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ONTARIO ENERGY BOARD

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

VOLUME: **Technical Conference**

DATE: **February 25, 2011**

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,
25^{th} Floor, Toronto, Ontario,
on Friday, February 25th, 2011,
commencing at 9:02 a.m.

TECHNICAL CONFERENCE

A P P E A R A N C E S

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

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Friday, February 25, 2011

--- On commencing at 9:02 a.m.

MS. HELT: Good morning, everyone. I see that everyone is here, so we may as well get started.

We are here today for the purpose of a technical conference on Board File No. EB-2010-0131, Horizon Utilities' cost-of-service application.

My name is Maureen Helt. I am Board Counsel, and I am seated here with Mr. Keith Ritchie, who is case manager for the Board, and Mark Abramovitz, who is also Board Staff.

I would like to deal with a few procedural matters first, and then we will go into appearances, and then we can start with the technical conference.

The first thing I would like to note for everyone's benefit is that when you are either asking a question or answering a question, there is a green button in front of you which you should push, and then when you see the light on, you will know that your microphone is on.

Quite often when two people are seated together, if one person pushes and turns it on, and then the next person thinks they need to push it to turn it on, they actually turn it off. So we will let you know or the court transcriber will let you know if it is not activated.

The second thing I would like to raise is that in Procedural Order No. 6 there are certain dates set for the settlement conference, those being March 8th and March 11th. I understand from Mr. Ritchie that March 9th is also an available date, and if all parties are available on that date, we would propose to include March 9th as a date for the settlement conference. So then we would have three days, if required.

So perhaps parties can think about that and let us know what your availability is, and then we can go back to the Board, and then it can be set out in a procedural order if it is possible.

MR. SHEPHERD: I can tell you that yesterday the IFRS working group scheduled an all-day session for that day, March 9th, because it was actually the only day available that week.

MS. HELT: Okay. Well, we will take that into account and if there is something further that we can do with other dates, we will let you know. But thank you for that.

The other matter is that there is certain information that has been filed in confidence and that there has been a request for confidentiality made by Horizon. The Board has not yet released a decision with respect to the confidential information, and as such, we would propose that that -- any questions with respect to that information be dealt with at the end of today's technical conference and we will go in camera, meaning that it will not be broadcast on air. And anyone here who has not signed a declaration and undertaking with respect to confidentiality will be asked to leave the room for the purpose of the questions on the confidential material. So we will remind all parties of that at that time.

All right. Then unless there are any other initial administrative matters, we can go around the room and enter appearances, please.

APPEARANCES:

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

MR. BUONAGURO: Michael Buonaguro, counsel for VECC.

MR. AIKEN: Randy Aiken, consultant for Energy Probe, and with me is David MacIntosh.

MR. SIDLOFSKY: I'm sorry, Ms. Helt. James Sidlofsky, counsel to Horizon Utilities. Mr. Basilio, Horizon's chief financial officer and senior vice president, will be introducing the Horizon people who are here.

And he has a few introductory comments, as well, but perhaps we can deal with that after introductions.

MS. HELT: Certainly.

MR. SIDLOFSKY: I believe Ms. Grice is here from AMPCO, as well.

MS. GRICE: Good morning. Yes, Shelley Grice, consultant for AMPCO.

MR. SIDLOFSKY: That is all, Ms. Helt. I would turn it over to Mr. Basilio for his comments and introductions.

OPENING REMARKS BY MR. BASILIO:

MR. BASILIO: The light is on. Good morning. I am John Basilio, the senior vice president and chief financial officer for Horizon Utilities.

I understand the purpose of this conference to be to allow parties to seek clarification of items in our evidence. I believe that our body of evidence now includes our comprehensive application, evidence filed through the proceeding on the preliminary issue of advancing our application, responses to approximately 600 interrogatories and, most recently, responses to approximately 150 technical questions.

We look forward to clarifying any further matters on our evidence in person with you today.

I have a number of colleagues here with me this morning to assist with further questions that you may have.

My role in this proceeding will be, on behalf of Horizon, to field your questions to my colleagues and to answer many directly, specifically with respect to finance-related topics, such as cost of capital and PILs.

In addition to me, our panel consists of many Horizon staff members, including Indy Butany-DeSouza to my right, Horizon's vice president regulatory and government affairs, who will be dealing with regulatory matters addressed in the application.

Kathy Lerette, two to my left, Horizon's vice president operations, will be dealing with operational matters, including capital expenditures.

Sarah Hughes to my left, Horizon's vice president finance, will be dealing with OM&A and general financial matters.

Eileen Campbell, two to my right, Horizon's vice president customer services, who will deal with customer service-related issues; Mario Cangemi, who -- Mario, perhaps you could just raise your hand for the group.

Mario is Horizon's director of information systems technology and will be dealing with IT-related issues.

Lise Galli is sitting to the left of Mario, who is our director of human resources and will be dealing with employee- and compensation-related issues.

Grant Brooker, to the left of Lise, is Horizon's manager of regulatory compliance and will support dealing with other regulatory issues.

We also have, from Borden Ladner Gervais, Bruce Bacon, who will be available to assist with questions related to load forecasting, cost allocation and rate design.

And also present from Horizon in a consultative role to the panel, starting at the second row and I guess to the right-most facing Board Staff, is Shelly Parker from customer service, Jim Patterson from customer service, Hani Taki from operations, Daniel Roberge from operations and Richard Bassindale from operations.

HORIZON UTILITIES - PANEL 1

John Basilio

Indy Butany-DeSouza

Kathy Lerette

Sarah Hughes

Eileen Campbell

Mario Cangemi

Lise Galli

Grant Brooker

Bruce Bacon

Shelly Parker

Jim Patterson

Hani Taki

Daniel Roberge

Richard Bassindale

MR. BASILIO: As a very brief introduction, Horizon Utilities is one of the largest municipally-owned electricity distribution companies in Ontario. We serve more than 235 (sic) residential and commercial electricity distribution customers in Hamilton and St. Catharines, two of Ontario's most heavily industrial cities.

The company is owned by Horizon Holdings Inc., which is further jointly owned by Hamilton Utilities Corporation and St. Catharines Hydro Inc. These latter two companies are respectively owned by the City of Hamilton and the City of St. Catharines.

Horizon faces a number of challenges, many of which are outlined in the application, which underlie its requests in this application, and, among them, Horizon has considerable revenue and concentration risk related to its larger commercial customer classes.

Horizon Utilities has 12 large-use customers, more than all but two other LDCs in the province, and Horizon has the largest average large-use-customer consumption of any LDC.

The average consumption of Horizon Utilities' large users is three times greater than the provincial average, and this creates significant exposure to adverse economic conditions.

Horizon has experienced losses of industrial load in recent years and related revenue shortfall relative to its previous cost-of-service application.

Additionally, Horizon serves older communities with low growth rates. Its requirements for renewal capital are increasing at a material rate. The result is significant infrastructure renewal needs that must be funded from existing customers.

This is Horizon's second forward test year cost-of-service rate application. The current application reflects a great deal of work since its last application on determining the condition of distribution infrastructure and the need for significant increases in renewal expenditures.

The application also supports the need for additional OM&A expenditures and for moving forward with expenditures related to the connection of renewable generation, necessitating the approval of Horizon's Green Energy Act plan.

Our application provides for needed increases in capital and OM&A expenditures and addresses a revenue deficiency of approximately $19.6 million, while maintaining Horizon's status as a comparatively low cost utility among its peers.

The application provides for a total bill impact for our residential customers with a monthly consumption of 800 kilowatt-hours of $3.77, or 3.52 percent.

I will close my introduction here and turn it back to our counsel, Jamie Sidlofsky.

MR. SIDLOFSKY: Ms. Helt, I think Mr. Basilio was -- when he was talking about the customer number would have meant 235,000 customers in Hamilton and St. Catharines.

And with those introductions, I think Horizon is ready and willing to take questions.

MS. HELT: Thank you. I believe Mr. Aiken is going to commence with his questions first.

MR. SHEPHERD: Can I ask whether you want follow-up questions while the person is asking them? Or should we wait till our turn to ask a follow-up? Like, if Randy asks a question and I need to follow that question up, should I do it when he is asking questions, or later? It is done both ways in technical conferences.

MS. HELT: Yes. I am really open to either way. I think in some ways it is easier just to have one party go at a time, and I understand that there aren't that many questions for each particular party. Certainly not -- Mr. Aiken has indicated he does not have that many questions, and I don't think VECC has that many questions either.

MR. SHEPHERD: Okay.

MS. HELT: So we will just proceed with one party at a time. If there is something that just makes much more sense to follow up with, if it is a complicated, involved question and we are all referring to the same interrogatory response or exhibit, then by all means, just use your judgment. Thank you.

QUESTIONS BY MR. AIKEN:

MR. AIKEN: Yes. My name is Randy Aiken, and I will be brief; I have a total of three questions.

Following me, Mr. MacIntosh may have some further questions later on today on other specific responses.

My first question is on Energy Probe Question No. 3, part (b). This is a table that is provided with a recalculated 2011 cost-of-power calculation.

My question here is the large-volume user kilowatt-hours and kilowatts have been increased in the forecast. And I understand that is based on the response to AMPCO No. 6, which basically reflects the 2010 actuals as a forecast for 2011.

Are there any other changes in the cost-of-power calculation, aside from the large user change and the corrections noted in some of the billing determinants?

MR. BASILIO: Grant, do you want to...

MR. BROOKER: Certainly. We noted four changes in response to the technical question. One of them was to change the RPP ratios. Non-RPP and RPP ratios were changed to the actual numbers at the end of the year.

As you mentioned, we updated the large-use kilowatt-hours in kilowatts.

We also made corrections, as you had noted, to the wholesale and -- rural rate assistance and wholesale market service, to make sure that the determinants were correct.

And also, we also employed the most recent OEB cost-of-power prices, dated October 18th, 2010.

Those are the four changes made to that table.

MR. AIKEN: Thank you. My next two questions, my last two questions, are on taxes.

The first one is Energy Probe No. 8, part (b). It is specifically on page 2 of 3 of that response, at -- sorry, it is not page 2. I am just trying to find it here.

Yes, page 2 of 10 at line 21. So it is Energy Probe No. 8, part (b). At line 21, there is a bullet point, number 2. It says: "Eligibility of 15 power line technician apprentices."

Am I correct that "15" is a typo and it should be 19? That would seem to match up with the explanation provided at lines 9 and 10 of the same page.

MR. BASILIO: It is a typo; it should be 19.

MR. AIKEN: Okay. Thank you.

Then further on in that response, the revised table 4-40, this is the capital cost allowance continuity schedule for 2011. And this has been changed to reflect your corrections related to computer equipment.

Specifically, you moved the $1.6 million expenditure from class 52 to 50. My question is: Did you spend any money in January of this year that properly should be in a class 52?

MR. BASILIO: Just a sec.

[Witness panel confers]

MR. BASILIO: We believe we would have spent some capital on computer equipment in the month of January. I don't have that number with me. We would be prepared to modify the schedule to reflect that.

MR. AIKEN: Would you undertake to provide the actual capital expenditures in January in that class?

MR. BASILIO: We would.

MR. AIKEN: Okay. Thank you.

MS. HELT: We will note that as Undertaking JT1.1.

UNDERTAKING NO. JT1.1: TO PROVIDE AMOUNT OF CAPITAL EXPENDITURE FOR CLASS 52 FOR JANUARY 2011.

MR. AIKEN: Thank you. Those are my questions.

MS. HELT: All right.

QUESTIONS BY MR. BUONAGURO:

MR. BUONAGURO: Good morning. Michael Buonaguro for VECC. My questions are based on the VECC technical conference questions, just some follow-up from the answers that were provided, I guess, a day or two ago.

And I am going to be starting with VECC Technical Question No. 1, and in particular, I am looking at the responses at parts (d) and (e).

First of all, perhaps I could ask the company to confirm that for -- I am looking at table 3 at part (d). It appears that for the 2006 OPA results, the CFL assumptions with respect to gross annual energy savings and effective useful life for the purposes of the CDM programs were 104 kilowatt-hours and four years respectively?

MR. BACON: Michael, do you just want to direct me to where you are looking, again?

MR. BUONAGURO: Sure. It's page 7 of 7 of the Technical Conference Question 1 response to VECC, table 3, the first line of the table: "Every kilowatt counts.

