could
16 just back up, because I am a little unclear, the line of
17 questioning seemed to be this was an urgent issue in the
18 past -- I am paraphrasing here -- you didn't address it,
19 and now you are asking for a lot.

20 My point was we have continued to address it in 2008,
21 2009 and 2010.

22 MR. SHEPHERD: That's fine. So just tell us what the
23 numbers were for '08, '09, '10 and now '11.

24 MR. BASILIO: Will do.

25 MR. SHEPHERD: If you could do that, that would be
26 good.

27 MS. HELT: If I can correct myself, it should be

28 JX1.9.

1 MR. SHEPHERD: And -- oh, by the way, would that
2 answer be a confidential answer, do you think?

3 MR. SIDLOFSKY: Sorry, I think it is appropriate to
4 keep it in the confidential form with all of the other
5 evidence.

6 MS. HARE: As you know, Mr. Sidlofsky, the Board
7 prefers to have as much on the public record as possible.

8 So if it can be filed publicly, that would be the
9 Board's preference, even though it stems from the
10 confidential discussion. But if it does have confidential
11 information, then that would make sense.

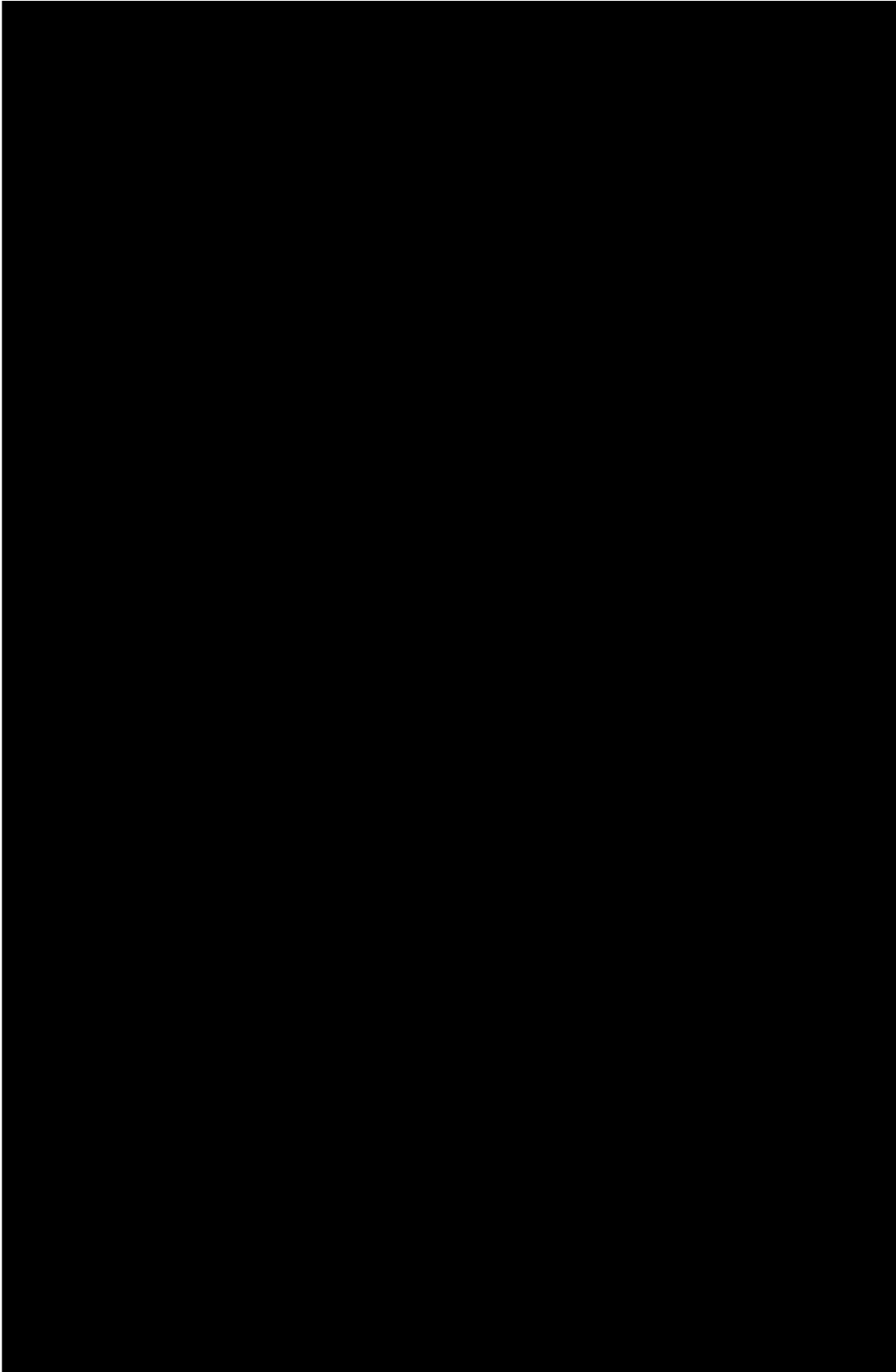
12 MR. SIDLOFSKY: It looks like the panel feels that
13 that is -- that can be a public answer.

14 MS. HARE: Thank you.

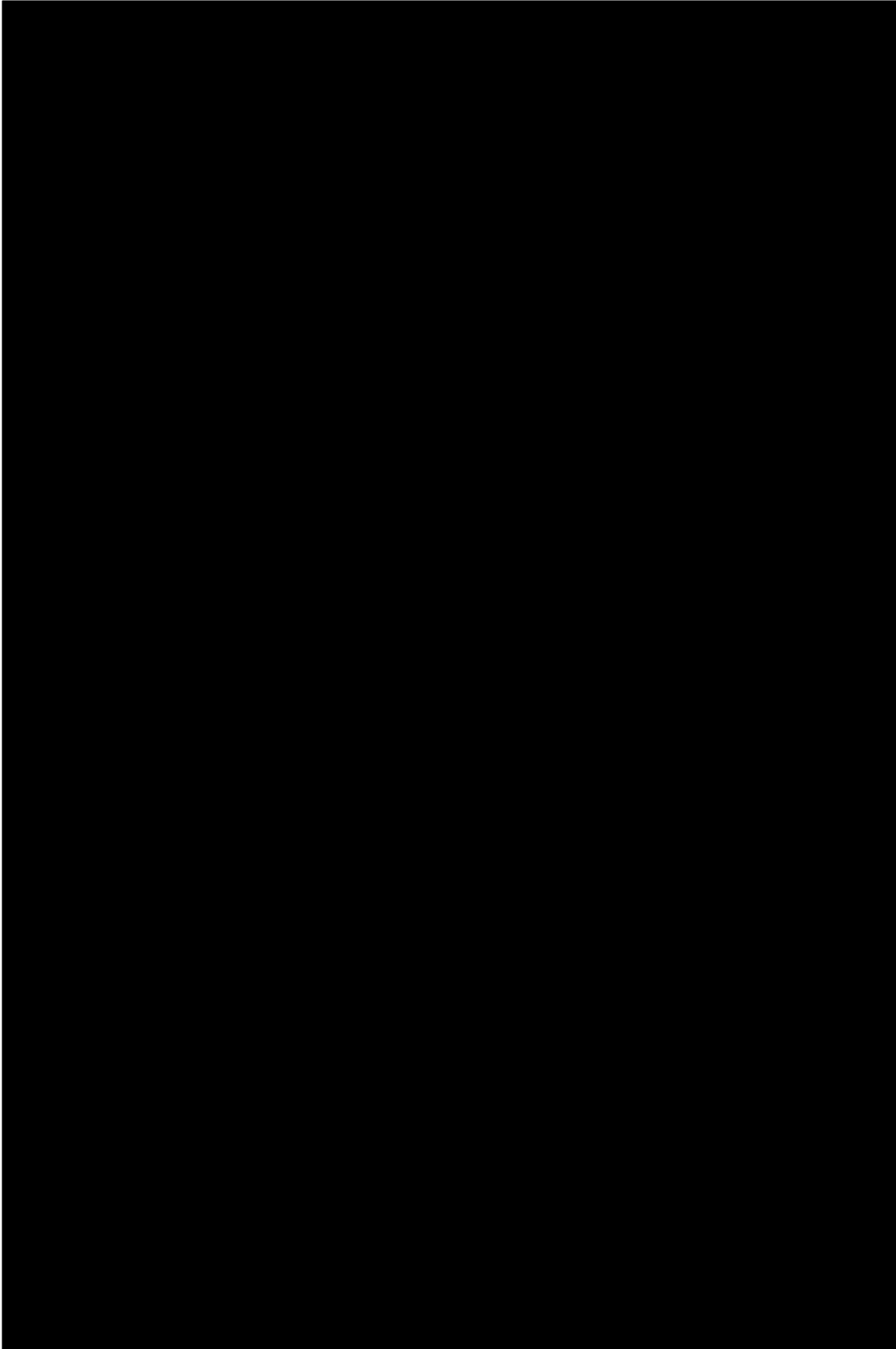
15 MS. HELT: Then that will be Undertaking J1.9.

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Is that actually the number that we should be thinking about as your increase in operating costs over one year? Is this the most recent information?

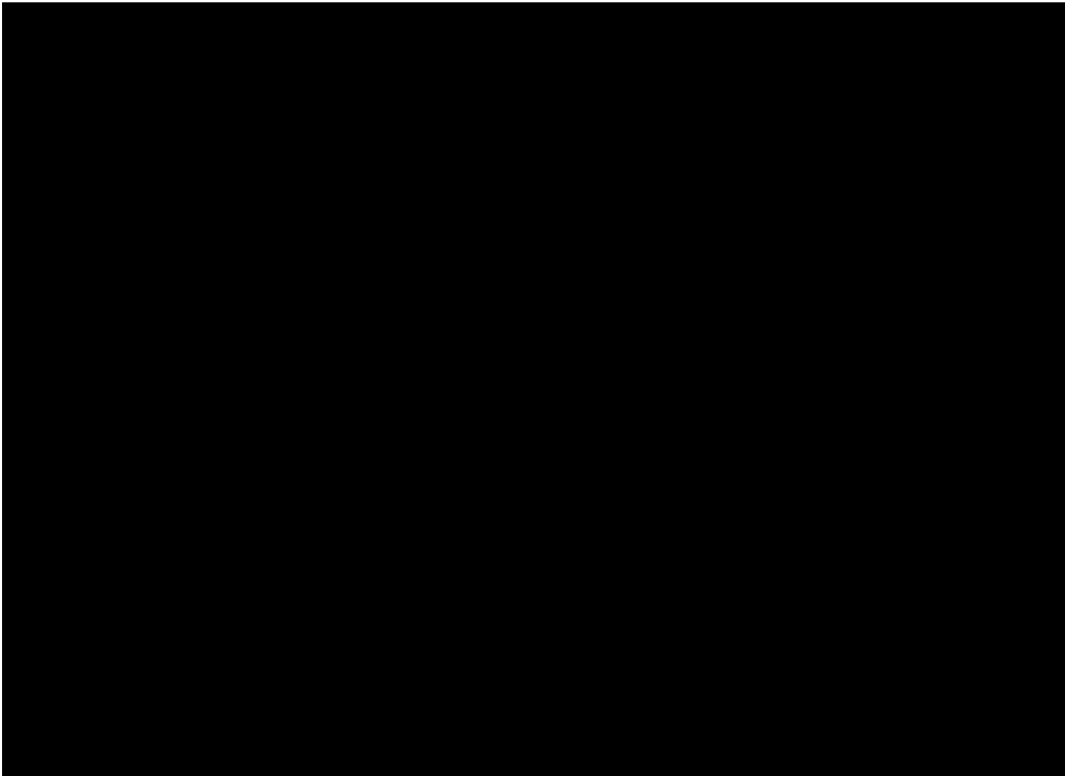
MR. BASILIO: I thought we filed our 2010 final results.