Energy Star compact fluorescent light bulbs," and then the second column of numbers is 104 kilowatt-hours and the third column --

MR. BACON: I see it, yes.

MR. BUONAGURO: Effective useful life, four years.

So my understanding is that those are the 2006 OPA results, and that is what has been used by the company; is that correct?

MR. BACON: That is what the answer says, so I am assuming that is the case, yes.

MR. BUONAGURO: Okay. So the confusion comes from part (e), which -- the information in part (d) seems to have come about in the answer even though that wasn't specifically requested in the question. So we had asked the second question, part (e), which asked about the useful life assumption.

And at part (e), the answer is:

> "The OPA's 2006 assumptions regarding the equipment life of CFLs is eight years. This figure can be found in the 2009 OPA measure and assumptions list."

So what we have here is table 3, which is showing 104 kilowatt-hours savings assumption, coupled with a four-year lifespan, but then the suggestion at (e) that what is being used is an eight-year lifespan.

So we are trying to track down to make sure the proper numbers are being paired and used in conjunction with one another.

[Witness panel confers]
MR. BACON: We are going to have to take that as an undertaking, Michael. We don't have the answer to that right now. We will -- it was done by another consultant that is not here with us today, so we will have to check with that person.
MR. BUONAGURO: I picked the one person who is not here today?
MR. BACON: Yes.
[Laughter]
MR. BACON: Amazing. It is amazing.
MS. HELT: Michael, if you could just articulate, then, what you would like for the undertaking?
MR. BUONAGURO: Okay. So it appears, from the combination of the answers, that for the 2006 programs the company may be using an assumption of 104 kilowatt-hours savings for CFLs at the same time they're using an 8-year lifespan, when it is clear, at least to us, that the 2006 assumptions were 104 kilowatt-hours paired with a 4-year lifespan, which then has an effect on how the CDM is input into the future years.
So we want to confirm that that is not the case, or, if it is, why the company thinks that is appropriate, and then I guess we will have to follow up presumably later on.
As part of that, perhaps the company can confirm whether they have made an LRAM application with respect to 2006. I don't know offhand.
MR. BASILIO: We had made an LRAM application in

respect of 2006.

MR. BUONAGURO: So perhaps in looking at this undertaking, perhaps you can confirm the assumptions that were used in the 2006 LRAM application so we can see how the numbers have changed or not changed, depending on how they have been used.

MR. BASILIO: Just for clarity, is that the undertaking, then, to confirm our 2006 LRAM application?

MR. BUONAGURO: No. You have used 2006 results to impact your 2011, I think, forecast. Things that happened in 2006, depending on how the lifespans persist, may affect your forecast.

For CFLs, it appears you may be using an 8-year lifespan, which then would affect your forecast at the same time that you are using the 104 kilowatt-hour savings which is only associated with the 4-year lifespan, because I think if you look further in the information, you will see that the 8-year lifespan is associated with only 43 kilowatt-hours' annual life savings.

So the long and short of it is you can't have both. You can't use the longer lifespan and the higher kilowatt-hour savings. You have to use one set or the other. So we want to confirm which set you are using, and we want to compare that to what happened in 2006, because you would have had to use a set of assumptions in 2006.

MS. BUTANY-DESOUZA: So to be clear, then, the second part, though, of your undertaking, the undertaking that we are accepting, is also to confirm what we used as part of the 2006 LRAM?

MR. BUONAGURO: Right.

MS. BUTANY-DESOUZA: Okay, thank you.

MR. BUONAGURO: Thank you. I think that is enough for you to work on to help us out.

MS. HELT: That will be undertaking JT1.2.

UNDERTAKING NO. JT1.2: TO CONFIRM WHAT ASSUMPTIONS USED FOR CFL CALCULATIONS AND WHAT WAS USED AS PART OF 2006 LRAM.

MR. BUONAGURO: Thank you. Now, I am going to move ahead to VECC No. 5. Here we asked about the allocation factors used for account number 1508 and the sub-accounts in number 1508.

My understanding is that the company's position is that the allocation factor that is required to be used is distribution revenue, and that that is based on the EDDVAR report.

And the specific question we asked was:

> "Please confirm that the Board's EDDVAR report only directed that distribution revenues be used to allocate certain specific HONI #1508 accounts."

And the response was:

> "Horizon Utilities confirms that the Board's EDDVAR report, dated July 31, 2009, directs that the allocation factor to be used for 'specific Hydro One Networks Inc. ('HONI') accounts' included in account 1508 balances is Distribution

Revenue."

My question is: Can you confirm that the, quote, "specific Hydro One Networks accounts" that we are talking about here are the OEB costs and pension accounts that HONI had?

MS. BUTANY-DESOUZA: Grant, can you... Sorry, if we can just have a moment?

[Witness panel confers]

MR. BROOKER: We followed the EDDVAR report on page 21 where, under the revised group 2 1508 account, the allocation factor says distribution revenues for specific Hydro One Networks accounts, and that is what we followed.

MR. BUONAGURO: Right. What I am suggesting to you is that the specific Hydro One Networks accounts that is being referred to there are the OEB costs and pension accounts that HONI has because of the historical precedent for those two accounts, and specifically EB-2005-0378.

I am asking if you have that same understanding. I think you are telling me you don't, that you are relying purely on the words from the EDDVAR and extrapolating from that that it applies to all Hydro One Networks-related accounts. Is that correct?

MR. BROOKER: That's correct.

MR. BUONAGURO: All right. So I think I have identified the issue. I am going to leave it there for now.

MS. BUTANY-DESOUZA: May I add to that?

MR. BUONAGURO: Sure.

MS. BUTANY-DESOUZA: We were tracking in account 1508 also based on our 2008 EDR decision.

So from page 31 of the decision, if I can read from that, it says:

"Horizon may track the expenses..."

And these were related to CDM versus OPA funding:

"Horizon may track the expenses in account 1508 for potential future disposition, at which time the Board will examine whether the expenditures have been or could have been recovered through OPA funding."

MR. BUONAGURO: Okay.

MS. BUTANY-DESOUZA: So in combination...

MR. BUONAGURO: Thank you for that. I think my specific concern in raising this question had to do with the allocation factor. I think you would agree that particular line doesn't speak to that issue, but thank you for that.

My next questions have to do with VECC Technical Conference Question No. 7.

Perhaps while they are pulling it up, is there an exhibit number for each of the sets of technical conference questions, or is this simply how we should be referring to them? I have just been referring to them as VECC No. 7 or technical conference number 7.

MS. HELT: There is no exhibit number and I don't think there needs to be, as long as you refer to them as VECC technical conference questions.

MR. BUONAGURO: That's fine. I just wanted to check. Thank you.

So VECC Technical Conference Question No. 7, we asked for a regression analysis to be redone, which has been done, and I wanted to just go through and confirm some of how the steps were done to make sure we are on the same page.

So, first of all, in terms of adding back to the purchases as CDM values, we wanted to make sure that what were used were the same CDM values that were used as explanatory variables in the regression analysis, presumably with an adjustment for losses.

MR. BACON: That's correct. And they're the cumulative CDM values.

MR. BUONAGURO: Okay. Thank you. And then for the CDM values that were subtracted out for 2010 and 2011 from the projection, we would like to confirm that those are the same as those that were used by Horizon as the forecast input CDM values in its load forecast for 2010 and 2011, presumably, again, with an adjustment for losses.

MR. BACON: There are adjustments for losses. But the question was to reflect VECC 2(c), and they reflect VECC 2(c), as opposed to the application.

MR. BUONAGURO: Okay. So you are saying that you can't confirm that it was done this different way --

MR. BACON: I can confirm it reflects VECC 2(c). It doesn't reflect the application.

MR. BUONAGURO: Okay. So can we have you rerun it on that basis, the one I just asked for?

MR. BACON: On the application – using the application?

MR. BUONAGURO: Yeah, using the same ones from the application.

MR. BACON: Sure.

MR. BUONAGURO: Okay.

MR. BACON: Now, I apologize for the details, but do you want --

MR. BUONAGURO: Don't ask me something that I need to give you an undertaking on.

[Laughter]

MR. BACON: I know, but I want to be clear what you want. So you want the regression analysis run again, which is fine.

But you want us to add back to the purchases the amount that we assumed in the application, as opposed to VECC 2(c)?

MR. BUONAGURO: Well -- so I asked the first question. You confirmed that our understanding was correct in terms of what you did to add back the purchases, and that is fine.

The second part we wanted to confirm was that when you subtracted values out for 2010 and 2011 from the projection, that what you were subtracting are the same as those that were used for the forecast input CDM values in the application.

And you are saying that is not correct; we made an incorrect assumption. So I have asked you to redo that part of it, using the application numbers, not the VECC 2(c) numbers. Is that sufficient?

MR. BACON: Okay. What I hear you saying is you want me to subtract off the amounts -- the CDM adjustments. You want those to be specifically the amounts that are in the application?

MR. BUONAGURO: Yeah, as part of the load forecast for 2010 and 2011.

MR. BACON: Right.

MR. BUONAGURO: So you have values that are included in your load forecast.

MR. BACON: Right.

MR. BUONAGURO: Those are the values that we want you to subtract out of the...

MR. BACON: I understand that.

MR. BUONAGURO: Right.

MR. BACON: But what I am trying to -- I know this is a technical detail.

MR. BUONAGURO: Mm-hmm.

MR. BACON: The amounts that are subtracted off, the CDM adjustments that are shown here in the answer, are connected to the amount we add on --

MR. BUONAGURO: Mm-hmm.

MR. BACON: -- as per the instructions to do the regression analysis.

MR. BUONAGURO: Okay.

MR. BACON: So what I am trying to make clear is if you want me to have the CDM adjustment reflect the application, then I should run a regression analysis with the application CDM activity values in the regression, to be consistent.

MR. BUONAGURO: Okay. So what you are telling me is that the regression analysis uses CDM values X.

MR. BACON: Right.

MR. BUONAGURO: And the load forecast for 2010 and 2011 uses CDM values Y.

MR. BACON: Right.

MR. BUONAGURO: And they are not necessarily compatible with one another?

MR. BACON: Well, they are different because of what happened in VECC 2(c).

MR. BUONAGURO: Sorry. When I asked the first question, which was about the CDM values, I asked you are you using the same ones as the explanatory variables in its regression analysis.

That regression analysis isn't the regression analysis that is part of your application? It is something that is produced from VECC 2(c)?

MR. BACON: The regression analysis that is in response to TC No. 7 reflects VECC 2(c).

MR. BUONAGURO: Okay. Maybe I can do this. Let me move on to the next part of it.

MR. BACON: Okay.

MR. BUONAGURO: While I am trying to confirm what you have done. I think you can tell that there is a brain outside the room that understands what you are talking about.

MR. BACON: I understand that, yes.

[Laughter]

MR. BUONAGURO: So I will go back to the confirming part, and then maybe we can leave it as an undertaking to redo the regression with new variables, and then we can confirm what those variables are with my other brain.

MR. BACON: That's fine. I just want to make sure I get the right numbers to you.

MR. BUONAGURO: No, that's -- I appreciate that. Thank you.

MS. HELT: Just to be clear, then, Mr. Buonaguro, you are not asking for an undertaking at this point in time? You would first like to proceed to the next --

MR. BUONAGURO: I will finish with the confirmation questions, and then what I will do is ask for an undertaking to redo with new variables based on the confirmation or not, and then work out the details, and then what the details are will be reflected in the undertaking.

MR. BACON: Could I potentially suggest what somebody might be looking for?

MR. BUONAGURO: Sure.

MR. BACON: Is that a possibility?

MR. BUONAGURO: Absolutely.

MR. BACON: This is all based on 2(c).

MR. BUONAGURO: Right.

MR. BACON: I could run the whole thing based on the application.

MR. BUONAGURO: Right.

MR. BACON: Is that what you are looking for?

MR. BUONAGURO: I'm not sure.

MR. BACON: Okay.

[Laughter]

MR. BUONAGURO: To tell you the truth. Let me go through the rest of the confirmation questions first.

MR. BACON: All right.

MR. BUONAGURO: So on page 3 of 3, there is a 5133.2 gigawatt-hour forecast for 2011.

MR. BACON: Yes.

MR. BUONAGURO: Can you confirm that that is the sum of the monthly projections for 2011?

MR. BACON: Yes.

MR. BUONAGURO: Okay.

MR. BACON: Weather-normalized, yes.

MR. BUONAGURO: Okay. And then there is 174.1 gigawatt-hour adjustment for CDM.

MR. BACON: Mm-hmm.

MR. BUONAGURO: Can you tell us how that was calculated, based on the CDM savings shown in Exhibit 3, tab 2, schedule 2, appendix 3-1, page 3?

MR. BACON: I will have to look all of that up.

MR. BUONAGURO: Sure. I can probably shorten it by putting it on the record, and then you can do it by way of undertaking, if you like. I don't know how complicated it is to do that calculation.

MR. BACON: Well, let me try and answer the question without having looked at the references.

MR. BUONAGURO: Sure.

MR. BACON: What it exactly is is the accumulation of CDM savings up to the end of 2011, assuming the annual -- assuming the annual savings from CDM programs in the year.

MR. BUONAGURO: Okay. My understanding is that what I have asked you in the second part is a different way of asking the first question.

Is it the same thing? It is the sum of the monthly projections for 2011? Or no?

MR. BACON: No. It is different.

MR. BUONAGURO: Okay.

MR. BACON: It basically -- it is the accumulation -– it's the amount -- at the end of 2011, it is the amount that Horizon Utilities has saved from the time CDM started until the end of 2011.

MR. BUONAGURO: Okay. Thank you.

On page 3, lines 15 to 20 of the response --

MR. BACON: Yes.

MR. BUONAGURO: -- there is the comment that the approach of adding back in cumulative CDM, which involves estimating purchases before losses and then making a specific CDM adjustment, appears to Horizon to be counter-intuitive.

Could you explain what statement, what is it about it that is perceived to be counter-intuitive?

MR. BACON: The CDM activity variable that is in the regression analysis is an accumulation of CDM activity, month over month.

What I mean by that is there is an estimate of how much CDM has been saved for each month, and then that amount is accumulated each month, so that the CDM activity variable that is in the regression analysis is actually a year-to-date amount by month.

It is not the amount we actually saved in the month, it is a year-to-date number.

So that is where I had -- we have a bit of a challenge with it. We are actually adding to purchases a year-to-date amount, as opposed to the actual amount saved in the month.

MR. BUONAGURO: Could you maybe tell me why that is counter-intuitive? I am not quite understanding.

MR. BACON: Well, in my view, if we are going to add back the CDM savings, it would be the amount that we saved in the month, not the year-to-date amount.

MR. BUONAGURO: Okay. And can you explain why, then, the approach that I guess Horizon is proposing is better?

MR. BACON: Well, in my view, it is better.

MR. BUONAGURO: I took that to be assumed.

[Laughter]

MR. BACON: Because what we are trying to do is we are trying to simulate -- we are trying to put into the forecast a variable that reflects CDM activity over a number -- over a period of a month at Horizon Utilities.

And the concept was that we would take the amount that we actually save each month and accumulate it, because the accumulation is more reflective of the additional activity you have to incur to actually save, but also maintain. It is an activity variable. It is to show how much activity were actually involved in the CDM programs.

And just to add on to that, it actually came out of the 2010 forecast where VECC suggested that a number should be added in for CDM activity, which was a number from 1 to -- it was an increasing number to show that activity in CDM was increasing over time.

This was an attempt to do a better job at that.

MR. BUONAGURO: All right. Thank you for that.

Lastly on this topic, if you look at table 3-9 in the initial application, we would like to see a similar table for the historical years, excluding large users, which would set out the actual purchases, the actual purchases plus CDM, and the predicted purchases plus CDM.

MR. BACON: I'm sorry, can you just say that again? I was distracted.

MR. BUONAGURO: Looking at table 3-9 in the initial application, we want the similar presentation for historical years, excluding large users. So we are looking at actual purchases, actual purchases plus CDM, and predicted purchases plus CDM.

MR. BACON: Okay. So is this to reflect VECC 2(c), or to reflect the application?

MR. BUONAGURO: We are looking for historical, so it shouldn't matter, I would think.

MR. BACON: Oh, I see, okay.

MR. BUONAGURO: Yes.

MR. BACON: Yes. That is written down somewhere; right? I can go back and see what you are actually looking for?

MR. BUONAGURO: You can give Bill a call.

MR. BACON: Yes, okay.

MR. BUONAGURO: Okay?

MS. HELT: So we will note that as an undertaking, JT1.3.

UNDERTAKING NO. JT1.3: TO PROVIDE SIMILAR TABLE TO 3-9 REFLECTING HISTORICAL YEARS, EXCLUDING LARGE USERS.

MR. BACON: Now, okay. Sorry, is that the cumulative? Do you want the variable that we used? Do you want the variable that we used in the regression analysis, or do you want the actual CDM savings that occurred in the year?

MR. BUONAGURO: Well, we are asking for historical. So I am assuming that to the extent you have actuals, you are going to be using actuals.

MR. BACON: Okay. All right.

MR. BUONAGURO: If there is a problem with that, we can discuss that.

MR. BACON: All right. Okay.

MR. BUONAGURO: Okay, thank you. Lastly, on a question that has nothing to do with load forecasting.

MR. BACON: Thank you.

[Laughter]

MR. BUONAGURO: No, thank you. VECC Technical Conference Question No. 14(c), we asked about vehicles. What I wanted to just ask, quickly, if I may, if you look on the table, this sets out the additions and subtractions of vehicles between 2008 and the forecast test year.

Along the side, the right side of the table where it says "reason for increase or decrease", and there is a particular line -- I think it applies to I think five of the vehicles or so. It says, "vehicle availability to support demand".

So I can understand, in relation to the other categories, that this isn't a case where you are replacing an end-of-life vehicle, and it is not the case where you have a specific person who is now requiring an additional vehicle. It has some other purpose. So I wanted to get an explanation for what that means, "vehicle availability to support demand".

MS. LERETTE: Okay. I will give you an example. In the capital group, we've gone from seven vehicles to nine to support demand. So we've got more than 20 people, sometimes 25 people, using nine vehicles.

So it becomes a point where the utilization is such that you need to add another vehicle to that group.

MR. BUONAGURO: Sorry, just to be more specific, are you saying demands related to increased pool of people using it, or the same pool of people using it for more things? Are you using those vehicles for more things, or both?

MS. LERETTE: It is both. In the capital example, I believe we added an engineering tech to the pool who uses that vehicle, but because our work is increasing, their ability to go out in the field has increased, and so they need more vehicles.

MR. BUONAGURO: Okay, thank you for that.

Those are my questions. Thank you.

MS. HELT: Mr. Buonaguro, was there an undertaking that you required with respect to the regression analysis, or there was one that was being discussed at that time?

MR. BUONAGURO: I can get back to them after the break. Let me put it this way. I mean, if it is important, we are going to have to ask the question at the hearing and have it done then. So if there is one, I will talk to my consultant and see if he needs a redo of the regression analysis. If so, I will put it to the company in a letter, and I am assuming there wouldn't be a big problem doing it, unless there is some huge technical problem.

MR. BACON: We need a definition of what you need and we will give it to you.

MR. BUONAGURO: I think we are okay for now. I think we can work it out if we need it. Thank you.

MS. HELT: That's fine.

Mr. Shepherd?

MR. SHEPHERD: I would prefer to go last, if it is possible.

MS. HELT: All right. I understand Ms. Grice does not have any questions.

MR. SHEPHERD: Okay, David, do you have anything?

MS. HELT: Mr. MacIntosh?

QUESTIONS BY MR. MACINTOSH:

MR. MACINTOSH: David MacIntosh for Energy Probe. I do have questions on one other Energy Probe Technical Conference Question No. 14.

This technical conference question refers back to Energy Probe's Interrogatory No. 50 and asks Horizon Utilities to provide a calculation. The response discusses how the calculation was undertaken.

So, once again, we are requesting that you provide the actual calculation, not just the answer, but the actual calculation done by Horizon.

[Witness panel confers]

MS. GALLI: In the response to Energy Probe 50, we provided a table outlining for the years 2004 to 2010 all employees that were eligible for an undiscounted retirement, the number of employees that actually retired in each of those years, and then calculated, on an annual basis, the percentage that -- what was representative of those that retired versus those that were eligible.

So in terms of the technical question 14, what we are saying is that between 2004 and 2010, we simply took the average of the percent retirement in each year to come up with the 97 percent.

MR. MACINTOSH: I understand that, and what we are asking for is you provide the actual calculation, not an explanation of how it was done. Very simple, but that is all we are asking.

MR. BROOKER: If I may, if you take the table that is provided at the bottom, the response for 2004 says 31 percent, 2005 says 400 percent, et cetera, et cetera.

Take the total of the 31 percent, the 400 percent, the 33 percent, et cetera, et cetera, divide by seven years. That provides the 97 percent.

MR. MACINTOSH: Thank you. So if you would provide that calculation to us, that would end my question.

MS. BUTANY-DESOUZA: We will take that as an undertaking.

MR. MACINTOSH: Thank you.

MS. HELT: That will be marked as Undertaking JT1.4.

UNDERTAKING NO. JT1.4: TO PROVIDE ACTUAL CALCULATION FOR ENERGY PROBE TECHNICAL CONFERENCE QUESTION NO. 14

MR. MACINTOSH: That is the only question I had.

MS. HELT: Thank you. Mr. Shepherd, Board staff can go next, if you would prefer.

MR. SHEPHERD: Yes.

QUESTIONS BY MR. RITCHIE:

MR. RITCHIE: Thank you. I guess I will just have a few questions related to the responses to the technical conference questions to Board Staff.

I would like to start with Technical Conference Question No. 2, and this is asking about the documentation on the 37 cents per meter read and referencing back to AMPCO IR No. 20.

I guess I am still trying to look at this, because maybe I just need some explanation of the response to AMPCO No. 20, and bringing that one up, on page 2 of that interrogatory there is a table that basically is showing how the -- basically, 109.82 weighting factor for the interval reading meter data for 2004 was derived.

Basically, for the larger users, it is showing MV90 cost to read retail meters of $123,176.77, and basically an interval meter cost per retail meter per month of $40.73.

Now, that has been contrasted against this residential meter read cost of 37 cents per month.

I guess I am trying to understand the MV90 cost for meter reads, is that just pure OM&A expense for the -- to read the retail meter?

MR. BROOKER: So you're referring to the 37 cents?

MR. RITCHIE: Let's start with the MV90 cost to read the retail meters, which, again -- it is the total amount, like this 67.925 percent of the 181,000, in other words the $123,000 cost for reading the retail, the MV90 cost is about $123,000.

Is that just a pure OM&A expense cost, or...

[Witness panel confers.]

MS. HUGHES: If I may, subject to check, I believe that includes the OM&A costs of the MV90 department, including wages as well as costs to run the MV90 system.

MR. RITCHIE: So it is just an expense item?

MS. HUGHES: Correct, an OM&A expense.

MR. RITCHIE: Okay. And the 37 cents for the retail

meter, that is just an expense for -- again, a monthly
expense item?
MR. BROOKER: It is not a monthly expense; it is the cost for each meter read.
MR. RITCHIE: Okay. But on a per-monthly basis, so in other words -- the way I guess I am thinking of it is this is really the cost for the old human meter reader to sort of go around to your side door, basically take the meter read, log it into, I guess, their hand-held terminal or however they did it?
MR. BROOKER: Yes, that's correct. That is where the 37 cents comes from.
MR. RITCHIE: Okay. So I guess I am still -- okay. So there are no capital costs in either of these items, and I guess it is -- where I am trying to understand this is, again, like, say, 37 cents per meter read, if I was to sort of say: Okay. If a meter reader did 100 meter reads in an hour, that is basically a $37 expense item.
Now, I would think that probably 100 meter reads in an hour would probably be pretty aggressive?
MS. CAMPBELL: Depending on the route optimization, the way that the routes are laid out, they're actually -- this would be the typical cost for a residential read, and a meter reader would typically read 6- to 700 of these a day.
MR. RITCHIE: Well, okay. And I guess at this time, were you doing monthly or sort of bimonthly reading?
MS. CAMPBELL: We actually have both schedules. We

have a monthly cycle and a bimonthly cycle, as well. So this would be cost per read, regardless if it was a monthly or a bimonthly.