MR. SHEPHERD: If you have more up-to-date information, that's great. There is 10,000 pages of material. I might have missed it.

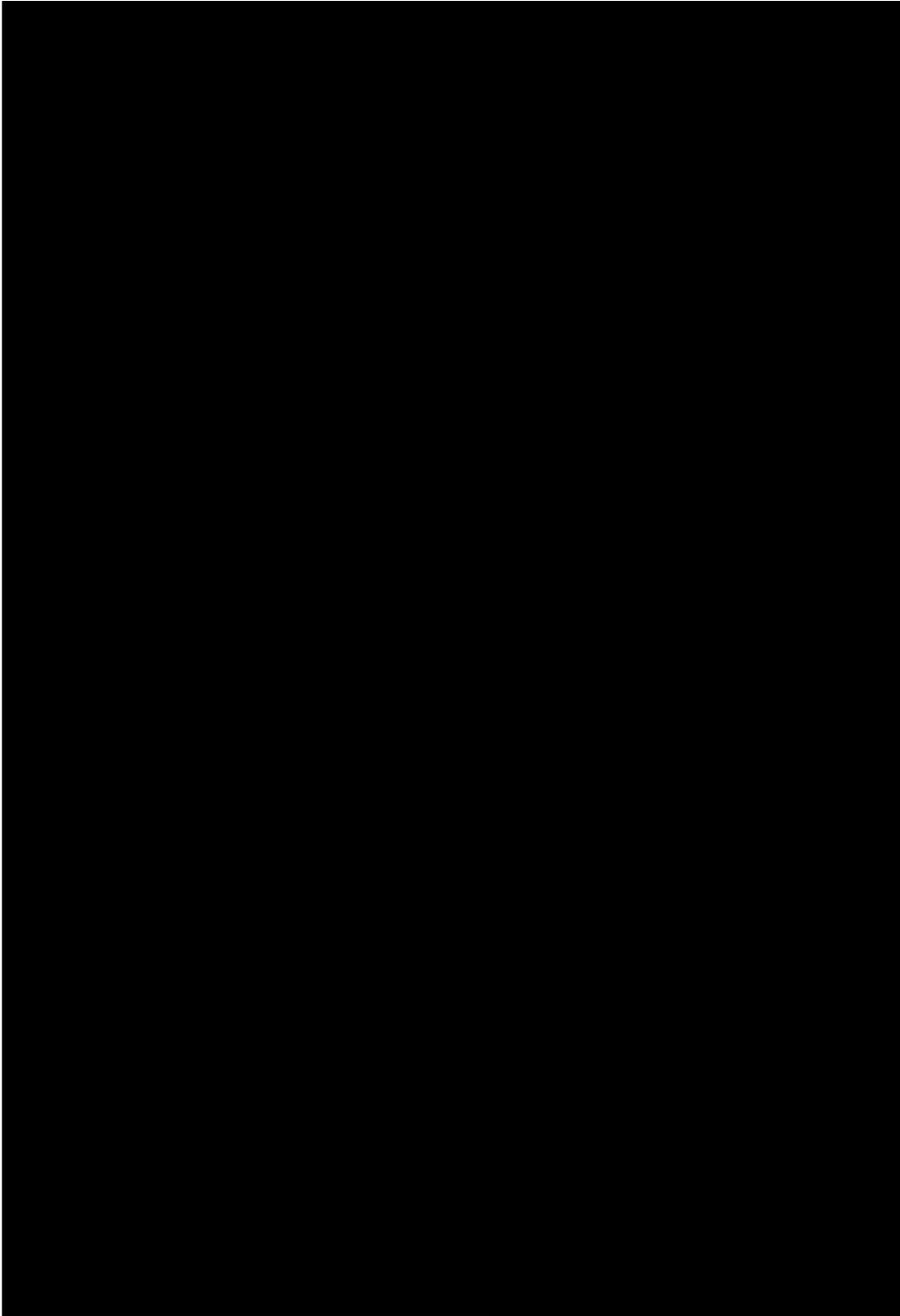
[Witness panel confers]

MR. BASILIO: I believe the final number was 39.5, excluding smart meters for OM&A for 2010, subject to check.

MR. SHEPHERD: Okay. Thank you.



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Here's what I'm trying

1 to understand. In 2008, 2009 and 2010, you are spending
2 the shareholders' money, and somehow you manage to maintain
3 a \$42 million budget for operating costs.

4 In 2011, now you are spending the ratepayers' money,
5 and you seem to have an \$8.6 million increase. That is
6 because it is our money. It is not the shareholders'
7 money; right?

8 MR. BASILIO: Sorry, I don't understand the premise of
9 the question. I don't differentiate between spending
10 shareholder dollars and ratepayer dollars when -- my
11 decisions are based on: What does the distribution utility
12 require to prudently sustain itself for the benefit of our
13 customers and shareholders?

14 I really don't -- when I am making a decision to spend
15 a dollar on this wire or this pole or this system, it
16 really -- I am not thinking about whether it is a
17 shareholder dollar or whether it is a customer dollar.

18 So I am not quite sure -- I am confused. I am not
19 quite sure how to answer that question.

20 MR. SHEPHERD: I must be misunderstanding your answer,
21 Mr. Basilio, because it doesn't sound like it is quite
22 correct.

23 You said earlier that you deliberately deferred
24 spending in 2008 through 2010, and you are not deferring it
25 now because this is a cost of service year. It is our
26 money; right?

27 MR. BASILIO: I don't think that is entirely correct.

28 When we go through a budget process, I can assure

1 you -- and this is based on experience. I am sure many
2 have had this experience, that when we receive budgets in
3 the first instance, through the planning process, and
4 aggregate them, they're far and away greater than the final
5 product. Our planning process goes through several
6 iterations.

7 I can tell you, and I am sure my colleagues would
8 attest, that as they're rolling up the budgets to me, I
9 receive requests from Kathy, Eileen and others that -- and,
10 I mean, they believe those things, of course, are in the
11 best interests of taking the utility forward, but they need
12 to be balanced in the context of, one, affordability --
13 affordability, financial prudence.

14 So there is always at tension in the development of
15 any budget between financial and operational prudence.
16 Again, I don't really differentiate between shareholder and
17 ratepayer dollars, but I guess what I am coming back to is,
18 in the course of preparing this budget, this is far and
19 away less than what the asks were and what were probably
20 three, four, five, prior iterations.

21 MR. SHEPHERD: So are you telling this Board, then,
22 that the fact that you have a big OM&A increase in 2011 and
23 you didn't in 2009 and 2010 is not because it is a cost of
24 service year; it is just accidental you had -- it is now
25 time to catch up? You couldn't wait any longer. Even if
26 it wasn't cost of service, you would still have to catch
27 up; is that right?

28 MR. BASILIO: No, I'm not saying that whatsoever.

1 Again, we deferred some level of expenditure to manage
2 the tension between operational and financial prudence when
3 confronted with circumstances that weren't anticipated,
4 that were adverse to the utility. That's how we managed
5 it.

6 We didn't defer all expenditures. We continued to
7 spend. We will demonstrate in the undertaking we continued
8 to spend in renewing our work force. The evidence shows
9 that we continued to increase spending, prudently, in
10 renewing the distribution system infrastructure, but there
11 is a tension when confronted with adverse circumstances.

12 Now, we are in a cost of service year, and that is an
13 opportunity to address some of those deferrals that we feel
14 are prudent in the interests of our customers.

15 Let me try it another way. If your question was:
16 Would you be advancing an additional \$8 million if we had
17 to operate in an environment where, you know, the
18 conditions that are persisting -- that are persisting prior
19 to the application continued? There is no way to do that.
20 But at the same time, the full \$8 million wouldn't come
21 out.

22 Capital could not continue to come back -- I mean,
23 it's not a good situation for the utility. It's not a
24 sustainable situation. We view this application as an
25 opportunity to correct issues with respect to our 2008
26 application that are out of our -- were out of our control.

27 MR. SHEPHERD: It's a catch-up?

28 MR. BASILIO: In some respect.

1 MR. SHEPHERD: Okay. You are still managing to spend
2 several million dollars on dividends every year; right?

3 MR. BASILIO: We are, but at far reduced levels from
4 prior years. Certainly at levels -- again, our dividend
5 policy is provided in the evidence. Our dividend policy is
6 up to 60 percent of income, subject to a number of
7 prudential concerns.

8 I can elaborate on those, as necessary, but it varies
9 with income, a level of income that is, [REDACTED]
10 [REDACTED] well below the regulated rate of return.

11 MR. SHEPHERD: So in 2009 when you earned \$12 million,
12 you spent 60 percent of that on dividends, right, the
13 maximum?

14 MR. BASILIO: We did in that year.

15 MR. SHEPHERD: But you didn't increase your OM&A
16 budget even though you had reason to; right? You deferred
17 things instead?

18 MR. BASILIO: We deferred some level of expenditure;
19 that's right.

20 MR. SHEPHERD: You didn't defer any of your dividends,
21 did you?

22 MR. BASILIO: No, just as we didn't defer any interest
23 payments on our debt obligations. Capital has a cost, and
24 Board rate-making policy recognizes that and that it is
25 required to deliver a sustainable business model for the
26 distribution utility.

27 MR. SHEPHERD: Oh, no, understood. But if you have
28 two expenses and you only have so much money, not enough

1 for both of them, you have to decide between them; right?

2 You have to set priorities.

3 MR. BASILIO: I didn't decide -- I mean, we didn't
4 defer expenditures to achieve the maximum rate of return.

5 And certainly -- certainly if management wanted to do
6 that -- I am not suggesting it is prudent, but let's face
7 it, if management wanted to cut back expenditures to meet
8 or exceed the regulated level of return, it could have done
9 so in that year.

10 It did not. It did not. It balanced.

11 MR. SHEPHERD: [REDACTED]
12 [REDACTED] in 2008, your
13 income before taxes was 20.7 million. That was well in
14 excess of what you forecast in your 2008 application,
15 wasn't it?

16 MR. BASILIO: Right again, but that requires some
17 clarification, because, again, we're reporting on a fiscal
18 year basis here. That application was effective May 1st.
19 That application returned approximately \$5 million of
20 savings from our St. Catharines merger to ratepayers.

21 And elements of those savings remained in those
22 results for the first four months of that year, in addition
23 to some one-time -- and this is in the evidence, as well --
24 one-time recoveries of past expenditures related to OMERS
25 and LRAM, SSM, so that is just to clarify.

26 MR. SHEPHERD: You know, I heard the merger argument
27 in the technical conference, Mr. Basilio, and I couldn't
28 figure out how the math worked. You got a rate increase on

1 May 1st; right?

2 MR. BASILIO: Yes.

3 MR. SHEPHERD: If you had a rate increase, how could
4 there have been more savings for the shareholders prior to
5 May 1st?

6 MR. BASILIO: It is the additional costs that
7 ratepayers would have borne otherwise in the absence of the
8 merger.

9 The merger delivered \$5 million of savings by
10 integrating the two utilities. In the absence of that
11 merger, those two rate bases would have been \$5 million
12 more, and separately you would have had St. Catharines and
13 Hamilton Hydro applying for rate increases that in
14 aggregate would have been \$5 million -- \$5 million plus
15 inflation, but certainly in excess of \$5 million more than
16 what was applied for in the 2008 application.