MR. RITCHIE: Okay. Thank you. I would like to next move on to Technical Conference Question No. 5. This is dealing with the meter reading expenses, really, in –- and I guess I will now deal with really from 2008 to 2011, and really how your smart meter deployment has played out and what impact this has had on sort of the manual meter reads versus the AMI.

Again, I am sort of familiar with some of the material from your -- the separate smart meter funding adder application.

You had basically deployed 95 percent of your smart meters by the end of 2009, and for those, were -- had you converted over to sort of a remote meter read, or were you still using manual meter reads? And if so, can you give sort of like a distribution of that?

MS. CAMPBELL: So -- yes, correct. In 2009 we had converted just approximately 95 percent of our meters to smart meters.

Depending on when the meter was installed and when it started communicating with the AMI, once we had confirmation that we were getting accurate data and it had been verified, we commenced using the read from the AMI to build the account.

So by the end of 2009, we reached a typical baseline for conventional meter reading. So we had -- the meters that were in, we were using the AMI system for them. There may have been a few that we had communication issues with, but not a large amount.

So the meter reading costs are, of course, still the large commercial, the greater-than-50 classification, the under-50 classification that we're still reading as well, particularly the three-phase meters, because we didn't have a meter solution for those, and we had quite a number of hard-to-reach meters in the residential side that we hadn't changed out yet that made up that difference of the 5 percent.

MR. RITCHIE: Okay. So -- and again, I know you will have higher costs for reading the large commercial and some of these others.

I guess it is a matter of trying to sort of trying to understand why the meter reading expenses really are still only going down by about 50 percent, really, from when you converted from the manual meter read to going over to the AMI.

MS. CAMPBELL: One of the other contributing factors is the fact -- and what I spoke about a few minutes ago about route optimization.

Once the smart meters were installed and a meter reader is now walking five houses in between to read a meter, the costs to read that meter is no longer in the 37 cent range or the range just above that.

On average, in 2009, subject to check, I believe we were paying about $1.14 for a residential read, around

$1.25 for a small commercial, and about $1.74 -- somewhere in that range -- for a large commercial. So the cost of meter reading itself has increased with the routes being changed with the installation of the smart meters.

MR. RITCHIE: Okay. And also in both, I think, this application and in your smart meter funding adder application, you have also provided evidence that you are, I guess, as meter seals expire, replacing a number of the, I guess, larger commercial meters with meters that actually will communicate with the AMI infrastructure.

And so I guess there could be potentially some more savings, at least in terms of the number of meter readers.

Now, I agree that as you reduce the number, of course there is probably going to be losses in the economies of scale type of --

MS. CAMPBELL: That is correct. There will be a loss of economies of scale, but, as these new meters come online and we are able to read them through the technology, we will be using those reads to bill on.

MR. RITCHIE: Okay, thank you.

I would like to move on to the Board Staff Technical Conference Question No. 9. This is having to deal, I think, with a new proposal from Horizon regarding the amortization of the costs related to actually this current proceeding, where, in your original application, you had proposed to amortize the costs over three years, but now, basically, recognizing that the Board is normally having a four-year cycle between rebasings, that a four-year amortization of these costs recovery would be more in line with the IRM.

However, you do then say that Horizon -- quote:

"Horizon Utilities submits that, if the amortization is changed to four years, it should be able to recover any unamortized portion of such if it were to file, and the Board were to accept, its next cost-of-service rate application in advance of the 2015 rate year."

Now, I guess right now, in the original application, you had proposed an amortization of three years. If you were to continue with the three-year amortization but, in fact, you were on the more normal four-year rebasing cycle, what would be -- you know, how would you propose to deal with what potentially would be an over-recovery in the fourth year?

MR. BASILIO: We recognize that the four-year is more in line with the four-year IRM period and don't have any issue with changing the application to reflect that, if that is the Board's decision.

The issue we didn't want to lose sight of, being in this position now, is that -- is to the extent -- an application costs a certain amount of money to prepare. Here it would be recovered over four years. If the Board were to accept -- and I don't know that this will be the case. It certainly is now. But if we were to advance an application again, we could lose whatever unamortized costs were undertaken to prepare this application.

So we just don't want to lose sight of that in the event that we were to advance again. That is really, I think, the issue we want to identify it here. It is not so much the three- or four-year am. As a matter of fact, I think the three-year am. recommended in the original application was a mistake, in terms of understanding the length of the IRM period. We understand it is four years and changing -- again, changing the am. to four is not an issue for us.

MR. RITCHIE: Okay, thank you. I guess I will next move on to Technical Conference Question No. 10. This is dealing with the idea of increased call volumes expected in 2011 due to the switch-over to time-of-use rates.

I guess I will specifically -- sorry, I am just trying to see where I had that.

In the part (c) of the question, basically you are noting that you have contracted incremental staff in 2011 to manage sort of this -- the call volumes in this, I guess what you are terming a time-of-use transitional period for this year.

What I am trying to understand, these costs -- now are these in your OM&A -- in this application, or are they recorded in the smart meter OM&A costs?

MS. CAMPBELL: The costs for the incremental staff to handle the call volumes are part of our smart meter adder. They are not included in this application.

MR. RITCHIE: Okay, because, yes, I just couldn't -- I was trying to look through the evidence in that application and this one, and I couldn't specifically identify where those costs were. Like, they weren't specifically broken out.

So, again, basically they're part of the smart meter, so really it will be dealt with more or less as a one-time cost when you apply for disposition of your smart meter deferral and variance account balances?

MS. CAMPBELL: That is correct.

MR. RITCHIE: Okay. So there is nothing in this application relating to that.

So I guess in reality, yes, you've got the increased call volumes, but, in reality, all you are budgeting for in your costs in this application is really a normal level of call volumes, and that the incremental amount is really being captured in the smart meter funding adder account balances?

MS. CAMPBELL: That is correct.

MR. RITCHIE: Thank you.

QUESTIONS BY MR. ABRAMOVITZ:

MR. ABRAMOVITZ: Good morning. If I could take you to CCC Technical Conference No. 4, Horizon has identified about $130,000 in incremental costs for the new director in the project management office.

I would just like if you could elaborate on the incremental costs for this position.

MS. GALLI: The incremental costs for that position would reflect base salary and incentive.

MR. ABRAMOVITZ: So it includes salary and incentive?

That is the incremental cost?

MS. GALLI: Yes.

MR. ABRAMOVITZ: Okay, thank you.

MS. HELT: Mr. Shepherd, how long do you think you will be? I am just wondering, perhaps it would be an appropriate time to take a short break, and then come back with your questions, unless...

MR. SHEPHERD: Well, I have two sets of questions. I have a set of questions that is not confidential relating to the questions asked by others that are follow-ups. And those, I expect that won't take more than an hour.

The confidential stuff I didn't get until late last night, so I am actually going to have to walk through each answer one by one, because I haven't had a chance to read all of it. I am trying to read it now, but it is hard to do both, you know?

MS. HELT: Right.

MR. SHEPHERD: I think that will take at least another hour, hour and a half. So I would guess that is probably a good time to take a break, yes.

MS. HELT: All right. We will take a ten-minute break and we will come back at -- well, let's make it a few more minutes. Twenty-five after 10:00 we will come back. Thank you.

--- Recess taken at 10:12 a.m.

--- On resuming at 10:25 a.m.

MS. HELT: All right. Now that everyone is here, perhaps we can get started again.

I believe we left off just before Mr. Shepherd was about to start his questions, so Mr. Shepherd?

QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: Thanks very much. I am going to start with a bunch of follow-up questions on the responses to technical conference questions for the other intervenors and Board Staff.

I am looking, first, at VECC. You have already been asked about the lives of CFLs in VECC Technical Conference Question No. 1.

What I am going to ask you about is the assumption of 100 percent persistence for all program results, which you will find on page 2.

Do I understand that to mean that, for example, if we look at this table for your 2005 third tranche program spendings, that you assumed that all of these savings from 2005 continue in 2011? Is that right?

MR. BACON: Yes, that's correct.

MR. SHEPHERD: So -- and I will pick on the CFLs because they're there.

That means that if you got somebody to install a CFL in 2005, you are assuming that CFL is still saving energy in 2011?

MR. BACON: For the purposes of defining the variable, yes, in a regression analysis.

MR. SHEPHERD: All right. You haven't made any attempt to figure out whether any of these actually last that long?

MR. BACON: No.

MR. SHEPHERD: Okay. Thanks. Then in VECC Technical Conference Question No. 2, I am looking at page 2 of that -- and this also may be for you, Mr. Bacon -- This is the degree-days, heating and cooling degree-days.

And I understand correctly -- do I understand correctly that the weather-normal heating degree-days are a given? They're part of your inputs? These are not calculated numbers; these are the numbers from your historical data?

That is why they're the same every year?

MR. BACON: Yes. They're the average of -- I can't remember the number of years of averaging of the heating degree-days, but that is exact -- it is the average heating degree-day over a number of years. I think it -- yes.

MR. SHEPHERD: Now, isn't it normally true that that average is actually adjusted every year?

Like, I didn't understand how you would have the same heating and cooling degree-days for 2003 and 2010, when your time series data would be different for each.

MR. BACON: I understand where you are coming from, but for the purposes of doing weather-normalization in our load forecast models, we take the average of the heating degree-days in a particular month for the number of months of historical data that we have.

So by definition, in the way that we do weather-normalization, the number is the same for each year.

MR. SHEPHERD: Wouldn't you have more months available when you are doing the 2010 normalization than when you are doing the 2003 because you have everything up to 2009 available?

I am not saying you are doing it wrong; I am just trying to understand it. That's all.

MR. BACON: Well, the way -- there is a weather-normalization number that we have for each month. That weather-normalization number that we have for each month is the average -- for instance, let's take January.

For January 2010, we have a weather-normalization number, and that reflects the heating degree-days from 2003 to 2009 for all of the Januarys, divided by the number of years that is. I think that is seven.

So we use that as the heating degree-day weather-normalization number for January for each year.

And when you add them all up, it is always the same number.

MR. SHEPHERD: Oh, so...

[Cell phone ringing.]

MR. SHEPHERD: That's -- so that means that for 2003, you are actually assuming that weather-normal is calculated using the months up to 2009?

MR. BACON: That's right.

MR. SHEPHERD: It is basically retroactive?

MR. BACON: Right.

MR. SHEPHERD: Okay. I get it. Thank you.

VECC No. 9 asks you about the business development department -- or business development group, sorry.

Do I understand correctly that what happened was you created this group -- this is probably you, I guess, Mr. Basilio -- you created this group largely to do M&A work, but then M&A sort of dried up and it is now doing other things? Am I right?

MR. BASILIO: I am just turning to the response.

As noted in the response, it was always the intention of that group to enhance the strategic planning and corporate development capacity of Horizon Utilities as a group.

When we created the group, its principal focus at that time was going to be M&A.

Since that time, M&A activity hasn't been as robust as we had thought. However, this position has now been able to focus on other elements of strategic planning that do -- and -- such as sustainability that do directly affect the regulated utility, as was contemplated for the position.

MR. SHEPHERD: So prior to this group, you were still doing strategic planning, for example, right?

MR. BASILIO: Yes.

MR. SHEPHERD: But whoever was doing it before, it was moved to this department?

MR. BASILIO: Not entirely, but the principal focus of the group is to do that. I think what we were finding as an executive management team at the time is that the burden of strategic planning was becoming a lot, and it needed a more focussed resource or department to help support the team with those functions.

MR. SHEPHERD: Is this in part because of the merger with St. Catharines and the sort of expanded size of the enterprise?

MR. BASILIO: I wouldn't say that is a principal contributor, but certainly -- at the time, of course, M&A was the principal focus, and off of the St. Catharines' merger, we were certainly hoping for a more robust M&A environment, which would have resulted in most of the time of this department being focussed on M&A activity.

MR. SHEPHERD: Well, and it was until last year, right? Because you were doing the Guelph deal, right? So this department was mostly doing M&A until last year; true?

MR. BASILIO: No. The Guelph deal was being -- we hired this position -- let me just confer. I just want to -- just hang on a sec.

[Witness panel confers]

MR. BASILIO: The department came into being partway through the Guelph merger.

I can tell you that the fellow responsible for this department was not directly involved in that Guelph deal. He was -- at that time, our discussions with Guelph were fairly -- were advancing, and the focus of this individual was on the next deals, cultivating relationships, those sorts of things.