17 MR. SHEPHERD: In the first four months of 2008, you
18 were earning less than your allowed rate of return; right?
19 You had to be. You asked for a rate increase.

20 MR. BASILIO: We were -- um..., I just want to make
21 sure I am giving the right response here.

22 [Witness panel confers]

23 MR. BASILIO: I apologize. I can't recall, but we
24 were required to file in 2008. It was our first cost-of-
25 service application year, our first forward test year
26 application.

27 MR. SHEPHERD: You didn't have a deficiency?

28 We can check. I just -- I thought you would remember.

1 MR. BASILIO: I can't recall -- specifically, I can't
2 recall the return in 2007.

3 MR. SHEPHERD: All right. All of this is really
4 about -- let me just ask you one more question about
5 earnings [REDACTED], with everybody's
6 thanks.

7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
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10 MR. SHEPHERD: All right. You were also asked in the
11 technical conference, and indeed in interrogatories - I
12 won't take you to them - to explain where in the current
13 application there are savings from past productivity
14 improvements.

15 And you weren't able to do so, were you?

16 MR. BASILIO: I am prepared to do that today.

17 MR. SHEPHERD: Oh, good. It would have been nice
18 earlier, but today is good too.

19 MR. BASILIO: At a high level, we have provided in our
20 evidence that -- sorry, I've got a schedule here and I
21 think someone's picked it up, but I am pretty sure I can
22 work off the top of my head here -- that we don't track
23 total factor productivity by process, and -- but we are
24 creating processes that will measure, and we expect being
25 able to do that on a go-forward basis as we renew
26 processes.

27 But in this application, in the manager's summary -
28 and I can't recall the page off the top of my head - we're

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1 asking for essentially about an \$8 million increase to OM&A
2 relative to our 2008 application.

3 If we assume inflation at 3 percent, which is
4 conservative, in my view, given wage and price inflation
5 over the last three years, that is about \$3.7 million on
6 our OM&A base for 2008 of approximately \$40 million. I
7 think it was 39.8 million.

8 We have provided for an increase of 60 headcount since
9 that approved in our 2008 rate base. That aggregates five-
10 1/2 million since 2008, of which 2.8 million is allocated
11 to operating.

12 [REDACTED] we've provided for
13 initiatives we think are very important to bring the
14 utility forward, some of those initiatives being hiring
15 skilled trades, some being the enterprise data warehouse,
16 that aggregate 3.9 million.

17 When you sum those three items, that aggregates
18 10.4 million, \$10.4 million. We're asking for eight.

19 We have taken 2.4 out of the system. I can't --

20 MR. SHEPHERD: So --

21 MR. BASILIO: If I can just continue, we have taken
22 2.4 out of the system; we're not asking for it.

23 If you take that 2.4 million and compare it to the
24 86.6 million of revenue requirement, rate revenue
25 requirement that was granted in 2008, over the past three
26 years we've delivered about 90 basis points of productivity
27 annually, based on that information.

28 IRM would require us -- based on how we're

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1 classified -- to achieve 1.12 percent a year. We're short
2 22 basis points based on that.

3 That -- I think my perspective is that is a success in
4 a period where we have been very challenged to invest in
5 initiatives to support productivity.

6 MR. SHEPHERD: So if it weren't for your past
7 productivity, you would have asked for a \$10.4 million
8 increase?

9 MR. BASILIO: That's correct. That is what we would
10 have viewed -- we would have asked for 10.4. We are asking
11 for eight, but the value of changes to OM&A, excluding
12 productivity, the value of changes to OM&A since 2008 is
13 10.4 million. We are asking for eight. I --

14 MR. SHEPHERD: All right. I want to move on to a
15 different area 

16 

17 And I want to start with K1.6, again. That is the
18 table we filed. Do you have that?

19 MR. BASILIO: Yes.

20 MR. SHEPHERD: And the second part of this table is a
21 comparison of your existing capital per customer from 2009
22 year book data.

23 What it appears to show -- and tell me whether this is
24 correct -- is that your PP&E per customer is very low
25 relative to the other large utilities in the province.

26 If you take a look, this is the 10 utilities with the
27 largest rate base in the province. You appear to be well
28 below all but two of them.

1 MS. BUTANY-DESOUZA: I am not sure that the word I
2 would use is "very low" but it is certainly lower than
3 others.

4 MR. SHEPHERD: And that - tell me whether this is
5 right - that implies that your assets are generally older
6 than other LDCs; right? That is why your rate base is
7 lower?

8 MS. BUTANY-DESOUZA: Our assets are older than several
9 of these other LDCs.

10 MR. SHEPHERD: And because of that low amount, the
11 older assets, that implies that you will have higher
12 capital renewal requirements for your infrastructure;
13 right?

14 MR. BASILIO: That's correct. We have an older --
15 relatively older service territory, relatively higher
16 renewal requirements.

17 MR. SHEPHERD: Okay. So things like poles and
18 substations and feeder lines and all of those sorts of
19 things, because you have an old system, they will generally
20 be older and they need more renewal. They need to be
21 replaced more than another utility, like Enersource, for
22 example, in Mississauga, which has generally newer stuff;
23 right?

24 MR. BASILIO: I can't speak to Enersource
25 specifically, but the analogy would hold.

26 MR. SHEPHERD: All right. And so this is the
27 rationale behind increasing your capital spending; right?
28 Is you have to renew this, because if is getting old?

1 MR. SHEPHERD: And so you hired Kinectrics to do that?

2 MR. BASILIO: We did.

3 MR. SHEPHERD: It was actually both parties hired
4 Kinectrics jointly; right?

5 MR. BASILIO: Jointly. All of the due -- this due
6 diligence was undertaken jointly. Most of the due
7 diligence to develop the merger business case was
8 undertaken jointly.

9 MR. SHEPHERD: Good. And Kinectrics are recognized
10 experts in the field?

11 MR. BASILIO: They are.

12 MR. SHEPHERD: Okay. So on [REDACTED]
13 [REDACTED] it was a full study. It was like an analysis
14 of the assets on the ground; right?

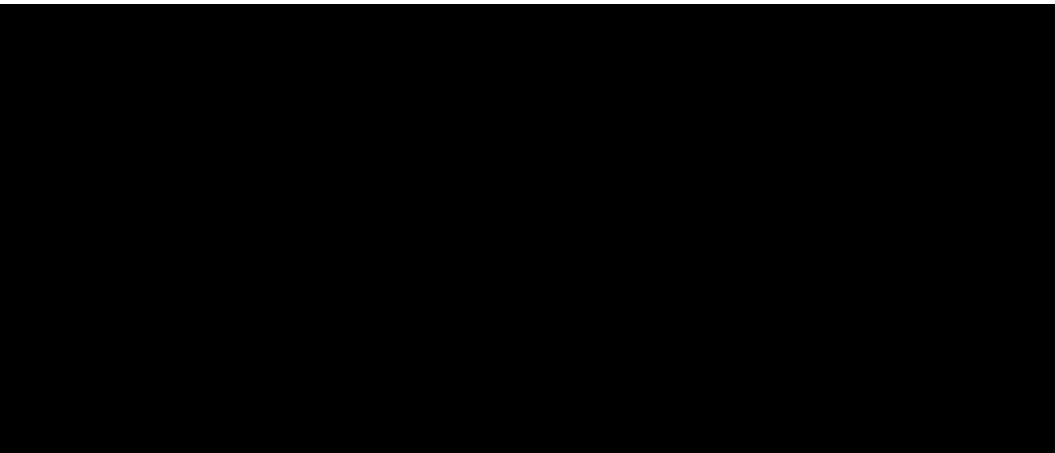
15 MR. BASILIO: Yes.

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26 MR. SHEPHERD: And so based on their experience, that
27 is what they thought you should be spending; right?

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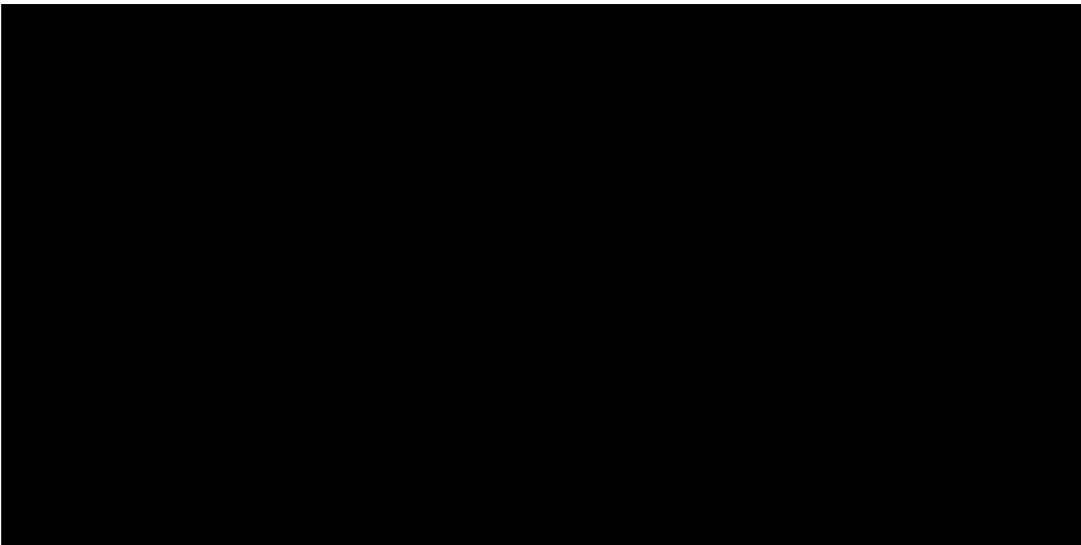
MR. SHEPHERD: Okay. Well, the reason I ask that is because, if you look at the pattern of their spending, they don't have the sort of hockey stick pattern that you are suggesting now is necessary.

They have a gradual increase in spending over 20 years. It is pretty static; right?

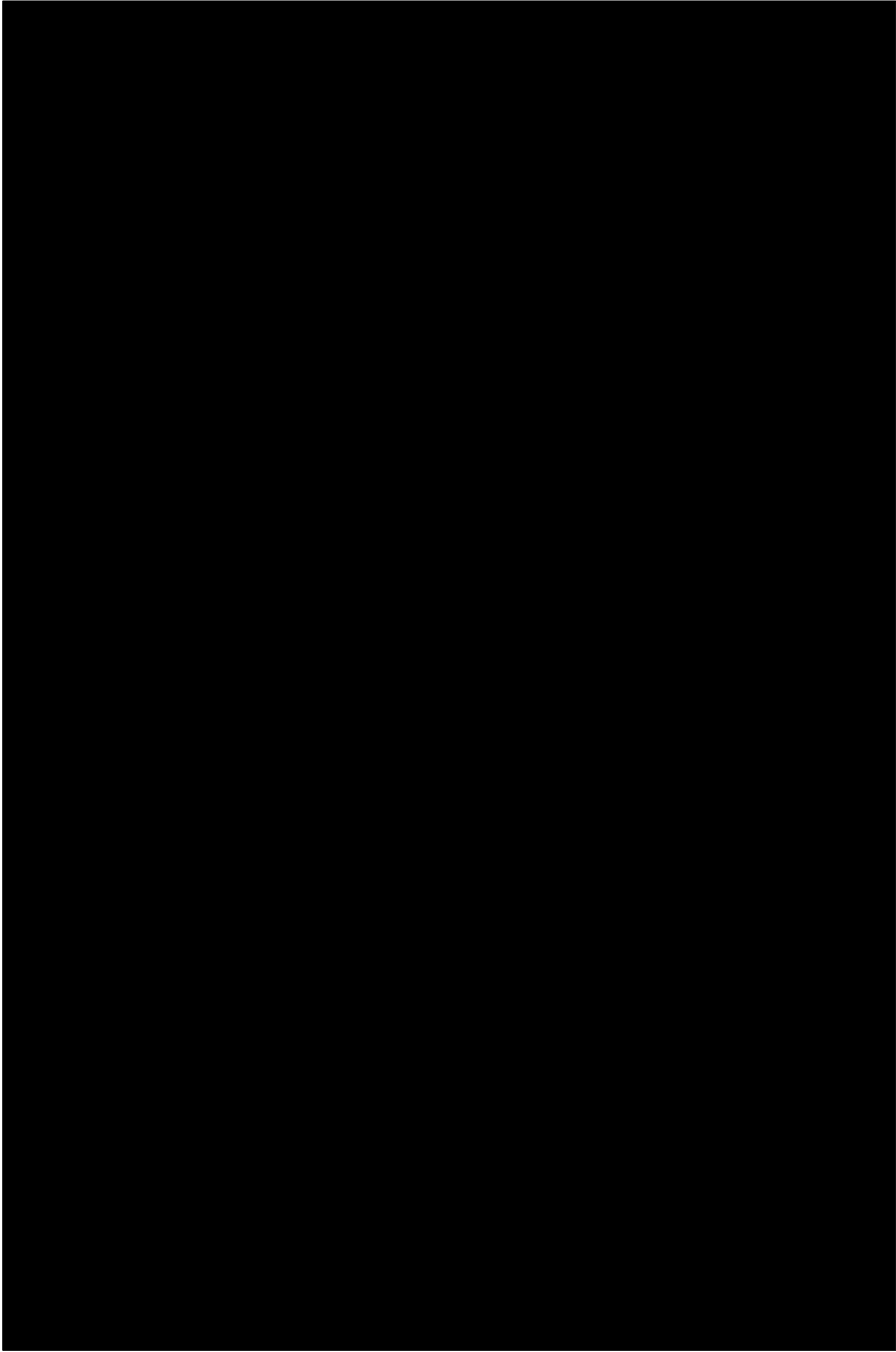
MR. BASILIO: Can I just take a second here?

[Witness panel confers]

MR. BASILIO: Sorry, the question again? Sorry, in conferring, I lost my -- that's right. It doesn't have the hockey stick trend that we're currently representing is the appropriate trend in our application.



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5 MR. SHEPHERD: Now, in 2010 you did a new study,
6 right, and this is your asset management plan?

7 MS. LERETTE: Yes.

8 MR. SHEPHERD: Now, that wasn't Kinectrics anymore,
9 was it?

10 MS. LERETTE: No.

11 MR. SHEPHERD: Who did that?

12 MS. LERETTE: We did it. Sorry, yes, we did it in
13 conjunction with work with Navigant Consulting.

14 MR. SHEPHERD: Navigant didn't actually do the asset
15 study; right? They just gave you some advice on how to do
16 the plan?

17 MS. LERETTE: Yes.

18 MR. SHEPHERD: How to write the plan. You actually
19 did the study?

20 MS. LERETTE: Yes.

21 MR. SHEPHERD: Why didn't you go back to Kinectrics?

22 MS. LERETTE: Because we had better information on
23 hand in 2009 or 2008, when we started this asset management
24 plan, on age and condition that wasn't available in 2003
25 when Kinectrics did the last plan.

26 So Kinectrics, on the St. Catharines merger document,
27 based their information based on the information we had,
28 which a lot of aged data was missing, and they relied on

1 observations in the field to estimate ages for a lot of the
2 assets.

3 MR. SHEPHERD: So they went around and actually looked
4 at the assets and said, Well, it looks like you're going to
5 have to do this, and this and this; right?

6 MS. LERETTE: Yes, not all of the -- they did some
7 field visits to some assets.

8 MR. SHEPHERD: I wonder if you could turn to your
9 asset management plan, which is exhibit -- just a second.
10 I have it here. It's Exhibit 4, tab 2, schedule 1, I
11 think. No, sorry, Exhibit 2, tab 3, schedule 2 - I am
12 completely wrong on all counts - appendix 2-1.

13 MS. LERETTE: Okay.

14 MR. SHEPHERD: Do you have that?

15 MS. LERETTE: Yes.

16 MR. SHEPHERD: Yes? I wonder if you could go to page
17 13 of that, which is a chart. And this, I take it, Mr.
18 Basilio, is the chart you were referring to that says you
19 ramp up your capital spending until you get to \$45 million,
20 and then you stay there?

21 MS. LERETTE: Yes.

22 MR. BASILIO: That's correct.

23 MR. SHEPHERD: Now, this is only distribution system
24 capital; right?

25 MR. BASILIO: That's correct.

26 MR. SHEPHERD: And this is not total capital?

27 MR. BASILIO: Sorry, it is distribution system
28 capital.

1 MS. LERETTE: And meters.

2 MR. BASILIO: And meters.

3 MR. SHEPHERD: Okay. The reason I ask that is because
4 I look at the next page, and the numbers are completely
5 different. In fact, there is no ramp up. There is
6 actually a ramp down; is that right?

7 [Witness panel confers]

8 MS. LERETTE: It is raw data. So it is raw data
9 looking at the spend on customer demand renewal and non-
10 renewal over the next 20 years.

11 MR. SHEPHERD: So why is that different from the other
12 table?

13 MS. LERETTE: Because -- compared to the \$45 million
14 ramp? Because the \$45 million ramp is a smoothing of the
15 spend.

16 MR. SHEPHERD: Oh, so this is not what you're actually
17 planning to spend? Page 14 is not what you are actually
18 planning to spend?

19 MS. LERETTE: No.

20 MR. SHEPHERD: This is what you would spend, if money
21 as no object?

22 MS. LERETTE: This is a required spend.

23 MR. BASILIO: If I might, this is the -- and I am
24 going to look at my peer to make sure she is in concurrence
25 with this -- this is raw data on, generally speaking, what
26 we should reinvest in each of these years.

27 So there are a number of reports here, and data is
28 being shaped in a number of ways.

1 consider the impact on the incremental impact on
2 depreciation in the test year.

3 MR. SHEPHERD: Okay. Now, the next page, page 15, is
4 the actual plan; right? This is what you actually planned
5 to spend, is it?

6 MS. LERETTE: Yes. That is the go-forward plan on
7 what we think we should be spending.

8 MR. SHEPHERD: Okay. Now, this is all about
9 distribution assets, feeders, substations, that sort of
10 thing; right?

11 MS. LERETTE: Yes.

12 MR. SHEPHERD: You're not saying that the Kinectrics
13 study was wrong. If I am understanding what you're saying
14 correctly, what you're saying is that since that time
15 you've gathered better information; is that right?

16 MS. LERETTE: That's right.

17 MR. SHEPHERD: They're connected.

18 MS. LERETTE: There we go. Yes, we have better
19 information.

20 MR. SHEPHERD: And what did do to gather that better
21 information?

22 MS. LERETTE: We looked at -- we did a study of our
23 assets to determine age of assets, because there was a lot
24 of age missing data.

25 We also did some condition assessment studies,
26 especially on our substations, is probably the most major
27 one. But we -- first thing we did was verify the age of
28 all of our assets.

1 MR. SHEPHERD: All right. How did you do that?

2 MS. LERETTE: We did it through field studies. We did
3 it through our GIS system, looking at holes in the data
4 where we had missing information. Some estimations were
5 done based on assets installed at very similar times.

6 So we did some estimation on age, and we used some
7 field information too, to verify age.

8 MR. SHEPHERD: This was all done with internal staff?

9 MS. LERETTE: Yes, I believe it was.

10 MR. SHEPHERD: So it must have been a lot of work?

11 MS. LERETTE: Yes, a lot of data mining and GIS.

12 MR. SHEPHERD: Okay. So what are those staff doing
13 now?

14 MS. LERETTE: They're doing similar work on asset
15 management. I mean, that is a snapshot in time. We are
16 actually updating our asset management model for 2011.

17 So that is another exercise, to go through this all
18 over again. Because don't forget it is a snapshot in time
19 of 2009 that they looked at.

20 MR. SHEPHERD: So now they're going to go back and do
21 another snapshot?

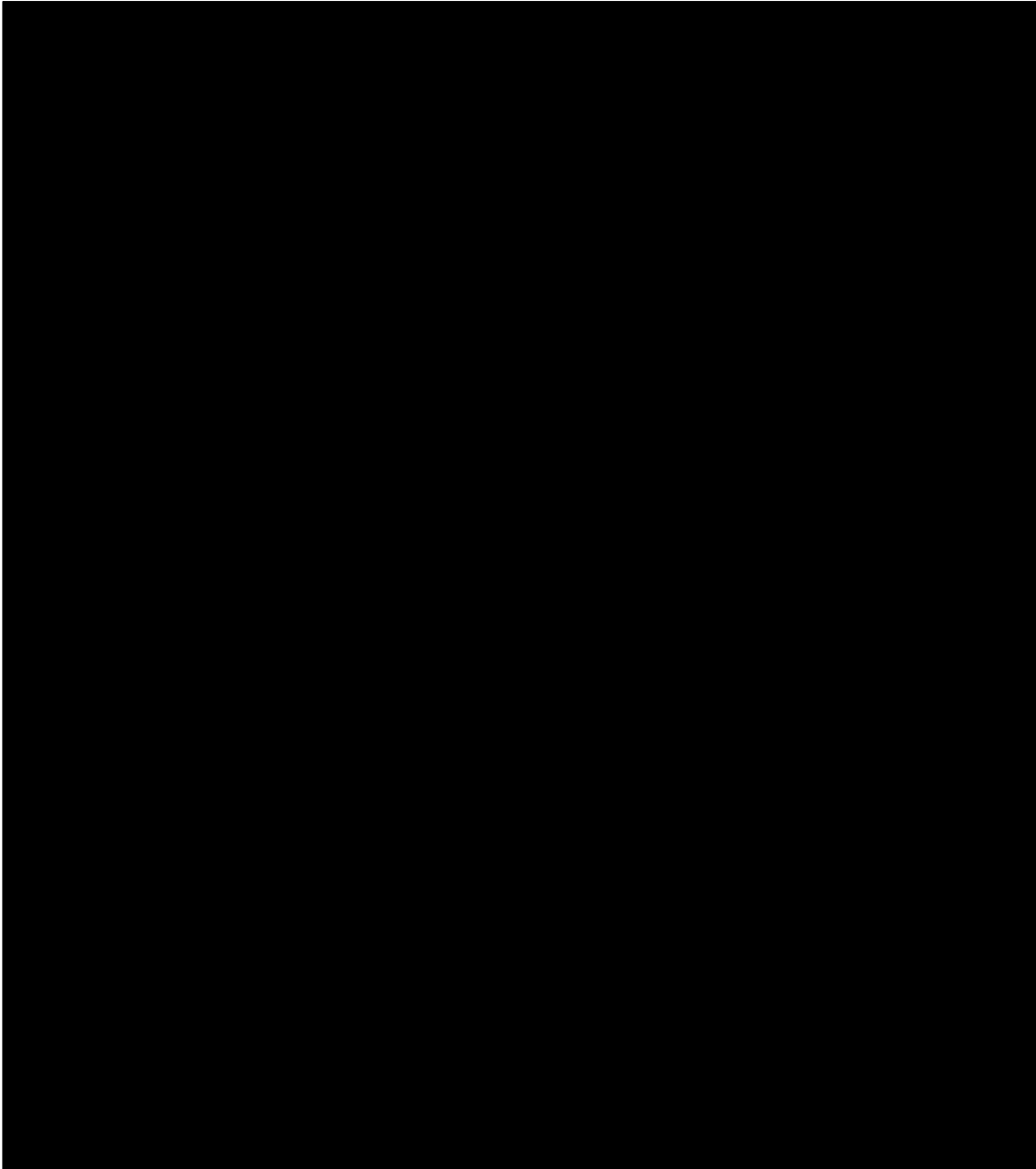
22 MS. LERETTE: Yes, because we replaced some of these
23 assets since 2009, and we have other assets that have aged
24 and we need to update the information.