MR. SHEPHERD: Okay. You have said on page 2 of this response that one of the things this department does is manage a database of LDC comparisons.

And you have referred to that in an SEC interrogatory response, as well, I know.

Is this something you share with other LDCs?

MR. BASILIO: I don't know if we have shared it with all of LDCs, but in particular, when the Board was undertaking its benchmarking of LDCs, this department had been and was continuing to be in the process of developing this database, which was shared -- I can't say if it was all LDCs, but a number of LDCs, and Board Staff were engaged. The vice president of business development - some will be familiar with Mr. Neil Freeman - he was very active in the benchmarking, both working -- both trying to -- you know, with respect to Horizon Utilities, but as well with other LDCs.

So certainly a number of LDCs would have been engaged in that work. I am not sure if it is all. I don't know if they all have had access to that data.

MR. SHEPHERD: Sorry, that is back in 2008. I get that, but I am asking about now, because you are still doing this; right?

MR. BASILIO: Yes.

MR. SHEPHERD: And this is information that is incremental to the information that the Board publishes benchmarking utilities; right?

MR. BASILIO: Yes.

MR. SHEPHERD: And do you make it public or do you share it with other LDCs?

MR. BASILIO: I don't know that we have made it public or have shared with other -- I believe we are sharing with certain other LDCs, but I don't know that we have made the data public. I can't answer that at this point in time.

MR. SHEPHERD: Well, I wonder if you could provide us with the current database, the current status of that database, the current set of comparisons, most up to date, whatever you've got most up to date.

MR. SIDLOFSKY: I'm sorry, if that hasn't been made public, if that is simply being prepared for Horizon's own purposes, I am not sure that Horizon would be prepared to provide it publicly.

MR. SHEPHERD: What is the basis?

MR. SIDLOFSKY: It is an internal document. It shouldn't be relied on, I wouldn't think, for any certainty in terms of reliability or other characteristics of other LDCs in the province.

MR. SHEPHERD: This is being paid for with ratepayer money, yes?

MR. BASILIO: It is not being -- Neil Freeman's costs, the costs of that business development group, were not provided for in 2008 rates. They were excluded from our 2008 rates.

We are seeking here to have -- recognizing that he is enhancing the utility for the reasons noted in our evidence, we are seeking to have his costs included in rates going forward or an allocation thereof.

But in the 2008 decision, his costs were entirely excluded, and I will just have my colleague confirm, but I don't believe that there were any allocations of his costs to Horizon Utilities in 2009 or 2010.

MS. HUGHES: That's correct. If you look at our response to VECC No. 19 in response to part (a), you will see that the business development costs, they were not allocated in 2009 or 2010.

MR. SHEPHERD: No, I understand that. But as of right now, you are proposing that Mr. Freeman's salary be borne by the ratepayers; correct? One of your justifications is this database; correct?

MR. BASILIO: I think what we are asserting here is that much of the work that he has done over the past few years has supported the utility, and that value has been created and paid for by the shareholder. We are showing examples of things that he has done or will be doing going forward that would benefit the utility, and, should his costs be approved in the application, ratepayers would commence paying for the value of those things.

MR. SHEPHERD: Well, actually, as you proposed, they would be paying for them now; right? If the Board accepts what you are proposing, then today we are paying for his salary; right?

MR. BASILIO: As of January 1, should the rates be effective as of that date, I would confirm that is correct.

MR. SHEPHERD: So, therefore, I am asking for the database and I am asking Mr. Sidlofsky to advise: Is your objection to delivering it materiality or relevance? Because those are your only two choices.

MR. BASILIO: I think I would like to consult with --

I don't think I can answer that today. Again, I know that we have made some of this data available to other LDCs. What I can't answer today is if we have made it public, meaning I don't know if we have or have not.

But before agreeing to an undertaking, I would need to consult with Mr. Freeman.

MR. SHEPHERD: Then I am going to ask that we give it an undertaking number on the understanding that it may end up being a refusal, but at least we need to record it.

MS. HELT: Let's note that as a confidential undertaking at this time. We will give it just a number to reflect that it could be a confidential document.

MR. SHEPHERD: Well, okay, but I would have thought that anything could be a confidential document.

As I understand it, so far nothing -- no confidentiality has been claimed on this, because they're refusing to give it to us. So if they do claim confidentiality, then at that point it would have a confidential number.

I wouldn't have thought it would yet, unless you are saying you will give it to us, but it -- you want to claim confidentiality, in which case that is fine.

MR. SIDLOFSKY: I don't think I am saying either of those things right now. I think I am saying that Horizon will need to consider it and advise.

MS. HELT: All right. Then in that case, there is no need to give it a confidentiality number.

So we will mark this as JT1.5.

UNDERTAKING NO. JT1.5: TO PROVIDE DATABASE.

MR. SHEPHERD: Thank you. The other thing I am wondering about in this response number 9 - remember response number 9 we were talking about - you talk about this coalition of 22 LDCs that was advocating changes to the third generation IRM.

This is something you're talking about, after third generation IRM was implemented, you proposed changes to the Board; is that right?

MR. BASILIO: I can't recall the specific timing, whether it was during the proceeding or after. I believe it was after the proceeding. That is what I am confirming, I guess.

I can't recall the timing. I think it was after the proceeding. It could have been during the proceeding.

MR. SHEPHERD: Was this public or was this behind the scenes?

MR. BASILIO: Again, I can't recall. I believe it was public. We could certainly verify that. I just don't recall.

MR. SHEPHERD: If it was a public document - that is, this proposal - could you provide it?

If it was not a public document, could you determine whether you are willing to provide it anyway, or not?

MR. BASILIO: Yes.

MR. SHEPHERD: Thank you.

MS. HELT: That will be noted as undertaking JT1.6.

MR. BASILIO: Sorry, if I could beg the indulgence for a second, I note my colleague here has provided, in the response to SEC 9 --

MR. SHEPHERD: Yes.

MR. BASILIO: -- there is a paragraph:

"The Horizon-led coalition submission arrived at nine recommendations for improvements in the benchmarking underlying the third generation IRM through 48 pages of analysis of LDC benchmarking issues in Ontario. See EB-2007-0673 submission filed December 16th, 2008 as the coalition for an effective incentive rate mechanism."

MR. SHEPHERD: Oh, okay. So it was within that proceeding?

MR. BASILIO: Yes.

MR. SHEPHERD: Oh, okay. Well, then I withdraw the undertaking response. I didn't realize that.

MR. SHEPHERD: Then the last is on page 4 of that interrogatory -- the last on this question. This is -- on page 4, you are breaking down the expense of the business development group, and I have to confess I had some difficulty following it, and I just wonder whether you can take us through that table on page 4 and help me to understand what it means.

Which are the things that the ratepayers were bearing and which are the things that the shareholder was bearing, or is proposed to bear?

MS. HUGHES: So if I could respond, in 2007 and 2008, 100 percent of the business development costs went through

Horizon Utilities. Following our 2008 EDR --

MR. SHEPHERD: Sorry, let me just stop you.

But they went through Horizon Utilities, which is the regulated entity, right?

MS. HUGHES: Yes.

MR. SHEPHERD: But the ratepayers didn't bear them? Because they were not part of --

MS. HUGHES: They were not in rates.

MR. SHEPHERD: Okay. So they were in HUC, but they were not in rates?

MS. HUGHES: Correct.

MR. SHEPHERD: Thank you.

MS. HUGHES: In 2009, following the 2008 EDR decision, the -- 100 percent of the business development costs were allocated to Horizon Holdings Inc.

Make reference in 2009 that we did, in fact, put 100 percent of the sustainability, as well as the development costs, into Horizon Holdings Inc.

In 2010, we've recognized that the sustainability costs really are around the development of Horizon Utilities' data with respect to sustainability.

And so the costs associated with sustainability are in the utility at 100 percent, but the costs of the business development costs, particularly around the salaries and benefits, are 100 percent in Horizon Holdings Inc.

MR. SHEPHERD: Okay. Let me just stop you. So sustainability is your CSR report, right? You do an annual CSR report?

MR. BASILIO: That's correct.
MR. SHEPHERD: And so when you talk about sustainability costs, that is the cost of the -- what is it -- two people that work on that?
MR. BASILIO: That cost would include -- it is the costs of the development of the report.
MS. HUGHES: Correct. Third-party costs of developing the report.
MR. SHEPHERD: Right. But the point is there is only that report? That --
MS. HUGHES: Yes.
MR. SHEPHERD: -- that group doesn't do anything else, just that?
MS. HUGHES: There is not a particular department in 2010. Hang on a sec.
MR. SHEPHERD: Let me ask this a different way. Is it a lot of money?
MS. HUGHES: Oh, sorry. I believe in VECC -- I am trying to -- I believe it is VECC. If I take you back to VECC No. 9 again, I believe there was a table that identified the percentage.
Let me just check the reference. Hang on one sec.
MR. SHEPHERD: This is VECC IR No. 9? Or Technical Conference No. 9?
MS. HUGHES: I have to think about that. Just one sec.
My apologies. The reference is VECC No. 19 in the original IRs.

MR. SHEPHERD: Okay.
MS. HUGHES: Page 2 of 7 in response to VECC 19(a), we provide the breakout of the sustainability costs versus the business development costs.
MR. SHEPHERD: Fine. That is what I need, the $143,000.
MS. HUGHES: Correct.
MR. SHEPHERD: Thank you. Go on. 2011?
MS. HUGHES: So in 2011, the -- 100 percent of the sustainability costs would be within the utility, and 80 percent of the business development salaries and benefits would be in the utility, with 20 percent in the holding company.
MR. SHEPHERD: Okay. Well, looking back at VECC No. 19, it looks like it is actually about 50/50 on business development. That is to say that it is 80 percent of the salaries, but it is -- but none of the other costs, the external costs.
In VECC 19, you've got 344 for HUC and you've got 351 for Holdings; is that right?
MS. HUGHES: That is what has been described on the table, yes.
MR. SHEPHERD: Okay.
MS. HUGHES: I -- so 80 –- so just to clarify with respect to that table for 2011, the 344 is 80 percent of the wages. So that means in Horizon Holdings Inc. is 20 persons of the wages, plus other costs related to non-regulated business development.

MR. SHEPHERD: All right. Thanks. I am moving on to VECC Technical Conference Question No. 10. And this is your response with respect to corporate metrics.

This is your incentives, right, your incentive compensation?

MR. BASILIO: That's correct.

MR. SHEPHERD: I had two questions. First of all, do we have somewhere what the dollar result is of this 107 percent? Like, we have all of these percentages, but what does this mean in terms of total dollars?

This is now up-to-date, right? This is real? So I don't think we have it.

[Witness panel confers]

MR. BASILIO: So the dollars, excluding the executive team -- I will clarify that in a second -- on page 2 of 4 are in the table.

MR. SHEPHERD: Oh, I'm sorry.

MR. BASILIO: The results of that. Now, it excludes the executive team because those payments have not yet been approved. Well, they have been approved. We just don't know what they are yet.

MR. SHEPHERD: I'm sorry, I don't know why I didn't see that. My apologies.

My second question on this is you have under "Financial Return on Equity" that your result was 150 percent of target. I am trying to understand that, because one of the reasons for this application and one of the reasons for your Z-factor application last year was a sort of a "We are not going to earn any money, we are all going to die" argument.

And so I don't know how you made 150 percent of your equity target when things were so bad.

Can you help me understand that?

[Witness panel confers]

MR. BASILIO: Part of this answer might be provided when we get to the questions that are going to be asked under confidentiality, with respect to specific analysis.

What I could say here, I think non-confidentially, is that we set the target based on the budget for the year.

And as you can see, the budget -- and the budget for -- rather, the budget is set -- the budget that was set, you can see, is still well below the regulated return on equity. We did do better than that. It was a very difficult year, and recognizing that was the discretion of the board that that paid out.

MR. SHEPHERD: I understand. I mean, basically you knew it was going to be a difficult year, so your board said: Let's set a target that is realistic, not ask for the moon when we know it is not possible. Right?

MR. BASILIO: Well, I think what the board asks for is, in any given year, that a target be realistic but challenging.

So in any given year, that target, with respect to the regulated entity, may not be the regulated rate-of-return, recognizing that that is a maximum return and something very difficult to achieve.