25 MR. SHEPHERD: Well, didn't you -- in 2009 when you
26 did the snapshot, didn't you then put in place some sort of
27 method of keeping track of how it was changing over time,
28 so you didn't need to go do it again?

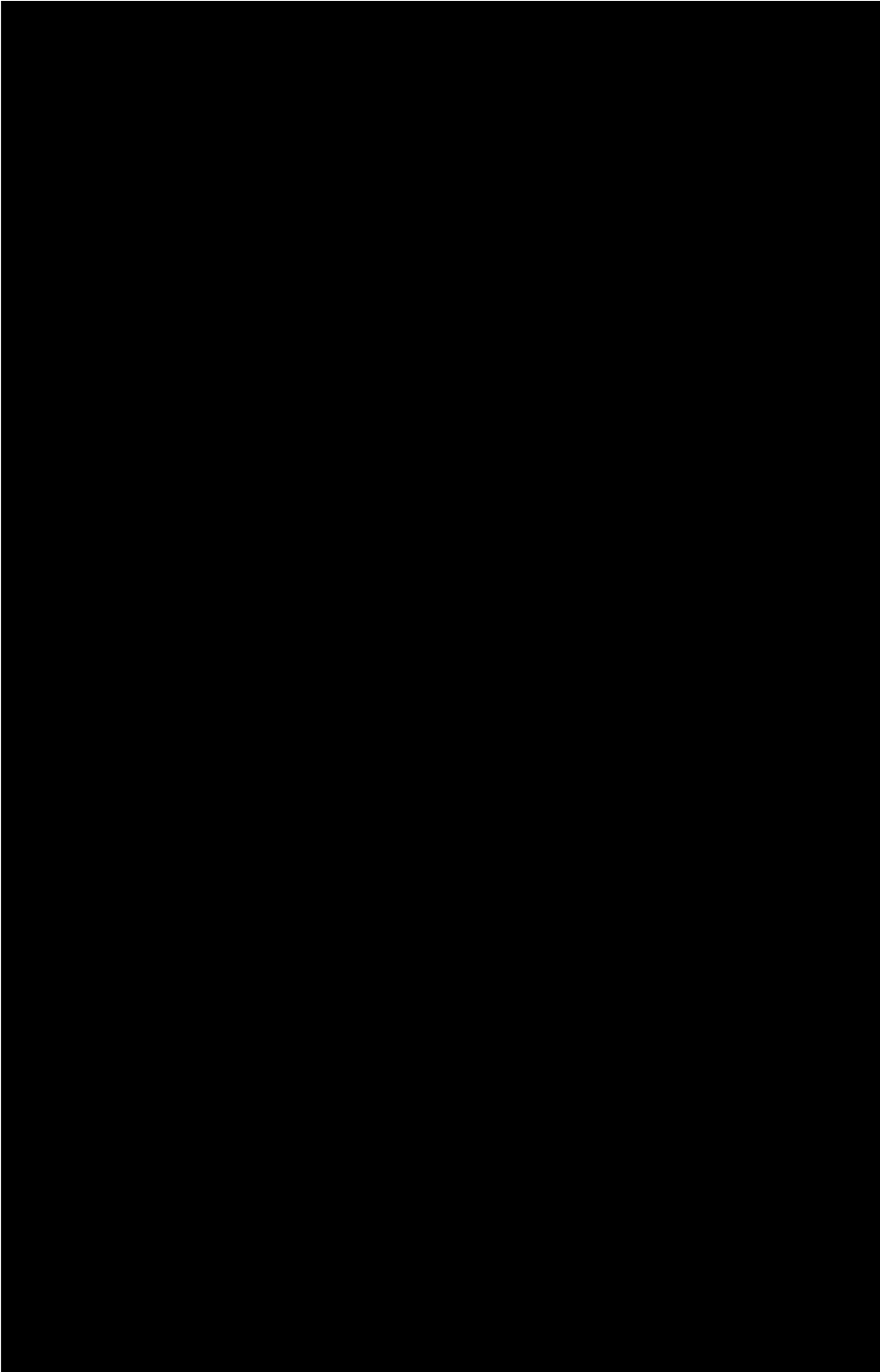
1 MS. LERETTE: Well, the best method we have is by
2 using snapshots out of our GIS data. That is where our
3 asset database resides, in our enterprise resource planning
4 system, in a GIS.

5 So we have a full asset database there, that gets
6 updated regularly as work is done on the distribution
7 system.

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24 MS. HARE: Mr. Shepherd, do you have an estimate of
25 how much longer you will be?

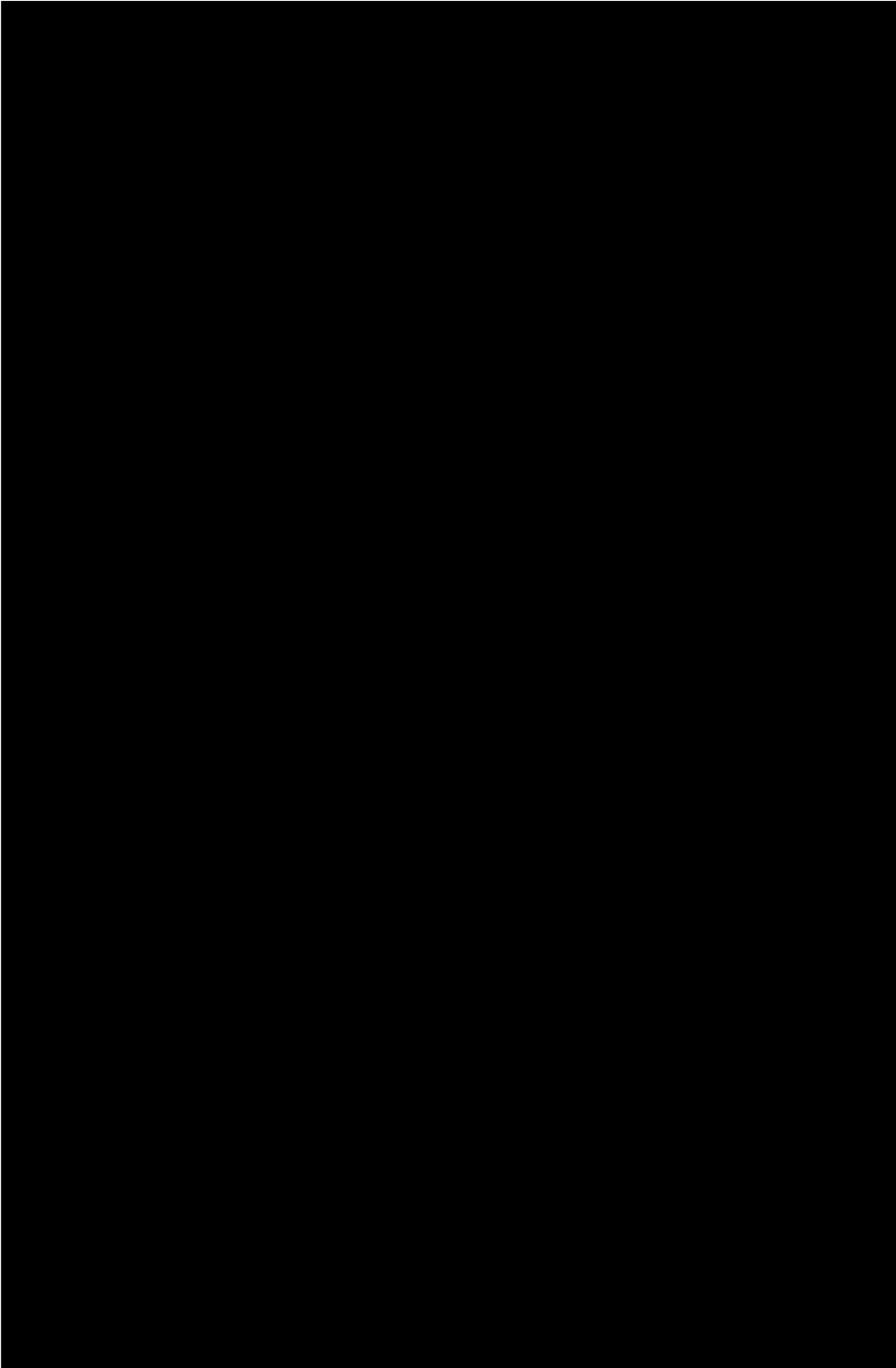
26 MR. SHEPHERD: Well, I actually expected to be
27 finished by now, but I have two other -- I have one other
28 area that I have to do after this. This one will take

1 another five minutes, and then I have another ten minutes,
2 maybe, after that.

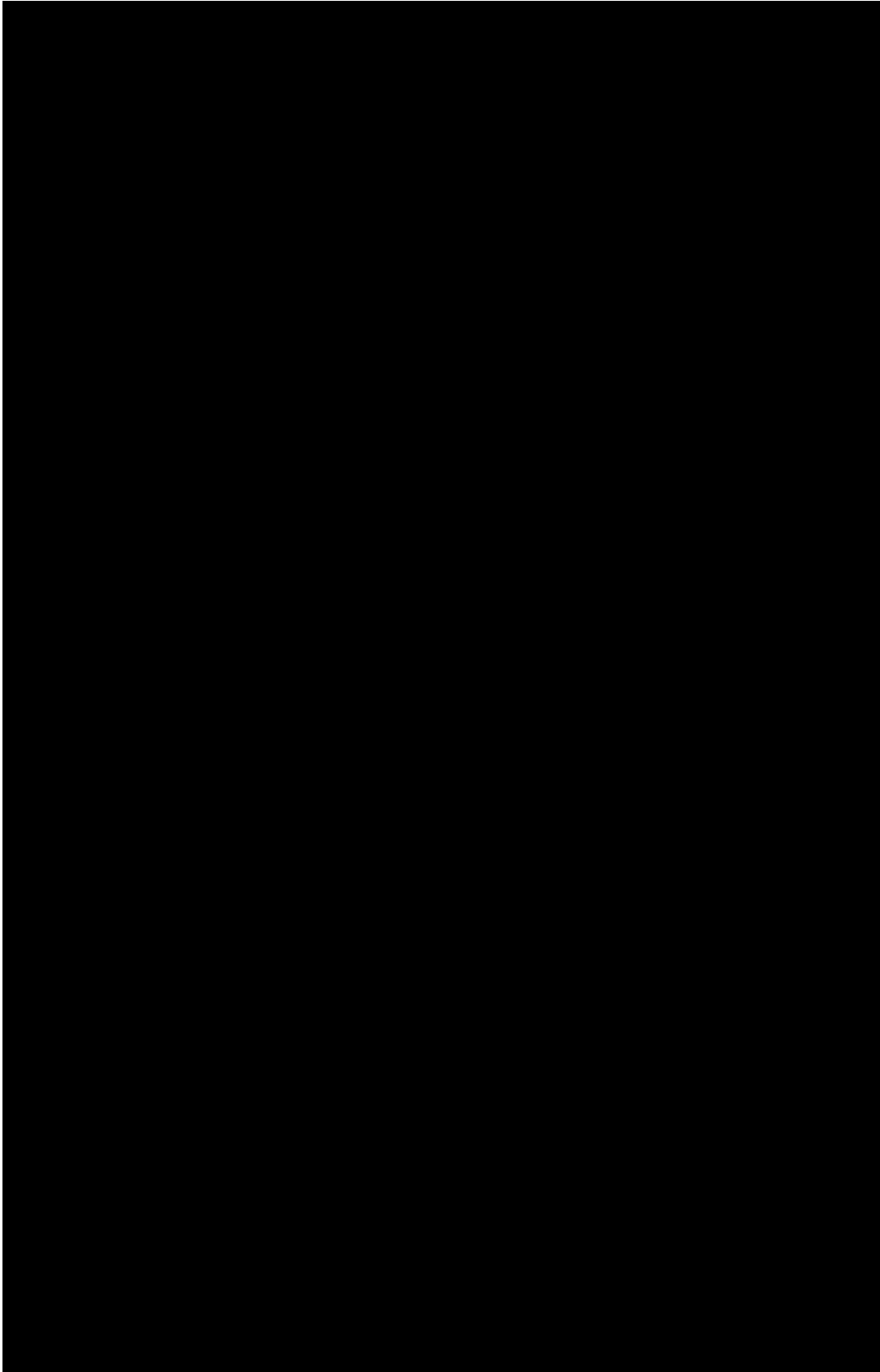


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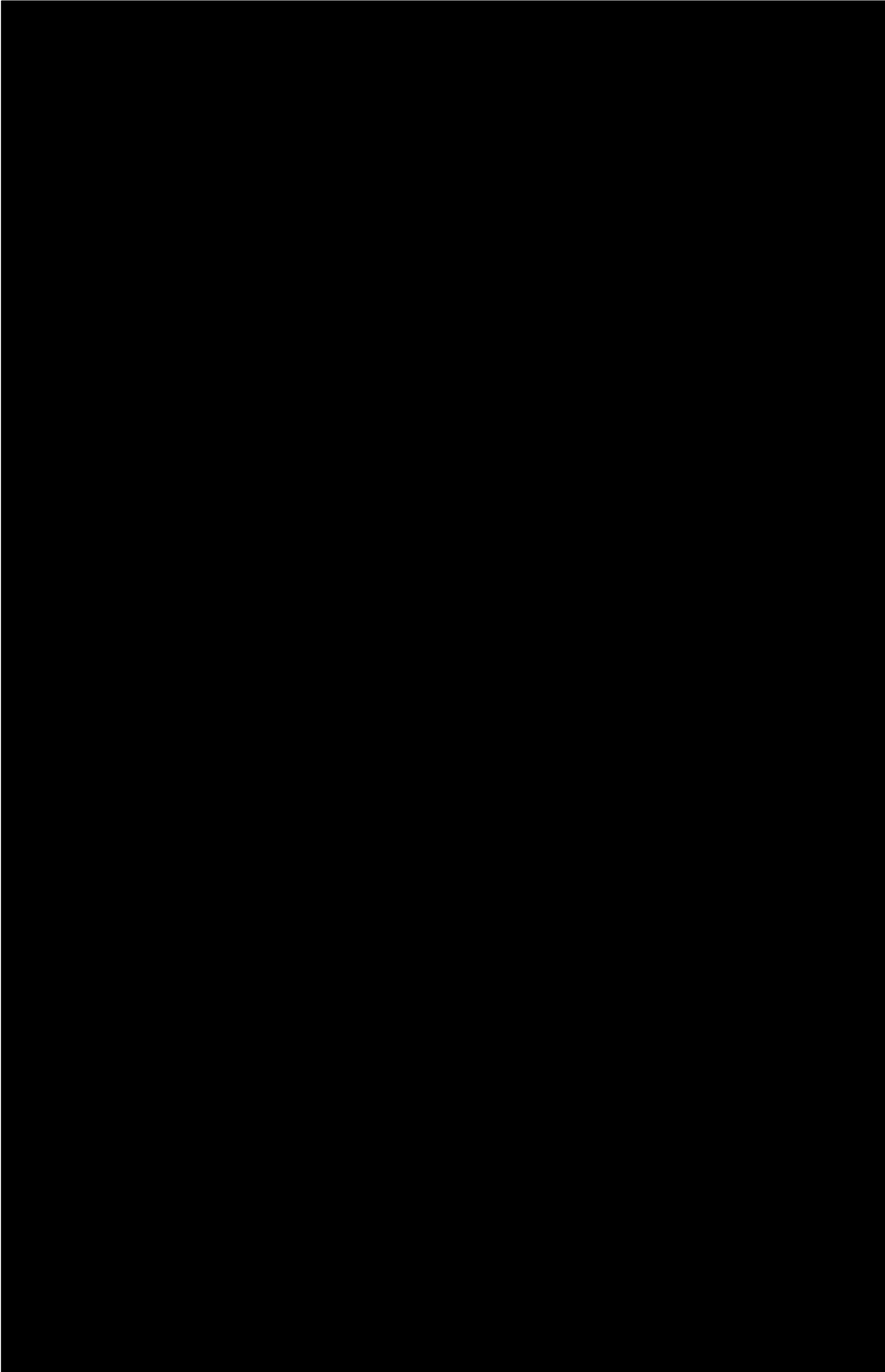
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17 MR. SHEPHERD: I think what I'm asking about is: If
18 you're going to spend more money on capital, you are going
19 to spend some more money on your actual system, and then
20 you are going to spend some additional more money on your
21 computers and your software and things, and the priority
22 that's been chosen is to spend additional more money on
23 those -- the second batch of things instead of the poles
24 and wires.

25 If you are going to spend more, you have to decide
26 where you are going to spend it. And that's right, Mr.
27 Basilio, isn't it? You decided to spend more on the non-
28 system stuff, and that is your higher priority?

1 MR. BASILIO: No, I don't believe so.

2 If we look at renewal capital between 2010 and 2011,
3 which is the principal area of -- I mean, there are a
4 number of areas, don't get me wrong, but that is a
5 principal area of priority. That is increasing by

6

7 MR. SHEPHERD: Okay.

8 MR. BASILIO: And you simply can't manage a business
9 entirely focussing on one aspect.

10 Again, this is a balanced approach. These other
11 elements have been deferred from prior years and are
12 required to support the total business. We are ramping up
13 renewal. We are doing that pretty aggressively, I think.

14 We need people to do that, so we are ramping up. We
15 have been continuing to invest in skilled trades, skilled
16 trades which, as you know, there is a tight supply on
17 skilled trades. So we need those skilled trades to support
18 growth in our capital programs. They're the principal
19 delivery agent.

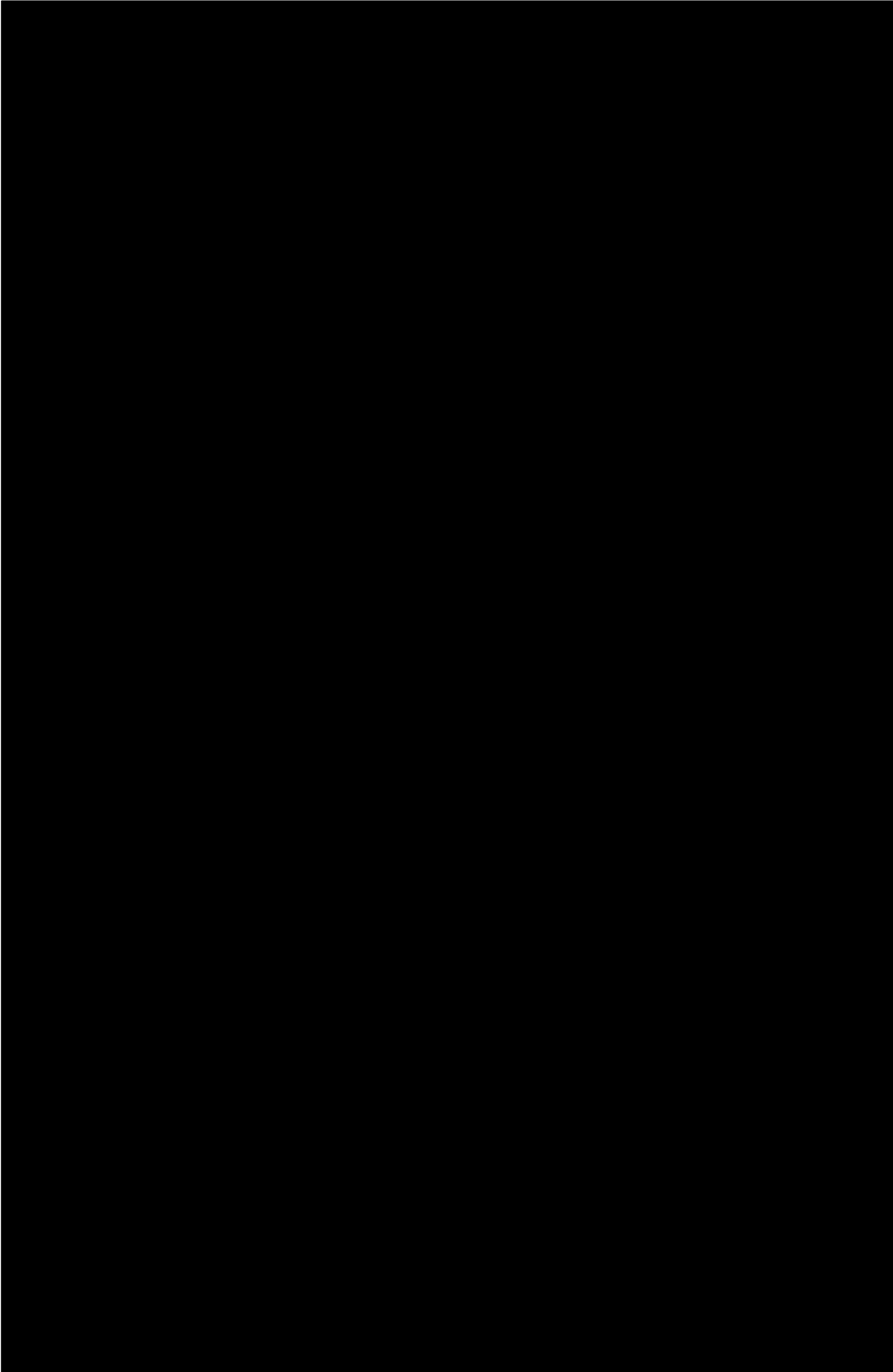
20 And, additionally, we need to renew systems and
21 processes that are coming end of life or are no longer
22 useful. We need to continue to invest in those things that
23 manage the risk of our business and sustain the value that
24 exists today.