MR. SHEPHERD: I understand that. So the target that was set was 7.13 percent. And if you got 150 percent of the target, I take it that means that you got something over eight percent.

MR. BASILIO: We will be happy to respond to that in the confidential portion of your questions.

MR. SHEPHERD: Well, okay. I don't understand why that would be confidential. We know what the target is. We know you -- you have said publicly the target was 7.13 and you said publicly that the -- that you got 150 percent of it.

What is 150 percent of the target?

[Witness panel confers]

MR. BASILIO: Sorry, there may be elements that are already on the public record here, so we just want to confirm that before responding.

[Witness panel confers]

MR. BASILIO: In response to VECC 19(c), we have provided our 2010 metrics. They're marked "draft", but I believe these to be the final metrics. I am not sure why the word "draft" is still on them.

In that document, you will note that the target ROE was set at 6.46 percent for the year. So that would have been the target.

You will also note a threshold of 5.46 percent, which is exactly 1 percent below the target. Historically, we used to set targets -- or we used to set goalpost results symmetrically around the target. We have not followed that practice for a few years, and so the outstanding result is at the CEO's discretion.

The actual result for the year, I believe, is the subject of the confidential.

MS. HUGHES: We have filed the actual in SEC 8.

MR. BASILIO: We have filed the actual in SEC 8, the actual calculation. So you will note what the actual result was there.

MR. SHEPHERD: TC 8?

MS. HUGHES: SEC TC, sorry.

MR. BASILIO: TC 8, SEC. I am happy to discuss it when we --

MR. SHEPHERD: I still don't understand why it is confidential. It is just a fact.

MR. BASILIO: It is a fact that it is an outstanding result. Sorry, I thought we were delineating our discussion between those answers that we had filed in confidence and those ones that had been filed in open forum.

Perhaps someone could clarify the process as to how we should respond to information filed in response to the technical questions versus...

MR. SIDLOFSKY: We have taken the position that all of the answers in respect of the -- excuse me, all of the responses to the SEC technical conference questions should be kept in confidence. There is an outstanding confidentiality request in respect of CCC question 8.

That answer was given -- the answer that Mr. Basilio is referring to was given in response to one of the SEC questions that follow on CCC question 8.

I think Mr. Basilio is happy to elaborate on that during the in camera session, and I think that is reasonable given that -- given where the confidentiality request stands at this moment.

MR. SHEPHERD: We don't agree that that piece of information is confidential if it is clearly the result of this calculation from a public document.

However, I will deal with it then. I am not going to push it now. We have other things to worry about.

So I understand correctly, then, that despite the large increase in your rates that you are proposing, you are only proposing to increase your target ROE from 6.46 percent to 7.13 percent. Can you tell me what that is all about?

MR. BASILIO: Yes, I can. The ROE is determined on a fiscal year basis within -- and I am happy to provide this. This information may be on the public record. You would note, in the financial plans that were submitted in confidence, that the assumption in those plans with respect to the effective date of the 2011 application is May 1.

So the benefits of this step in revenue requirement aren't realized in the plan until after May 1, and that is the reason for the lower ROE target.

MR. SHEPHERD: Okay. But I guess then the reason why I am asking that is because I am looking at what you expect to have paid in 2010 on page 2 of this VECC Technical

Conference Question No. 10, which is a total of about $380,000.

Then I am looking at page 4 of that, where you are saying that you are only expecting to make target - not 150 percent, just target - in 2011, but you are expecting to spend $678 million on incentives. So why are the incentives doubling? I don't get that. Sorry, thousand.

MR. BASILIO: Just give me a second to clarify the response.

[Witness panel confers]

MR. BASILIO: As noted in the question, the 2010 results don't include the executive team bonuses, whereas the table on page 4 of 4 includes the executive team. So it would be the budget for all bonuses at target payout in 2011, and based, again, on the employee complement anticipated for 2011 and provided in the application.

MR. SHEPHERD: So that difference of a couple of hundred thousand dollars, that is the incentives for the senior management group; right?

MR. BASILIO: Senior management plus the vacant positions, vacant positions in 2010, and the incremental positions provided in 2011.

MR. SHEPHERD: You are not paying incentives to vacant positions?

MR. BASILIO: No, we're not. That is the reason for the increase. Sorry if I didn't clarify that properly.

We would be assuming in 2011 that any open positions in 2010 have been filled, and, additionally, there are incremental positions in the 2011 application that would contribute to the increase, as well.

MR. SHEPHERD: Wonderful. Thank you.

The next follow-up question I had was on VECC Technical Conference Question No. 15, and this is asking about shared assets.

What you appear to be saying is that if you have a non-rate-regulated activity -- and this says "entity", but I take it "entity" here in (a) actually means activity. So even if it is within Horizon Utilities, if it is non-rate-regulated and there are assets that are used for that, they're kept completely separate; is that right?

MS. HUGHES: Yes, that is correct.

MR. SHEPHERD: Okay. But the main assets that these non-rate-regulated activities use - tell me whether this is right - is things like these computer hardware and software and that sort of stuff; right?

MS. HUGHES: Yes, that's correct.

MR. SHEPHERD: And how is that charged to the non-rate-regulated activities?

MS. HUGHES: So the cost driver around the computer technology, if we look at the OM&A, is based on the number --

MR. SHEPHERD: That is not what this is asking about.

MS. HUGHES: But this is on capital, so there is no specific allocation.

MR. SHEPHERD: So they get to use the assets for free; is that right?

[Witness panel confers]

MS. HUGHES: As we responded to the question, we are not currently charging a rate-of-return to the non-rate-regulated entities, given --

MR. SHEPHERD: Okay. So is it true that your biggest IT asset is your ERP, right?

MS. HUGHES: I would say yes, that is one of the --

MR. SHEPHERD: That is used for all aspects of your business, including your non-rate-regulated activities, right?

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

MR. SHEPHERD: But the non-rate-regulated costs don't bear any of that cost?

MS. HUGHES: From a capital perspective, no, as noted in the response, with respect to how the ERP was specifically carved out in our 2008 EDR.

On the OM&A basis, the non-regulated entities share in the license fees and ongoing operating costs of the ERP.

MR. SHEPHERD: All right. Thanks. I have a couple of follow-up questions on Board Staff technical conference answers. The first is on No. 8, and in particular, the table here of purchase forecasts from non-affiliates in excess of $250,000.

I didn't see anything here related to this rate application. Is that because it is not going to be more than $250,000 in total, or because the individual components are less? Because I thought this rate application was budgeted at, like, I don't know, some big number.

[Witness panel confers]

MR. BASILIO: Sorry for taking a bit of time here, but there is a bit of a chain of responses getting back to the original intention of the references upwards. I just want to make sure.

[Witness panel confers]

MS. BUTANY-DESOUZA: Sorry. In response to your question, that table we provided for the 2011 test year references back to the Board Staff Question 27, and that question makes reference to Exhibit 4, tab 2, schedule 12, pages 1 through 3, purchases from non-affiliates.

If I draw you to that, the purchases from non-affiliates that we're offering there are schedules related to distribution projects.

So therefore, the schedule provided in response to Board -- the Board Staff technical question for the 2011 purchases from non-affiliates is also related to that.

MR. SHEPHERD: Sorry. I am not understanding this.

The filing requirements don't say: Only give us information on some of the purchases for non-affiliates. The filing requirements require you to give information on all purchases from non-affiliates over a particular materiality level, right?

I am looking at the Board Staff's Technical Question No. 8, Technical Conference Question No. 8, and it doesn't say: Give us only a subset. It says: Give us all of them. So I don't understand why -- so that is not the only thing that is missing, right?

MS. BUTANY-DESOUZA: No, it's not. But we followed principally back to the reference question. So we went back to the interrogatory, which asked for purchases from non-affiliates. That was Board Staff 27.

Then, as I just noted, when we looked at the reference for Board Staff 27, the evidence that we offered was the total costs, the amount purchased in each year related to distribution projects.

MR. SHEPHERD: Okay. Well, I wonder if you could, then, take this table at page 2 of Technical Conference Question No. 8 and expand it to include all purchases from non-affiliates proposed for the test year in excess of $250,000. Could you do that?

MR. BASILIO: One sec.

[Witness panel confers]

MR. BASILIO: Just to clarify, we are asking for -- you are asking for an undertaking of any non-affiliate service over 250 or --

MR. SHEPHERD: Yes, that's right. The same thing, but not limited to distribution projects.

MR. BASILIO: We are happy to provide that.

MR. SHEPHERD: Thank you very much.

MS. HELT: We will just note that as Undertaking JT1.6.

UNDERTAKING NO. JT1.6: TO PROVIDE ALL PURCHASES FROM NON-AFFILIATES PROPOSED FOR THE TEST YEAR IN EXCESS OF $250,000

MR. SHEPHERD: Then my next question is on Staff Technical Conference Question No. 10.

You are expecting that your call volumes are going to go up in 2011 as a result of time-of-use rates, right?

MS. CAMPBELL: Yes, that's correct.

MR. SHEPHERD: I guess I wasn't sure I understood why they haven't started to go up already in 2010. Have you not...

MS. CAMPBELL: In the answer to Board Staff Technical Question No. 10, on page 2, there is a chart that does show an increase of call volumes between 2009 and 2010.

MR. SHEPHERD: You have estimated a 25 percent increase. This is a one-and-a-half percent increase, so that is what I am trying to understand.

MS. CAMPBELL: We estimated the 25 percent increase based on some previous experiences we have had with changes in rate structures or significant changes to customers' bills.

We have also estimated that based on some discussions with industry -- other industry -- from other service territories within our service industry based on their experience.

So the 25 percent was an estimate, based on what sort of we needed to prepare so that we could answer customer's questions.

MR. SHEPHERD: I understand that. And you can only estimate based on the information you've got, but I guess now you have better information and you are seeing that in

2010 the increase is nominal. So I am wondering whether the 25 percent is still applicable.

MS. CAMPBELL: The reason why we included the incremental cost for the increase in call volumes or to handle the increase in call volumes in our smart meter rider is because we do expect them to be a one-time. We are experiencing an increase in calls. We don't expect it to be sustained.

We haven't reached a 25 percent increase as forecasted.

MR. SHEPHERD: So how much of an increase do you currently expect will happen in 2011?

MS. CAMPBELL: Based on current experience from January, I would have to look that information up. I'm sorry, I don't have that at my fingertips right now.

MR. SHEPHERD: Okay. Could you undertake to update your forecast for call volume for 2011?

MS. CAMPBELL: Yes, I can.

MS. HELT: That will be undertaking JT1.7.

UNDERTAKING NO. JT1.7: TO PROVIDE UPDATED FORECAST FOR CALL VOLUME FOR 2011

MR. SHEPHERD: Thank you. I am going to ask you a follow-up question with respect to AMPCO Technical Conference Question No. 7. Here you have got -- in the response, in pages 2 and 3, are some examples of increases, distribution increases, for large users that look to be like -- each one is well over $200,000 a year.

Do I understand that you have met with your large users to talk about this? Did I understand that right?

MS. BUTANY-DESOUZA: In our response to AMPCO 5, yes, we noted that we have met with our large-use customers in relation to the application.

MR. SHEPHERD: So they're aware that they're getting these 200- or $250,000 a year increases in their bill from you?

MS. BUTANY-DESOUZA: I wouldn't quote that same figure. However, we have discussed with them their particular circumstance.

MR. SHEPHERD: These are big numbers. They could affect the customers; right? They could have to make operational decisions based on these changes; right?

MR. BASILIO: We wouldn't presume to offer what our customers would undertake with respect to these costs.

MR. SHEPHERD: I am wondering whether you are anticipating that as a result of these increases, and all of the various other increases in electricity costs, that you may experience any additional closures or cutbacks of large users in 2011 or 2012.

MR. BASILIO: I really can't respond to that question. I don't know what -- how this will affect our customers.

[Witness panel confers]

MR. BASILIO: We don't have any information with respect to that question.

MR. SHEPHERD: Well, have you done any planning around this? I mean, what I am concerned with is, if you tip some customers over, you know, if you charge too much for something that is essential and you tip some customers over, I don't want to see you back next year saying, Well, we have to come in -- we have to come in again for cost of service, because now we've only got six large-use customers, and so we want the schools to pay more and we want the small businesses to pay more.

MR. BASILIO: Is there a question?