25 And there is a fair bit of detail on each and every
26 one of these items to support them in the evidence.

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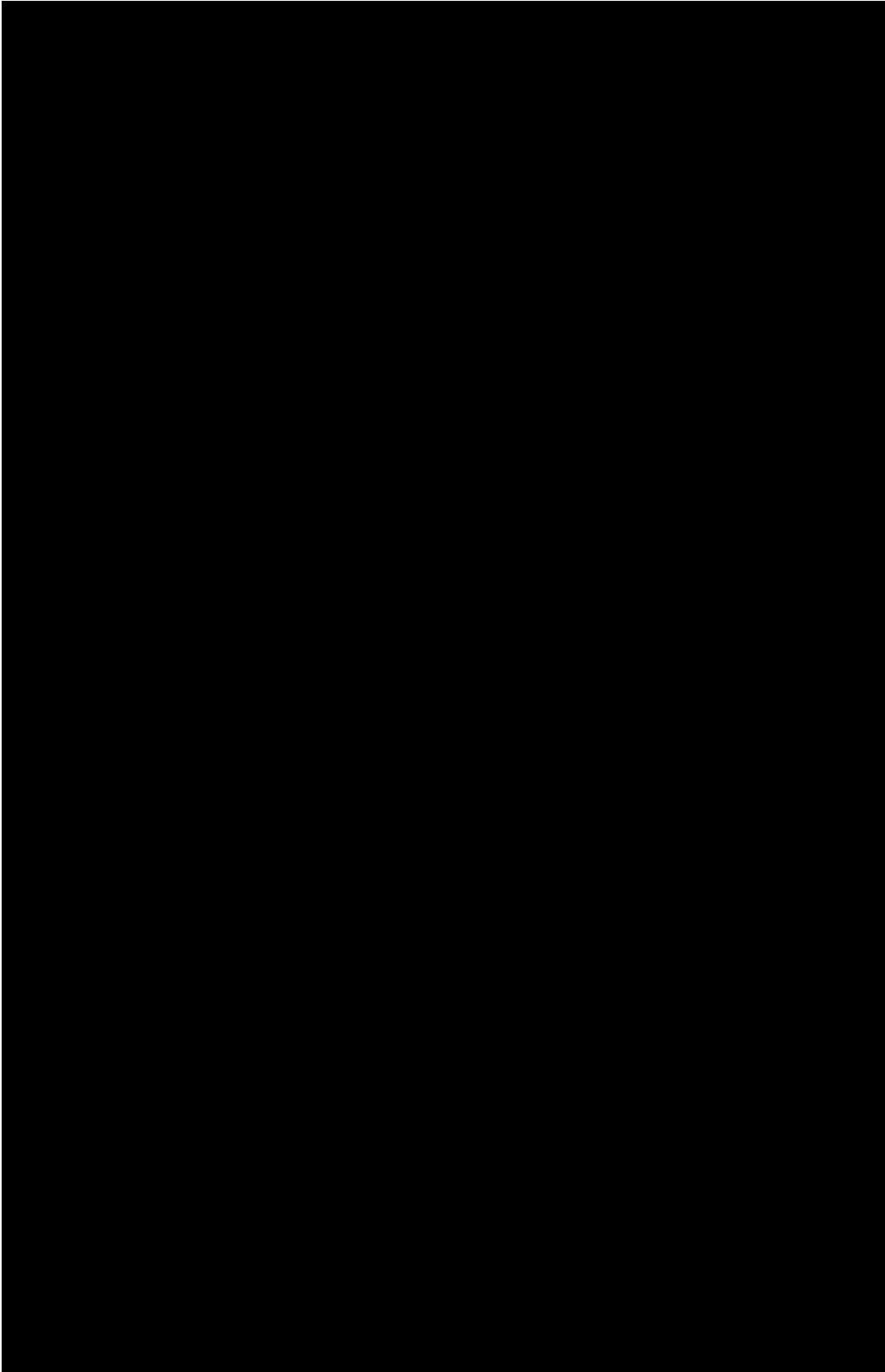


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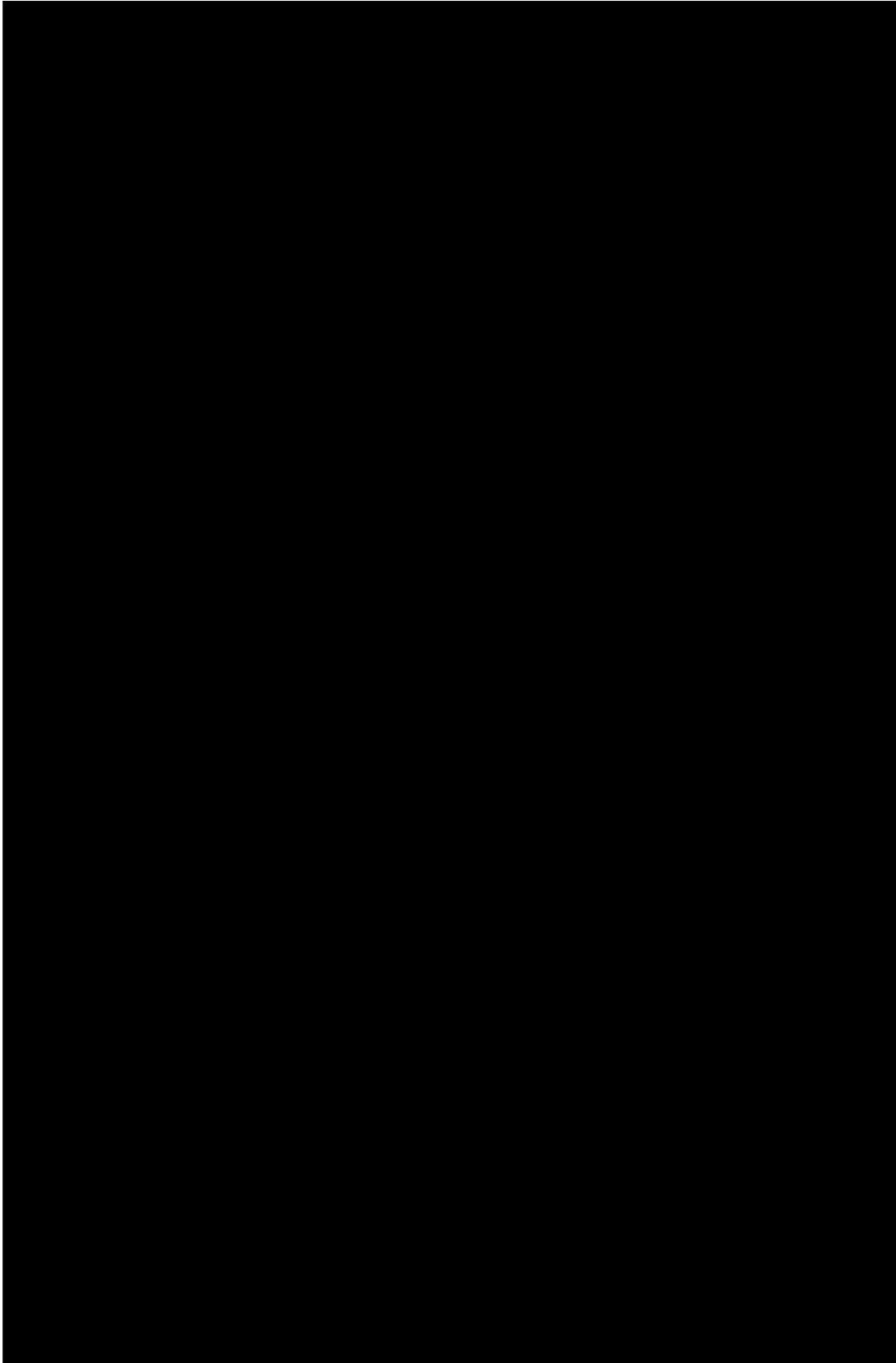