MR. SHEPHERD: Have you planned on that? Have you looked at whether possible result could be occurring if you increase your rates this much?

[Witness panel confers]

MR. BASILIO: We don't have any of that information now.

MR. SHEPHERD: Okay, thanks. The next one I have a question about is CCC Technical Conference Question No. 5. This talks about your FTE increases from 2008 to 2011.

What was striking - and this is what I want to get some clarification on - is that the three areas, regulatory affairs, finance and IST, that are often considered to be the sort of soft areas - that is, they're not part of the core business activities, they're support activities - are the ones with the biggest increase, an 85 percent increase over three years.

Is this something that you have analyzed specifically to figure out whether it is appropriate? Have you talked with your board of directors about it, or anything like that?

MR. BASILIO: Our board of directors is aware of our staffing levels and the needs for staff, and those sorts of things. They're discussed regularly at human resource and governance committee meetings.

They're discussed as part of the 2011 -- as part of regular budgets and business planning. So the board is -- our board is aware.

MR. SHEPHERD: So I guess what I am trying to find out is: What is the reason why these areas would be the areas of big growth, and the other areas, the sort of line operation areas, are not growing?

Do you have sort of a general explanation for that? I mean, I know the detailed line-by-line explanations. I am looking for whether there is a general trend here.

[Witness panel confers]

MR. BASILIO: The first question, I think, was about growth in three specific departments, regulatory affairs, finance and information systems and technology?

MR. SHEPHERD: Yes.

MR. BASILIO: With respect to regulatory affairs, we have recognized that we require more capacity in that department to support regulatory process, and I think some of that is articulated in the application.

With respect to finance, I believe in 2008 and 2009 -- and just let me clarify. Lise, these are actual FTEs in those years?

MS. GALLI: Yes.

MR. BASILIO: These are actual FTEs. We had a number of open positions in those departments as a result of our discussions with Guelph and in contemplation of a merger, a merger that we would have expected to provide cost benefits to customers. We would have -- we held a number of positions open to give employees in both organizations the greatest opportunity to be part of the new organization. So, additionally, these actual numbers represent some open positions.

The 2011 number represents full capacity in 2011. So I think that is an important point, that 2008, 2009 and 2010 includes some open positions.

With respect to information systems and technology, I can't recall specifically, but I believe we described the infrastructure deficit in IT as part of that application that would have included capacity in that department. And certainly with the addition of things like smart meters and more complicated systems' processes, data requirements, we have had to add to the capacity of that department.

For example, the application provides for a cyber security department, which we commenced adding to in the prior year. We have augmented our ability to support the operating groups with their projects, many of which are discussed in the application. And so there has been a requirement to add staff there, as well.

With respect to the operating groups, perhaps -- I don't know.

MR. SHEPHERD: I wasn't asking about them.

MR. BASILIO: Okay.

MR. SHEPHERD: Okay. Thanks. I was looking for whether there is a general trend in your business planning towards –– towards a different way of managing the business that requires more support staff, but you are saying that is not the case. This is just happening because of the individual components?

MR. BASILIO: I would say with respect to information technology, there is a more distributed approach to supporting the organization with its process and technology requirements.

So we have had to add capacity to address those projects, as well as cyber-security.

With respect to finance, I don't know that we are necessarily operating much -- I don't know, Sarah, if you would like to offer anything to that.

MS. HUGHES: There's some -- I would say that there is obviously an increase in the number of transactions, given the growth in our capital program and our OM&A expenditures. So there is more transactional support in the finance area required.

MR. SHEPHERD: Okay. Thanks. Then my last question in this series of questions is on Energy Probe Technical Conference Question No. 6. This is at page 3 of that.

You give an illustration, an allocation illustration, and in it, you assume that the cost driver for allocation of general plant assets is the same as the cost driver to allocate human resources OM&A costs.

I just want to know whether you have a basis for that, of using that cost driver, or -- was it just randomly picked, or is that the one you think is appropriate? And if so, why?

MS. HUGHES: So in terms of this illustration, in terms of how human resource costs are -- the OM&A costs are allocated, those are based on headcount.

So the human resources department provides human resource support to the organization and its non-regulated entities based on number of people.

So in looking how the assets might also be allocated, you know, the assumption is the shared service is providing support, and each of those persons in that department are taking -- are, you know, based on people, as well.

MR. SHEPHERD: So it is because you are talking about essentially an office building. So an office building houses people, so headcount makes sense?

MS. HUGHES: Correct.

MR. SHEPHERD: Okay. I get it. That is all of my questions on the other parties' questions. I do have some on our questions, and our questions were confidential. So I think we do -- we should go in camera for that.

MS. HELT: Certainly. Prior to doing that, I understand that Board Staff just wanted to follow up on one of the undertakings given to one of Mr. Shepherd's questions. Mr. Ritchie?

FURTHER QUESTIONS BY MR. RITCHIE:

MR. RITCHIE: Thank you. I am actually wanting to follow up on the discussion about the tables on the purchases above $250,000 for non-affiliates.

I think from the discussion it was sort of clear that even in the tables in the evidence -- I think it is tables 4-30, 4-31 and 4-32 -- that you only provided it related to distribution projects.

MS. BUTANY-DESOUZA: Capital projects.

MR. RITCHIE: Okay. I guess, again, in terms of looking really at the filing requirements of the Board, again, it's -- I know it talks about the distribution expenses incurred through the purchases of services must be documented and justified.

We really are, I guess, looking at all purchases from non-affiliates above sort of the threshold, the 250,000, you know, that really are part of the regulated distribution entity.

We would ask if you can actually undertake to update those tables for all of the such services. And also, in your evidence you included 2007 through 2009; if you could also add 2010 to that undertaking.

MR. BASILIO: I think there is a little bit of confusion behind the scenes here, as to whether those tables did, in fact, include all non-affiliate purchases above $250,000.

We will clarify that, and certainly we would provide you with the information -- we would either confirm those tables are correct, or provide the correct information, if not. With respect to the other questions in 2010 that you referred to, we will provide that information in an undertaking.

MR. RITCHIE: Thank you.

MS. HELT: All right. That will be then noted as JT1.8.

UNDERTAKING NO. JT1.8: TO CONFIRM THAT TABLES 4-30, 4-31 AND 4-32 ARE CORRECT, OR UPDATE THEM TO INCLUDE ALL NON-AFFILIATE PURCHASES ABOVE $250,000.

MS. HELT: Mr. Buonaguro.

FURTHER QUESTIONS BY MR. BUONAGURO:

MR. BUONAGURO: While we're in the technical conference, I have one very technical question I wanted to ask, as I was looking through some other stuff, if I might. Is that okay?

MS. HELT: Yes.

MR. BUONAGURO: I am looking at the application, Exhibit 5, tab 1, schedule 2, and this has to do with the different tables showing the capital structures throughout the years.

So I am looking -- I am starting at page 2, so again, that's Exhibit 5, tab 1, schedule 2, page 2.

MR. BASILIO: Yes.

MR. BUONAGURO: So you have here a table called "Board-Approved Deemed Capital Structure for 2008" and I understand what that is. That is essentially the Board's decision on capital structure and the various rates; is that correct?

MR. BASILIO: That's correct.

MR. BUONAGURO: But then you have -- following that, on page 3 you have "Deemed Capital Structure for 2008," which doesn't break out short-term debt, includes a return-on-equity of 9 percent as opposed to the Board-approved 8.57 percent, and gives you a blended cost of capital of 7.26 percent.

Just looking at this presentation, I didn't understand why this was here, for what purpose was this table included. I think it continues on in the next couple of tables.

[Witness panel confers]

MR. BASILIO: The tables were updated in Interrogatory 44 from Board Staff.

MR. BUONAGURO: On what basis were they updated?

MR. BASILIO: The correct basis.

MR. BUONAGURO: Yeah, okay.

[Laughter]

MR. BUONAGURO: Well, I mean... sorry. This is sort of on the fly, so I am just looking at this and I was confused. Maybe whoever updated could explain to me why, once you have a Board-approved deemed capital structure for 2008 table in the evidence, why was there a second table in. Is it just it was accidentally put in, and it was taken out? Is it that simple?

[Witness panel confers]

MS. BUTANY-DESOUZA: In response to Board Staff Interrogatory 44, the question in part (a) had asked us to confirm the Board-approved deemed capital structure and we updated the tables to the 56, four and 40.

MR. BUONAGURO: Okay. So now the two tables are identical? Or is the -- I don't have that interrogatory response in front of me, so...

MS. BUTANY-DESOUZA: Can I provide it to you?

MR. BUONAGURO: Sorry, no, I have it here now. Thanks.

MS. BUTANY-DESOUZA: Okay.

MR. BUONAGURO: So now they're identical, it looks like. Does that mean that the second one is simply superfluous?

I am just trying to understand what the reason was for having to put that table in when you already had the previous table. It may just be duplication and that is fine.

MR. BROOKER: Yes, you are right. It was duplication.

MR. BUONAGURO: Okay. Thank you very much.

MS. HELT: Are there any other follow-up questions?

Mr. Sidlofsky?

MR. SIDLOFSKY: Sorry, not a follow-up question, but I just wanted to make sure that I am clear on undertakings JT1.6 and the new JT1.8. My understanding was that JT1.6 had also sought a table that showed any non-affiliated purchases at $250,000 or more. I am just trying to -- I am trying to clarify in my own mind what the difference between JT1.6 is and JT1.8.

MR. RITCHIE: JT1.6, the way I understood it, referred to the interrogatory -- or to the follow-up, and it was only for 2011; whereas JT1.8 we are now saying is that we actually want, also, the historical evidence to be either confirmed or updated.

MR. SIDLOFSKY: That is fine. Thank you.

MS. HELT: Okay. I can propose that we either proceed now with the questions concerning the confidential documents, or we could break for an early lunch. It depends on what the parties' preferences are.

I have spoken with a couple of the intervenors and they are prepared to go ahead. If Horizon is prepared to go ahead, we can probably finish, then, before one o'clock, in any event.

MR. SIDLOFSKY: It looks like it may be best to go ahead at least for a while. We may get to the point where we need a short lunch, but it wouldn't hurt to start.

MS. HELT: All right. Then I would ask, as we are going to go in camera and questions are going to be asked of documents that are currently confidential until the Board makes a determination with respect to those documents, that anyone here who has not signed a declaration and undertaking with respect to confidentiality leave the room.

I think all parties have signed the declaration and undertaking, and the remainder of the individuals in the room are with Horizon. So it looks as if everyone then can stay.

We are going to go off air at this time, and we will proceed, then, with Mr. Shepherd's questions.

--- On commencing in camera at 11:38 a.m.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

MR. BASILIO: With the exception of a couple of items, this largely corresponds to the costs in our application, very largely corresponds.

So for example, I think there are -- again, this was done very quickly. There may be elements of this that are missing.

So for example, the distribution revenue, the [redacted] would have included MDMR costs. I -- Sarah, I don't see here where MDMR would have been included --

MS. HUGHES: It would have been in this [redacted].

MR. BASILIO: In [redacted]. Okay.

So they would have been in [redacted] so they were pulled out on both sides in the application.

MS. HUGHES: Yes, yes.

MR. BASILIO: Yes. This largely corresponds to what is in the application, with the exception of a couple of items such as MDMR... just one sec.

[Witness panel confers]

MR. BASILIO: There are certain other elements that are different than the application as well, I believe, such as -- I believe the rates that we had assumed in the budget for cost of capital are different. So for example, I think our budget assumed 9.85 percent for the return-on-equity. The current return is --

MS. BUTANY-DESOUZA: 9.66.

MR. BASILIO: 966, which has been reflected in the application.

And again, so there are some elements, but for the most part the application reflects -- the application reflects [redacted]

MR. SHEPHERD: Wonderful. Thanks. [redacted]

[redacted]

[redacted]

MR. SHEPHERD: That's right. So your incremental projects, only [redacted] is to -- for productivity and efficiency.

That doesn't seem very high. [redacted]

MR. BASILIO: I think you have characterized that. I would not characterize that in that fashion.

The only ones that provide new productivity -- there is productivity in many of these investments. We are -- our plans with respect to planning and scheduling -- and perhaps I will defer to Kathy to describe that in more detail -- are new processes, or perhaps not new processes, but very much enhanced processes relative to what we have today.

Additionally -- and I think it is described as well -– what is the other project?

In the mobile computing, the deployment of field devices are new to Horizon, so this is new capability for the organization that is providing new benefits to the organization. The other projects are valuable insofar as they sustain productivity and they also protect the utility, the risk management, compliance oriented projects.

So I would not characterize $2 million of investment as the only investment that is providing value or productivity to the organization.

MR. SHEPHERD: Then the other question on that is - and this is only dealing with [redacted] you talk about the pilot and deployment of field devices and the mobile computing, which are linked; right? They're linked programs?

MS. CAMPBELL: Yes, that's correct.

MR. SHEPHERD: So that is [redacted]. You see that [redacted] you have a quantitative benefit, [redacted], over time and presumably in the future, too?

MS. CAMPBELL: Yes, correct.

MR. SHEPHERD: [redacted]

Can you help me understand that? [redacted]

MR. BASILIO: What it says is the project is not justified on a pure ROI basis, which, in writing this, I would describe as simply a mathematical exercise using discounted cash flows.

This project is also justified on qualitative benefits to the organization [redacted]

MR. SHEPHERD: In fact, you didn't even do a quantitative calculation; right?

Unlike the mobile stuff, in which you did a calculation and showed the benefit, you didn't even do one for ERP; right?

MR. BASILIO: We didn't do a calculation, no.

MR. SHEPHERD: No.

[redacted] you are not actually borrowing as much as the OEB's deemed debt amount?

MR. BASILIO: That's correct.
MR. SHEPHERD: And is that because you are under-leveraged?
MR. BASILIO: That's correct.
MR. SHEPHERD: So that would mean that your return on equity is generally lower than the Board approved, because you have a higher equity than the Board allows; right?
MR. BASILIO: We have a higher equity than the Board allows; correct.
MR. SHEPHERD: Okay. So that would drive your ROE down?
MR. BASILIO: It tends to.
MR. SHEPHERD: Your actual?
MR. BASILIO: Yeah.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

MR. SHEPHERD: [redacted]

[redacted] So this is your target dividends for the year, right? If everything goes according to plan, this is the dividend you would like to pay?

MR. BASILIO: Well, if everything goes according to plan -- let me just make sure -- I will express it another way. I think we are saying the same thing.

This is what I would expect if we were earning the regulated rate-of-return on the rate base [redacted], as adjusted for differences in capital structure and the fact that we have some disallowed interest between what the Board's allowed us to recover on a promissory note to our parent company and what our actual obligation is to our parent.

So I think we are saying the same thing, but I thought I would articulate it.

[redacted]

[redacted]

[redacted]

MR. BASILIO: But this is really -– again, it is conceptual, assuming the shareholder earns the regulated return, subject to adjustments between, you know, how we actually -- how the business is actually presently financed and what is underlying rates, and recognizing that we have some disallowance of interest on an obligation to our shareholder.

So I think in a nutshell, this is -- in an ideal world, if we hit the Board's maximum allowable return-on-equity -- this is what shareholders might expect.

[redacted]

MR. SHEPHERD: Can you tell me what that is, what that means?

MR. BASILIO: That is the promissory note. It was the subject of a lot of discussion in our 2008 rate application.

MR. SHEPHERD: Okay. Okay.

MR. BASILIO: You might recall.

MR. SHEPHERD: Oh, yeah, yeah, yeah. Okay. No, I do remember. Vaguely.

[Laughter]

[redacted]

[redacted]

[redacted]

MR. SHEPHERD: At Standard & Poor's, when they asked you -- when they did their credit rating on you, commented on the size of your unregulated business activities.

Your current expectation is that you are not going to go past their 10 percent limit; right?

[redacted] That is a very important statistic for us, our S&P credit rating. We are very mindful of that with respect to any investments we would make.

[redacted] you had been able to earn a lot more than your borrowed allowed rate of return in 2008, because you used cost reduction and mitigation measures.

I am just reading this now for the first time. Your actual regulated net income was $14.4 million; right?

MS. HUGHES: That's correct.

[redacted]
Am I right in understanding this to be that if you have a January 1st implementation date, as opposed to a May 1st, that your pre-tax income increases by 4.7 million? Is that what I am reading this -- am I reading this correctly? This is at the bottom of the second page.

MR. BASILIO: Essentially, 6-1/2 million times one, minus the tax rate, 4.7; that's correct.

MR. SHEPHERD: This is an increase to pre-tax income.

MR. BASILIO: Oh, sorry. Sorry, that should be an after-tax. Sarah has just pointed out that if we could correct line 24: Results in an increase to after-tax income.

MR. SHEPHERD: You just corrected it.

MR. BASILIO: 4.7.

MR. SHEPHERD: So the incremental revenue from those four months is $6.5 million?

MR. BASILIO: Right. It is the revenue sufficiency requested in our application, times four divided by 12, rounded.

[redacted]

We also have a return on equity assumption in our financial plan of 9.85 versus what is in the application of -- sorry, it is 9.6.

MS. HUGHES: 9.66.

MR. BASILIO: 9.66. I think there is a debt cost of capital difference, as well. And there might be a couple of other minor adjustments. I think that largely takes care of the difference.

MR. SHEPHERD: I understand.

In our [redacted] -- and just for anybody who is looking at the clock, I am not going to be more than another ten minutes, at maximum, maybe more like five.

[redacted] you were asked what your inflation assumption was. You said your inflation assumption is [redacted].

And I didn't understand what the basis of that was.

MS. HUGHES: So at the time we were preparing the 2011 budget and three-year plan, we were looking at forecasted information that was available with respect to the gross domestic product for 2012. So the inflation assumption is 2012.

MR. SHEPHERD: Okay. So this is not an inflation assumption for 2011?

MS. HUGHES: No, it is not.

MR. SHEPHERD: So did you have an inflation assumption for 2011?

[Witness panel confers]

MS. HUGHES: So our 2011 budget would have been based on a bottom-up budget based on activities and current costs. There were obviously assumptions with respect to labour.

MR. SHEPHERD: Sorry, say that again?

MS. HUGHES: We would have made labour assumptions for 2011.

MR. SHEPHERD: But not -- not all other expenses?

MS. HUGHES: Not specifically, no. We wouldn't have -- so we would have done a bottom-up budget based on the activities in each department, based on current costs, or estimates of current costs.

MR. SHEPHERD: [redacted] you are going to implement productivity and process improvements.

And we asked: Tell us what you implemented in 2008 through 2010, and what their impacts are.

And you didn't answer that. So can you help us with that? What did you do in 2008 through 2010 by way of productivity and process improvements that are affecting the current budget?

MS. LERETTE: Well, just to start with, this quotation that you are referring to is a forward-looking statement for the years 2011 to 2013.

MR. SHEPHERD: Sure.

MS. LERETTE: So it is a forward-looking statement. Although we do work on productivity improvements throughout the years, and in 2010 we did productivity improvements, but I can't quantify it as far as capital or operating expenditures, the savings of those productivity improvements.

MR. SHEPHERD: When you implement productivity programs, projects that are intended to make your operations more efficient, don't you do some sort of plan

to monitor, to make sure they're working?
MS. LERETTE: Yes, we do.
MR. SHEPHERD: And so wouldn't you, then, have numbers for what you implemented and how they worked out?
MS. LERETTE: Well...
[Witness panel confers]
MS. LERETTE: So in 2010, just to walk you through an example, we do a lot of work on our new customer connection process, and we measured -- we developed some KPIs to measure performance of this process; so the time to close a work order, provide an invoice to a customer, and a time for the customer to pay. Also the time to -- at the beginning of the process, where the customer asks us for an estimate to do work, we provide it in 10 days, and we measure that performance.
So it is more about measuring the process and the experience to the customer, rather than internal savings.
MR. SHEPHERD: Well, okay. But what I was asking about was not projects to improve the customer experience.
I was asking about projects to make you more productive and efficient, which presumably there are some, right?
MS. LERETTE: Yes. And this particular statement was with regard to our distribution system planning.
So -- and we have laid some foundations to do that through our asset management strategy. We look at work management processes to improve the way we plan and execute work.

Hence the planning and scheduling program that is scheduled for 2011 is part of that asset management strategy to improve that process, as well.

We implemented things like technology in our SCADA system that enhances visibility to things in the field. That may save our crews from visiting a substation, for example.

MR. SHEPHERD: What I am trying to get at here -- and it is actually not a trick question. It is actually very straightforward -- you are doing lots of things to make your business a better business.

MS. LERETTE: Mm-hmm.

MR. SHEPHERD: They should be resulting in reductions in costs, or increased revenue, I suppose, but generally in your business, it is reduction in costs.

So I am trying to figure out how do we identify those reductions in costs in the test year from the stuff that you have been doing in the past.

[Witness panel confers]

MS. CAMPBELL: Probably one of the best examples to share is the E-mobile or the mobile computing, so the work that was done in 2010 to the pilot to lay the foundation as to what we would be doing and to realize on savings [redacted]

So though there wasn't any savings from the project or quantifiable benefits in that, in 2010, there was a considerable amount of work done on that project at that time to be able to track forward to it.

Some of the other --

MR. SHEPHERD: Let me just stop you on that, because [redacted] in 2011, that program is costing you money.

You are spending more than you are getting?

MS. CAMPBELL: That's correct.

MR. SHEPHERD: So there is no benefit to the ratepayers of that spending in 2010? Not yet; maybe in the future, but not yet?

MS. CAMPBELL: Correct.

MR. SHEPHERD: I am looking for stuff that we are getting a benefit now, this year.

MS. LERETTE: One of the things I wanted to add, too, was, we do look at -- we do regularly look at process improvement, and a lot of times it creates organizational capacity, rather than, you know, smoother processes and taking less time and less cycle time to do things allows our employees to have time to take on additional tasks.

MR. SHEPHERD: So you don't have to add as many people?

MS. LERETTE: Yes.

MR. SHEPHERD: Good. I am done.

MS. HELT: I understand Board Staff has one question. Do any of the other parties have any further questions?

Then I would suggest we proceed with Board Staff, and then we can conclude.

FURTHER QUESTIONS BY MR. RITCHIE:

MR. RITCHIE: Okay. Thank you. I just actually want to follow up on the discussion that was involving [redacted]. This is dealing with the inflation assumption. Again, the discussion was about, I guess, the inflation almost sort of basing on sort of 2012 gross domestic product growth.

I would like a bit of clarification as to how you are using, like, the GDP growth, as opposed –- or how that translated into your assumption of an inflation estimate.

MS. HUGHES: Well, I think we took the approach that that would be a benchmark for 2012. That was, you know, an assumption at the time for 2012. So we used that as the basis for the inflation rate.

MR. RITCHIE: So that is a growth rate on the gross domestic product in an aggregate -- in aggregate?

MS. HUGHES: Yes.

MR. RITCHIE: From a number of sources?

MS. HUGHES: Yes.

MR. RITCHIE: So that would include, again, sort of like –- also, like, population or, you know, again, like, economy growth in output, as opposed to just inflation-driven measures?

[Witness panel confers]

MR. BASILIO: As I look at the statistic for 2012, my recollection –- and I think we need to confirm this -- was that this was, in fact, CPI. But with respect to an assumption for inflation for '12 and '013, the reality for us is that with respect to wage growth -- which represents 40, 50 percent of our cost base -- wages are increasing at, on average, [redacted] a year.

With respect to other costs, they're going up, as well. Material costs have been going up at quite an accelerated pace.

I think there isn't a lot of sophistication in how we are choosing an inflationary assumption for years beyond the test year, but [redacted], all things considered, was a reasonable assumption for us, given our experience with our own cost structure. But as I look at that now, I am thinking that should be a CPI.

MR. RITCHIE: Okay. So, in other words, this assumption is not equivalent to the GDP IPI, the implicit price index for GDP, which the Board has commonly used as being, say, the price escalator for under IRM plans?

MR. BASILIO: That's correct. It is not the GDP IPI.

MR. RITCHIE: Okay, thank you.

MS. HELT: I take it there is nothing further with respect to any further questions or any other issues that any of the parties need to address at this time?

All right, I am going to attempt to go on air simply to conclude the technical conference on the record, but if it doesn't work, that's fine.

--- Public session resuming at 1:14 p.m.

MS. HELT: All right. This technical conference is now concluded. I would like to thank all of the parties and the court reporter for your attendance today. Thank you.

--- Whereupon the conference concluded at 1:14 p.m.