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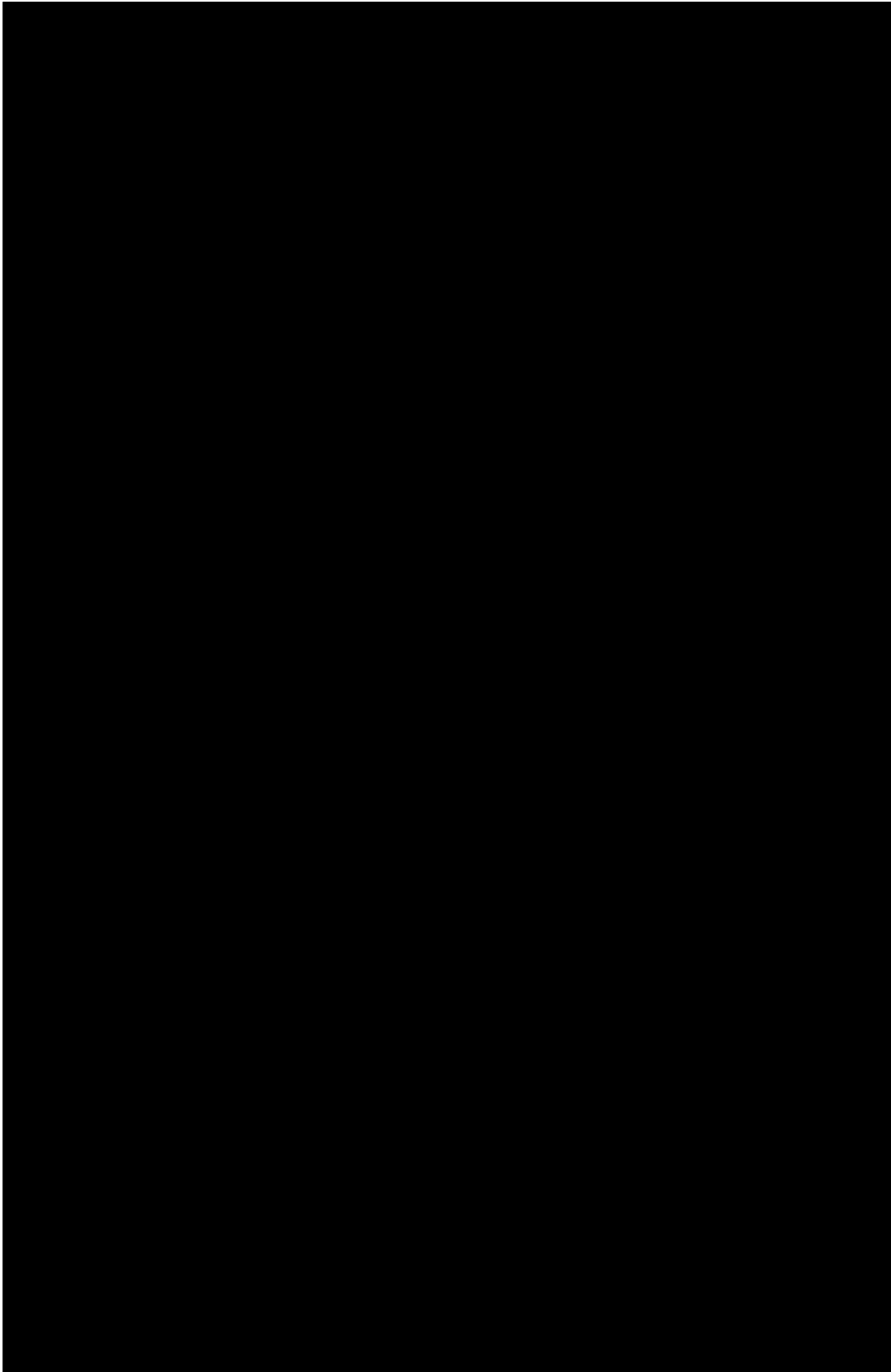
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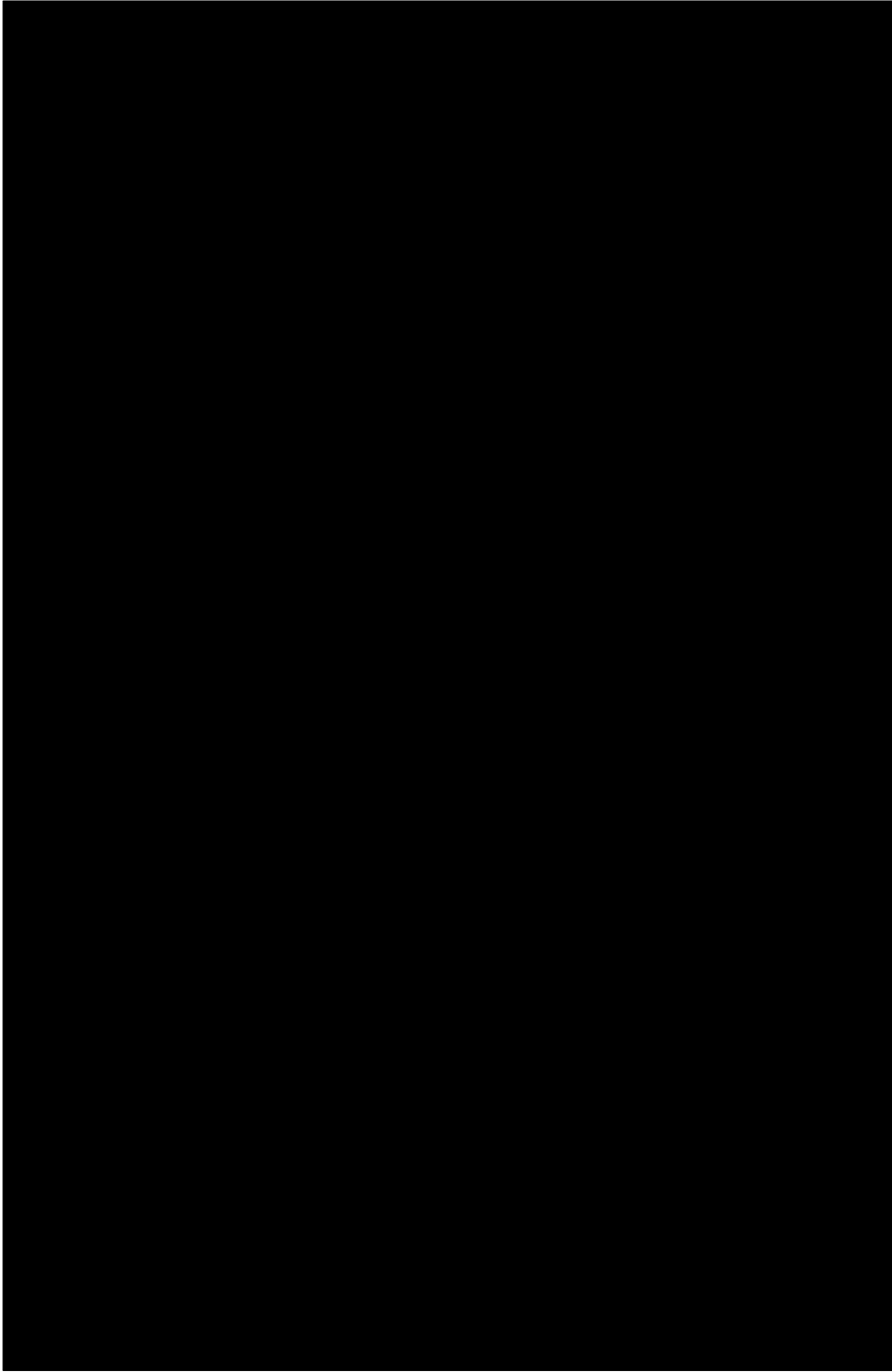
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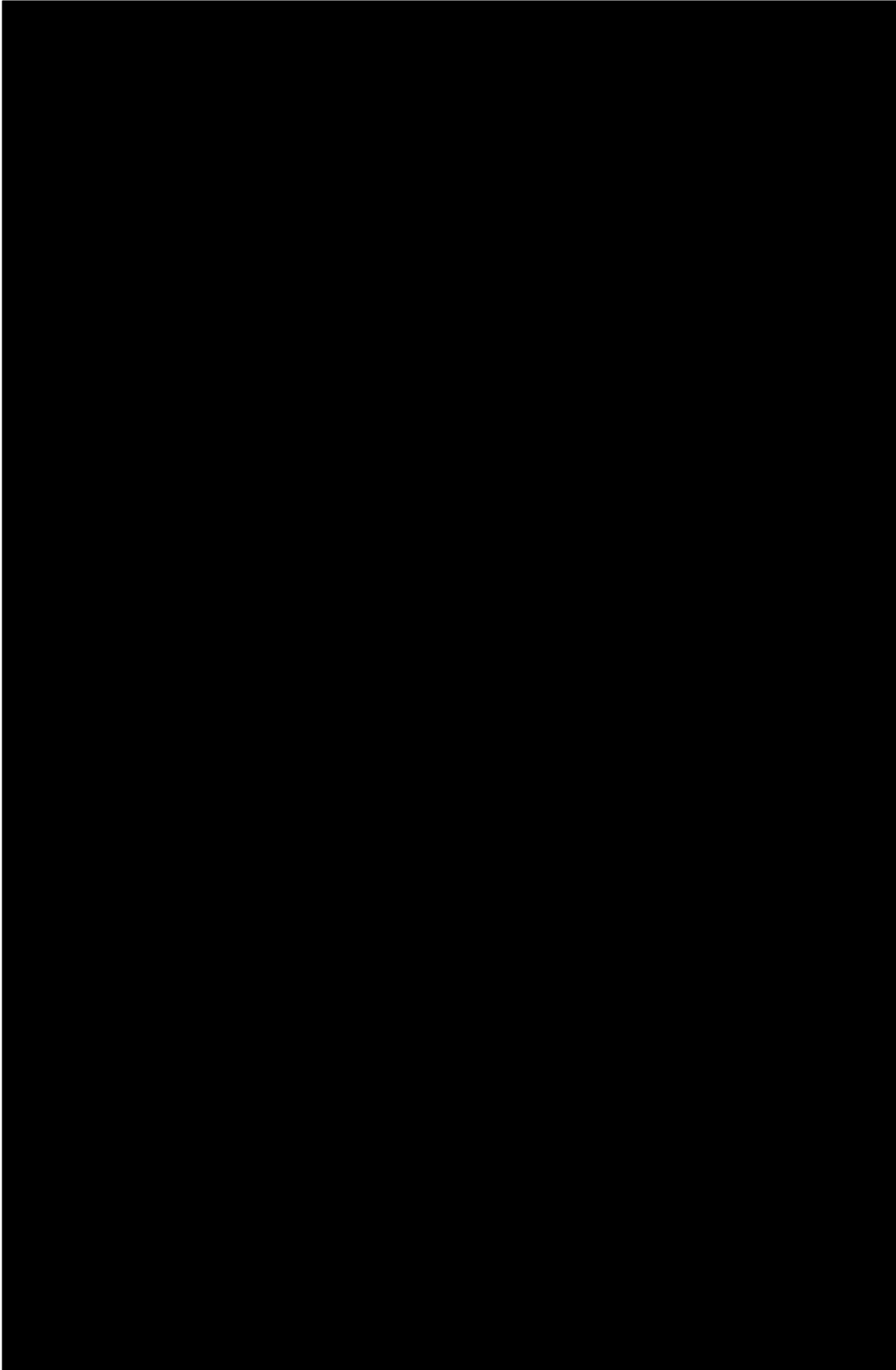


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20 MR. SHEPHERD: Thank you, Madam Chair. Those are my
21 questions.

22 MS. HARE: Thank you. Mr. Buonaguro, did you have
23 anything? Ms. Taylor, do you have anything?

24 The Panel has no questions. Re-direct?

25 MR. SIDLOFSKY: No questions, Madam Chair. Thank you.

26 MS. HARE: Sorry, Ms. Taylor has changed her mind.

27 MS. TAYLOR: I have changed my mind. I could make a
28 joke about being a woman and capricious, but I won't do it.

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1 you are correlating age and service life strongly. Is that
2 the way I am going to assume all of this?

3 MR. BASILIO: If I might, on the first part, I would
4 use a bit stronger language than what Kathy -- Ms. Lerette
5 used earlier. [REDACTED]

6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 And I could further say that there would be agreement
11 among the shareholder interests that are parties to this
12 transaction -- that were parties to this transaction that
13 would agree with that.

14 On our board of directors we have those interests
15 represented. We have presented considerable information to
16 them. We have engineering expertise on our board that
17 represents those interests, and I think would you find
18 general agreement that the due diligence work that was done
19 here was [REDACTED]

20 However, looking back on the transaction itself - I
21 think this is important for the record - really what is
22 important is the relative state of asset condition and the
23 relative state of capital requirements.

24 [REDACTED]
25 [REDACTED]
26 [REDACTED]
27 [REDACTED]
28 [REDACTED]

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MS. TAYLOR: Okay. The other question I had, if I can just find it - yes - related to the graphics on the capital budget. The question that came to mind when we looked at it, and I guess it was the wires and poles discussion that we had with Mr. Shepherd - I have labelled it tab 4 so I can find it again discretionary versus non-discretionary.

I am not sure if I saw it in the evidence anywhere, and certainly not in the context of the business plan, but did you ever have that conversation, in the context of the numbers that Mr. Shepherd took us to, about discretionary versus non-discretionary in order to smooth?

You said it was smoothed, so how did you smooth it? Was it discretionary versus non-discretionary, or was it something else that you used to smooth it?

MR. BASILIO: Smooth the distribution project capital, that trend line that is rising to \$45 million.

In the planning process, how I understand that is there is a fairly sophisticated risk matrix that is applied to those projects in terms of prioritizing capital, but I think perhaps Ms. Lurette could elaborate as to how...

MS. LERETTE: So part of the work that was started in 2008, which is vastly different than the information that Kinectrics worked from, was we now understand the age of all of our assets, and we actually understand that we have a big backlog of assets that are way beyond the end of life, which have been factored into this spending and

1 spread over the next 20 years to make it a manageable
2 process for renewing these assets.

3 But there are -- we have to do customer demand work
4 when they get requests for connection of service.

5 The renewal assets we have to keep ramping up to keep
6 up with not only the two -- the \$209 million in backlog in
7 assets, but we have to keep going with our current assets
8 that are now becoming -- you know, they weren't end of life
9 ten years ago, but now they're becoming end of life. So
10 we've got this big \$200 million backlog to deal with, as
11 well as the ongoing renewal, just to get us to a point
12 where we can keep the assets from failing on a regular base
13 and at a level that we cannot sustain reactive replacement
14 of those assets.

15 MS. TAYLOR: Customer demand, which was about
16 10 million, if I remember, in that first bar graph chart,
17 can you -- given your load growth is not growing - in fact,
18 it looked like it is contracting over most of your service
19 classes - what type of investments are you focussing in
20 terms of load growth that is going to cost \$10 million for
21 customer adds in 2010?

22 MS. LERETTE: So customer demand, we forecast going
23 forward fairly static.

24 It not only has new connections, which, you know, on
25 the residential side, I think we average about 1,000 new
26 connections a year. It also takes into consideration
27 requests from cities and Ministry of Transportation for
28 plant relocations due to road rebuilds.

1 And although the general customer connection work is
2 fairly steady, we do have little blips for large hospital
3 projects that come along, and so it is not just customer
4 connections and load growth. It is relocation of plant for
5 city roadway jobs, as well.

6 MS. TAYLOR: Thank you.

7 MS. HARE: I am going to go back on air now.

8 --- Public session resuming at 4:55 p.m.

9 **PROCEDURAL MATTERS:**

10 MS. HARE: Okay, thank you. Panel 1 is excused,
11 although I do see that you are all back on panel 2. So we
12 will see you in the morning. Thank you very much for your
13 assistance.

14 The Panel would like to start at 9 o'clock tomorrow.
15 Does that cause difficulty for any party?

16 MR. SIDLOFSKY: That is fine for Horizon, Madam Chair.

17 MS. HARE: Okay, thank you. So we are done for today
18 and we will see everybody tomorrow. Thank you very much.

19 MR. BASILIO: Thank you.

20 --- Whereupon the hearing adjourned at 4:55 p.m.

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